NON-FINANCIAL REPORTING - A CRUCIAL COMPONENT IN ASSESING THE GLOBAL PERFORMANCE OF THE ECONOMIC SUSTAINABILITY OF THE ENTITY

Marilena ZUCA[1]

Abstract

In the modern business environment, non-financial reporting—such as sustainability and corporate social responsibility reports—is becoming a more significant trend. The term "non-financial reporting" describes how economic organizations fulfil their obligations to the environment, to employees, to diversity and inclusion, to human rights, to governance concerns, and to prevent bribery and corruption. Significant effects of non-financial reporting are felt by a variety of stakeholders, including customers, workers, investors, and the general public. The results of the research clearly showed the high levels of interest, perception, and expectations of these parties with respect to the accuracy and reliability of non-financial information, as well as the necessity of finding new methods to improve the accountability and transparency of economic entities in this area.

Keywords: non-financial reporting, performance, sustainability, transparency, corporate social responsibility, sustainability accounting, non-financial statement

JEL Classification: M41

1. Introduction. Non-financial information: conceptual approaches, history.

An economic entity's decision-making process is based on financial accounting data. Its job is to give users - both internal and external - competitive advantages so they can arrive at and support the best decisions. Hence, for accounting to serve its intended function, the data it produces must be of high quality, meaning it must possess certain qualities that guarantee its applicability to everyone with an interest in the entity's financial operations.

Since the early 1990s, the interest and concerns of shareholders/associates, investors, and customers have gradually increased regarding the disclosure of non-financial information (NFI), and stakeholders now view this information as essential to evaluating the company's long-term viability and success.

Non-financial information refers to additional disclosures made by companies that are usually voluntary. However, the increasing adoption of voluntary disclosures is seen by specialists as a transformation of conventional accounting focused on ways to extend

[1] PhD, Associate Professor, Romanian-American University, Romania, marilena.zuca@rau.ro

current practices and/or develop new forms of reporting and financial accounting highlighting.

The purpose of this accounting transformation is to detect and report information that is useful "*for identifying sustainability risks and increasing investor and consumer confidence" [1].*

Since there is no standard name for non-financial information in this context, reports that disclose non-financial information have been identified using a variety of terminology in specialized literature. Examples of these terms include sustainability reporting, environmental reporting, and reporting integrity.

Furthermore, prominent organizations like the Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosure (TFCD), International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI), and International Integrated Reporting Council (IIRC) have demonstrated a growing interest in the disclosure of non-financial information in both voluntary and required corporate reports in recent years. As a result, these organizations have created standards and guidelines that are typically used to write non-financial reports and determine their content.

Directive 2014/95/EU, which requires member states to make non-financial statements for entities of great public interest, was created by the European Union in response to its emphasis on the need for greater transparency from businesses regarding their financial and non-financial performance. The directive refers to non-financial information and provides examples of it but does not provide a definition in this sense.

However, at the level of the European Union Commission it has been stated that "non-financial information (NFI) is generally environmental, social and governance (ESG) information", thus identifying what is relevant in this type of reporting[2].

As a result, the use of non-financial reporting terms has increased; yet, their definitions are still not widely agreed upon. This renders these terms up to the users' discretion, and the ideas and comprehension of non-financial reporting are limited to the corporation and its stakeholders.

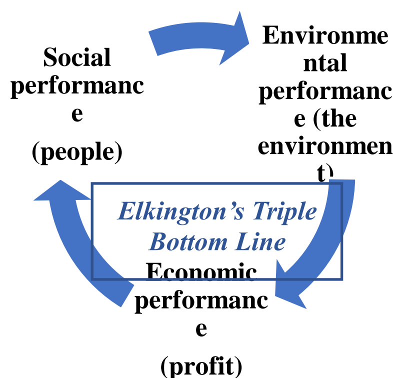
Companies may be able to comprehend and disclose a variety of non-financial information more accurately and transparently if there were an accepted standard for them. This is especially important when it comes to the requirement for the reporting of non-financial data because of the negative economic effects on businesses that could result from regulatory infringement and harm their reputation. A lack of shared understanding, opacity, and confusion over non-financial information could result from low comparability of reporting. These problems may lead to discrepancies in expectations, such as those among stakeholders, legal obligations, and the actual reporting of non-financial data.

The following ideas about non-financial information have found relevance in the specialized literature because it was determined that, in the context of the EU directive, it is necessary to comprehend the term "*non-financial information*" and to develop a thorough and widely accepted definition*:*

- Non-financial data pertains to corporate social responsibility and encompasses the company's actions, policies, and influence on environmental and social matters [2];
- Non-financial data pertains to the performance of businesses. This term refers to the disclosure of a business's total performance, taking into account all of its outcomes rather than just the social and environmental sectors [3];
- Non-financial information pertains to the production of value and is regarded as data that is not included in the financial accounts. The most important thing to consider in this instance is whether the information is disclosed inside or outside of the financial statements [4];
- Non-financial information is regarded as non-accounting information since it is external to financial information and unrelated to financial and economic statistics [5];
- Information about governance, the environment, society, and sustainability in general is regarded as non-financial information [6].

In summary, the definition of non-financial information is naturally linked to information of an economic-social character and is influenced by the particulars of the national and cultural contexts of each economic organization. Any data that the company reports which is not related to its finances is considered non-financial data. In other words, non-financial reporting is a form of simple, transparent reporting in which economic entities formally disclose certain information that is not related to their finances, including human rights information, thus helping organizations to measure, to understand and communicate impact, as well as set goals and manage change more effectively.

The "Elkington's Triple Bottom Line" model, a reporting structure developed by John Elkington [7], is a pertinent model for non-financial data. Its triple bottom line represents a company's social, economic, and environmental performance, or its people, profit, and the earth.

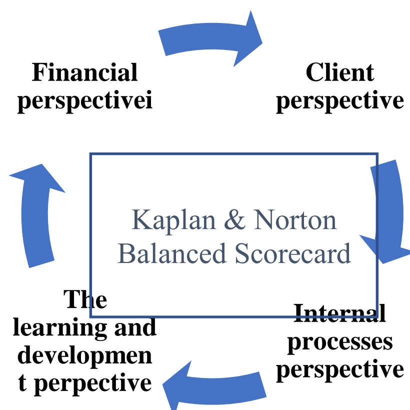


Source: adaptation after Elkington, John, (1998). Cannibals with forks: the triple bottom line of 21st century business. Gabriola Island, BC; Stony Creek, CT: New Society Publishers

Even though the model incorporates a financial reporting component, the framework implies that there are other non-financial methods for evaluating a company's success. The framework's underlying theory was that conventional methods of evaluating a company's performance and success were out of date and that all three elements had to be considered in order to accurately calculate the overall cost of the enterprise's operations:

1. The people aspect describes the company's social performance and evaluates its level of social responsibility. Unfortunately, it is challenging to choose which characteristics to measure and report with reliability, making the human aspect more difficult to quantify.
2. The profit aspect refers to the financial situation of the company. This is the traditional way of measuring business performance.
3. Sustainability/Planetary Aspect: describes the business's environmental performance and assesses how environmentally conscious or irresponsible it is. (For instance, the company's yearly CO_2 emissions indicator can be used to calculate the planet factor.)

Another non-financial data model considered relevant is the Kaplan & Norton Balanced Scorecard which is another way to measure business performance by combining financial and non-financial data [8]. This is both efficient and successful since it allows us to observe both the financial and non-financial parts of the firm and determine whether it is currently reaching its goals. The dashboard presents a balanced summary of the company's performance from four distinct angles: the financial, customer, internal business process, and learning and development viewpoints. This approach highlights how important it is to maintain a balance between financial and non-financial data when assessing the performance of a firm, as centering all of the goals and tactics around a single facet of the enterprise may have an adverse effect on its performance.



Source: adaptation after Kaplan R., Norton D., (1996). The Balanced Scorecard: Translating Strategy into Action. Harvard Business Review Press

2. Literature review

Sustainability and non-financial information are now major concerns for investors, regulators, consumers, and shareholders. Investors, shareholders, banks, and regulators expect more standardization from companies to drive accountability and include non-financial factors in reports, regulations, and agreements. Capital market participants are paying more attention to the reporting of non-financial information. This endeavor has been intensified by the Covid-19 issue, diversity and inclusion, and an increasing worldwide attention on climate change.

One obstacle that many businesses face is the challenge of adjusting standard reporting to the complexity of non-financial data. Non-financial information finds it difficult to become credible in the eyes of stakeholders, whereas financial reporting is by its by nature quantitative, verifiable, and trustworthy [9].

By measuring, tracking, and reporting their sustainability performance, businesses can assist in improving society, the economy, and the prospects for sustainability. Because there is no mandated legislation in this area, firms are free to write their statements whatever they see fit when it comes to reporting. Nonetheless, several initiatives—national, European, and international—have created standardized techniques to assist businesses in creating their sustainability reports, which are required by the European Directive 2014/95/EU to be acknowledged by the businesses that utilize them [10].

The Global Reporting Initiative (GRI) guidelines are the primary determinant of the quality of sustainability reports, since they are the most extensively utilized benchmark for businesses worldwide due to its dependability [11] and the fact that it offers opportunities to compare data about the effects that businesses have on the economy, the environment, and society globally [12].

Directive 2014/95/EU, often known as the Non-Financial Reporting Directive or NFRD, establishes a unified regulatory framework for non-financial information for the member states of the European Union. This directive serves as the foundation for the legislative framework for sustainability reporting practices in Europe. That directive applies to large public interest companies with over 500 employees on average during the financial year, both single companies and consolidated groups of companies. Companies falling within the scope of the directive must also have a total balance sheet exceeding EUR 20 million and/or a turnover exceeding EUR 40 million, as applicable, on a consolidated basis. By 2021, around 11,600 companies in Europe were within its scope [13].

Directive 2013/34/EU on the declaration of non-financial information and on diversity by specific enterprises and large groupings of companies is amended by Directive 2014/95/EU of the European Parliament and of the Council on October 22, 2014. Directive 2013/34/EU introduces two new paragraphs, 19a and 29a, which for the first-time force certain businesses to provide information about how they conduct business and handle social and environmental concerns. This amended directive is applicable to all EU members, who are required to take the legislative and administrative measures required to comply with it.

In order to alleviate the administrative burden of reporting on businesses and enhance the quality and dependability of non-financial reporting, a reform process of Directive 2014/95/EU was started in January 2020. In order to get feedback and opinions from different stakeholders regarding the revision of the directive's provisions, a wide public consultation was also held from February to June 2020. As a result of this consultation, the European Commission proposed on April 21, 2021, to amend the NFRD by introducing the Corporate Sustainability Reporting Directive (CSRD) [13]. The EU claims that by providing a uniform standard, it will lower the costs associated with reporting for businesses and enhance how stakeholders and investors evaluate and use the data that is presented.

In terms of goods and services, employment possibilities, human rights, health, the environment, innovation, education, training, and development, as well as working conditions, all these factors have a big impact on life in the EU and beyond. In addition, EU residents anticipate that businesses will be conscious of their positive and negative effects on the environment and society and will take steps to prevent, manage, and mitigate any negative effects, particularly those resulting from their international supply chains.

This duty is called *corporate social responsibility (CSR) or responsible business conduct (RBC*). Financing economic activities that support environmental, social, and governance-related goals is crucial for promoting sustainable growth, funding the ecological transition, and unlocking the necessary investments to achieve, among other things, the EU goal of climate neutrality by 2050, all within the framework of the 2019 European Ecological Pact. The EU is now well on its way towards improving corporate transparency and accountability for social and environmental issues thanks to the enactment of Directive 2014/95/EU on the disclosure of non-financial information and diversity, also known as the "Non-Financial Reporting Directive" or NFRD. The Directive is a crucial instrument for furthering the corporate social responsibility agenda of the European Union (CSR).

The Commission declared on December 11, 2019, in its Communication on the European Green Deal [14] that it will be reviewing the NFRD as part of its plan to solidify the groundwork for sustainable investment. Many inadequacies in the NFRD's implementation were discovered during a public consultation that was held between February and June 2020. These inadequacies included the lack of comparability, reliability, and relevance of the non-financial information that was provided.

The Commission determined that a new approach to financing sustainable growth was required, acknowledging the private sector's critical role in funding the green transition and the requirement for long-term signals to steer capital and financial flows towards green investments and away from stranded assets. The NFRD will be revised as one of the many initiatives that will be the focus of the new strategy. As highlighted by the European Commission, it is important that companies and financial institutions also improve their disclosure of non-financial information so that investors are fully informed about the sustainability of their investments.

Users of non-financial information, primarily investors and civil society organizations, are now demanding more and better from companies about their social and environmental

information, performance, and environmental impact. This is despite the fact that the adoption of the NFRD in 2014 was a significant step towards greater transparency and business accountability on social and environmental issues.

3. Research methodology

This study examines the non-financial reporting system using rules created by the European Union, and it falls under the broader research field of financial reporting. The study is trying to establish itself within the positivist movement and be connected to interpretive, critical, and comparative aspects of the research object. Most of the study is quantitative.
The method, which is deductive in nature, begins with accepted ideas and theories, evaluates arguments for and against the topic under consideration, and pushes for the achievement of the highest level of non-financial reporting integration. By enhancing the specialized literature and providing a clear overview of the current situation, the quantitative research ensured that information was organised and explained**.** It also helped to establish a clear perspective on non-financial reporting as a crucial component for evaluating the sustainability of the economic entity's global performance.
The study of specialized literature focused on the three types of information sources identified by Saunders [15]. Primary sources include first drafts of work in their raw form, which may be reports, manuscripts in progress for publication, or other early-stage studies. Secondary sources have a much wider scope, they are usually accessible to the public and subject to review by it and include books, publications, scientific journals. Bibliographies, encyclopedias, and dictionaries are examples of synthesis publications, which are considered tertiary sources and are studied in order to complete other resource categories. An essential component of the research process, the deepening and revision of the specialized literature allowed the achievement of a comprehensive perspective on the investigated issue, both from the point of view of the state of knowledge and the research trend in the field, as well as of the main questions that require further answers or revealing some aspects, still insufficiently explored. The European Parliament and Council of the EU's legislation, as well as reports from standard-setters and other organizations like the Task Force on Climate-related Financial Disclosure, the Sustainability Accounting Standards Board, the Global Reporting Initiative, and the International Integrated Reporting Council (IIRC), were given special consideration. (TFCD).

4. Non-financial reporting: a major step towards integrated reporting

Non-financial information is often defined as environmental, social and corporate governance (ESG/ESG) information, referring to the three central components in measuring a company's sustainability and social impact. This information and non-financial reporting are a form of transparency reporting where companies formally disclose

certain information that is not related to their finances, including human rights information. The multidimensional idea of the Corporate Sustainability Report (CSR) and the European stakeholder approach of corporate governance, which emphasizes the significance of understanding the firm as an entity in connection to its environment, are the origins of the practice of non-financial reporting. Freeman's theory states that in addition to the company's shareholders, other stakeholders must be taken into account, including its workers, clients, suppliers, local communities, governments, and society as a whole. With the emergence of this approach, the first response of many companies was to expand the communication of their achievements in terms of social responsibility. The information communicated by the companies themselves are the first indicators that can be received by the public to check whether the decisions taken respect the announced commitments as well as their own interests [16].

As a result, accountability is typically integrated with reporting and focuses on the stakeholders of the business. This indicates that investors and society at large are thoughtful about the future generations.

Although non-financial information reporting has been done in bits and pieces since the 1980s, it has truly taken off in the last 20 years. This is mostly because everyone is aware of the ecological catastrophe and wants sustainable growth, but it's also because of the financial crisis of 2008 and the numerous corporate governance scandals involving big businesses over the past 20 years, such as the Enron scandal and the Parmalat financial scam.

In this context, the need to report non-financial information gradually emerged. This was done by companies initially on a voluntary basis, with the aim of alleviating some of the skepticisms of users of financial reports and restoring the confidence of stakeholders by expressing a desire to behave responsibly [17]. As a result, the release of non-financial reports started out randomly and was restricted to a small number of subjects that the corporations themselves thought would be interesting. Later, a copycat effect and subtle influence from interested parties helped this approach be renewed and accepted. It progressively became more systematic, and these reports are now typical: each year, they are published by 93% of the 250 biggest firms in the world.

The rules were created with the goal of providing companies with a defined methodology as well as making the released statistics easy to interpret, reputable, and comparable for their users. Reporting guidelines are provided either by private non-governmental organizations (and thus voluntary adoption by businesses) or, in some countries, by governments based on imposed criteria.

Adopting sustainability reporting has had a positive impact on company performance and value, according to industry experts, with the Organization for Economic Cooperation and Development (OECD) itself suggesting that companies that show sustainable performance on MSG/ESG criteria and communicate effectively about them appear to enjoy better financial performance [18].

The topic of non-financial reporting has become a recurring theme in recent years, and the

practice has been increasingly professionalized. However, the framework surrounding such reporting is constantly evolving and companies are increasingly challenged by the form, content, and process of their reporting. While this need generates numerous opportunities for businesses, investors, consumers, and all stakeholders, it also introduces several obstacles. Indeed, for sustainability statements to be relevant and meaningful, the information presented must be verifiable and comparable, as well as practical and reliable.

5. Reporting on sustainability

Sustainable development and non-financial data show two unique methods of investigation. The first line is a philosophical debate concerning responsibility, if and how it contributes to sustainable development, and what efforts must be taken to achieve it. This strategy is based on a completely new accounting system meant to encourage a long-term strategy. The second line is the management perspective associated with various terms and tools for sustainability. This could be seen as an extension or modification of conventional financial costing or management accounting [19].

The emergence of sustainable accounting as a new field of study in accounting enables a thorough revaluation of the relative importance of social, environmental, and economic advantages and risks as well as how they interact with corporate accounting systems. during several time periods from 1971 to 1980, 1981 to 1990, 1991 to 1995, and up to the present. These periods distinguish empirical studies, normative statements, philosophical discussions, curricula, literature, and regulatory frameworks [20]. During the years 1991–1995, environmental accounting virtually completely dominated the social accounting field. Along with the creation of a framework to direct the use of environmental auditing and, specifically, the creation of environmental management systems, there have also been a number of expansions from environmental disclosures to environmental audits. The regulatory environment governing social and environmental accounting disclosures was weak, and social and environmental issues and non-financial quantification were not included in conceptual frameworks for accounting. While progress has varied among nations, it has been swift when compared to the field of social accounting disclosures.

The concept of sustainability and the role of management accounting in promoting sustainable development has grown in popularity. More ideas and major statistical work, as well as a growing body of measures on sustainable development accounting, are being made in many international and national contexts by re-examining the foundations of accounting in light of sustainable development concerns [21].

International policy bodies such as the United Nations and the OECD have sponsored work addressing sustainability accounting [22], with environmental accounting being the most advanced form of sustainability accounting and increasingly processed in academia since the work of Robert Hugh Gray in the early 1990s and through the publication of the Sustainability Accounting Guidelines at the 2002 World Summit on Sustainable

Development [23]. Sustainability components of accounting and reporting are now highly significant, useful, and realistic thanks to creative experimentation with new reporting by organizations with extensive accounting experience.

Over the last two decades, sustainability accounting has gained prominence. Many organizations use innovative financial disclosure methods and approaches to give information about their main activities and the influence they have on the environment and the social environment. As a result, stakeholders, suppliers, and government agencies demand a deeper understanding of how businesses manage their resources in order to fulfil their goals of sustainable development.

According to common definitions, there are three key dimensions of sustainability, each dimension focusing on different sub-dimensions [24]:

- Environmental factors: energy, water, greenhouse gases, emissions, hazardous and non-hazardous waste, recycling, packaging.
- Social: community investment, working conditions, human rights and fair trade, public policy, diversity, safety, anti-corruption.
- Economic: accountability, transparency, corporate governance, stakeholder value, economic performance, financial performance.

The Organization for Economic Cooperation and Development (OECD) and the United Nations Commission on Sustainable Development (UNCSD) are two key players in developing a policy framework that better integrates the three dimensions of sustainability by decoupling economic growth from environmental pressures. On the one hand, UNCSD focuses solely on the environmental dimension of sustainability reporting in accounting, whereas the OECD (Organization for Economic Cooperation and Development) focuses solely on two frameworks, the analytical and accounting frameworks.

The OECD offers two different approaches to the accounting framework for sustainability accounting: measuring environmental-economic-social inter-relationships and welfare-based approaches. Measuring environmental-economic-social inter-relationships requires a clear understanding of the relationships that exist between the natural environment and the economy. Physical flow accounts are useful for showing the characteristics of production and consumption activities. Some of these accounts focus on the physical exchange between the economic system and the natural environment. Welfare-based approaches to sustainability are concerned with the conservation of the stock of wealth [25].

Sustainability is defined as the preservation of a country's capital base and can thus be quantified. These financial accounts, which are measured over an accounting period of time, also incorporate a number of environmental changes. Another motivation, according to specialists Möller and Schaltegger, is to assist in decision-making [26]. They claim that making decisions based just on financial data is, at most, shallow and that, in some commercial domains, financial data cannot be used to reliably evaluate organizational learning, customer satisfaction, and product quality.

The majority of experts in the sector suggest combining non-financial and financial data to enable well-informed decision-making. This conclusion results from the necessity of a long-term vision for sustainability, which is expressed in strategic planning. Companies that emphasize sustainability practices have higher financial performance, as measured by profit before tax, return on assets and cash flow from operations, as well as higher compared to their peers.

Furthermore, it is suggested by Adams [27] and Frost [28] that better business performance may follow from greater government participation. Also, it is anticipated that the growing need for non-financial information by investors and shareholders will lead to higher transparency through the implementation of uniform standards for reporting. Even if sustainability and financial performance are positively correlated, transparency still needs to increase to satisfy investors and shareholders.

6. The impact of Directives 2013/34/EU and 2014/95/EU on Romanian accounting legislation

In the second half of 2016, certain large companies and groups replaced in Romania annual, consolidated financial statements and related reports of certain types of companies, as well as non-financial information and diversity information, under *Directive 2014/95/EU* of the European Parliament and the Council of Europe, which was adopted in October 2014 and amends Directive 2013/34/EU regarding the presentation of financial statements. Directive 2014/95/EU modifies Directive 2013/34/EU by introducing the requirement for certain types of organizations to report non-financial performance and how they carry out their own policies for guaranteeing diversity at the top management levels. According to the rules of the legislation, this Directive applies to large firms (large undertakings) and groups of companies (large groups). They were carefully picked because the majority of them operate in many member states and have a significant impact on the environment and society, making them entities of public interest.

The Directive specifies a minimal set of data that must be provided for non-financial reporting, including: "a brief description of the company's business model"; a description of the policies that the company has implemented regarding "environmental aspects, social and personnel aspects, respect for human rights, and the fight against corruption and bribery"; an analysis of the primary risks related to the previously mentioned aspects, not only at the level of the company's operations but also with regard to "its business relationships, its products or services that could have a negative impact"; non-financial performance indicators that are pertinent to the company "submissions and additional explanations regarding the amounts reported in the annual financial statements"[1].

Another component of Directive 2014/95/EU refers to diversity policy, which is embodied in the mandatory inclusion of "a description of the diversity policy applied to the administrative, management, and supervisory bodies of the company" in the "statement on corporate governance" (according to article 20 of Directive 2013/34/EU). This description

must be written and include information such as "age, gender, education, and professional experience, the objectives of the diversity policy, how it was implemented, and the results during the reporting period" (art. 20, point (1), letter (g)). This obligation, established by Directive 2014/95/EU, is the focus of European institutions' efforts to promote gender equality at the level of management and control in the case of companies and groups of companies, with provisions that specifically target companies listed on European stock exchanges.

In compliance with this directive, the Public Finance Minister's Order No. 2844/2016, and the Minister of Public Finances' Order No. 1938/2016, which approve the Accounting Regulations regarding individual annual financial statements and consolidated annual financial statements in accordance with International Financial Reporting Standards, cover the accounting of autonomous governments and institutions in which the state holds a majority stake. These entities are considered to be of public interest from the standpoint of OMFP 1802/2014. Commercial companies whose securities are admitted to trading on a regulated market, and which employ an average of more than 500 people, have to publish information in two ways.

As a result, these companies have the option of preparing a separate report that is either published within a maximum of 6 months of the balance sheet date, or they can choose to include a non-financial statement in the Directors' Report. The non-financial statement specifies the reporting framework to be utilized, and this has to be adhered to.

The category of public entities that are credit institutions (with more than 500 employees) are required, as of 2018, to include in the Administrators' Report a non-financial statement that includes details on the economic, social, and environmental performance related to the previous financial year. This is in accordance with Order No. 7/2016 of the National Bank of Romania regarding the amendment and completion of NBR Order No. 27/2010 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, applicable to credit institutions, and the NBR Order no. 6/2015 for the approval of Accounting Regulations compliant with European directives.

Additionally, the Administrators' Report needs to include:

a. a brief description of the entity's business model;
b. an explanation of the entity's policy in relation to these topics, including the screening techniques used;
c. the outcomes of the relevant policies;
d. the principal risks associated with these problems resulting from the entity's operations, including, if relevant and appropriate, its business partnerships, products or services that may have a negative impact on those sectors, and how the company manages those risks;
e. Non-financial key performance indicators that are pertinent to the particular operation of the company. The non-financial statement must include a precise and well-reasoned explanation of this alternative if the business chooses not to adopt policies pertaining

to any one or more of the factors listed in paragraph (1).

According to Romanian law, non-financial reporting must be completed and submitted as a non-financial statement for inclusion in the directors' report. Additionally, there are guidelines regarding how diversity-related content, particularly gender-related content, must be presented. In 2018, the Minister of Public Finance's Order No. 470/2018 introduced points 492–6 to OMFP 1802/2014, adding a new section. The European Commission's Communication "Guide on reporting non-financial information (methodology for reporting non-financial information)" (2017/ C 215/01) should be followed when providing non-financial information. It was published in the Official Journal of the European Union, series C, no. 215 of July 5, 2017.
A separate declaration or report may be prepared using a proprietary approach or in accordance with specific European or international frameworks. It should be noted that the technique utilized considers every need of the particular Romanian legislation concerning the non-financial information declaration. Companies that already publish a Sustainability Report have the option of using an international reporting framework such as the Global Reporting Initiative - GRI Standards; however, the report does not have to be based on a national, European Union, or international framework. In other words, the company can choose to utilize and develop its own tool.
Only public interest enterprises described as "large companies" or "large groups" are required by Directive 2014/95/EU to prepare the non-financial declaration, i.e. the separate report. Subsidiaries of major firms and groups are exempt from Directive 2014/95/EU if their operation is evaluated on a non-financial basis in the parent company's or another company's report (articles 19a, point 3, and 29a, point 4, established in Directive 2013/34/EU). Therefore, even though a Romanian subsidiary may be able to employ more than 500 people, the existence of a non-financial report at the group level permits it to avoid disclosing detailed information on events in Romania.
Regarding the diversity report, the applicability is established only at the level of public interest entities, respectively "companies that are subject to the legislation of a member state and whose securities are admitted to trading on a regulated market in any member state," according to Directive 2014/95/EU, art. 1, point 2, respectively Directive 2013/34/EU, art. 20, point 1, and art. 2, point 1, lit. (a). As a result, only companies listed on European stock exchanges are required to create a statement of their diversity policy and incorporate it into their corporate governance report.
The new guideline is not restrictive in terms of the non-financial reporting model and the diversity policy reporting model. It allows companies and groupings of companies to choose their reporting model, but only once a few conditions are met. Directive 2014/95/EU defines a minimum set of information that should be included in the consolidated management report's non-financial statements.
A company or group of companies can put together a separate report using one of the following formats: a national framework, if one exists (Romania lacks one), the United

Nations Global Compact (UNGC), ISO 26000, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, or the Global Reporting Initiative. In the case of a separate report, the reporting framework must be specified as such in the management report.

Where companies or large groups of companies do not have policies in place to reduce risks related to environmental, social, and personnel issues, or those related to human rights and the fight against corruption and bribery, and the report on diversity policy, the non-financial statement or separate report must "provide a clear and reasoned explanation of this.".

In terms of non-financial reporting, Directive 2014/95/EU requires member states, including Romania, to take steps to ensure that the authorized auditor or statutory audit firm verifies whether the non-financial statement or report exists separately. The authorized auditor or auditing firm, on the other hand, just validates the existence of the documents in question without rendering an opinion on their substance. In terms of content, the new directive also refers to a so-called "tertiary audit," in which it is demonstrated that member states have the option to provide, as a measure, the verification of the information from the non-financial statement, i.e. the separate report, by an independent assurance services provider (assurance services provider). (Articles 19a, point 6, and 29a, point 6).

Because the financial strategy is not integrated with the non-financial strategy, non-financial reporting is only a matter of compliance for most Romanian listed companies, while few economic entities see this as an opportunity to present the sustainability strategy or have a strategy implementation plan. Climate and environment, employee issues, corporate governance, and the linked area of anti-corruption efforts are all covered in non-financial reporting, followed by social and human rights issues and cyber security and their impact on long-term growth. In other words, only a small proportion of listed companies take a Directive 2014/95//EU approach to climate and environmental issues, with the majority of them failing to have an adequate environmental strategy, preferring to report social, wage, and rights issues human, having codes of ethics, remuneration policies for all employees, audit policies for suppliers, and anti-corruption and bribery policies, areas where they are better prepared.

7. Conclusions.

Non-financial data is used to measure business performance using metrics that are unrelated to a company's finances. Sustainability reporting is a type of integrated reporting in which financial and sustainability data are gathered and combined into a single report, as well as a model that reflects a company's economic, social, and environmental performance, or people and profit.

The sustainability report is another technique to assess business performance using

financial and non-financial information. This paradigm incorporates four distinct viewpoints: financial, customer, internal company process, and learning and growth.
The **following is a summary of the advantages of using non-financial data** and information:

- It encourages companies to think beyond profits;
- It provides a broader view of business performance;
- It assesses sustainability and Corporate Social Responsibility (CSR), both of which are essential considerations for investors;
- It can strengthen relationships with customers and stakeholders, as well as their loyalty;
- Creates positive publicity and media exposure;
- Can improve the company's reputation;
- Differentiating the company from competitors;
- Attracting and keeping a satisfied workforce;
- Involves everyone in the business;

The following are **some of the drawbacks of employing non-financial data and information**:

- There could be a problem with the reliability and validity of the measurement of certain factors;
- It is not a requirement to report these factors in many countries, so companies are not so concerned about reporting them;
- It might be difficult to balance the measurement of financial and non-financial data;
- The company must ensure that it does not set too many different goals, as this can be confusing for management and employees.

Non-financial and sustainability reporting that is transparent, complete, and fair benefits the company, the reporting group of companies, and its external domain. According to the Global Reporting Initiative's classification, some benefits of non-financial reporting include drawing in new capital and boosting competitiveness because prospective investors can access more pertinent information than what is required to be disclosed. Additionally, easy access to information on all aspects of the environment, human rights, and anti-corruption measures is provided to both internal and external stakeholders, including customers, suppliers, the local community, investors, and civil society.
One of the issues identified so far regarding non-financial reporting published in recent years is the low level of *relevance of non-financial information*, and it is critical that the new standards consider the needs of different categories of users, namely the recipients of information and non-financial data. To minimize unfair competition, non-financial reporting rules should be extended to non-EU enterprises operating in the EU.
International reporting standards (for example, the GRI Standards, which are already

widely utilized in Romania) should also be considered to ensure effective information sharing at the international level. In creating the need to prepare and publish a non-financial report for SMEs, proportional consideration should be given to their size and the fact that it would result in extremely high compliance costs, which are often difficult to undergo. For shareholders and investors to make well-informed decisions about their investments, the European Union wants them to have access to clear and accurate non-financial information from businesses. In order for trade unions, civil society organizations, and other interested parties to hold companies accountable for their effects on society and the environment, non-financial data must also be readily available.

References

[1] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Document 32014L0095. OJ L 330, 15.11.2014.

[2] Manes-Rossi F, Tiron-Tudor A, Nicolò G, Zanellato G. (2018). Ensuring More Sustainable Reporting in Europe Using Non-Financial Disclosure—De Facto and De Jure Evidence. Sustainability Journal. 10(4):1162. doi: 10.3390/su10041162

[3] Chong, L.L., Ong, H.B. and Tan, S.H. (2018). Corporate risk-taking and performance in Malaysia: the effect of board composition, political connections and sustainability practices. Corporate Governance: The International Journal of Business in Society, Vol.18 No.4, pp.635-654.

[4] Cho, C.H.; Michelon, G.; Patten, D.M. Enhancement and obfuscation through the use of graphs in sustainability reports: An international comparison. Sustain Account Management Policy Journal, 2012, vol 3, pp. 4–88.

[5] Haller, A., Link, M., Groß, T. (2017). The term 'non-financial information' – a semantic analysis of a key feature of current and future corporate reporting", Accounting in Europe, Vol. 14 No. 3, pp.407-429.

[6] Mio, C., Venturelli, A. and Leopizzi, R. (2015), Management by objectives and corporate social responsibility disclosure: first results from Italy, Accounting, Auditing and Accountability Journal, Vol. 28 No. 3 , pp.325-364.

[7] Elkington, John, (1998). Cannibals with forks: the triple bottom line of 21st century business. Gabriola Island, BC; Stony Creek, CT: New Society Publishers

[8] Kaplan, R., Norton, D., (1996). The Balanced Scorecard: Translating Strategy Into Action. Harvard Business Review Press

[9] Pierre B., Helfrich, V. (2019). The "trilemma" of non-financial reporting and its pitfalls. Journal of Management and Governance. 23 (2): 485–511

[10] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity

information by certain large undertakings and groups. Document 32014L0095. OJ L 330, 15.11.2014, p. 1–9
[11] Michalczuk, G., Konarzewska, U., (2018). The use of GRI standards in reporting on actions being taken by companies for sustainable development. Optimum. Economic Studies. 4 (94): 72–86. ISSN 1506-7637. doi: 10.15290/oes.2018.04.94.07.
[12] Tsagas, G., Villiers, C., (2020). "Why "Less is More" in Non-Financial Reporting Initiatives: Concrete Steps Towards Supporting Sustainability". Accounting, Economics, and Law: A Convivium. 10 (2). ISSN 2152-2820. S2CID 219742131. doi:10.1515/ael-2018-0045.
[13] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions. Action Plan: Financing Sustainable Growth. Document 52018DC0097. COM/2018/097 final
[14] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and The Committee of the Regions The European Green Deal. Document 52018DC0097. Com FS/19/6723
[15] Saunders, M., Lewis, P., Thornhill, A. (2009), Research Methods for Business Students, (Ediţia a cincea), Pearson Education, Prentice Hall, Londra.
[16] Ouddasser A., Mellouki, A., Belyagou. Y., (2019). Corporate Social Responsibility: A Restrictive Approach for the Management of Human Resources. doi: 10.14419/ijet.v8i1.11.28088.
[17] Ioannou, I., Serafeim, G. (2017). The consequences of mandatory corporate sustainability reporting. SSRN Journal, 11, 100. doi: 10.2139/ssrn.1799589.
[18] Publishing, OECD (2012). Annual Report on the OECD Guidelines for Multinational Enterprises 2011: a New Agenda for the Future. Organisation for Economic Cooperation and Development (OECD). ISBN 978-92-64-11994-9. OCLC 1010678849
[19] Schaltegger, S.; Burritt, R. L. (2010). "Sustainability accounting for companies: Catchphrase or decision support for business leaders?". Journal of World Business. 45 (4): 375–384. doi: 10.1016/j.jwb.2009.08.002
[20] Mathews, M. R. (1997). "Twenty-five years of social and environmental accounting research. Is there a silver jubilee to celebrate?". Accounting, Auditing & Accountability Journal. 10 (4): 481–531. doi: 10.1108/EUM0000000004417
[21] Hamilton, K. (2000), Sustaining economic welfare: estimating changes in per capita wealth, Policy Research Working Paper no. 2498, The World Bank, Washington.
[22] OECD (2002a), Sustainable development: a framework for peer reviews and related indicators, Organisation for Economic Co-operation and Development, Paris.
[23] Lamberton, G (2005). "Sustainability accounting—a brief history and conceptual framework". Accounting Forum. 29 (1): 7–26. doi: 10.1016/j.accfor.2004.11.001.
[24] Sheehy, B. (2015), "Defining CSR: problems and solutions", Journal of Business Ethics, Vol. 131 No. 3, pp.625-648.

[25] OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris. Doi: 10.1787/9789264236882-en

[26] Moller, A., Schaltegger, S., (2015). The Sustainability Balanced Scorecard as a Framework for Eco-efficiency Analysis. Journal of Industrial Ecology. 9 (4): 73–83. doi: 10.1162/108819805775247927. S2CID 39270516.

[27] Adams, C. (2013), Understanding Integrated Reporting: The Concise Guide to Integrated Thinking and the Future of Corporate Reporting. London.

[28] Frost, C. A. (2007). Credit rating agencies in capital markets: A review of research evidence on selected criticisms of the agencies. Journal of Accounting, Auditing & Finance, 22(3), 469-492.

Bibliography

ADAMS C., *Understanding Integrated Reporting: The Concise Guide to Integrated Thinking and the Future of Corporate Reporting.* London, 2013.

AMEER, R., OTHMAN, R., *Sustainability Practices and Corporate Financial Performance: A Study Based on the Top Global Corporations. J Bus Ethics*, 2012.

CHONG, L.L., Ong, H.B. and Tan, S.H. (2018). *Corporate risk-taking and performance in Malaysia: the effect of board composition, political connections and sustainability practices. Corporate Governance*, The International Journal of Business in Society, Vol.18 No.4.

CHO, C.H.; Michelon, G.; Patten, D.M. *Enhancement and obfuscation through the use of graphs in sustainability reports: An international comparison,* Sustain Account Management Policy Journal, 2012.

DURAND R., Paugam, L., Stolowy, H., *Do investors actually value sustainability indices? Replication, development, and new evidence on CSR visibility*, Strategic Management Journal. 40 (9), ISSN 0143-2095, 2019.

ELKINGTON John, *Cannibals with forks: the triple bottom line of 21st century business*. Gabriola Island, BC; Stony Creek, CT: New Society Publishers. 1998.

FROST C. A., *Credit rating agencies in capital markets: A review of research evidence on selected criticisms of the agencies*, Journal of Accounting, Auditing & Finance, 22(3), 2007.

GREWAL, J., Riedl, E. J., & Serafeim, G., *Market reaction to mandatory nonfinancial disclosure.* Management Science Journal, 65(7), 2018.

HALLER, A., Link, M., Groß, T., *The term 'non-financial information' – a semantic analysis of a key feature of current and future corporate reporting*, Accounting in Europe, Vol. 14 No. 3, 2017.

HAMILTON, K., *Sustaining economic welfare: estimating changes in per capita wealth,* Policy Research Working Paper no. 2498, The World Bank, Washington, 2000.

IOANNOU, I., Serafeim, G., *The consequences of mandatory corporate sustainability reporting*. SSRN Journal, no. 11, 2017.

KAPLAN, R., Norton, D., *The Balanced Scorecard: Translating Strategy Into Action,* Harvard Business Review Press, 1996.

LAMBERTON, G, *Sustainability accounting—a brief history and conceptual framework*, Accounting Forum, Vol 29 (1): 7–26, 2005.

MANES-ROSSI F, Tiron-Tudor A, Nicolò G, Zanellato G., *Ensuring More Sustainable Reporting in Europe Using Non-Financial Disclosure—De Facto and De Jure Evidence*. Sustainability Journal, vol. 10(4), 2018.

MATHEWS, M. R., *Twenty-five years of social and environmental accounting research. Is there a silver jubilee to celebrate*, Accounting, Auditing & Accountability Journal. 10 (4), 1997.

MATTEN, D. and Moon, J., *"Implicit' and 'explicit' CSR: a conceptual framework for a comparative understanding of corporate social responsibility*", Academy of Management Review, Vol. 33. No.2, 2008.

MICHALCZUK G., Konarzewska, U., *"The use of GRI standards in reporting on actions being taken by companies for sustainable development*". Optimum. Economic Studies. 4 (94): 72–86. ISSN 1506-7637, 2018.

MINNIS, M., Shroff N., *Why regulate private firm disclosure and auditing,* Accounting and Business Research, 47, issue 5, p. 473-502, 2017.

MIO, C., Venturelli, A. and Leopizzi, R., *Management by objectives and corporate social responsibility disclosure: first results from Italy*, Accounting, Auditing and Accountability Journal, Vol. 28 No. 3 , pp.325-364, 2015.

MOLLER, A., Schaltegger, S., *The Sustainability Balanced Scorecard as a Framework for Eco-efficiency, Analysis*. Journal of Industrial Ecology. 9 (4): 73–83, 2015.

OUDDASSER A., Mellouki, A., Belyagou. Y., *Corporate Social Responsibility: A Restrictive Approach for the Management of Human Resources*,2019.

PIERRE B., Helfrich, V. *"The "trilemma" of non-financial reporting and its pitfalls*". Journal of Management and Governance. 23 (2): 485–511, 2019.

SAUNDERS, M., Lewis, P., Thornhill, A., *Research Methods for Business Students*, (Ediţia a cincea), Pearson Education, Prentice Hall, Londra, 2009.

SCHALTEGGER, S.; Burritt, R. L. *"Sustainability accounting for companies: Catchphrase or decision support for business leaders?"*. Journal of World Business. 45 (4): 375–384. 2010.

SHEEHY, B., "Defining CSR: problems and solutions", Journal of Business Ethics, Vol. 131 No. 3, pp.625-648, 2015.

TSAGAS, G., Villiers, C., *"Why "Less is More" in Non-Financial Reporting Initiatives: Concrete Steps Towards Supporting Sustainability*". Accounting, Economics, and Law: A Convivium. 10 (2). ISSN 2152-2820 2020.

UYAR, A., *Evolution of Corporate Reporting and Emerging Trends*. Journal of Corporate Accounting & Finance. 27 (4): 27–30, ISSN 1044-8136, 2016.

Witold J. Henisz and James McGlinch, "*ESG, material credit events, and credit risk*," Journal of Applied Corporate Finance, Volume 31, pp. 105–17, July 2019.

Order no. 2844/2016 for the approval of Accounting Regulations in compliance with International Financial Reporting Standards (12 December 2016) (M.F.P.), Romanian Government, Ministry of Public Finance.

Order no. 1938/2016 amending and supplementing certain accounting regulations (M.F.P.), Romanian Government, Ministry of Public Finance.

Order No 1802/2014 amending and supplementing certain accounting regulations (29 December 2014) (M.F.P.), Romanian Government, Ministry of Public Finance.

Order No 6/2015 approving the Accounting Regulations in compliance with European Directives (17 July 2015). National Bank of Romania.

Order No 7/2016 on the amendment and supplement of the Order of the National Bank of Romania No 27/2010 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards, applicable to credit institutions, and of the Order of the National Bank of Romania No 6/2015 for the approval of the Accounting Regulations in compliance with the European Directives (3 October 2016). National Bank of Romania

Order No 27/2010 approving the Accounting Regulations in accordance with International Financial Reporting Standards, applicable to credit institutions (16 December 2010). National Bank of Romania.

Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Document 32014L0095. OJ L 330, 15.11.2014.

Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee

and the Committee of the Regions. Action Plan: Financing Sustainable Growth. Document 52018DC0097. COM/2018/097 final

Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and The Committee of the Regions The European Green Deal. Document 52018DC0097. Com FS/19/6723

Publishing, OECD (2012). Annual Report on the OECD Guidelines for Multinational Enterprises 2011: a New Agenda for the Future. Organisation for Economic Cooperation and Development (OECD). ISBN 978-92-64-11994-9. OCLC 1010678849

Publishing OECD (2002a), Sustainable development: a framework for peer reviews and related indicators, Organisation for Economic Co-operation and Development, Paris.

Publishing OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris.

KPMG. (2020). The time has come: the KPMG Survey of Sustainability Reporting 2020. KPMG Impact. 2020