EIRP 2022
THE 17TH EDITION OF THE INTERNATIONAL CONFERENCE
EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES

Non-Financial Reporting as a Catalyst for Sustainability and Transparency of Information in Romanian Companies

Marian Simion Cernea[1], Sebastian Gabor[2], Ruxandra Bărbuc (Popescu)[3], Marian Catalin Burcescu[4]

Abstract: Communicating performance and the impact of sustainability by a company only makes sense if it leads to a positive evolution of it by increasing its value in the global capital market, the interest and trust of stakeholders and the transparency of information considered relevant, reputation in the market. Responsibility builds trust between companies and stakeholders. Trust strengthens the validity of the relationship. Stakeholder involvement is essential, GRI supports the involvement of stakeholders in companies and how they provide information on issues they are interested in assessing a company's performance. The paper highlights that GRI standards can be an important benchmark for both companies and investors, and integrated reporting can be a catalyst for transparent, sustainability-oriented reporting in Romanian companies. The research shows that the most important thing is not the report itself, but how companies use the information and observations that come out of the report and how it can be made different for both the companies and the stakeholders.

Keywords: non-financial reporting; sustainability; performance

JEL Classification: K22; M41

1. Introduction

Economy 5.0 was built on the interconnectedness of the world's economies. Any event that affects one of these economies produces the domino effect, and implicitly, in a relatively short period of time, that event will be reflected in the global economy. Integrated reporting appears to be a necessity to integrate into the annual reports and non-financial information about the companies (Cooper, 2017). This proves to be the best answer that a company can offer to the stakeholders and shareholders, and the integrated report is an authentic model of reputation building, allowing greater interconnection between different reports.

In this context, the GRI report is the tool for reporting and communicating the main objective of the company, the representation of the choices made by the company's management, and the effects of the activity carried out on the environment, and it involves all categories of stakeholders (Lee & Huang, 2022). The GRI report on sustainability has a certain goal to achieve. It involves the transmission of

[1]PhD student, Valahia University, Romania, Address: 13 Aleea Sinaia Streeet, Targoviste, Romania, Tel.: + 0245206101, Corresponding author: office.university.edu@gmail.com.
[2] PhD student, Valahia University, Romania, Address: 13 Aleea Sinaia Streeet, Targoviste, Romania, Tel.:+ 0245206101, E-mail: sebastian.gabor@gmail.com.
[3] PhD student, Valahia University, Romania, Address: 13 Aleea Sinaia Streeet, Targoviste, Romania, Tel.:+ 0245206101, E-mail: roxana.popescu@yahoo.com.
[4] PhD student, Valahia University, Romania, Address: 13 Aleea Sinaia Streeet, Targoviste, Romania, Tel.:+ 0245206101, E-mail: marian.burcescu@gmail.com.

independent information about the quality of the company in order to extend the ethical and social evaluation opportunities and emphasize the company's values. The report aims to describe how and to what extent the company has pursued the profit and environmental conditions in which it operates and provides a clear perspective on how to use resources. Also, making a report based on GRI standards lets stakeholders compare how companies are working to be more sustainable.

In order to comply with the guidelines, a report must contain information about the company's vision, strategy, and profile. Other essential elements concern the governance structure and the management systems, but also the criteria of social and environmental economic performance (Maj, 2018). Preparing a report in accordance with GRI standards provides a comprehensive picture of the company, of the non-financial information considered to be important in the disclosure and reporting process, and the impact, it has on both the company's internal and external environment. on how they are managed.

The result of integrated digital reporting is a new model of integrated digital reporting, that is vital for both shareholders and companies. It sets the direction for companies and helps them identify and understand shareholder expectations through interactive communication. The information obtained is translated into documents with an overview of the company and the value creation process through a sustainable business model (Busco, 2013). This gives a perspective on the company that brings together sustainability and innovation, with constant drivers as the impetus for change and the creativity of human resources involved in harmony with stakeholders in the current context.

2. Integrated Reporting Pillars in Designing the Performance of the Companies

The accelerated expansion of the Internet as the main communication tool of companies, the accelerated expansion of the mobile Internet, the accessibility of social networks, and the development of digital trading platforms have had a very strong impact on the efficiency and effectiveness of economic models. The digital economy is fundamental to the redesign of the business model by accelerating the transformation of the global economy towards an interconnected economy: the digital economy.

The year 2021 has brought to the landscape of integrated reporting of companies a novelty element that will be quickly adopted, namely digital integrated reporting. This involves taking into account GRI standards, the recommendations of the International Business Council (IBC), as well as sectoral indicators imposed by the Sustainability Accounting Standards Board (SASB). Pathways defined by relevant domains allow for interconnected and personalized navigation of content based on specific areas of interest and in-depth analysis to discover each company's sustainable business model, strategy, value creation process, and commitment to combat climate change (Amel-Zadeh & Serafeim, 2018).

Sustainability reporting standards are on an upward trend and are substantiated and built on most of the existing financial reporting standards. ESG becomes a critical part of the business model of the companies of the future, which, based on the reporting behavior adopted, fall into two categories: those who voluntarily adopted sustainability reporting, adopted a sustainable business model, and reduced the pressure exerted by their own activities on ecosystems and natural resources; and those who have not turned their attention to sustainable conduct, endangering their existence either as a natural consequence of climate risks or due to pressure from direct competitors (Murphy & McGrath, 2013).

Against this background, there is an awareness of the need to reform corporate reporting and the need to adapt the reporting process of financial and non-financial information to the new economic environment by incorporating an optimal volume of them so that the resulting reports bring balance and stability. and transparency, to cover and harmonize economic, social, and environmental aspects: ESG (environmental, social, and governance).

Several integrated reporting theories have emerged in the research space in recent years in order to improve companies' accountability and transparency and to determine an inclusive approach of shareholders to corporate governance as part of integrated reporting.

The theory of shareholders approaches the company as an entity owned by them, which provides the capital necessary to carry out the activities and appoints the management, with the clearly stated purpose that the company should work towards achieving the objectives of the shareholders. In other words, the shareholders' theory assumes that capital is the critical element, and what shareholders want is a return on investment (Cooper, 2017).

Stakeholder theory considers that maximizing profits by companies is a simplified approach, taking into account that the process of creating the value of a company consists of the relationship between this sense of many people and groups interested in its performance. Considering that shareholder involvement is important for the long-term performance of companies, it is essential that their management supports the process of disclosing both financial and non-financial information through integrated reporting (Murphy & McGrath, 2013). On the one hand, to promote the dialogue between management and shareholders and, on the other hand, to demonstrate the evolution of the company in accordance with the expectations of shareholders. In other words, companies need to find a way to meet the needs of all their stakeholders by sharing the results of their work in regular reports. The goal of these reports is to give all stakeholders the information they need to make decisions and shape how they invest in the future.

Institutional theory presupposes the existence of a comprehensive system consisting of political, financial, and economic institutions and bodies that exert pressure on companies through three institutional mechanisms: coercive, normative, and imitation (Busco, 2013). The institutional ones refer to the establishment of rules, norms, and laws, to the monitoring of their application and, depending on the application process, to the rewarding or non-rewarding of the companies; the non-normative ones refer to non-imposed norms and values, and to the impact that the educational institutions or the organizations of the professionals in the field generate on the companies by establishing some standards, and the imitation ones refer to the replication of the successful internships of some companies or institutions. They saw the opportunity for integrated reporting. In contrast to integrated reporting, the way things are done in the field shows how institutional theory is used through studies that explain how different strategies for reporting on sustainability and corporate governance are adopted and spread.

The theory of legitimacy, according to which the existence of a company is justified by the perception of the interested parties regarding its legitimacy and conformity with social norms and values, is similar to a social contract (Hahn & Kühnen, 2013). In other words, legitimacy is needed to attract resources and gain the support of stakeholders. And this demonstrates a visibly improved communication process with stakeholders by publishing integrated reports that prove to represent the legitimacy of the company as a continuous process.

Agency theory analyzes the relationship between company managers and investors, which proves to be asymmetric. According to this theory, the menagerie should not only pursue the company's objectives but also the interests of investors (Busco, 2013). The best way to share information about a company is through integrated reports. These reports would give all stakeholders useful information that would help them make investment decisions, which would mean less inequality between managers and investors.

The theory of practice shows that integrated reporting is a complex process that involves a sequence of activities that take place cumulatively, and the realization of an integrated report relevant to the company and stakeholders is based on adopting integrated thinking, reporting to its requirements, strategy formulation by the company, the environmental and social aspects and their alignment with the company's value system, the objectives, the institutional structure, and the operationalization of its processes (Cooper, 2017).

The sociological theory of value reveals that integrated reporting combines different organizational, sectoral, market, civic, or ecological value orders, which need to be dynamically harmonized to give integrated reports value, clarity, and foundation so that investors or accountants may not be able to find any breaches of undisclosed information (Busco, 2013).

The theory of pragmatic constructivism analyzes the documents of the department of reporting on sustainability and corporate governance from an accounting perspective (Dhaliwal, Radhakrishnan, Tsang & Yang, 2012). The result of the analysis showed a direct correlation between integrated reporting and sustainability reporting, and the company adopts, in this sense, the strategy of enlightened shareholder value.

All these theories have done nothing but paved the way for multiple research in the field of integrated reporting and arouse interest in the potential of information disclosure.

Although it is clear that the practice of integrated reporting brings multiple advantages, whether we consider the company as a whole, by reporting to the external environment, or whether we consider integrated stakeholders and shareholders, this type of reporting is criticized, especially by practitioners in the field (Maas, Schalteggerand & Crutzen, 2016). Among the criticisms brought include:

management's inability to articulate the added value that the company provides to investors and other stakeholders;

focusing on financial capital providers to the detriment of other users of integrated reporting information

a potential lack of transparency and exploitation of information opportunities by large corporations;

report inconsistency due to the use of the concept of the six capitals in the integrated reporting process;

the existence of problems related to the audit of integrated reporting;

the impossibility of the management in clearly defining the company's strategy;

the need to audit the identified performance indicators in order to strengthen the shareholders' trust in the company;

the imminence of the increase in the volume of the annual reports, and the difficulty of their going through by the investors.

If companies need a transformational process and a cultural change, the same thing needs to be done among shareholders, who in turn must go through a cultural transformational process to develop confidence in non-financial information that must be standardized and rigorous, supported by international regulators. Or, the lack of rigor in the reporting of non-financial information is reflected in the fact that integrated reports to shareholders are not always given.

The identification of the relevant topics is done following the collection of inputs from all interested parties and by reporting to the three content principles (Amel-Zadeh & Serafeim, 2018). On the one hand, we have the collection through the principle of stakeholder involvement and the principle of the context of sustainable development, in order to identify all sensitive areas related to sustainability that can generate both a positive and a negative impact on the company. On the other hand, the collection through the prism of the principle of exhaustiveness, by the application of which a company ensures that it covers all the relevant subjects as they are perceived by all the co-interested parties, by effectively using integrated reporting, stakeholders will be able to receive information with the granularity they require, and CFOs will strengthen investor confidence by providing impactful information that would lead to better decision-making (Qian, Gao & Tsang, 2015). The end goal of the integrated reporting process is to give a true picture of how the company is doing now and what will happen in the future.

3. Results and Discussion

Not only are companies aware of the pressure to innovate, but they also develop the ability to identify opportunities to connect with other companies around the world to improve their products and services, and to distinguish their strategies from those of key competitors. In the midst of the pandemic, investors have accessed timely and real-time data to measure the rapid evolution of the economic situation around the world. Traditional economic data was published with a long delay, but technology made it possible to track the economy in real-time.

On the other hand, globally, sustainability is an integral part of the future development of companies, which become directly responsible for their own sustainability. Global financial services and audit firms (the Big 4) have included sustainability among their priorities for many years before this time of global emergency, as reflected in the regular publication by each of them of a sustainability report and the domino effect. Companies also put out sustainability reports, which are read by their customers, which helps spread the use of both integrated reporting and sustainability reporting.

The integrated approach to reporting on companies' performance will help companies get through the post-COVID-19 period more easily, and this is because, in this context, sustainability has become more important than ever. In addition, three other elements join an irreversible transformational process with a direct projection on improving the performance of companies: health and safety of human resources involved in operational processes; digitization; and management of services through centres of excellence. Among the mentioned elements, we recognize the fundamental importance of technology, which is part of digitalization and automation, and will significantly contribute to increasing its performance, eliminating human error, and reallocating it to analysis, decision, and innovation.

In addition, the current crisis situation has revealed the ability to cope with the negative effects and to find innovative solutions to continue the activity, albeit at a different pace. So, managers and government institutions need to work together to get people to start saving again. Professional accountants play an important role in reporting changes and adjustments in the work of each entity.

The reports prepared within the economic entities will have a double role: the public ones, aimed at non-financial reporting, will contribute to increasing the confidence of investors who trade shares; and the confidential ones, intended for management, will help to make relevant decisions.

In order for a company to prepare a consistent sustainability report that brings added value to the company and is expected by interested investors, it is essential that this report be developed, taking into account the reporting principles recommended by GRI.

The general principles have two guidelines in mind: the first refers to the mission to develop, promote, and disseminate the "Sustainability Reporting Guide" and to create a common sustainability reporting structure. The second considers that sustainability reporting should be done from the perspective of comparability, credibility, and audit. The latest guidance is to meet the information needs of a wide range of stakeholders by respecting the following pillars: inclusion, transparency, and technical excellence.

4. Conclusions

The reporting of companies' performance in the classic version is limited to the strict reporting of financial information from their historical past, which takes the form of reports and financial statements prepared for stakeholders and shareholders, which do not include sustainability issues (Lee & Huang, 2022).

Assessing the progress of companies towards sustainability and its associated integrated reporting has been supported by multiple proposals, which have taken the form of methods, conceptual frameworks, standards, ratings, indexes, distinctions, accreditations, awards, alliances, studies, and research. Although the literature is divided between those who assimilate integrated reporting with sustainability and those who consider them two totally different concepts, we cannot ignore the tangibility, intersection, integration, and often the association of integrated reporting with sustainability, a fact observed even at the level of IIRC.

In light of how the pandemic 19 changed the economic ecosystem and made it more important for stakeholders and shareholders to have access to non-financial information because it showed how vulnerable human resources and the value chains of companies were, we are focusing our research on the adoption of sustainability reporting, which we think has the same potential as financial reporting.

Investors are interested in information related to the creation of the value of companies, but they cannot accept and integrate into their investment decision-making information that comes from a fragmented reporting landscape. They use integrated reports to analyze the company in which they want to invest in terms of management, corporate governance, sustainability of the company, and the business model on which it operates. Also, non-financial information becomes very important, maybe even more important than financial information, because it has to do with how companies see themselves and what they plan to do in the future. When companies share this information, it gives investors confidence, which is what they need to make money.

The new model must adhere to the green economy, circular economy, and digital economy concepts as well as incorporate three aspects of sustainability: social, economic, and cultural. The social aspect presupposes that the new business model includes references to human rights, employment, diversity, security, well-being, education, and community, with a particular focus on intergenerational solidarity and health. The economic aspect refers to the fact that the new business model goes beyond the strict sphere of profit maximization by companies to an approach that includes the economic impact that companies return to their society and communities. The cultural aspect refers to the profound cultural changes in companies. To meet challenges, companies need the right dynamics and skills that let them come up with new ideas, combine and reorganize internal and external skills, and come up with new ways to use them.

References

Amel-Zadeh, A. & Serafeim, G. (2018). Why and How Investors Use ESG Information: Evidence from a Global Survey. *Journal of Financial and Quantitative Analysis*, 74, pp. 87–103.

Busco, C. (2013). *Integrated Reporting: Concepts and Cases that Redefine Corporate Accountability*. New York, NY, USA: Springer International Publishing.

Cooper, S. (2017). *Corporate Social Performance: A Stakeholder Approach*. London, UK: Routledge.

Dhaliwal, D.S.; Radhakrishnan, S.; Tsang, A. & Yang, Y.G. (2012). Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *Accounting Review*, 87, pp. 723–759.

Hahn, R. & Kühnen, M. (2013). Determinants of sustainability reporting: A review of results, trends, theory, and opportunities in an expanding field of research. *Journal of Cleaner Production*, 59, pp. 5–21.

Lee, M. & Huang, Y.-L. (2022). Corporate Social Responsibility and Corporate Performance: A Hybrid Text Mining Algorithm. *Sustainability*, 12, p. 3075.

Maas, K.; Schalteggerand, S. & Crutzen, N. (2016). Integrating corporate sustainability assessment, management accounting, control, and reporting. *Journal of Cleaner Production*, 136, pp. 237–248.

Maj, J. (2018). Embedding Diversity in Sustainability Reporting. *Sustainability*, 10, p. 2487.

Murphy, D. & McGrath, D. (2013). ESG reporting–class actions, deterrence, and avoidance. *Sustainability Accounting, Management and Policy Journal*, 4, pp. 216–235.

Qian, C., Gao, X. & Tsang, A. (2015). Corporate Philanthropy, Ownership Type and Financial Transparency. *Journal of Business Ethics*, 130, pp. 851–867.