

## ***Sustainable Development and Non-financial Reporting of Companies***

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***Abstract:*** *The paper aims to highlight the importance of the concept of sustainable development and of the non-financial reporting in the companies. At the same time, possible actions to improve the credibility of non-financial information are highlighted.*  
***Keywords:*** *sustainable development, non-financial reporting, companies, social justice, environmental protection*

### **Introduction**

The last 50 years have brought fundamental changes to the world economy at all levels. These changes were so rapid and of such intensity that the public authorities, the population or the business community faced difficulties adapting to the new socio-economic climate created by the collapse of some value systems proven incompatible with new world realities. Economic crises of the last century are the best evidence that development systems need to be rethought, reoriented and aligned with new trends.

From an economic point of view, development, as a process, is the ability of a national economy to generate and sustain an annual growth of macroeconomic indicators that measure development capacity. These are reflected in GDP, income / inhabitant or GNP / inhabitant, indicators that highlight the wealth of a people, depending on the number of inhabitants. Thus, taking into account a particular economy over a period of time, we can say that the economy has grown economically if GDP or income grows more than the population

Practically, economic development was seen as a continuous phenomenon of GDP growth, generating beneficial effects both for the population by creating new jobs and by increasing the supply of goods and services. This type of approach also did not address special issues such as poverty, unemployment, and inequality of income distribution. Thus, the need to redefine the concept of economic development, taking into account the reduction of poverty, unemployment, as stabilizing factors of economic growth, has intervened.

If, until five decades ago, industrial development was judged and appreciated only in terms of economic efficiency, with the Stockholm Conference in 1972, the prospect has changed, seriously placing the issue of environmental degradation as a result of human activities, threatening the future of mankind itself. The Stockholm Declaration even states in principle 1 that, besides the fundamental right to freedom, man has the right to equality and satisfactory living conditions in an environment whose quality allows him to live in dignity and well-being. At the same time, man has a "solemn duty to protect and improve the environment for present and future generations". [1]

The attention given to "future generations" in terms of environmental quality, which will be later found in the definitions of the concept of sustainable development.

### **1. Aspects Regarding the Sustainable Development**

Speaking at the dawn of the emergence of the concept of sustainable development, we will find it indissolubly linked to environmental issues and the crisis of natural resources, with particular reference to energy related issues reported in the second half of the 20th century.

Following the 1972 Stockholm Conference at the request of the United Nations, the World

Commission on Environment and Development, known as the Brundtland Commission, was set up in 1983 to raise awareness of the need for sustainable development. The work of the commission ended with the publication in 1987 of the Report entitled "Our Common Future", which highlighted a sustainable development strategy at a global level.

In 1992, the United Nations Environment and Development Conference was held in Rio de Janeiro. This was the occasion for the Rio Declaration containing 27 principles, of which we mention [2]: human beings are at the center of concerns for sustainable development; the right to development must be met so that it equitably meets the developmental and environmental needs of present and future generations; environmental protection shall be an integral part of the development process and shall not be considered in isolation from it; all States and all people will co-operate in the essential task of eradicating poverty as an indispensable requirement for sustainable development, in order to reduce disparities in living standards and better meet the needs of the majority of the world's people; States should reduce and eliminate unsustainable patterns of production and consumption and promote appropriate demographic policies; States should co-operate to enhance endogenous capacity building for sustainable development by improving scientific understanding through exchanges of scientific and technological knowledge, and by enhancing the development, adaptation, diffusion and transfer of technologies, including new and innovative technologies; States shall enact effective environmental legislation; States should co-operate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries to better address the problems of environmental degradation; Peace, development and environmental protection are interdependent and indivisible.

Also at this meeting was adopted an international action plan for sustainable development entitled "Agenda 21".

Agenda 21 has become a model for sustainability and forms the basis that sustainable development strategies are built on. It seeks to establish a balance between production, consumption, population, development and the ability to support life of the planet Earth. It addresses the issue of poverty, excessive consumption, health and education, urbanization and agriculture, food and natural resources management and many other topics. [3]

In spite of the fact that Agenda 21 is a document of international consensus, seen from a wider perspective, the negotiations of Rio haven't solved all disputes in accordance with the requirements of each participant and not necessarily in the interest of the majority. It is, however, a unique step to the road to sustainability, offering a bold plan to mobilize local, national and global action. [4]

In 2002, *the World Summit on Sustainable Development in Johannesburg, South Africa*, was organized on this occasion, adopting the "Implementation Plan of the World Summit on Sustainable Development", a document containing objectives and deadlines for implementation, means of implementation and the institutional framework for sustainable development.

At the same time, the participants to the Summit have adopted the Johannesburg Declaration, which comprises the participant's commitments to build a equitable global human society, taking collective responsibility to build and strengthen the pillars of sustainable development at local, national, regional and global levels through the fight against serious threats for the sustainable development of their peoples. [3]

In 2012, at the 20th anniversary of the United Nations Environment and Development Conference in Rio de Janeiro and 10 years after the World Summit on Sustainable Development in Johannesburg in 2002, **the United Nations Conference on Rio de Janeiro for Sustainable Development Rio + 20**. The participating countries adopted the document "The Future We Want", which decided to develop a plan of measures to ensure sustainable development, the adoption of policies on the green economy.

Sustainable development underscores the importance of taking into account the long-term perspective linked to the consequences of current activities on global development in the future. Global and

regional cooperation programs, as well as multilateral partnerships between countries and groups of countries, are needed to lead to long-term viable solutions.

In this broad context, *sustainable development* becomes a key objective for formulating internal and regional policies as well as for building international sustainable relations between countries in the 21st century.

## **2. Nonfinancial Reporting**

In line with the global preoccupations of sustainable development and the provision of an institutional framework, the European Parliament adopted on 6 February 2013 the resolutions on "Corporate Social Responsibility: Responsible and Transparent Business Behavior and Sustainable Economic Growth," and, namely "Corporate Social Responsibility: Promoting Society's Interests and Towards a Sustainable and Comprehensive Economic Recovery", confirming the importance of business disclosure of sustainability information such as social and environmental factors, in order to identify the risks related to sustainability and to increase the confidence of investors and consumers. At the same time, it considers that disclosure of non-financial information is a key element in managing the transition to a sustainable global economy that combines long-term profitability with social justice and environmental protection. In this context, disclosure of non-financial information contributes to measuring, monitoring and managing the performance of enterprises and their impact on society.

Indeed, one of the reasons for the adoption of Directive 2014/95 / EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34 / EU as regards the submission of non-financial information and information on diversity by certain undertakings and groups is the point 47 of the Rio + 20 final document entitled "The Future We Want" which recognizes the importance of reporting information on business sustainability and encourages businesses, where appropriate, to consider integrating information on sustainability in their reporting cycle.

According to Directive 2014/95 / EU, in order to increase the consistency and comparability of non-financial information presented throughout the Union, large enterprises which are public interest entities and which, at the balance sheet date, exceed the criterion of having an average of 500 employees during the financial year include in the management report a non-financial statement containing, to the extent necessary to understand the development, performance and position of the enterprise and the impact of its business, information on:

- Environmental aspects, highlighting the issues regarding:
  - the current and foreseeable impact of the company's operations on the environment and, where appropriate, on health and safety;
  - the use of renewable and non-renewable energy;
  - greenhouse gas emissions;
  - water use and air pollution.
  
- Social and personnel aspects. The information provided in the declaration may refer to:
  - actions taken to ensure gender equality;
  - the implementation of the International Labor Organization's core conventions;
  - working conditions;
  - social dialogue;
  - observing workers' right to be informed and consulted;
  - respect for trade union rights, health and safety at work;
  - dialogue with local communities and / or actions taken to ensure the protection and development of these communities
  
- Respect for human rights and fight against corruption and bribery. Includes information on preventing human rights abuses and / or on instruments put in place to combat corruption and bribery
  
- Including:
  - a) a brief description of the business model of the enterprise;

- b) a description of the policies adopted by the enterprise in relation to these issues, including the necessary procedures of diligence applied;
- c) the results of those policies;
- d) the main risks related to these issues arising from the operations of the enterprise, including, where relevant and proportionate, its business relations, its products or services that could have a negative impact on those areas and how the enterprise manages those risks ;
- e) key non-financial performance indicators relevant to the specific activity of the enterprise.

If the enterprise does not implement policies on one or more of these issues, the non-financial statement must provide a clear and reasoned explanation for this option.

All these elements of the Non-financial Reporting were also taken over by the Romanian legislation [5; 6], which includes, among other things:

- the consequences for the climate change of the entity's activity and the use of the goods and services it produces;
- the undertakings' commitments in favor of sustainable development, the fight against food waste, and the fight against discrimination and the promotion of diversity.

Non-financial reporting, in the structure recommended by the Directive, can be classified as inappropriate, part of information having a financial dimension or impact, especially for investors.

Thus, in a study conducted by Rodney Irwin and Alan McGill [7], it is considered non-financial information (NFI) to provide the investor with a better understanding of financial information and overall performance of business. For some, it goes further and supports baseline decisions for investment because it provides information on the quality of business and its long-term viability, complementing the valuation model.

Non-financial reporting is not standardized globally, with comparability between companies being difficult. This is because most companies use different methodologies and calculations.

For this reason, investors want a more consistent approach to reporting and disclosure to find more useful non-financial information. To increase comparability, investors want consensus amongst standard setters, aggregators and investor representatives on a global framework and standards for non-financial information. In the absence of such standards, investors are looking for a company led solution that would reflect the transparency in the methods used, consistent application and comparability within industry sectors. [7]

In addition, Rodney Irwin and Alan McGill identified possible actions to improve the credibility of non-financial information [7]:

- Companies should show how they integrate non-financial information into their overall organizational strategic decision-making. They should highlight which are material metrics, distinguishing them from metrics presented solely for compliance or industry practice (which should be identified as such);
- Companies should consider concisely disclosing the measurement protocols or frameworks they use for key metrics. If there have been changes in the measurement or methodology from the previous year, they should explain why and they should also explain the impact of the change;
- Companies should work towards strengthening their governance, internal controls and processes for NFIs to be on par with financial information;
- Companies should report the NFI material at the same time as the annual report, and if it is not within the annual report itself, then in an integrated and coherent way.
- When purchasing procurement services for NFI, companies should balance their value and costs for their shareholders;
- Data aggregators should identify and highlight which company metrics and disclosures have been subject to assurance. They should also include the identity of the assurance provider and the level of assurance performed;

- Innovation is needed to address what investors say could give them increased confidence in NFI.

### Conclusions

Sustainable development represents in the 21st century a fundamental objective for both people, national and international authorities, and for companies.

Non-financial reporting helps measure, monitor, and manage company performance, while also increasing visibility towards stakeholders. Current and potential investors take increasingly into account environmental, social and personnel aspects, respect for human rights and the fight against corruption and bribery, aspects that ultimately influence consumer decisions. Also, a consensus needs to be achieved for global non-financial reporting amongst those who develop standards, aggregators and investor representatives.

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