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# Adoption of Non-Financial Reporting Practice of the Companies Listed on Bucharest Stock Exchange

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## Abstract

*In the era of continuous transformation, financial statements have lost their relevance to investors. As a result, investors are requesting the publication of non-financial information in order to make wise decisions. The goal of this paper consists in showing the potential of the companies listed on the Bucharest Stock Exchange (BSE) to publish non-financial information through a separate report towards the annual report aimed at attracting investors and creating an international image. Thus, in order to achieve this goal, companies listed on BSE from different activity sectors were analyzed. The study revealed a tendency of the companies to imitate the best practices for drafting the reports. However, Romania is still facing the understanding of the new non-financial reporting concept.*

**Key words:** non-financial reporting; Romania; transparency; listed companies

**JEL Classification:** M14

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## 1. Introduction

Globalization is an engine for new developments in non-financial information. The evolution of the concept of non-financial reporting has been defined and developed by many authors such as Bowen (1953), Fredrick (1960), Davis (1973), Elkington (1997), Carroll (1999), Contrafatto (2014) and many others. Last but not least, this concept was demanded by the society and supported by companies (Contrafatto, 2014).

Bowen (1953) argues that non-financial reporting refers to managers' obligations to pursue these policies, or to follow those lines of action which are desired by the values of our society.

Fredrick (1960) shows that there is only one non-financial reporting mechanism meant to use its resources and increase profits, as long as they remain within the rules, they engage in open and free competition without deception or fraud.

Carroll (1979) describes non-financial reporting as a multi-layered concept that can be differentiated into four interrelated, economic, legal, ethical and philanthropic aspects. Carroll presents these aspects in a pyramid with four consecutive levels. Therefore, to achieve a good non-financial reporting, companies must reach all four levels in a consecutive manner.

The goal of this study consists in analyzing the Romanian companies' orientation to publish non-financial information.

## 2. Literature review

Communication of non-financial aspects was voluntary for large companies in Europe until the 2014/95/EU Directive, applicable from 1 January 2017 and in Romania by OMFP 1938/2016, where the "Non-Financial Statement" was introduced.

Therefore, this aspect is also shown by KPMG in the survey conducted in 2017, showing a slight increase in the number of companies reporting information on sustainable development. More specifically, 74 companies of N100 (the first 100 companies in Romania based on turnover) publish information on sustainable development, namely almost three-quarters (72%) of large and medium-sized companies worldwide do not include the financial

risks related to climate changes in the annual financial reports.<sup>1</sup>

Directive 2014/95 / EU becomes an impetus for companies operating in Romania and in order to align to the new requirements of sustainability and to mother company policy, companies have enforced social and environmental practices such as social and environmental reporting (SERUM).

This alignment has led to a variety of literature (Spence, 2007, Andrew C. Call, et al., 2017, Kin Lo, et al., 2017). Although we do not know why entities report, Spence (2007) states that there is an urgent need to disclose non-financial information. This statement is contradicted by Gray (2010), who returns and states that entities are not responsible for their social and environmental impact. Also, the disclosure of non-financial information, provides to the reports an external assurance on the credibility and legitimacy of the management processes and the effective communication of the sustainable performance to all stakeholders. Jo et al., (2011, 2012) show that commitment to reporting non-financial information positively affects corporate performance, as activities regarding reporting non-financial information can resolve conflicts between managers and stakeholders. Also, publishing non-financial information increases customer identification and trust (Su et al., 2017). Kim et al. (2017) found that there is a positive relationship between the perception of publishing non-financial information and employees. Employee performance, working conditions, leads to affective commitment and organizational behavior in the workplace.

Therefore, non-financial reporting becomes an information bridge for stakeholders represented by a report. Also, the entities in the industrial sector have started to face the increasing pressures of different stakeholders to take into account the impact of their operations on the natural environment (Abbas et al. 2019). As a result, changing the natural climate and significantly increasing air, water and soil pollution (Li et al., 2018) push companies in the industrial sector to relinquish dependence on fossil energy resources that pose environmental hazards and start capitalizing on renewable resources (Ji et al., 2019; Sepehri et al., 2018). Boesso et al. (2007,) and van der Laan Smith et

<sup>1</sup> <https://home.kpmg.com/ro/ro/home/presa/comunicate-presa/2017/10/cr-reporting-2017-survey.html>

al. (2005) presented for the first time what is an annual report. The Annual Report is recognized as a key method of communication with stakeholders by providing both financial and non-financial information, as evidenced by research, by observing variations in the quality and level of non-financial reporting within annual reports. Sustainability reports provide an overview of the organization in terms of its social activities and provide a supplement to the financial statements, providing information about a particular set of activities of the organization (Orhan et al., 2011).

This paper analyzes the potential of companies listed on Bucharest Stock Exchange to publish non-financial information through a separate report from the annual report. For this reason, a study was conducted on companies listed on Bucharest Stock Exchange (BSB). The significance of this research is given by the fact that non-financial reporting is a relatively new concept in Romania.

The paper is structured as follows: the next part presents the research methodology. The second part analyzes the annual reports from the point of view of publishing non-financial information, and the third part analyzes the compliance of the annual reports with the principles of non-financial reporting. The last part includes the conclusions and limits of this study as well as future research directions.

### 3. Research methodology

The Romanian companies were surveyed using an initial sample of 22 companies listed on the Bucharest Stock Exchange (BSE). The research is based on 2 selection indices:

- ✓ BET PLUS (BUCHAREST EXCHANGE TRADING PLUS INDEX);
- ✓ BET-NG (BUCHAREST EXCHANGE TRADING ENERGY & RELATED UTILITIES INDEX).

The selection process was based on three criteria:

- Companies must have over 500 employees;
- They should also have Romanian capital;
- Financial and non-financial information should be public for stakeholders.

From the sample, 22 companies from the industrial sector were selected, which also have Romanian capital. Following the analysis, it turned out that only 12

companies meet the above criteria. The company "ROMPETROL WELL SERVICES SA" was excluded from this analysis because the annual report was presented at group level and the company. "ALRO SA", "TERAPLAST SA" and "ROMCARBON SA" were eliminated because they did not have Romanian capital, and the entities "IAR SA Brasov", "TURBOMECANICA SA", "ELECTROARGES SA", "CEMACON SA", "ALUMIL ROM INDUSTRY SA", "Electromagnetica" were eliminated because the criterion regarding the number of employees to be over 500, was not respected (see **Tables no. 1 and 2**).

The goal of this study consists in analyzing the companies' orientation to publish non-financial information. To achieve this goal, we have proposed the following research hypotheses:

- H1:** *Are BSE-listed companies with more than 500 employees prepared to publish non-financial information in accordance with Directive 2014/95 / EU?*
- H2:** *Non-financial reporting provides the entities with future benefits for companies that operate worldwide.*
- H3:** *Non-financial reporting gives transparency to the information published by the companies listed on BSE for stakeholders.*

The reference year chosen for reviewing the reports is 2018. The reports were taken from the companies' or BSE websites and in order to show "the compliance of the annual reports on compliance with the principles of non-financial reporting", we adapted the methodology used in the study of Gușe et al. (2014).

We created a model based on scores 1-5, as one can see in **Table no. 3**.

In order to achieve score 5, companies must follow 3 criteria:

- to publish a sustainability report for more than 3 years;
- to have a special department for relations with investors;
- to fully comply with the six principles.

In order to achieve score 4, companies must have published a sustainability report for at least 1 year. Also, in order to achieve score 3, companies must have published non-financial information, for example in a

brochure, explaining its orientation to non-financial reporting. Score 2 is obtained by companies that have published non-financial information, but this information is just listed and not explained. Score 1 was obtained by

companies that report, but not sustainability, for example, presents information on non-financial reporting in reports called "Donations". And score 0 was achieved by companies that do not meet any of the criteria above.

**Table no. 1. Initial sample of the research (1)**

No.	BSE symbol	Companies	MARKET	Field of activity	No. of employees-2018	Romanian capital (%)
1	TGN	S.N.T.G.N. TRANSGAZ S.A.	REGULATED MARKET	Utilities (natural gas)	4.284	58,51
2	COTE	CONPET	REGULATED MARKET	Services (pipeline transport)	1.635	58,72
3	SNG	S.N.G.N. ROMGAZ S.A.	REGULATED MARKET	Utilities (natural gas)	5.604	70,01
4	TEL	C.N.T.E.E. TRANSELECTRICA	REGULATED MARKET	Utilities	2.102	58,69
5	EL	SOCIETATEA ENERGETICA ELECTRICA SA	REGULATED MARKET	Utilities	7.995	48,79
6	SNN	S.N. NUCLEARELECTRICA SA	REGULATED MARKET	Utilities	2.002	82,5
7	ALR	ALRO S.A.	REGULATED MARKET	Industrial	x	x
8	ARS	AEROSTAR SA	REGULATED MARKET	Industrial	1.878	71,30
9	CMP	COMPA SA	REGULATED MARKET	Industrial	2.094	54,6
10	TRP	TERAPLAST SA	REGULATED MARKET	Industrial	x	x

Source: Own processing

**Table no. 2. Initial sample of the research (1)**

No.	BSE symbol	Companies	MARKET	Field of activity	No. of employees-2018	Romanian capital (%)
1	PTR	ROMPETROL WELL SERVICES SA	REGULATED MARKET	Utilities	x	x
2	SNP	OMV PETROM SA	REGULATED MARKET	Utilities	12.498	33,21
3	OIL	OIL TERMINAL SA	REGULATED MARKET	Services	927	59,62
4	RRC	ROMPETROL RAFINARE SA	REGULATED MARKET	Utilities	1.126	44,7
5	IARV	IAR SA Brasov	REGULATED MARKET	Industrial	x	x
6	VNC	VRANCART SA	REGULATED MARKET	Industrial	1.133	74,72
7	TBM	TURBOMECANICA S.A.	REGULATED MARKET	Industrial	x	x
8	CEON	CEMACON SA	REGULATED MARKET	Industrial	x	x
9	ELGS	ELECTROARGES SA	REGULATED MARKET	Industrial	x	x
10	ROCE	ROMCARBON SA	REGULATED MARKET	Industrial	x	x
11	ALU	ALUMIL ROM INDUSTRY S.A.	REGULATED MARKET	Industrial	x	x
12	ELMA	Electromagnetica	REGULATED MARKET	Industrial	x	x

Source: Own processing

## 4. ANALYSIS OF ANNUAL REPORTS IN TERMS OF PUBLISHING NON-FINANCIAL INFORMATION

According to the "Non-financial Information Reporting Guideline", the goal of these entities is to publish high-quality, relevant, useful, consistent and comparable non-financial (environmental, social and government-related) information so as to favor economic growth, in a sudden and lasting way and to ensure transparency for stakeholders.

Thus, besides the observance of the obligation to draw up the annual reports according to the Regulation of the National Securities Commission - CNVM no. 1/2006, we can find other intermediary reports on company websites, such as: Individual Auditors' Report in accordance with IFRS, the Revenues and Expenses Budget, Individual Report on Payments to the Government, and other reports.

The annual reports are in accordance with the Regulation of the National Securities Commission - CNVM no. 1/2006 and discloses information on the business performance of the entity, the activity from the financial year ended, information on social responsibility and environmental protection, entity strategy, risk management and information on the management of the company and shareholder structure, as well as information on the market of shares issued by entities. For stakeholders to fully understand the key components of an entity's assets structure, entities have been guided to voluntarily publish non-financial information. Thus, non-financial information makes it possible to identify and assess the essential aspects.

All information is included in a supplementary report, voluntarily drafted by companies listed on BSE, called the "Sustainability Report", "Corporate Social Responsibility Brochure (CSR)", "Environmental Report", and "Social Responsibility" (see **Table no. 3**).

**Table no. 3. Companies with mandatory reports and voluntary reports**

No.	BSE symbol	Companies	Mandatory reports	Voluntary reports
1	TGN	S.N.T.G.N. TRANSGAZ S.A.	x	x
2	COTE	CONPET	x	x
3	SNG	S.N.G.N. ROMGAZ S.A.	x	x
4	TEL	C.NT.E.E. TRANSELECTRICA	x	x
5	EL	SOCIETATEA ENERGETICA ELECTRICA SA	x	x
6	ARS	AEROSTAR SA	x	
7	CMP	COMP SA	x	
8	SNP	OMV PETROM SA	x	x
9	OIL	OIL TERMINAL SA	x	
10	RRC	ROMPETROL RAFINARE SA	x	
11	VNC	VRANCART SA	x	
12	SNN	S.N. NUCLEARELECTRICA SA	x	x

Source: Own processing

## 5. Compliance of annual reports with the principles of non-financial reporting

The compliance of the annual reports with the principles of non-financial reporting is determined by the following:

- compliance with the six principles of non-financial reporting performance;

- presentation of the business model;
- description of shareholder structure;
- presentation of corporative governance principles and the risk;
- presentation of entities' orientation towards social and environmental activities.

We analyzed the companies reports, and as **Table no. 3** highlights, only seven companies published on their

website a sustainability report. The six principles of non-financial reporting used in order to emphasize the uniformity level are:

- Publication of significant information;
- Correct, fair and easy-to-understand information;

- Comprehensive but concise information;
- Strategic and prospective information;
- Information oriented towards stakeholders;
- Consistent and coherent information.

**Table no. 4. Scores obtained for the CSR Principles (1)**

No.	Companies	Publishing of significant information	Correct, fair and easy-to-understand information	Comprehensive but concise information
1	S.N.T.G.N. TRANSGAZ S.A.	2	3	2
2	CONPET	3	4	2
3	S.N.G.N. ROMGAZ S.A.	5	4	5
4	C.NT.E.E. TRANSELECTRICA	2	3	1
5	SOCIETATEA ENERGETICA ELECTRICA SA	5	5	5
6	AEROSTAR SA	2	3	1
7	COMP SA	2	3	1
8	ROMPETROL RAFINARE SA	2	3	1
9	OIL TERMINAL SA	2	3	1
10	VRANCART SA	2	3	1
11	S.N. NUCLEARELECTRICA SA	2	3	2
12	OMV PETROM SA	5	5	5

Source: Own processing.

**Table no. 5. Scores obtained for the CSR Principles (2)**

No.	Companies	Strategic and prospective information	Information oriented towards stakeholders	Consistent and coherent information
1	S.N.T.G.N. TRANSGAZ S.A.	0	1	2
2	CONPET	2	1	0
3	S.N.G.N. ROMGAZ S.A.	5	5	5
4	C.NT.E.E. TRANSELECTRICA	1	0	0
5	SOCIETATEA ENERGETICA ELECTRICA SA	5	5	5
6	OIL TERMINAL SA	2	0	1
7	COMP SA	2	0	1
8	AEROSTAR SA	2	0	1
9	ROMPETROL RAFINARE SA	2	0	1
10	VRANCART SA	2	0	1
11	S.N. NUCLEARELECTRICA SA	0	1	2
12	OMV PETROM SA	5	5	5

Source: Own processing.

Table no. 4 and Table no. 5 shows the compliance and the level consistency with the six principles of non-financial reporting. From this we can distinguish that for the criteria "publishing of significant information" the

score achieved by all companies is 5. Which means that all 12 companies present information about:

- Business model;

- Main sectoral issues;
- Interests and expectations of stakeholders.

For the second criteria "Correct, fair and easy-to-understand information" the score for the 6 companies is between 4 and 5, score 5 being achieved by OMV Petrom SA and SOCIETATEA ENERGETICA ELECTRICA SA, while S.N.G.N. ROMGAZ S.A obtained 4, which shows that the available data are reliable and transparent, for example: they can be presented in a wide-circulation language.

The third criteria "Comprehensive but concise information" refers to the provision of information on at least environmental, social and staff aspects, respect for human rights and fight against corruption and bribery.

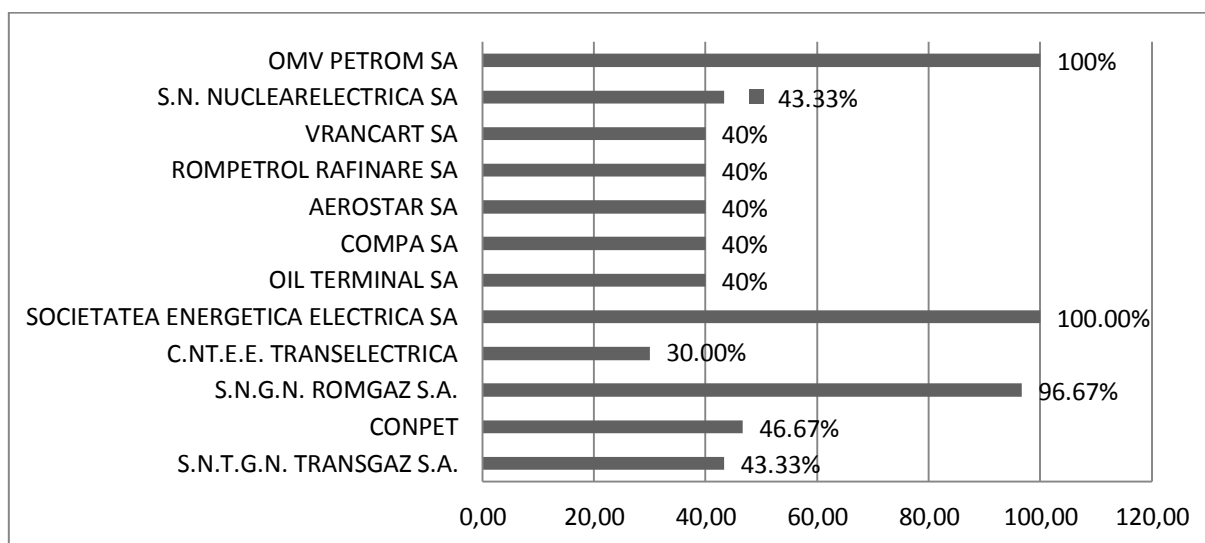
The fourth criteria "Strategic and prospective information" refers to whether companies are guided towards a sustainable business development,

highlighting a single company that achieved 0, this being S.N.T.G.N. TRANSGAZ S.A.

The fifth criteria "Information oriented towards stakeholders" must show the ability of companies to publish meaningful information on the relationship with stakeholders and to explain how it influences their decisions and the sixth criteria "Consistent and coherent information" resumes the ability of companies to identify relationships and connections between the business model and corruption and bribery issues. For these criteria it is noted that the highest score is achieved by the three companies: SOCIETATEA ENERGETICA ELECTRICA SA, S.N.G.N. ROMGAZ S.A and OMV PETROM SA, the other companies having an orientation level between 1 and 0.

*Figure no. 1* highlights the compliance level of reports with the six principles. For each company, we calculated the total scores in *Table no. 4* and *Table no. 5*, the scores being expressed in percentage values.

**Figure no. 1. Compliance level of companies with CSR Principles**



Source: Own processing.

*Figure no. 1* and *Table no. 5* show that OMV PETROM SA, ROMGAZ S.A and SOCIETATEA ENERGETICA ELECTRICA SA have the highest level of compliance with the "Guidance on Reporting Non-Financial Information" as well as with GRI G4 Core policies (Global Reporting Initiative), according to the presentation of their website.

Regarding OMV PETROM SA, ROMGAZ S.A., S.N.G.N. ROMGAZ S.A and SOCIETATEA ENERGETICA ELECTRICA SA, it is observed that they separately disclose non-financial information in a transparent manner, namely through a report entitled "Sustainability Report". OMV PETROM SA presents non-financial information since 2011, and SOCIETATEA

ENERGETICA ELECTRICA SA since 2016, and S.N.G.N. ROMGAZ S.A. has started publishing a separate report starting in 2017.

The report of OMV PETROM SA is published separately on the company's website under the "Sustainability" section; at "Results" one can find the sustainability reports starting from 2011.

Following the analysis, the reference report was the report for the year 2018, which describes the way they manage and notice environmental, social and corporate governance issues.

The sustainability report of OMV PETROM SA begins in the first part with a CEO Letter, in which it presents briefly it refers to the consolidated results of the OMV Petrom Group for the financial year 2018. The second part focuses on the principle of "disclosure of meaningful information", providing information on the shareholding structure, describing the business model, corporate governance, risk management and product liability.

At the same time, it aims at creating the sustainable development of the company and last but not least, the involvement in environmental protection and social responsibility. Social responsibility is well highlighted, OMV PETROM SA describes each program individually, it is focused on the development of the community where it operates, as well as on the individuals who contribute to the development of a responsible business. The environmental protection section is described by a multitude of programs generally focused on factors acting directly over the environment, for example: carbon dioxide emissions and the use of water resources. The Sustainability Report of SOCIETATEA ENERGETICA ELECTRICA SA is similar to the one submitted by OMV PETROM SA and the sustainability report of S.N.G.N. ROMGAZ S.A what we can see is in the category of social responsibility, not having such a high involvement as OMV PETROM SA.

Consequently, the other entities CONPET, S.N.T.G.N. TRANSGAZ S.A. submit reports in the form of brochures that are not reliable, updated and detailed. For example, CONPET and S.N.T.G.N. TRANSGAZ S.A., have published only the "Annual Report on the Status of Sponsorships Granted". Only S.N.T.G.N. TRANSGAZ S.A. has, in addition, the "Corporate Social Responsibility Brochure (CSR)", S.N. NUCLEARELECTRICA SA has the "Statement of corporate social responsibility" and C.N.T.E.E. TRANSELECTRICA has an "Environment Report (last version from 2007)," but both were not updated.

The level of compliance of the Romanian companies with the CSR Principles cannot be the same, because

each company presents non-financial information that can be significant depending on the type of activity, to reflect a correct image of the entity, but I think that the other companies would should pay particular attention to publishing non-financial information, first and foremost, to provide greater transparency on reports.

## 6. Conclusions

Once with the increase of globalization, companies have started to focus on providing new information on non-financial reporting in a voluntary manner, as required by the mother company, but not mandatorily, by Directive 2014/95 / EU. Non-financial reporting is a new concept, in development for Romania, following the enforcement of the Directive 2014/95 / EU.

Regarding the first hypothesis, we can see that only seven companies listed on BSE with more than 500 employees are prepared and publish non-financial information. Although Romania is part of the EU since 2007, according to Gușe et al. (2014), it still fails to adapt to the new regulations imposed by the new directive.

The results achieved from the analysis of the seven companies are also supported by Gușe et al. (2016) stating that most of the rapporteurs are multinational companies influenced by the group reporting. This study shows that companies are taking best reporting practices, even if they are not required by the legislation in force to publish non-financial information.

The second hypothesis relate to the benefits that companies that publish information to stakeholders can get. They are highlighted by several authors, such as Gray (2000), Steyn (2014) and Vaz et al. (2016). The authors have shown that a high level of non-financial reporting leads to an improved image of the company by: attracting new investors; high transparency of information; higher levels of trust with stakeholders; cost decrease, including low cost of capital and lower reputation risk; better identification of opportunities; improvement in the risk management process; accurate non-financial data available to data providers; increased commitment towards investors and other stakeholders; development of a common language and better collaboration in different fields within the organization; better allocation of resources.

Also, non-financial reporting aims to communicate companies' performance to stakeholders. Kulkarni (2014) considers that non-financial reporting is essential for businesses to gain a competitive advantage.



The results achieved by testing the third hypothesis show that non-financial reporting provides a higher transparency over the reporting performed by companies because of the whole sample of 22 companies, only two companies (OMV PETROM SA and S.N.G.N. ROMGAZ S.A) are on the portal *csrmedia.ro*, where OMV PETROM SA is nominated as the CSR leader in Romania. This company voluntarily publishes non-financial information since 2011 for stakeholders.

A research limit is given by the small sample used, and following the analysis resulted that only seven companies with sustainability report have been analyzed. A solution to show the compliance of annual reports with the principles of non-financial reporting is the inclusion of several BSE indices in the analysis. Another limitation is represented by the absence of discussions with people within companies involved in

publishing non-financial information and for analysis of reports on individual financial statements rather than group reports. This study represents a beginning for studying and understanding the role of transparency of non-financial information within sustainability reports. The paper intends to broaden the reporting vision of those companies that are not yet focused on non-financial reporting.

In conclusion, the study shows that Romania is in a continuous process of developing non-financial reporting practices. With the help of the "Guide on Reporting Non-Financial Information" developed by the European Commission for understanding principles, Romania can be a potential contributor to participate with the other EU countries to the significance awareness and maintaining a non-financial information communication to stakeholders.

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