REPORTING OF NON-FINANCIAL ESG TYPE INFORMATION. THE STAKEHOLDERS' INTEREST

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ABSTRACT: *The integrated reporting refers to a series of processes and activities which offer a global result regarding the performance of the economic entity, combining financial information with non-financial information. Reporting of the environmental, social and governance (ESG) results by the economic entities represents an instrument often used in the decisive process. The ESG factors gain more and more importance when managing investments so that the information regarding ESG gains relevance within reports. At the moment, there is a great deal of attention from stakeholders towards the evaluation of ESG performances and the availability of non-financial information reported by the economic entities. This paper represents qualitative research regarding the need of knowledge for non-financial ESG type information and the stakeholders' interest for this type of information. Therefore, the role played by the non-financial ESG type information when making investment decisions is presented, as well as the importance of the ESG factors which contribute to reducing the risk of negative evolution of the carried-out activities.*

KEY WORDS: *non-financial information, integrated reporting, ESG, stakeholders.*

JEL CLASSIFICATIONS: *M14, M41, M42.*

1. INTRODUCTION

The social and environmental impact the non-financial ESG type information has grows the interest of the third parties regarding this very subject. The 2014/95/EU Directive puts it in a transparent environment and creates a partnership between the civil society and the business environment. The appearance of the Directive within the European space is anything but new because the majority of entities had already implemented practices of reporting non-financial ESG type information (2014/95/EU Directive). The economic entities which have adopted the reporting of non-financial ESG type information without the regulations even imposing so are considered

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volunteers of reporting. By reporting non-financial ESG type information the economic entity gains experience and its history becomes, with time, an important link for the economy. Applying the Directive is considered beneficial considering it evens out the general reporting framework of the economic entities (2014/95/EU Directive). The non-financial ESG type reporting is considered to be a process in which the economic entity projects its actions, this way becoming some sort of a promoting motor for the external environment. Reporting the non-financial ESG type information also proves to be important internally. The importance is rendered by the allocated resources and the established priorities regarding social responsibility.

In order for the non-financial ESG type reports to be made, an organization-wide preparation must occur within the economic entities. The non-financial ESG type information report represents nothing but the result of the whole process. Detailing policies, procedures and actions adopted within the entity must correspond to components stipulated within the European legislative document and must refer to the environment, social, workforce, human rights, anti-corruption etc. Good management of these resources represents a distribution on a long time period, and this implies costs which would be easily covered within the entity. The long time period of a framework of non-financial ESG type information reporting simplifies transactional costs, these being lower while the entity not having to suffer.

The entities must respect the environmental variations and must comply with the existing legislative requirements. For instance, they must constantly respect the flux of legislative regulations and the accounting exigencies. It is a recognized fact, by those who have applied methods and techniques of reporting, that the reporting environment has become more and more complex for big entities. Things get complicated for the entity when the limited character of resources surfaces, as well as the requirements regarding data quality and lastly the conformity and regulation requirements. Due to the complexity of the data volume and the information within the entity, the reports become cumbersome from a drafting point of view as well as from the point of view of assimilating the transmitted information. Therefore, the utility of information and the way it satisfies every requirement is doubted (ACCA, 2017).

The financial and non-financial reporting is the result of the implemented processes and of taking into consideration ESG type information. The ties between the financial and non-financial aspects must be corroborated because they influence the value and performance of the entity. This merge stands for integrated reporting and refers to resource usage and its impact towards ensuring sustainability (PWC**,** 2015).

The economic entities focus more and more on the non-financial ESG type information sphere, so towards a better communication with the third parties. They strive for balancing the speed, precision and correctness of information. Adapting to something new requires internal and external challenges for improvement within an economic entity. With limited resources, an entity could improve the non-financial ESG type information by modernizing work equipment and information systems as well as optimizing processes. The perfect formula between non-financial ESG type information and the available accounting skills represents a challenge. (PWC**,** 2015).

The non-financial ESG type information is labelled as being hard to quantify and evaluate within the management's decisions. These shortcomings are due to the process of weak supplying the non-financial ESG type information within the economic entities, and the obtained results are often treated inappropriately. The approaches of non-financial ESG type information differ depending on the entity's particularities, but they can be considered as key performance indicators (KPI, 2018). The complexity of the non-financial ESG type information urges stakeholders towards evaluations of results of financial nature in order to follow up on the modifications of the cash flow and the incomes, as well as the assets value and the capital costs. Therefore, the non-financial ESG type information offers the possibility of focusing on those factors that are considered significant for the entity's activity which quantify the value and the advantage created by the financial performance.

The increased activity of the entity attracts a more complex reporting. This implies considerable challenges and difficulties whose resolution must be found step by step. As the activity complexity grows, the entities face the necessity of updating the reporting infrastructure. The advantage of the reports' complexity is that it presents a better knowledge of data and information so that the information's users are capable of better understanding the internal and external processes. This could consolidate decision taking and could offer information which confers competitive advantage. The entities face an increase in the demand for non-financial reporting, exploring new areas which include elements of prognosis.

2. LITERATURE REVIEW

For the stakeholders the ESG type information represents a source from which they must gather all they need for complete information. With their help, IFAC (2016) sends out a few references for drafting reports and directs the shareholders towards the GRI initiative, the International Integrated Reporting Council (IIRC) and the Climate Disclosure Standards Board (CDSB) (IFAC, 2016).

According to statistics, the entities' management which have opted for including the ESG type information has been surprised to realize that their predictions have been surpassed considering the initial estimates (Fejes, 2019). The investment process is encouraged to invest time and resources in non-financial ESG type information because this implies immediate research based on whom one can support long term activity. The trials an entity goes through until adopting the non-financial ESG type information are tied to their perceived difficulty and complexity (Burlaud, Niculescu, 2015).

In the author's opinion Flower (2014) the ESG type non-financial information is a new concept meant to bring together the principles of sustainable development as reports. This is seen as a way of broadly approaching the business model and creating value within the entity, supporting the planning of long-term objectives (Dima and Man, 2003).

Numerous economic entities comply with the sustainable development requirements, often using the GRI model, and they experiment reporting the non-financial ESG type information right before implementing the operational framework on an international plan. Using the specialty literature, one can identify the factors that determined the usage of integrated reporting. Authors such as Ferrero-Ferrero, Fernández-Izquierdo and Muñoz-Torres (2016) have analysed how the impact of the national cultural system reflects on the reporting. Therefore, the entities which promote certain principles, which could be discrimination elements, are those who embrace the integrated information. Frías-Aceituno, Rodríguez-Ariza, García-Sánchez (2013) have drafted a sample made of 750 international entities and they have demonstrated the fact that the entities found in states of civil rights are more receptive towards publishing financial information of ESG type to help stakeholders obtain wanted information.

Developing using the non-financial ESG type information reports consist of the opportunity of integrating aspects which refer to accounting regulations with environmental, social and personnel elements in a determined time frame (Flower, 2014). The economic entities draft reports with non-financial information of ESG type which have as main purpose making public the impact they have on the economic, environmental and social domains. The reporting process of non-financial information of ESG type is addressed towards stakeholders and goes beyond the classical information methods (PWC, 2015).

Every element the reports contain include actions and activities out of which the progress and the effort are reflected. In this direction there are guidelines meant to offer support in the preparation process of the reports with non-financial ESG type information. In practice, the non-financial ESG type information drafted by the economic entity is interconnected with sustainability, mission, vision or the economic entity's values.

The entity's management is often critical regarding the information precision, but ensuring this precision takes time, and time can affect information, these being redundant. The non-financial information of ESG type gains more and more ground; including domains such as governance, social responsibility, remuneration and sustainability. A multitude of entities can improve their image and are more well-known from the outside due to the reports in these domains (Man and Ciurea, 2016).

According to studies conducted in different states, it is considered that a not so complex report and one that does not consume a lot of resources can also offer useful information (IIRC, 2013b).

In supporting entities towards satisfying the stakeholders' requirements the employees are also involved, especially the accountants of the entity. They must ensure the correctness and relevance of the presented information so that the entity's image is reflected the best. Moreover, it is imposed that the analysis and the reporting of non-financial information of ESG type corresponds to the accounting records to make a concordance with managing processes within the entity (IFAC, 2019).

3. RESEARCH METHODOLOGY

This paper addresses the importance of non-financial ESG type information in relation to the stakeholders' decisions. Therefore, the interest the stakeholders have regarding this type of information and the importance of its usage within the decisive process is presented. Drafting this paper meant using the documentation method by appealing to information published on specialized sites, documents published by professional bodies and articles published in specialized journals. The making of this paper included the following stages: planning, data collection, data analysis and lastly, article drafting.

4. REPORTING OF NON-FINANCIAL ESG TYPE INFORMATION

Reporting the non-financial ESG type information represents a mighty powerful instrument. It helps and leads the entity towards obtaining a future perspective regarding communication (Richard, 2012). The third parties' expectations are driven by the wishes of those interested to see an alignment between actions and general strategy. The reporting must permit external access of the interested parties to see the registered progress in accomplishing strategic objectives. The entity must tell a story which would permit a future forecast.

The main benefits of the non-financial ESG type information include the following according to the Association of Chartered Certified Accountants (ACCA, 2017):

- *satisfying the interested parties' expectations on one hand and on the other making the value creation process of the entity more efficient;*
- *ensuring a higher degree of transparency regarding the entity's resource usage;*
- *permitting a better communication with the interested parties on the long term;*
- *vision and strategy which would generate more trust.*

To those listed one can add better relationships with the investors, improving the decisive process, the better capacity of tying external perspectives with the strategy and the prognosis, a better connectivity with the regulation authorities and a better reputation for their economic activity. A better integration of the reports can lead to improving the decisive process. This is due to the fact that the entity has an ensemble image on the factors that influence its strategic choices (Boutaud, 2002). Adopting a more advanced system makes data assimilation possible towards different directions, in a better manner than before. Part of the reason for slower progress within the integrated reporting, even when the benefits are known, is the fact that the entities must overcome major obstacles to apply the established business plan. The most important of them is improving availability, accuracy and coherence of data as well as investing in updated informational infrastructure. Standardizing the business processes is also customary. Internally, it is important for the skills within the entity to connect in order to provide all the information necessary for the non-financial ESG type information reporting.

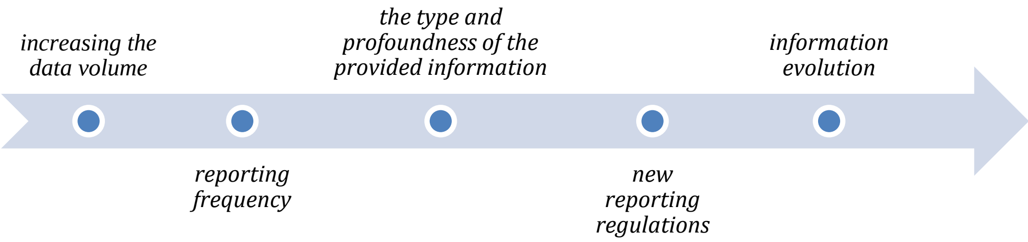
There are two main steps the entities must take into consideration regarding the processes that need to be modernized (Burlaud, Niculescu, 2015):

✓ *One of the steps is the real information flux, explaining the capture mode, obtaining and transforming to get to the wanted results.*

✓ *Another step is superposition with the informational system for automatization as much as possible. The necessary investment will be useful.*

The last step will generate significant savings in time and will place the entity in the position of efficiently responding to future changes in reporting requirements. This also requires a change of culture. The entities must be firm regarding information reporting, but also regarding the decision factors considering that other interested parties must adopt this approach. The stakeholders must recognize the fact that the world is changing. The requirements increase in speed as well as profoundness, the reports evolve, and the entity must adapt to these changes.

The economic entities have a strategic perspective and must analyse what the ESG information means for their reports. The ACCA recommendation would be for the economic entities to present a strategic manner regarding the way they would want to develop their report (ACCA, 2017). The reporting method is always changing. The changes made in time are more and more complex and are influenced by the global business environment according to figure 1.



Source: Own processing (inspired by IIRC, 2013b)

Figure 1. The made changes along time within the reporting process

The internal and external processes which influence themselves generate more complex reports and are subject to revision and change. In order to have success and efficiency in their reporting, the entities have a series of key priorities (ACCA, 2017):

- *introduce the integrated reporting providing consistent, coherent and useful data, beyond the financial report;*
- *report in a strategic connected manner, ensuring that the correlated internal and external data and that the presentation are efficient and impactful;*
- *the complexity and volatility of environmental reporting as well as the requirements which focus on finances, make the process as efficient as possible and as cost effective as possible.*

Available for all economic entities, these kinds of processes involve challenges, and the first and most important one is an educational challenge. The process implies developing the mentality not only for the upper management within the entity. In essence, there must exist a change within the organizational culture, and it must adopt and embrace this type of change naturally, which is done after a long journey. Lastly, the reporting must be seen in the context of how it can contribute to accomplishing the strategic priorities of the entity (Burlaud, Niculescu, 2015).

5. ESG IN THE STAKEHOLDER'S VISION

The non-financial ESG type information is considered basic information for the investors and for the reports when it comes to the entity's performance. With time, it has been observed that the investors counted on the non-financial ESG type information presented in various forms. Moreover, the stakeholders are not only interested in this information, but they represent an important factor in decision taking. Considering it is more and more used, the non-financial ESG type information is the key which influences the entity on the long term, fact proven by:

- ✓ *the increased number of entities which have opted for responsible investments - United Nations Principle (IFAC, 2016);*
- ✓ *the numerous proposals which come from shareholders and are based on the non-financial ESG type information;*
- ✓ *the shareholders' opinions regarding the non-financial ESG type information and their actions on the long term, including the benefits and the value created by good governance practices in which sustainability is promoted;*
- ✓ *the stakeholders' advantage which leads the entity's policy under the governance of non-financial ESG type information to those who omit these aspects and do not take into consideration the performance on the long term (Burlaud, Niculescu, 2015).*

The fact that the stakeholders are involved and promote the non-financial information of ESG type is particularly important for the third parties as well as for their own success with immediate effects, but also on the long term. The lack of involvement of other economic actors in actions specific to the ESG type non-financial information is due to the planning of actions on the short term. This way of acting stirs a lot of criticism and is hard to explain how the investment processes are approached on the short term within the entity's activity. The great challenges in conducting the activity and the obstacles that could occur determine the investors to be reluctant in decision making and do not throw themselves into challenges (Burlaud, Niculescu, 2015).

The financial and non-financial qualitative information are necessary instruments for the decisive factors and instruments followed with great interest by the stakeholders. Improving the reporting could take place continuously because the stakeholders' needs change and the ESG type non-financial information must remain at an important significance, to be appropriate and to be comparable. Between the accountants and the stakeholders there is a strong cooperation regarding diverse functions of the activity mainly in the financial economic information due to the need of development of sustainability and social responsibility as well as the need of overcoming the current condition. The non-financial information of ESG type is transposed perfectly through integrated reporting, reporting which facilitates and analyses in detail the performance registered at an environmental, social and governance level (IFAC, 2019).

The investors are looking more and more for perspectives, informative data, including information regarding strategy, sustainability and the way risks are handled. Externally, the interested parties constantly request information about the future business plan. The financial reporting is important for the economic entity because not only it is the basis to win the third parties' trust, but it is also the best way of measuring the operational result of business planning. This offers a basis for evaluating the opportunity of continuing improving performances. The tendency reflects the large evolution of the financial function but at the same time there are internal requirements regarding reporting (ACCA, 2018).

The external actors want an as simple as possible reporting language. They do not wish for the usage of accounting terms, but the usage of easily understandable terms. Another challenge comes when it is found that numerous economic entities have a great diversity regarding investors which have their own interests and want to find out different information from each other. For instance, the investors are interested in aspects regarding the capital information or about debt. Satisfying the needs of every type of investor within a single reporting framework can be considered extremely tempting. Some investors could not be at all interested in the reporting regarding the entity’s sustainability, when for others it can be a critical component of their investment policy. The key performance indicators can be considered more important even than the information from the financial statements (KPI, 2018). This represents challenges regarding information collection and their accuracy.

The main performance indicators an entity uses most frequently are those corresponding to GRI which debate environmental problems (recycling, waste, gas emissions, water, energy etc), social (human factor, professional training, health, safety etc) and governance (ethics, risks, council, investors, corruption etc) (GRI, 2014). The stakeholders can be interested in certain segments through which one can identify credible estimations of future performances. In the majority of situations, the entity’s management focuses on the impact the ESG has on performance and on financial aspects. This focus comes as a follow up of the fact that a better understanding and a better knowledge of the ESG aspects is wanted. Understanding every ESG aspect offers competitive advantage from other entities and opens the way towards sustainable development. Associating ESG type aspects with key performance indicators represents the preferred method the stakeholders use in analysing performance. The simple tracking of the cash flow variation, the asset value or the capital cost does not fully satisfy the present needs, and for them to be available, they need to be correlated with the non-financial information of ESG type.

The stakeholders are open towards reporting and see multiple possibilities for a better process. Their opinion is that the reporting framework models could be less complex and less time consuming and could offer information better (ACCA, 2017). This could also have internal benefits, for instance higher precision, consistency and transparency. It is essential for the entity’s activity that the stakeholders are fully involved, to consolidate partnerships and collaborate with business partners (Adams et. al., 2016). The most urgent necessary measure is improvement, availability, precision and data coherence as well as the investment in the information infrastructure.

The entities try to satisfy the needs of the different interested parties for more specific data as well as for the most frequent ones, while simultaneously confronting with a complexity in regulation, based on an increased volume in reporting. Plus, the current reporting cycles simply cannot serve the stakeholders’ needs because they are not sufficient. There is also pressure on the entities to shorten the reporting cycle so that the interested external parties receive information faster after the end of a period

(Bonilla-Priego, Font, Pacheco-Olivares, 2014). With that in mind, shortening the cycle exerts a considerable pressure on finances. This condenses the reporting period into a shorter one with a mechanism to permit the whole apparatus to emit a report for a certain day. This fact becomes rather complicated when the information needs to be collected and followed, information that was taken from different regions and divisions, after which one proceeds to transmit this information to investors in different parts of the world. Later on, the information is included in the management synthesis for future forecast analysis (IFAC, 2019).

6. CONCLUSIONS

The non-financial ESG type reporting considers a better communication of the information the entities provide. The complexity of the situations drafted by the economic entities influence on the long term the stakeholders' interests which, through the adopted decisions, significantly contribute to the future of the economic entity when it comes to the general public interest.

The non-financial ESG type information also contributes to the decisive process regarding resource allocation for creating long term value. The novelty elements the non-financial ESG type information introduces within the entity's business model are appreciated and valued.

The stakeholders' interest in knowing the non-financial ESG type information represents the need of implementing some adequate decisions or strategies with long term vision. Improving the reporting system and diversifying instruments and regulations encourage entities to mobilize their resources towards actions similar to the experiences from other European countries. Regarding the communication of common values, from the perspective of the economic entity as well as the perspective of the interested parties, it contributes to creating an environment prone to business development.

In conclusion, we appreciate that the non-financial ESG type information represents an aspect which needs to be continuously improved. Focusing on the amount of provided information could lose track of the value attributed to the ESG elements. Broadening perspectives and focusing on the permanent improvement of the non-financial ESG type information reporting processes represents a plan for the future of an economic entity with an implementation which targets large time frames.

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