FROM FINANCIAL DISCLOSURES TO INTEGRATED DISCLOSURES – A PARADIGM SHIFT IN CORPORATE REPORTING

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ABSTRACT: *Management theory and practice has had to face, during the last decades, the increasingly stringent need to benefit from complete reports concerning corporation activity, which might include both financial and non-financial information, which should not contain useless divagations and match the requirements of a large number of stakeholders – providers, creditors, investors, employees, local communities, authorities, etc. Sustainability reporting has asserted itself in time as a proper answer to these requirements. This paper sets forth in detail the evolutions of corporate reporting after 1960, while pinpointing the newest approaches that regard sustainability reporting in approaching ESG, in agreement with the demands of the newest legislative act issued at a European level with a view to settling this domain: Corporate Sustainability Reporting Directive (CSRD) – 2022/2464/EU.*

KEY WORDS: *sustainability, disclosures, Corporate Sustainability Reporting Directive (CSRD), Non-Financial Reporting Directive (NFRD), ESG (Environmental, Social & Governance) Reporting*

JEL CLASSIFICATIONS: *Q56, L20, H32.*

1. INTRODUCTION

Traditionally, irrespective of the size of an organization or of the domain of activity, corporate reporting sets the foundations and displays a coherent set of information in accordance to which internal decisions are adopted and the performance reached as part of the business operations is transmitted to the external users.

With the increase of globalisation tendencies, the accelerated development of the information technology and rapid climate changes, the need for changing the reporting paradigm was required, as traditional financial reports unilaterally used to show the performance of a corporation, while neglecting its preoccupation for the impact

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of its social and environment operations. In order to match a large number of requests from internal and external users, financial reports included, for a while, a larger amount of information. Such a thing has resulted in confusions at a certain moment as the users of the financial reports encountered difficulties in selecting those relevant data they were interested in.

Through sustainability reporting, which was synonymous for a certain period with "*reporting in the domain of social responsibility*" or with "*non-financial reporting*", not only the three classical characteristics of sustainability are displayed – economic, social and environment – but also the values and governance structures of corporations, together with the affirming of their engagement for strengthening the fundamentals of durable economy worldwide.

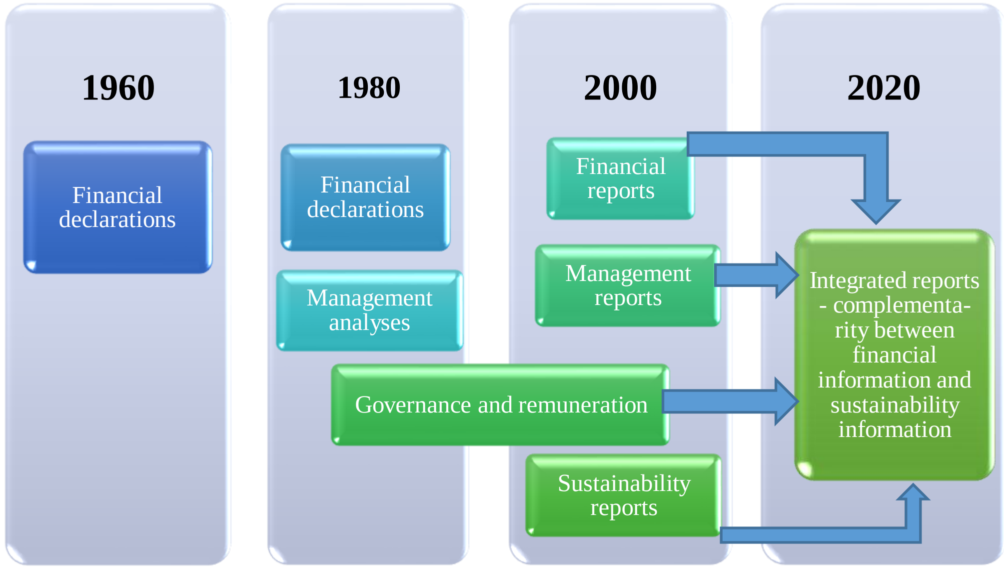
2. INTERNATIONAL TRENDS OF SUSTAINABILITY REPORTING

At the beginning of the years 2000, sustainability reports began to appear as part of corporate reporting, as extremely useful tools for communicating to the investors and other categories of stakeholders the performance resulted and the manner according to which plus value was created. Despite the fact that they displayed a clear image on the process of value creation at a corporate level, sustainability reports have become, at their turn, insufficient, under certain circumstances and periods, as the correlation among the company's business model, its strategy and its financial performance were not clearly enough exhibited by the content of such reporting. With a view to overpass this deficiency, a new systemic model for corporate reporting has been envisaged and founded, namely *integrated reporting* (Rupley et al., 2017).

After 2020, integrated reporting has asserted itself as a precise corporate communication form, relying on o holistic perspective upon the manner according to which the strategy, the system of governance, the performance and the corporate directions of evolution along the coordinates of the external environment determine the creation of value on a short, medium and long term (Coşofreț, 2017). As a consequence, in the case of large companies, corporate reporting mainly means integrated reporting.

Figure 1 pinpoints the dramatic changes of the field of corporate reporting during the years. As we have already noticed, during the '60s, reporting approaches were exclusively limited to the area of designing and publishing financial reports. If, between 1980 and 2000, financial declarations were completed by management reports and reports for synthetically displaying governance and remuneration elements, sustainability reporting appeared after year 2000; this determined a series of theoretical and pragmatic developments, which resulted, around year 2020, in the forging of the concept of *integrated reporting* (Dura, 2023; Camilleri, 2018).

Nowadays, irrespective of the fact that we talk about a sustainability report or about an integrated report, the newest evolutions at an international level emphasize the *social, environment and governance factors (ESG)* in the assessment of corporations' performance, as the last study made by Ernst & Young upon climate changes and sustainability shows (EY, 2023).



Source: Gotken, P.O.; Marşap, B. 2017, "Paradigm Shift in Corporate Reporting" in Accounting and Corporate Reporting Ed. Gotken, S., https://www.intechopen.com/chapters/55274)

Figure 1. Evolutions regarding corporate reporting

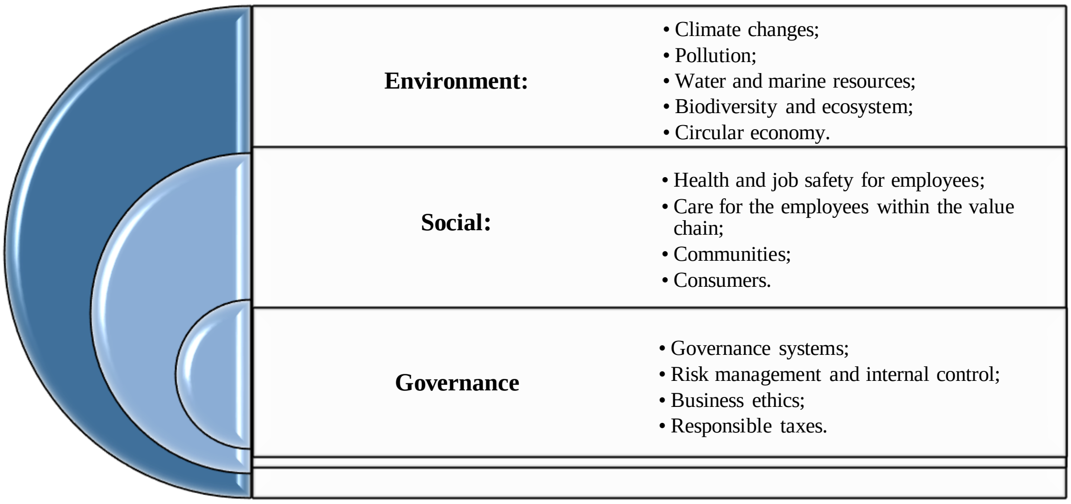
Nonetheless, at present, there is no general reporting framework used for quantifying SEG performance; yet, according to certain recent studies made by the well-known consultancy companies KPMG (2022) and Deloitte (2021), most global corporations report today the sustainability of their operations, while choosing one of the following approaches that quickly earned a leading place in the worldwide business environment (Carolei, 2021; Oprescu, 2021):

- ✓ *The standards and guides elaborated by the "Global Reporting Initiative"* (GRI) - offer a common framework for the private and public corporations with a view to efficiently and transparently communicating the impact their organisations exert upon a series of key aspects of sustainability, such as the respect for human rights, social governance and welfare, management of climate changes, etc.;
- ✓ *Sustainability Accounting Standards Board* (SASB) – represents a set of standards elaborated in year 2011 with a view to facilitating the display of material information regarding the sustainability of the operations carried out by the corporations as part of the main reporting approach in the financial domain. Unlike GRI standards, these reporting frameworks include distinct directions adapted according to industries and mainly target the communication interests with investors, while letting on a secondary level the other categories of stakeholders;
- ✓ *The reporting framework designed by the Integrated Reporting Council (IIRC)* conceived with a view to helping the corporations draw up integrated reports the content of which combine harmoniously and synthetically financial information with the data regarding the sustainability of their operations. These reports are conceived based on six essential axes matching the six types of distinct capitals that are involved

in determining microeconomic value: financial, social, intellectual, product, relational, human and natural. Although SASB and IIRC merged in year 2021 forming the new organisation *Value Reporting Foundation,* the two categories of standards are still used separately, in view of the complementarity of the approach they rely upon;

- ✓ *The 17 objectives of durable development (ODD) introduced by UNO* in 2015 as a target for building a durable future and which regard a series of aspects such as: health and welfare; quality education; responsible consumption and production; reducing inequalities; eradicating poverty; peace and justice, etc. The World Business Council for Sustainable Development has already carried out a series of attempts at creating reporting platforms that are able to extend the measuring of organisations' performance in close connection with the attaining of the 17 ODD of UNO (WBCSD, 2017);
- ✓ The *Task Force on Climate-Related Financial Disclosure* – TCFD was founded in 2015 as an answer to the request of the *Council for Financial Stability of G20* to offer a better reporting regarding the financial implications of climate changes. *The Financial Stability Board* permanently reminded the need to displaying consequent, clear and viable corporate information that concern climate changes. These disclosures would support an informed decisional process of the investors, creditors and insurers with a view to addressing capital distribution and subscription risk. Through the elaboration of the recommendations for these data presentations that TCFD published in June 2017, FSB targeted the guaranteeing of more stable and more resilient markets on a medium and long term, while facilitating an easier transition – with less abrupt price adjustments – to a more resilient economy, with decreased carbon values. Similar to SASB (which focuses on climate changes), TCFD Board published the performance key-indicators specific for each branch, which will help financial industry identify the climate risks of investment loans and portfolios (TCFD, 2017a). Finally, TCFD elaborated guiding orientations for implementing the proposed indicators (TCFD, 2017b). The supporters of TCFD recommendations, located in 40 countries on six continents, belong to various industries, investors, trade associations, central banks, ruling organisms and national governments;
- ✓ *Sustainable Stock Exchanges (SSE)* represents a collaborative platform that explores the manner according to which stock exchanges might improve transparency regarding corporate operations. SSE initiative offers the investors, ruling authorities and corporations a platform that enables the exchange of good practices in reporting, in accordance with ESG, while contributing to the increase of corporate transparency and performance levels. From September 2015, SSE partners required all the companies enlisted at stock exchanges to publish not only their financial reports but also the sustainability reports elaborated according to the ESG principles.

Although the quality of assessing performance according to the ESG model largely depends on the type of standard used for settling the indicators, in Figure 2 we display a reference conception that regards the implementation of this reporting model relying on GRI standards.



Source: Adapted from the Stock Exchange in Bucharest & BERD (2022). Guide regarding ESG reporting

Figure 2. Coordinates of sustainability reporting according to ESG

The most recent study published in year 2022 by the well-known consultancy company KPMG regarding the phenomenon of sustainability reporting shows a series of tendencies such as (KPMG, 2022):

- ✓ Incremental increase of sustainability reporting practices with the adoption, on a large scale, of the standards relying on *stakeholders'* materiality assessments;
- ✓ The increase of the incidence of climate risks reporting and of the reporting targeting the objectives for reducing the carbon print, according to TCFD requirements;
- ✓ The increase of the degree of awareness of biodiversity risks among corporations; ESG reporting primarily targets the following domains: *Climate Action*; *Decent Work and Economic Growth*, and *Responsible Consumption and Production*;
- ✓ As far as the main risks of the reporting are concerned, the category of risks connected to climate changes ranks first, followed by social risks and the risks associated to governance.

Figure 3 shows the sustainability reporting shares at a global level, between 1993 and 2022 for two distinct samples: G250 (which includes the largest 250 corporations in the world, according to the most recent *Forbes* classification), namely N100 (which includes a globally representative sample selected based on the classification of the 100 largest companies from the point of view of their incomes, coming from 58 states, territories and jurisdictions that took part in the study).

In other words, almost all the companies belonging to the group G250 elaborate and publish sustainability reports (the few exceptions are in China; nonetheless, this is expected to change, as mid-2022 new legislative stipulations were introduced in this country too, targeting the obligation for the stock exchange corporations to report environment and social aspects). In the case of the 5800 corporations belonging to sample N100, reporting shares are also increasing, while this trend is expected to accelerate at a European level, both under the impact of the new legislative changes determined by the implementation of CSRD stipulations and by the increased pressure exerted upon the corporations by legislators, investors, analysts, ESG or consumers.

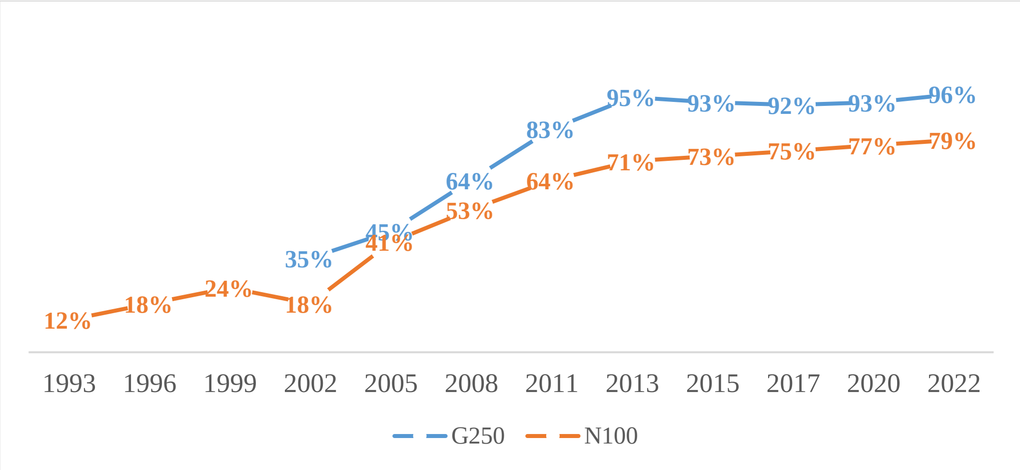


Figure 3. Global sustainability disclosure shares

3. RECENT CHANGES OF THE LEGAL FRAMEWORK FOR SUSTAINABILITY REPORTING AT A EUROPEAN LEVEL

Although Directive 2014/95/UE (NFRD) regarding sustainability reporting was extremely useful for communicating a significant amount of data which set forth the three distinct domains of SEG approaching, a series of stakeholders have noticed that such information was too often lacking clarity and could not enable the proper comparability among the various categories of corporations in the field of their environment and social performance and regarding the mechanisms of corporate governance. To these shortcomings, the need for matching NFRD exigencies and the legislative approaches initiated by the EU organisms after 2014 (we mainly refer to the *Rules regarding taxonomy* and the *Rules regarding financial sustainability reporting* - SFRD).

As a result, at the beginning of 2021, the European Commission set forth a new legislative proposal in the field of corporate sustainability reporting (already known as acronym CSRD) which changes the 2014 NFRD through:

- ✓ Extending the reporting obligation to all the large organisations and to the companies listed on regulated markets;
- ✓ Requiring more detailed information for certain domains and materiality indicators;
- ✓ Introducing the obligation to the external audit of the information displayed by the content of the sustainability reports;
- ✓ The possibility to digitalise future sustainability reporting.

As a synthesis, Table 1 shows the new CSRD requirements compared with the NFRD requirements.

Table 1. The new requirements of the legislative proposal in the domain of sustainability reporting (CSRD) compared with the exigencies of Directive 2014/95/UE (NFRD)

	NFRD	CSRD
Domain of implementation	• Large public entities with >500 employees that match one of two financial criteria (total assets >20 million EUR or net turnover >40 million EUR).	• All large companies (that match two of three criteria: > 250 employees, total assets >43 million EUR or turnover >50 million EUR); • All the companies with securities listed at the stock exchanges on the EU-regulated markets (except micro-companies*).
Reporting object	• Business model; • Policies and their results regarding the environment, social, employees, human rights, bribery and corruption aspects; • Main risks and diligence procedures required in connection with the previously mentioned aspects; • Relevant KPIs; • Diversity in the administration board of the company (regarding age, gender, educational and professional experience).	• Business model and strategy • Targets and progress registered in relation to them; • Part played by the administration board and management organisms in the activity of the company; • Policies and their results; • Main risks and diligence procedures required; • Relevant KPIs; • Negative impact exerted by the operations of the company; • Intangible assets (social, human and intellectual capital) • Process of defining the content of the report (double materiality)
Name of report	• Management report or a separate report	• Management report
Reporting framework	• Online or PDF	• Data reported should be XHTML and digitally “labelled” in order to be automatically readable
Auditing	• External auditing is not compulsory in most countries (including Romania)	• Compulsory external audit (limited insurance level) that validates compliance with the EU sustainability reporting standards, the process of identifying the content of the report, digital labelling and compliance with taxonomy indicators.

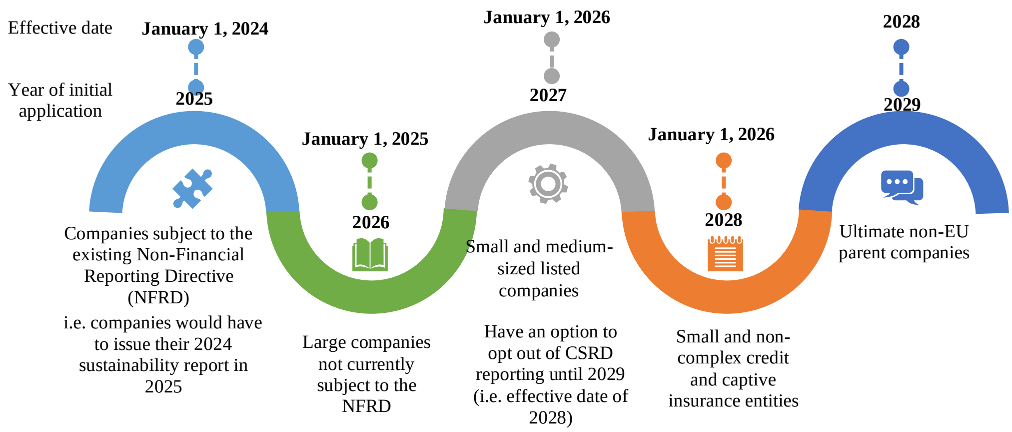
** The European Commission defines micro companies as those entities with less than 10 employees. Source: “Recommendation of the Commission dated May 6th, 2003, regarding the definition of micro companies and of small and average companies” - http://publications.europa.eu/resource/cellar/6ca8d655-126b-4a42-ada4-e9058fa45155.0004.01/DOC_1*

Source: Bucharest Stock Exchange & BERD (2022). Guide regarding ESG reporting

Based on the previously mentioned data, we consider that over 50,000 corporations that are active in the states of the European Union (which represent about 1% of the total number of companies) will fall under the new stipulations regarding sustainability reporting (compared with only 12,000 business organisations that used to report in the NFRD context). The new requirements connected to sustainability reporting will be also implemented in the case of the listed small and medium range companies;

nonetheless, in this case, there is the possibility to benefit from a simplified version of the standards and a period of grace (until year 2028) during which all required preparations should be carried out for a proper connection to such an approach. The quantifying of the small and average companies' sustainability impact upon global economy represents a very important approach as they employ about 2/3 of the labour force and represent over 98% of the total number of active business organisations.

At a European level, political consultations for carrying out an Agreement regarding the content and calendar for the CSRD implementation were still in progress in year 2023; nonetheless, the agreements concluded until now show that ESG reporting will match the international standards in force and GRI standards seem to be the most compatible ones for these initiatives. Figure 3 shows the calendar for the implementation of the CRSD stipulations during the period 2024-2029, according to the estimations of the well-known consultancy company KPMG.



Source: https://kpmg.com/uk/en/home/insights/2023/01/corporate-sustainability-reporting-directive.html)

Figure 3. The timeline for CSRD implementation

Under such circumstances, the information aspects included within the GRI standard may be borrowed for reporting within the Objectives of Durable Development (ODD) and their specific goals as the most recent initiative for aligning GRI to ODDs dates from September 2020.

4. CONCLUSIONS

We anticipate that, from the perspective of the imminent coming into force of the new legislative rules initiated by the European Union through CSRD, Romanian corporations will face a series of challenges.

First, for the most part of the corporations listed at the Stock Exchange, the non-financial reporting approach is rather a conformity issue, with no real coherence between the financial and the non-financial strategies.

Secondly, Romanian companies are better trained in approaching social issues (such as occupational safety and health, observance of human rights, business ethics, remuneration policies, inclusion and diversity, etc.) than in approaching ecology issues. For instance, the listed corporations will have to report their engagement in reducing the effects of climate changes and transition to a circular economy, given that most of them did not elaborate, until now, a proper environment strategy.

Thirdly, the level of practical knowledge and experience of Romanian entrepreneurs regarding the accessing of "green financing" is rather limited and efforts for matching the environment and the financial strategies are required.

Finally, the requirements related to the external auditing of sustainability reports will help increase the level of transparency and confidence in the data published by the corporations, but will hinder the reporting process from their own perspective.

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