

The Importance of Non-Financial Information in Financial Situations for the Sustainability of the National Economy

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Abstract

The purpose of this article is to draw attention to the importance that must be given to the introduction in the financial statements of economic entities of non-financial information related to the sustainable development of the economy by means of a system for reporting the status of the implementation of environmental standards. Because lately the most serious problem facing humanity is the effects of climate change produced by environmental pollution, I believe that environmental standards must be implemented in every organization.

A society that respects itself, also respects the environment and must contribute to removing the effects that affect it. The results of the study indicate that the companies that have implemented environmental standards are in a small percentage of less than 30%, which urgently requires the introduction of mandatory environmental standards into the national legislation and their reporting in the financial statements depending on the impact of the activity carried out of society on the environment.

Key words: non-financial information, financial statements, sustainable development, sustainable economy.

J.E.L. classification: M40, M41

1. Introduction

Commercial companies that carry out their activity in fields that affect the environment are necessary and mandatory to implement, depending on the environmental impact intensity, their own policies to reduce/diminish these negative effects, thus contributing to the sustainable development of society and implicitly of the Romanian economy (Dragotă et al., 2003; Andrei et al., 2018).

The European Union has materialized the environmental protection policy through environmental legislation in the form of European directives, regulations and decisions (Directive 2014/95/UE). The European directives are complex in nature and are binding on all member states, while the regulations and decisions are optional recommendations of an indicative nature (Minister of Finance, Order No. 1802/2014).

Companies that make investments in order to benefit the environment should detail the related expenses in separate accounts (Bețianu, 2008). The Romanian state, from its own point of view, should offer financial support or fiscal facilities to these companies, in order to encourage investments in this sense, thus contributing to the main goal, that of reducing the effects of pollution (Nicolaescu et al., 2015).

The integration of environmental strategies in the global policy of the society by optimizing the use of resources is the main concern of the companies, having as objectives the use of green energy, combating rainfall and reducing climate change (Sen and Inanga, 2005).

2. Theoretical background

The main key factors that contribute to the sustainable development of society are political, environmental, social and legal factors (Radu, 2009).

A complete financial report of an economic entity should include the following aspects: financial, economic, social and environmental (Stefan and Radu, 2016).

The official publication of information related to the environment generated numerous debates related to the classification and quantification of the degree of impact on the environment, the costs and risks generated by them (Berheci, 2006).

In many countries there are laws adopted in this sense, environmental information being an important aspect, treated separately in the financial statements (Mulford and Comiskey, 2005).

The performance of a company in Romania is reflected in the annual financial statements only through economic-financial information, not through social and environmental information, which is expected to be improved in the Romanian financial reporting system in the near future (Ministry of Finance, Order No. 3781/2019).

In Romania, non-financial information is optionally presented in the explanatory notes that accompany the financial statements of small, medium and large entities, micro-entities not reporting these notes (Gîju et al., 2012).

Among the most important non-financial information that should be included in the analysis of the organizations' activities are those related to the environment, and especially the activities that bring changes to it by imposing the obligation of environmental risk analysis, reporting and presentation of methods to reduce the impact on ecosystems (Radu and Tabirca, 2019).

At the management level, strategic management should be based on a detailed analysis of operational or daily management, whose organizational culture must be implemented from the bottom up, from small to large, so the company will have long-term gains (Naser, 1993).

Environmental risk management must be an integral part of the company's global management.

3. Research methodology

The methodology used in this research used the "on-site intervention", the questionnaire as a quantitative and qualitative research tool of the phenomenon subject to this study, on a sample of 200 commercial companies operating in the South Muntenia region. This is based on methods of analysis and synthesis, interpretation and relevant comparisons.

As the method applied in the content of the work, the "profiles" method will be used, used in order to determine the result of the empirical research and to represent the profiles of the analyzed entities, conceptualized on the basis of criteria established by restating and regrouping the answers received in the questionnaire.

4. Findings

The classification of companies according to the degree of impact of the activity carried out on the environment was based on the classification made by law (Law 292/2018 or EIM Law).

In order to quantify the impact on the environment, according to the degree of pollution, in the case study we classified the economic activities of the analyzed entities as follows:

- Activities with an insignificant degree of pollution, coefficient 1;
- Activities with minimum/reduced degree of pollution, coefficient 2;
- Activities with a high/high degree of pollution, coefficient 3.

The following table presents the situation of the implementation of the environmental policies within the companies according to the coefficient attributed to the activity carried out by them. All the 200 surveyed companies answered the questions related to the stage of environmental policy implementation within the entity.

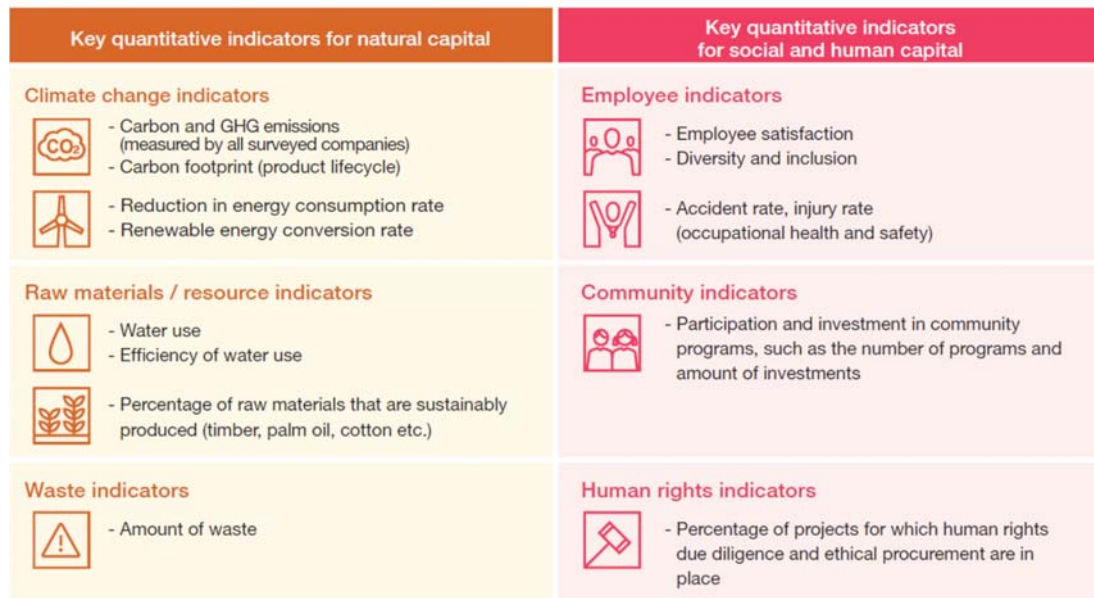
Table no. 1. Classification of the companies analyzed according to the degree of classification of the activity carried out and the environmental policy applied/not applied.

Activities with:	Companies that have implemented environmental policies	Companies that have not implemented environmental policies
Coefficient 1	0	72
Coefficient 2	18	63
Coefficient 3	41	6
Total	59	141

Source: Authors' own contribution

The analysis of non-financial information carried out in the research was limited only to information related to the environment, this does not mean that all other non-financial information is not equally important for the overall image of an entity. In the figure below, a team of Japanese researchers in the study "Management of non-financial information: corporate value creation insight from advanced case studies", presents the possibility of measuring this information by different companies (PwC Japan, 2021).

Figure no. 1. Common indicators measured by many companies



Source: <https://www.pwc.com/jp/en/knowledge/thoughtleadership/assets/pdf/non-financial-information-management.pdf>

5. Conclusions

From the studies carried out, it would be indicated for companies with a high coefficient (2.3) to be subject to an environmental audit, by creating a legal system for comparing and auditing them based on recognized standards such as the ISO standards, regulated at national level (Drăgulescu et al., 2014).

Currently, environmental strategies are presented in the financial statements only optionally, or at the request of certain institutions, in the explanatory notes.

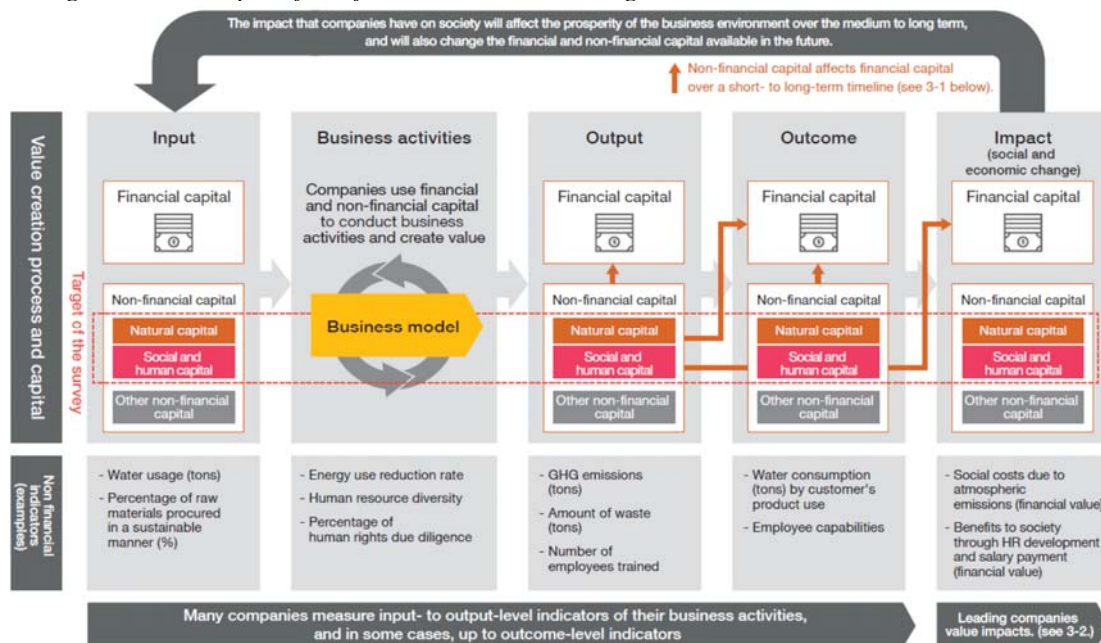
Orientation towards environmental problems and climate changes, which currently affect the entire planet, leads to the premise that those who pollute must pay, starting with the latter, meaning with the societies with a high degree of pollution, where the implementation of standards is mandatory but also the restoration of the effects negative impacts on the environment must be prioritized (European Green Pact). This can be done by introducing environmental taxation, or real

environmental taxes, to help reduce these effects and improve the quality of the environment.

In future research, we will analyze all non-financial information important for society and the need to include it in the financial statements, as the team of researchers from Japan did.

Sustainable development, in the current context, is based on finding the balance between economic growth/progress and reducing the negative effects brought to the environment. This can be achieved by quickly restoring ecosystems where they have been seriously affected. The invoked balance imposes a regulatory framework that must be regulated at the national level through special laws and implemented as quickly as possible so that the intervention to save the environment is not late. Sustainability includes the socio-ecological process in the medium and long term through the use of renewable resources, in the future contributing to the accessibility of these resources by future generations. According to the report "Our Common Future" developed by the Brundtland Commission (1987), which is the reference document in the definition of sustainability, this term represents "the satisfaction of today's needs without sacrificing the ability of future generations to meet their own needs", accepted definition and recognized at the same value even today (European Commission).

Figure no. 2. Examples of non-financial indicators in a logic model.

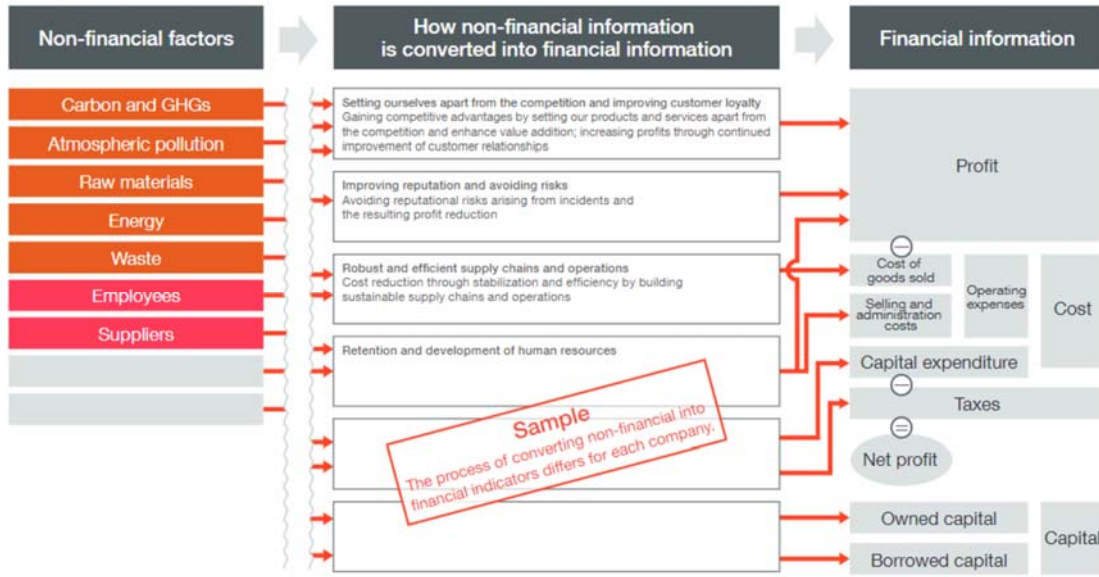


Source: <https://www.pwc.com/jp/en/knowledge/thoughtleadership/assets/pdf/non-financial-information-management.pdf>

The figure presented by the Japanese researchers clearly shows the importance given to non-financial information and the added value brought to the company in the long term from their integration in the economic analysis. This study must also be carried out on a sample of Romanian companies and interpreted from the point of view of the legal provisions and the European standards applicable to them.

Figure 3 shows as clearly all the interdependencies between non-financial and financial information, as well as their different interpretation from case to case. It should be noted that the non-financial information brings a different added value, the conclusions not being generally valid for all the analyzed entities.

Figure no. 3. Connection between non-financial factors and financial factors



Source: <https://www.pwc.com/jp/en/knowledge/thoughtleadership/assets/pdf/non-financial-information-management.pdf>

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