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## Doctoral thesis

# Practices and tendencies regarding Non - financial Reporting Directive in EU

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## Thesis Summary

The objective of this research is to contribute to the development of knowledge in the area of corporate reporting, with a specific focus on the non-financial reporting (NFR) in the particular frame of the Non-Financial Reporting Directive (Directive 2014/95/EU hereafter DEU) through three directions. First, by performing a structured literature review, to see where the literature focuses and where there are gaps in this area. Second, by exploring the evolution of the NFR over time in relation to regulation, from voluntary to mandatory reporting, followed by a look at how the DEU has been transformed at the European level. Third, by conducting an empirical analysis of the evolution of NFRs and identifying the factors influencing this type of reporting through a study of Romanian companies.

The first chapter presented a structured literature review (SLR) that analyse scientific papers that debate the DEU from different perspectives in the period 2014 - July 2021. The time period studied mirrored various stages of the DEU literature. In the first step, researchers attempt to criticize the DEU's rules while recognizing the benefits and drawbacks of this directive.

In the second phase, researchers try to show the level of non-financial information (NFI) reporting of companies before the appliance of the DEU. For example, there were studies that showed that some Member States have a low interest to publish non-financial information disclosure (e.g., Dumitru *et al.*, 2017; Matuszak & Róžańska, 2017; Venturelli *et al.*, 2017; Peršić & Halmi, 2018). Although at European level as well as in some Member States, studies disclose a good degree of fullness of NFR (Carrillo, Chicharro & De La Cruz, 2018; Venturelli *et al.*, 2018). After 2017, with the publication of the first non-financial reports according to DEU, the researchers investigate the impact of the DEU. They have turned to analyse the quality of NFI reporting (from a non-mandatory to a mandatory approach) and to study the factors, which influences the level of NFI reporting.

Thus, some studies reveal that the DEU's introduction influenced positively the reporting, leading to a higher quality of non-financial reporting in different countries as Spain (Sierra-Garcia *et al.*, 2018); Romania (Tiron *et al.*, 2019); Italy (Caputo *et al.*, 2020); Netherlands (Hubers & Thijssens, 2020); Denmark and Germany (Mies & Neergaard, 2020). Others have shown that this quality has not improved (Carungu, Di Pietra & Molinari, 2020 (Italy); Cordazzo, Bini & Marzo, 2020 (Italy); Nicolò, Zanellato & Tiron-Tudor, 2020 (European SOEs)), and another study has shown that this quality has decreased (Loprevite, Raucci & Rupo, 2020 (Italy)). The novelty of the first chapter is highlighted by the fact that it contributes to the most recent revision of the DEU literature (until July 2021). Thus, this chapter presents the most approached topics in the literature on DEU, being able to observe the shortcomings in this literature and offering new perspectives and areas of research with reference to DEU.

The second chapter aims to review the most important moments regarding corporate reporting practices and regulations on sustainability, environment and social issues in Europe, from a non-mandatory to a mandatory NFR, by analysing the circumstances in which the non-financial reporting developed, reaching to be regulated only in 2014 by the DEU. Also, this chapter examines the reasons why DEU is proposed for revision in 2020 and discusses future research perspectives in this regard. The EU's become interested by the NFR since the early 1990s, despite the long existence of the sustainable accounting, that has existed since the 1960s.

The global financial crisis created the perfect environment for European regulations to step in and impose NFR requirements. After years of debate, the reporting of non-financial information was regulated (in 2014), despite obstacles in this way (e.g., German resistance). However, the DEU is considered quite flexible, which is a drawback.

The flexibility offered by DEU regarding the great freedom of companies in choosing what non-financial information to present, in what format, as well as in choosing the reporting framework, leads to certain consequences. Namely, the comparability, consistency and uniformity are limited and difficult to achieve, and the comparison of the performances of the companies by the stakeholders will be difficult, even in the same industry (Eccles & Spiesshofer, 2015). In addition, DEU does not apply strong and precise disclosure regulations, which is considered as unclear, because it is not clear about the materiality of the information, for example what these types of information are (Eccles & Spiesshofer, 2015; Aureli *et al.*, 2018).

After many public consultations, the European Commission (EC) announced in 2018 that the DEU would be reviewed. Thus, the EC came up in 2021 with several proposals to revise the DEU in terms of expanding the scope of NFI reporting, the assurance of NFI, NFI reporting in a single report and disclosing them in a digital format, creating mandatory European reporting frameworks.

Finally, yet importantly, this chapter explores the way of transposing the DEU at European level, with a special examination on Romania case. The differences in the transposition of the DEU are due to various factors, such as the history of countries in terms of social responsibility policies and government cultures; pre-existence of national internal norms and practices; national laws on NFI reporting; the cultural differences inside Europe between member countries (Arraiano & Hategan, 2019; Aureli, Salvatori & Magnaghi, 2020).

In the case of Romania, we are talking about an emerging country, without a history regarding the existence of laws prior to the emergence of the DEU in terms of CSR reporting. The first existing regulation regarding the reporting of certain NFI is applicable only to listed companies. For listed companies is mandatory to report information as concerns employees, the environment, risk management, company policies and forthcoming information (CNVM Reg. No. 1/2006), and for the rest of the companies, not listed there were some recommendations related to voluntary disclosing more information if the company consider it useful (Tiron *et al.*, 2020). In Romania, DEU is partially implemented into national legislation by The Ministry of Public Finance (MFP) Order no. 1938 / 2016 and updated by MFP Order no. 3456 / 2018. The obligation to incorporate in the directors' report a non-financial declaration belongs to all Romanian companies, which to go beyond the limit of having a medium number of 500 staff members in the course of the financial year, starting with 2020 (reporting for the year 2019). Chapter 2 provides the reader with a broad and comprehensive view of the evolution of NFI reporting over time, enabling the reader to understand the non-financial reporting approach and the context in which the DEU appeared and how this regulation was transposed into the laws of member EU countries (as well as in Romania).

The last chapter, based on the institutional theory and modern theory empirically investigate in the Romanian context, if the level of NFI reporting changed after the transposition of the DEU in the national regulations. The sample is composed by listed companies on the Stock Exchange from Bucharest (BSE) comprised in the BET Plus. Moreover, the study tries to explain the main influencing

factors that contributed to this process. In the first step, a manual content analyse of the reports (Krippendorff, 2013) is performed following a checklist formed by eleven elements in accordance with the European Union Guidelines 2017/C215/01(EUG) developed by Manes *et al.* (2018) including: Business Model; Policies and Due Diligence; Outcome; Principal Risks and Their Management; Key Performance Indicators; Environmental Matters; Social and Employee Matters; Respect for Human Rights; Anti-Corruption and Bribery Matters; Reporting Frameworks; Board Diversity Disclosure.

In order to examining the trend of NFI disclosure in the changeover process from voluntary (2016) to compulsory reporting (2017-2020), we use descriptive analysis. In addition, applying a Tobit Model for our panel data, we examined the presence of an important connection between the non-financial information disclosure index and some variables regarding size, industry, performance, reporting type and the pandemic situation of the sampled entities.

The results show that the level of NFI reporting in the case of the Romanian companies has increased, during the transition from voluntary to mandatory reporting. Therefore, we can say that the law has had a positive impact on the reporting of NFIs. Most of the NFIs presented by companies relate to social and employee issues and the least are presented regarding reporting frameworks. The most NFI is presented by companies in the Utilities and Oil & Gas sectors (which are sensitive sectors), and the least NFI is reported by the financial sector. In addition, we identified the key determinants/determinants of the level of information disclosure.

Company size (measured by total assets and natural logarithm of total employees), company performance (measured by leverage), report type (starting characters forced do DEU) and the impact of the pandemic were the factors determining the extent of NFI disclosure in our sample. DEU has a positive effect on the level of NFI presentation in the case of Romanian companies; this can be observed by increasing the level of reporting from year to year. However, there is still a significant information gap to be filled by companies in our sample and it is likely that this will now be resolved with the EC's review of the DEU. The novelty of chapter three is reflected in our empirical study of Romanian firms, which contributes to and fills in a gap in the literature, namely the lack of longitudinal studies in the Eastern context about long-term effects of DEU as well as a lack of research examining potential determinants of DEU.

Current thesis brings various contributions; the results obtained being important for different users, such as regulators (for example the EC that intends to revise DEU), practitioners, researchers / academia members.

Our findings offer some relevant contributions to the existing written works on the emerging field of research on the quality and the value of NFI disclosure and play a part to the discussions of academics and practitioners concerning NFR, which needs further investigation. In addition, the empirical study that we performed provides an investigation of the results of regulated disclosure, by assessing the level of disclosure of NFI elements and by identifying their determining factors, being the first attempt to investigate the impact of DEU in Romania over a period of 5 years.

Our results bring value on the process of perception and comprehension of the effect of government legislation concerning the publication on NFI by using the lens of institutional theory and isomorphism (Di Maggio and Powell, 1983).

Keywords: Non-financial reporting, Directive 2014/95/EU, corporate reporting, non-financial information, sustainability;