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Trends in Non-financial Reporting

In the recent years more studies focus on the corporate disclosure, the determinants and consequences of disclosure. The mandatory disclosure of financial information was frequently integrated with non-financial information, often voluntarily disclosed. The voluntary dimension of corporate disclosure involves the manifestation of free choice of the firm and its managers. In our paper we focus on the principal reporting demands that are not covered by traditional financial statements, voluntary disclosure, and how Romanian companies interested in the issue have been incorporating information about these aspects in their reporting. We also highlight the usefulness and the importance level which managers and stakeholders are giving to appreciate the non-financial performance of the Romanian listed companies they are manage or they are interested in.

Keywords: corporate reporting, non-financial information

1. Introduction

Communication by corporations of financial and other corporate performance data to stakeholders is a complex process of risk and information asymmetry reduction coupled with strategic information management.

A lot of polemics have been generated between the users of business reports and different regulation organizations involved in accounting and reporting standards setting process. The breakpoint of these polemics is the users' needs regarding a better understanding and a better communication of the differences existing between the market and book value of an enterprise. Even though the traditional financial statements are based on practices and standards with a long history behind they became insufficient to solve the information needs of the actual users.

Corporate reporting is faced with a quiet renaissance that is gradually transforming its purpose, content and readership. Corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management

discussion and analysis, and other regulatory filings (Healy and Palepu, 2001). Traditionally, the corporate annual report has been seen as the primary source of corporate information disclosure. However, this is slowly changing and moving towards any other complementary reporting initiative: sustainability, environmental and social reports.

The Romanian reporting system is for the moment dominated by the mandatory financial reporting. An explanation of this can be found in the long tradition of planned economy accounting system that created Romanian's reputation for secrecy and a hard regulated accounting standards. But international business environmental and global capital markets impose new trends in corporate reporting. Only some of the Romanian companies listed on the Bucharest Stock Exchange and Romanian electronic market Rasdaq are interested to extent their business reporting to the new demands of the users, understanding the benefits of this international trend.

2. Theoretical framework

Business reporting must address the broad range of users' needs for information. Because of dramatic changes in the environment affecting business, users may require new types of information. At the same time, companies may develop, for management purposes, new types of information that users would find useful, and some information traditionally provided no longer may be necessary (AICPA, 1994). For satisfying the users changing's needs it is recommended more future oriented business reports that should be concentrated on elements that creates long term value, including non financial information.

In 1994, American Institute of Certified Public Accountants (AICPA) have presented a Report known as Jenkins Report, that had proposed a new "business reporting model" which approach is different from the traditional reporting, ones. Thus, Jenkins Report brings a new dimension of business reporting that denotes the starting of the final faze of previous discussions and researches and marked the transition from financial to business reporting. The most controversial and newest items proposed by Jenkins reporting model are disclosure of non financial and provisional information. A few companies disclosed such information, at the time of report, even in US. These two categories represent information with critical role in risks and opportunities evaluations and users need them for decision making process.

Later, in 2001 sustaining the calls for greater disclosure, the Financial Accounting Standards Board (FASB, 2001) produced a report called "Improving Business Reporting: Insights into Enhancing Voluntary Disclosures" to help companies improve their business reporting in relation to voluntary disclosures. This report did not state that non-financial performance measures must be disclosed but that companies should be encouraged to voluntarily report this type of information. More other national, international bodies and researchers have sustained AICPA's

initiative. Various individuals have called for greater disclosure of non-financial information by corporations (AICPA 1994; Norton 2000; Eccles, Herz, Keegan, and Phillips 2001; Lev 2001). They argue that traditional financial measures have diminished relevance due to changes in business environment and are backward looking, rather than providing insights into a company's future performance. The demand for external reporting of non-financial performance measures also has been driven by companies' adoption of internal performance evaluation frameworks that incorporate non-financial measures, such as the Balanced Scorecard (Kaplan and Norton 1996).

Non-financial performance measures are relevant for predicting future financial performance and valuing corporate equity stated Amir and Lev (1996), Ittner and Larcker (1998) suggested that non-financial indicators of investments in "intangible" assets might be better predictors of future financial performance than historical accounting measures. Evidence on the importance of non-financial performance measures is also highlighted in a study by Ittner et al. (1997) that showed many firms use non-financial measures such as product quality, customer satisfaction and market share to evaluate and reward managerial performance. This indicates that non-financial measures are seen as value relevant information. Eccles et al. (2001) illustrates in their book how organizations must change the way they report information to shareholders and other stakeholders in order to ensure valuations are more realistic. Lev (2001) remark, voluntary information should be disclosed in a structure that complements financial reporting.

3. Non-financial reporting of Romanian Listed Companies. Data and results

Companies listed on BSE should prepare and disclose annual reports as stated by NSE Regulation no. 1 from 2006. Two types of disclosure appear in annual reports, mandatory disclosure and voluntary disclosure. Mandatory disclosure refers to those aspects and items of information that are required by statutes, stock exchanges or accounting regulators. The Companies Act, Accounting Law and accounting standards normally prescribe minimum disclosure requirements, but do not prohibit companies from providing additional information. Voluntary disclosure refers to information made available at the discretion of the corporation. The extent of voluntary disclosure is influenced by changes in society, political and economical factors and behavioral factors such as the particular corporate culture.

There are some reporting demands that are not covered by traditional financial reports, and in this paper we will see the extent to which Romanian companies listed on BSE are reporting non-financial information in their annual reports. Starting from Kaplan and Norton Social Balance Framework (1994); Meek, Roberts and Gray study (1995) and Bergamini and Zabon (2003) that grouped voluntary disclosed information we investigate to what extent Romanian top 15 BSE companies are providing non-financial information in their annual reports.

Using Meek, Roberts and Gray's model (1995) we group the non-financial information in four categories: Management information, Human Resources, Social policy regarding the added value and Corporate Social Responsibility as presented in table 1. In order to measure the extent of non-financial disclosure in annual reports we compile a set of 28 informational items that express disclosure policy of non-financial information. We use a composite index for measuring the disclosure level (Chavent et al., 2006; Marston and Shrives, 1991). For each company we assign the value of 1 to each informational criteria satisfied and value 0 otherwise. Each information subcategory from our sample contains a different number of items.

Table 1

Information categories regarding disclosure dimension

Information category	Information subcategory	No. of items considered
Non financial information	Management information	5
	Human Resources	14
	Social policy regarding the added value	8
	Corporate Social Responsibility	1

Source: adapted from Meek, Roberts and Gray (1995)

Samples in our study are the top 15 companies listed on BSE. Annual Report and Administrative Council Report are the main annual sources of communication between the company and its external investors through these means the company publish investment related information. The reports examined in this paper are based on the 2006, 2007 fiscal years.

The results of our study are presented in Table 2 which summarized the descriptive statistics of the non-financial information disclosed by the Romanian companies.

We observe that from the top 15 BSE companies there are enterprises with a very poor reporting as regards non-financial information.

The information provided in annual reports or administrator reports of the Top 15 BSE companies, additional to financial statements even it is mainly non financial and strategic information (Popa et al., 2008) it is not to much detail. Romanian companies prefer to disclose information about their managers instead of their human resources, social policy, added value or corporate social responsibility as shown in figure.1.

Table 2
Statistics of the non-financial information disclosed in annual reports

	Mean	Median	Std. Deviation	Minimum	Maximum
Non-financial information	7,33	7	3,46	1	14
Management information	3,13	4	1,77	0	5
Human Resources	2,67	2	2,26	0	8
Social policy regarding added value	1,27	1	1,39	0	4
Corporate Social Responsibility	0,27	0	0,46	0	1

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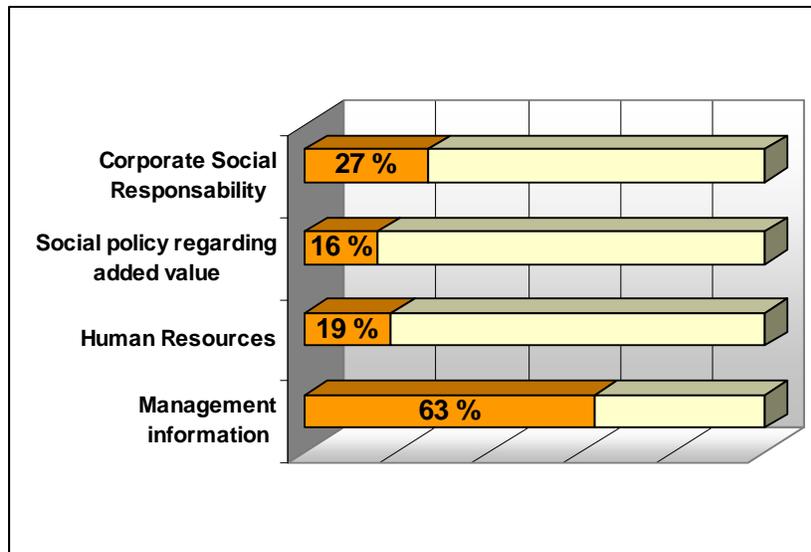


Figure.1 Disclosure level of non-financial information categories

The level of non-financial disclosure represents only 26% from maximum possible disclosure level as referred in the information items we analysed. The surveyed companies disclosed only 80% of the types of information appearing in the Meak et al. (1995) study. This shows a low level of non-financial information disclosure by the Romanian companies in their annual reports.

Regarding Social Responsibility Report that is an important source for investors from foreign capital markets, because this report increased the investor's trust in the management decision making process, is interesting to notice that only 26,67% from the sample disclose this report. These shows that larger listed Romanian companies are not interested to disseminate such information to their investors through annual reports.

4. Conclusions

Non-financial performance measures are relevant for predicting future financial performance and valuing corporate equity. Even though more companies are using non-financial measures to evaluate and reward managers' performance and at the international level a lot of companies disclosed such information, our study shows a different situation in Romania.

In this paper we examined the extent of non-financial disclosure in annual reports of the Top 15 Bucharest Stock Exchange listed companies. Based on the Meak et al. study (1995) we described the extent to which Romanian listed companies disclose non-financial information in their annual reports. We find that the level of non-financial disclosure in the annual reports is still very low. We associate this low level of non-financial disclosure with the functioning and development of the Bucharest Stock Exchange and to the fact that BSE is a relatively new stock exchange with a low transparency and less sophisticated investors. As Meak et al. (1995) states large firms are likely to have a greater complexity and a more diverse ownership than small firms. Therefore larger companies will tend to disclose additional information voluntarily. In this context Romanian listed companies are smaller as compared with those transacted on foreign or global capital markets.

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