WHAT CORPORATE GOVERNANCE AND NON-FINANCIAL REPORTING HAVE IN COMMON?

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Abstract

The article reviews some of the most important responsibilities of the company's directors, starting with those indicated by the company's law, continuing with those related to the financial reporting and, more recently non-financial reporting, reflecting a bit more on the differences, similarities but also interdependences between the two types of reporting and concludes with the methods used to evaluate the corporate governance/ the governance act, in general, based on financial and non-financial reporting. The end of the article brings, again, in front of the reader the key words used in corporate governance - decision making process, emphasizing the fact that evaluation of the decision making process represents an indicator that can be included in the non-financial reporting.

Keywords: corporate governance, decision, administrator, director, management, company, financial reporting, non-financial reporting, responsibility, liability, obligation, evaluation, decision- making, decision-maker

1. Reflections related to corporate governance and liability

Corporate governance is a term very much used these days, as everybody talks about board committees, about board members remunerations, about ethics in business, conflict of interest and many other concepts indicating that things maybe very complicated. This looks even more complicated when people, often, make confusions between legal provisions and best practices. To keep it simple, I would portrait governance as the act of sitting in the driving chair and using "the decision" as a tool to lead the way. Not incidental, "decision" is the title of the documents issued by the shareholders as well as by the boards (e.g. "shareholders decision" and "board decision"). The conclusion drawn from here is that the governance act means taking decisions and assuming the responsibility of the results of such decisions. Decision, on the other hand, is a very personal process that deals not only with knowledge but also with personal experience and emotions. Simon Sinek says in its book "Start with why", that "the dance between gut and rational decision-making pretty much covers how we conduct business and even live our lives". It is important to understand the way the decisions are taken because, in business, the effects of the decisions we are taking today are being revealed much later. For example, when concluding a one-

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year contract, the price of the products sold is fixed for the entire contract period and it is negotiated in accordance to how each party believes the market will evolve for the given period, while prices of the many of the raw materials and services used in the process, changes throughout the year. The decision with regards to the contractual terms, that we agree today, grounds on facts such as today's prices but also on personal estimations with regards to the price of the material used in the process but also on subjective triggers such as: the urge of getting a certain customer, the aim of winning a specific market share in a certain time frame etc.

The way we assess all the above, and even many more, makes the difference between getting profit or losing money, for the one-year time period. This is why the law introduced the concepts of "diligence and care" when defining the personal liability of the company's directors. The law, also, states that directors of a company act "with diligence" and "in good care" if „in the decision making process, he/she is reasonably entitled to consider that he/she is acting in the best interest of the company and based upon adequate information". This is the reason why having real debates during the board meetings it is extremely important. Of similar importance is also the act of recording all considerations the decision was based on, the information submitted by executive directors as well as additional relevant information requested by the decision makers – in case of the example above to record all rationales behind the decision of approving the terms and conditions included in the agreement – all these constitute evidences of fulfilling the duty of care and diligence that the directors must prove in fulfilling their duties.

2. Financial and non-financial reporting – another duty of the company's directors

Another liability of the directors refers to filling in accurate and timely financial reports and, more recently, non-financial reports. The financial reporting is well known to anybody but non-financial reporting is a concept relatively recently introduced in the Romanian legislation.

Non-financial reporting has its origin in the EU legislation, like most of the regulations that bring major changes in the way of thinking and functioning of the markets, of the companies and even societies. Mandatory reporting begins this year, along with the financial reporting for year-end 2017 and, it is applicable to the listed companies, majority-state owned companies so-called „public interest companies", registering in the reporting year an average number of employees higher than 500. Information included in the non-financial declaration or in the non-financial report include, as the title suggests, all aspects that are (i) **non-financial** and that are (ii) **relevant** to each company such as: *environmental aspects* (energy and water consumption, waste, biodiversity, resources management etc.), the impact that companies' policies and actions have over *communities*, the impact that companies' policies and actions have over *employees* (rights and benefits, professional and personal development, continuous learning, gender diversity, minorities inclusion, etc.), a short description of the business model, product/service policies (marketing and branding, communication and properly product information), new customers and retention customers policies, suppliers chain policy (materials and technology used to produce goods, etc.), health and safeties in the company, anti-corruption and integrity policy, delegation of authority policy, etc.

When talking about the differences between financial and non-financial indicators there are certain aspects that worth to be mentioned. First aspect refers to the fact that the financial reporting tool has a standard format (there is a set of standard indicators) while the non-financial reporting tool has no standard format - the key of the report consisting of the identification of the "relevant" indicators for the business model used by the company. Secondly, while drafting the budget and later on, during the budget execution, the company „internalizes" influences of the external environmental factors (macroeconomics, goods market prices as well as raw material used in the process), whereas the non-financial reporting is about „externalization" of the influences that the company's activity has over the environment, community and its inhabitants, employees and similar alike. We can also notice interactions between financial and non-financial indicators such as: an ethical and transparent product and marketing policy (subject to the non-financial reporting) may lead to the increase of the company turnover (financial indicator) whereas neglecting the negative effect of the company's actions on the environment (non-financial indicator) it influences significantly the level of the expenses (financial indicator) as it is the case, for example, of transferring the recycling duty of the material introduced in the economic cycle. There are also procedural differences between the two types of reporting tools, as shown in the table below:

Table no. 1 Procedural differences

Reporting	Responsible	Action	Document	Beneficiary	Action
Financial Reporting	Board of Directors Directorate	*propose*	**Budget** ↓ **Financial Statement** ↓ Financial Indicators	Shareholders (AGA)	*- approve/reject* *- approve/reject*
			profit distribution/ losses coverage		*- approve/reject*
			discharge of liability the directors of the company		*- approve/reject*
	Financial/ Independent Auditor	*certify*	***Independent Auditors Report***		
Non-financial Reporting	Board of Directors Directorate	*declare*	**Non-Financial Declaration**	**Shareholders(AGA)**	*- invest/ exit*
		report	**Non-Financial Report** ↓ Non-financial Indicators *(including corporate governance assessment)*	**Employees** **Customers** **Suppliers** **Community**	*- retention/ exit* *sales* *business continuity* *business continuity*
	Financial/ Independent Auditor	*verify*	the existence of a non-financial declaration or a separate non-financial report and includes this information in the Independent Auditors Report		

Beyond the procedural aspects emphasized in the analysis above, certain conclusions may be drawn in respect to the reporting and corporate governance, not only from the directors' personal liability point of view but also from the evaluation of the corporate governance stand point. It can be easily noticed that, in the case of financial reporting the assessment of managerial activity is done by the shareholders while in case of the non-financial reporting the evaluation of the corporate governance is done by all third/ interested parties including shareholders, employees, community, etc. In case of financial indicators the evaluation of the directors' activity done by the shareholders is based upon the fulfillment of the financial indicators criteria/ budget execution and the shareholders have the right to make them liable for the way they "managed" the company's resources. In case of the non-financial indicators, the evaluation of the corporate governance is made by all third/interested parties based upon other criteria that take into consideration the methodology used by the managers in the decision making process so as to ensure the parties that "the decisions taken are subject to certain analysis processes aiming to conduct to the best achievable results that may be under control of the decision makers".

Looking from this perspective, non-financial reporting can be used by directors/managers, if properly conducted, as an efficient marketing tool but also as an effective internal control mechanism.

Conclusion

Based upon the above-mentioned facts we may conclude, from the financial reporting stand point, that the assessment of the corporate governance is based on criteria related to the fulfillment/non- fulfillment of certain short-term objectives linked, in general to financial indicators, and is also related to the way the company's resources have been used, to the way they have been preserved and to the way the company's assets and liabilities are reflected in the financial statement so as to ensure the market valuation. The result of all the above-mentioned assessment may lead to discharge or non-discharge of liability of the company's directors.

On the other hand, non-financial reporting, although apparently less liability burden, performs a deeper analysis of the company's business model, indicating much better the company's long term development perspectives.

References

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