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NON-FINANCIAL REPORTING - A STEP TOWARDS IMPROVING THE SUSTAINABILITY OF THE WOOD-BASED INDUSTRIES

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Abstract: The aim of this paper is to justify the need of introduction an uniform practices in the disclosure of non-financial information by enterprises in the wood-based industries in order to achieve sustainable growth and development. Based on a critical analysis of existing research in this area and an analysis of the financial statements for 2018 of three of the largest Bulgarian companies in the industry, we found out that despite the importance of environmental and social issues, companies in this industry are not required to prepare a non-financial statement within the meaning of the European and Bulgarian legislation. The information disclosed in management reports and corporate websites is mainly descriptive and does not meet the requirements of the European Directive. As a result, it is argued that the enterprises in the wood-based industries that use non-financial reporting would gain competitive advantage by revealing specific features of the business model change and reporting “structured” and “tied” non-financial information to the entity's financial performance.

Keywords: non-financial reporting; wood-based industry; sustainability; benefits; European Directive

1. INTRODUCTION

Issues related to the sustainable development of the enterprises and the transparency of their financial statements are becoming increasingly important for both their management and external users of information. Conventional (traditional) financial statements prepared on the basis of applicable accounting standards are mainly aimed at external users of information and present mainly the financial aspects of the activities of the enterprises. We share the view that despite the increased demand for non-financial information, the benefits associated with its disclosure to some stakeholders seem long-term and difficult to accurately convert into quantitative units, while short-term costs are visible and easily measurable. We believe that the reporting of non-financial information must be linked to the development of a unified system of indicators in specific areas of disclosure, which should be applied in order to increase the comparability and analytical qualities of the disclosed information. The purpose of this publication is to justify the need to introduce uniform practices for the disclosure of non-financial information by enterprises in the wood-based industry as a factor in increasing the sustainability of these enterprises.

2. MATERIALS AND METHODS

In the study there have been used the publications of leading researchers and international organizations which have to do with non-financial reporting, such as: the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), etc., as well as legislative acts that have a bearing on these issues. In the study there has also been examined the existing normative framework, set by Directive 2014/95/EU and the Bulgarian

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Accountancy Act (AA) in respect of the enterprises which are to prepare a non-financial declaration (statement).

As regards the application of non-financial reporting by the surveyed enterprises in the wood-based industry in Bulgaria, there has been researched publicly accessible information disclosed in the financial statements and management reports of the three of the largest Bulgarian companies in the industry, according to the amount of their revenue, as well as information from their corporate sites and other public sources, pertinent to non-financial reporting. Three of the largest companies were selected because they are expected to have more motivation and resources for more detailed and comprehensive reporting of non-financial information.

3. CORPORATE SUSTAINABILITY AND NON-FINANCIAL REPORTING

In order to meet modern expectations for sustainability, the business must adapt to the change in conditions and factors that determine the value of the business. It is necessary to change the way of doing business and shifting the focus to "profit only", to a holistic perspective and balance between economic, social and environmental aspects of creating company value, as well as rethinking the risks facing business.

In general, non-financial reporting is less developed than financial reporting, but more and more organizations and external users are beginning to apply various forms of non-financial reporting. There is a kind of consensus that publicly disclosed financial information is no longer able to present to stakeholders the "overall picture" of the company's development. At the heart of this consensus is the understanding that companies today are increasingly dependent on intangible factors that shape the corporate value and that are not present in the financial statements, unlike in years when tangible assets were decisive for corporate value. In addition, the growing demand from stakeholders to have a better understanding of the company's long-term value factors, prospects and risks, including its impact on the environment and society, continues to fuel NFI's development and necessitates a rethinking of corporate reporting in general. The relationship between the financial and non-financial aspects of business is also becoming increasingly recognized. In this aspect "by investigating how an organisation defines its reporting boundaries, it is possible to understand what is truly 'valued' (or not) in its business model and in its value creation". (Girella, 2018)

The model by which companies create value is the basis of a significant part of investment decisions in search of sustainable growth and development. Therefore, many managers have difficulties determining the scope of notes to traditional financial statements and management (activity) reports because they know that a significant portion of the value of their business is due to intangible factors that could be difficult to cover in the financial statements. Dropulić & Čular state that companies have to develop and expand their economic, social and environmental capital, the three key elements of corporate sustainability. (Dropulić & Čular, 2019)

Investors' interest in the ESG aspects of the business can be explained by their focus more on the long-term aspects of the business. The more investors ask questions on ESG issues, the more they understand the core risks to business these factors can represent. Moreover, as Lozano state the existing financial statements are often lacking the link between business strategy and sustainability issues and practices. (Lozano, 2013)

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The focus on non-financial performance indicators has led to a kind of "invasion" of non-financial reporting over the last 10 years. Various studies indicate that there are currently more than 30 international frameworks for sustainable non-financial reporting worldwide. (Brown, 2009) Recognizing the importance of non-financial reporting, the EU has introduced Directive 2014/95 / EU on the mandatory reporting of non-financial information, which is applied only by large public interest companies with more than 500 employees. The requirements of the Directive have been implemented in the Bulgarian legislation through the requirement for preparation of a non-financial statement/declaration (NFS) by the indicated enterprises. The Directive does not specify a single disclosure framework, thus making it difficult for businesses to determine which of the existing frameworks to use to report on the specificities of their activities. The existing frameworks differ both in their purpose and in their content and the indicators used to assess the non-financial aspects of the activity and each company has the freedom to choose one of the applicable reporting frameworks. . In order for non-financial information to be useful to investors it must be comparable across companies. Respondents state that current non-financial reporting is not sufficiently comparable and agree that non-financial information should be better integrated with financial information. (ACCA & Eurosif, June 2013) This gives us reason to believe that the lack of uniform generally accepted standards, respectively framework for reporting non-financial information, often make investors unable to compare the companies they analyze. If companies disclose different types of data and use different metrics (KPIs), this makes it almost impossible to compare them or identify trends in their development and assess non-financial risks and their impact on business, which in turn compromises sustainability. As White quite properly notes in terms of reporting, leading companies tend to use non-financial information to present in a fair and balanced way past achievements, current shortcomings and future opportunities and challenges related to the company.(White, 2005)

4. NON-FINANCIAL REPORTING IN BULGARIAN WOOD-BASED INDUSTRY

At European level, the wood-based sectors are complex and strongly linked to the workforce. They rank fourth in the EU as an industry by number of enterprises (170,000), followed by the furniture industry (120,000). The woodworking sector alone employs more than 1 million people, and the industry contributes € 133 billion to EU GDP in 2017. Adding the furniture industry, employment reaches almost € 2 million and an annual turnover of € 243 billion. (БТПП, 2019) In addition, Chobanova and Popova note that one of the main characteristics of the furniture industry is the intensity of labor resources used. These characteristics of the industry make it very sensitive to the social and environmental aspects of the activity, which focuses our research interest in this industry. As Sierra-Garcia et. al. indicate the business sector in which the company operates is a determining factor for its level of compliance with regulatory norms and the more sensitive sectors are those that provide more information. (Sierra-Garcia et., 2018)

Industry-specific is the presence of PEFC standardization. This standard contributes to achieving the SDGs as we work towards unlocking the full potential of forests for a sustainable world. Another specific certificate for this enterprises is FSC. Using FSC certification can help companies meet legislative requirements while improving market access, increasing revenue and showcasing your sustainability policies. They promote the responsible management of the world's forests, bringing together the environmental, economic and social spheres of the

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business. Of interest is the fact that the standard was introduced 25 years ago, which is much earlier than the adoption of Directive 2014/95 / EU and shows that companies in this industry are ready to follow the path of voluntary non-financial reporting and even exceed the requirements of national and European legislation in this field. But just one of the entities surveyed owns FSC certification.

The current survey covers three of the largest enterprises according to the amount of their revenues in 2017 (Table 1).

Table 1. Ranking of enterprises by revenue for 2018

Position	Enterprise	Revenue (thousand BGN)	Staff	Large enterprise	Meets the criteria for public interest company
1	Kronospan Bulgaria	178234	441	Yes	No
2	Kastamonu Bulgaria	93999	314	Yes	No
3	Welde Bulgaria	48020	709	No	No

Source: Author's work based on 2018 Annual reports and corporate sites of the entities

This study examined publicly available information that is disclosed in the financial statements and management reports of these companies, as well as information from their corporate websites and other publicly available sources that is relevant to non-financial reporting. The results are summarized and presented in Table 2.

Table 2. Disclosed non-financial information from the surveyed enterprises for 2018

	Obligation to prepare NFS	Other sources of non - financial information	Disclosed information	Key non- financial indicators used	Disclosure framework used
Entity 1	No obligation	Corporate website of the parent company	Social, environmental, intellectual property	Not specified	Not specified, FSC®, PEFC Certification
Entity 2	No obligation	Management Report, Corporate website	Human resources, environmental, education and culture	Not specified	Not specified
Entity 3	No obligation	Management report	Human resources, environmental	Labor productivity, Labor profitability, Staff costs per person	Not specified

Source: Author's calculation based on 2018 Annual reports and corporate sites of the entities

As a result of the study, the following summaries and conclusions can be made:

✓ There is no obligation for the surveyed enterprises from wood industry to prepare a non-financial statement, as they do not meet the combination of criteria specified in the Accounting Act. The main reason is that they do not fall within the scope of public interest

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enterprises, which we believe should be clarified by the legislator given the economic and social importance of this sector for the country;

✓ Although they are not obliged to prepare NFS, the three surveyed companies disclose certain non-financial information through various channels, the main ones being: management report and corporate website;

✓ The main information is related to the implementation of activities in the field of human resources, social and environmental activities. It should be noted that none of the companies provided information on their business model, and only one company provided additional information related to intellectual property;

✓ The main conclusion of the study is that the disclosed information is mainly descriptive without specifying certain KPI that characterize the non-financial reporting in the surveyed enterprises. Only one of the surveyed enterprises indicated specific indicators characterizing human resources - labor productivity, labor profitability, staff costs per person. The disclosed information covers only the current reporting period and there is no comparable information even for the previous year. All this makes the disclosed information incomparable between individual companies and useless in decision-making;

✓ Although all three companies disclose a certain set of non-financial information, there is no single disclosure framework that companies use. It was found that all of them have ISO certification, but none of them provides information about the sample measures according to ISO 26000: 2010. Only one of the companies indicated the existence of a specific FSC® and PEFC Certification.

5. CONCLUSION

The results of the study show that companies in the wood-based industry in Bulgaria disclose only limited, mainly on social and environmental issues. The objective analysis of the results gives us reason to assume that the development of uniform standards for NFR together with a single framework for disclosure are of particular importance for obtaining benefits from non-financial reporting. All these will increase the comparability and reliability of disclosed non-financial information and the confidence of corporate reporting by stakeholders. At the same time some sectoral initiatives that build on core non-financial KPI will be key instruments for ensuring that disclosed information is in fact material to different stakeholders.

By connecting the financial and non-financial aspects of the business activity can be "build" the history of the business - from the description of the business model, through external factors and risks influencing business strategy and decisions of the management for overcoming them, to their connection with the current financial indicators of the activity and their influence on the future development of the company. This allows to be analyzed not only the results, but also the prospects and management of the business in a way that focuses on its most important aspects in achieving a sustainable business development.

Today, the European Union and the world economy face one of the greatest challenges of our time in designing the means and instruments to promote the ecological and social recovery of the economy. (Accountancy Europe, 2020). In addition, the current COVID-19 crisis has put not only wood-based industries, but also the whole world at a crossroads with an important choice in finding the best ways out of the crisis and improving sustainability from an economic, social and environmental point of view. The COVID-19 showed that economic, social and environmental aspects are interrelated. That is why we believe that a sustainable recovery

is needed and the enterprises in the wood-based industries that use non-financial reporting would gain competitive advantage.

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