

REPORTING OF NON-FINANCIAL INFORMATION BY ENTERPRISES POSING RISKS TO THE ENVIRONMENT

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Abstract

Non-financial reporting is a system of information about performance on the Corporate Social Responsibility. It is operated in order to communicate social and environmental issues and to remedy the information asymmetries among stakeholders. Non-financial reporting is of particular importance among enterprises that pose real environmental and social hazards, as general public interests, health and life, need to be protected.

This paper aims to present conclusions from an analysis of principles of non-financial reporting and the prevailing reporting practices employed by enterprises posing risks to the environment. The following research hypothesis is postulated: identification of environmental threats is the cause of non-financial reporting. In order to verify the hypothesis and attain the objectives, the following questions needed to be addressed:

- What are forms of reporting non-financial information?
- What is the scope of non-financial information reported?

Tanneries have been selected for the purposes of the study. The tanning industry is regarded as a major threat to the natural environment – ranking 4th among the *Ten Top Toxic Industries* according to the Blacksmith Institute (2016). Environmental considerations have a substantial impact on operation of tanneries, therefore, and, in line with the said hypothesis, this should contribute to non-financial reporting. Financial statements of enterprises operating in Poland have been examined.

Key words: accounting, reporting non-financial information, Corporate Social Responsibility, environment.

JEL Code: M14, M41.

Introduction

Non-financial reporting is a system of information about performance on Corporate Social Responsibility (CSR). It is a tool for communication with stakeholders by enterprises

implementing the idea of CSR, therefore, image considerations are an important cause of non-financial reporting. With regard to the scope of non-financial reporting, including social and environmental aspects, it appears particularly important in the group of enterprises that pose risks to the environment. This arises from threats generated by these enterprises which are identified as developments with major impact on activities and financial standing of these enterprises. Environmental issues and their significance to enterprises have been subjects of research. Williamson (2006), Welford et.al (2007), Sarkar (2008), Wahba (2008), Montiel (2008) affirm enterprises do pay attention to the environment and take actions to remedy or reduce their adverse effects on the environment. This is substantially due to legal regulations in place which make environment protection obligatory. Importantly, the idea of non-financial reporting, that is, communication of socially responsible actions to an enterprise's environment, assumes firms should disclose not only successes but also hazards. This conforms to ISO 26000 (2010) - information relating to Corporate Social Responsibility which is disclosed in a report should be, inter alia, measured, or reliable, and should not ignore essential though negative information about adverse impacts on activities of an organisation.

The objective of this paper is to present conclusions of an analysis of non-financial reporting principles with regard to reporting practices of enterprises jeopardising the environment. Tanneries have been selected as the object of study. The tanning industry is seen as one of the gravest hazards to the environment – Blacksmith Institute (2016) ranks the sector fourth on its list of *Ten Top Toxic Industries*. In this connection, environmental and social issues are deemed to have major impact on operations of tanneries, which should report non-financial information, therefore.

In effect, the following research hypothesis has been posited: H1 – identification of environmental threats is the cause of non-financial reporting. Principles of non-financial reporting by tanneries in Poland have been examined in order to verify the hypothesis.

The objective of the article and verification of the hypothesis called for answers to the following research questions:

- What are forms of reporting non-financial information?
- What is the scope of non-financial information reported?

In search for the answers, scientific literature has been reviewed, deduction and induction have been applied, contents of financial statements have been analysed and the author's own observations have been used.

1 Causes of reporting environmental risks

In line with Directive 2014/95/EU regulations, reporting of non-financial information encompasses three major areas: environmental, social, and labour. Each is equally important, though environmental issues seem of particular significance in enterprises posing risks to the environment. This is due to general social considerations, namely, care for life and health of the public, especially staff and residents of a location where an enterprise operates. The natural environment and its protection are important from the viewpoint of future generations. Care for the environment springs from responsibility for continuing life. This is closely related to the idea of Corporate Social Responsibility, defined by the European Commission as responsibility of enterprises for their impact on society (European Commission, *A renewed EU strategy 2011-14 for corporate social responsibility 2001*, p. 6) and by World Business Council for Sustainable Development as the corporate undertaking to contribute to sustainable economic development by working with the employed and their families, local communities and society as a whole in order to improve quality of their lives.

Reporting of non-financial information, therefore, constitutes a major information tool, especially for entities implementing and realising the idea of CSR (Lament, 2016, Kristofik et al, 2016). It is difficult to prove impact of non-financial reporting on pro-ecological actions, or the opposite relation, however. Campbell (2006) and Brammer and Pavelin (2004, 2008), and Śmiechowski and Lament (2017) explored relations between actions taken for the environment and non-financial reporting. They failed to show any influence, though. Taking environmental and social risks into account, however, chiefly in the general public perspective, a system of non-financial reporting would need to be developed in entities posing genuine environmental and social risks. This is linked to the concept of ecological responsibility, which is a set of initiatives to reduce impact of enterprises on the natural environment. These involve manufacturing products out of materials that are harmless to the environment, saving energy, water, production materials, recycling of raw materials and products, introduction of environmental assessments or environmental reports.

Pro-ecological actions of an enterprise may decide its success as public awareness and interest in social and environmental aspects of business grow. Therefore, enterprises eager to enhance their market competitiveness are forced to operate in socially responsible ways, that is, in compliance with principles of sustainable development (Wolak-Tuzimek, 2016).

2 Characteristics of the firms examined and scope of the study

Tanning enterprises which pose risks to the environment have been studied. The tanning industry is regarded as one of the gravest environment hazards. 44 tanneries listed by Panorama Firm (Business Yellow Pages) and active in 2014 have been selected. Their employment structure is close to that of the entire tanning sector in Poland. This seems important in view of the specific nature of the sector, with a prevalence of small entities, and the possibility of extrapolating the results. The choice of businesses was deliberate – their employment structure was designed to reflect that of the whole tanning industry in Poland.

The enterprises have been analysed for the following characteristics:

- Headcount,
- Legal status,
- Location (region) of business.

The study group is characterised in Tables 1-3.

Tab. 1: Tanning enterprises studied by employment

Tanneries	Headcount below 49	Headcount 50-99	Headcount 100-249	Headcount 250-499
Number of entities studied (44)	37	5	1	1
Structure of entities studied (%) – 100%	84.0	11.4	2.3	2.3
Structure of tanneries in Poland by headcount in 2014 (%)	84.7	7.1	6.6	1.6

Source : The author's own compilation on the basis of: GUS (2015).

Tab. 2: Tanning enterprises studied by legal status

Item	Form of business				
	Joint stock	Ltd.	General partnership	Civil partnership	Self-employed
Number of enterprises studied	2	3	4	10	25
Structure (%)	4.5	6.8	9.2	22.7	56.8

Source: The author's own compilation

Tab. 3: Tanning enterprises studied by location of business

Item	Location of business								
	Ł	Maz.	Mał.	K-P	L	P	W	Ś	Pom.
Number of enterprises studied	2	21	9	2	2	2	2	2	2
Structure (%)	4.55	47.70	20.45	4.55	4.55	4.55	4.55	4.55	4.55

Source: The author's own compilation.

Key (full names of regions in Poland):

Ł – łódzkie

Maz. – mazowieckie

Mał. – małopolskie

K-P – kujawsko-pomorskie

L – lubuskie

P – podlaskie

W – wielkopolskie

Ś – śląskie

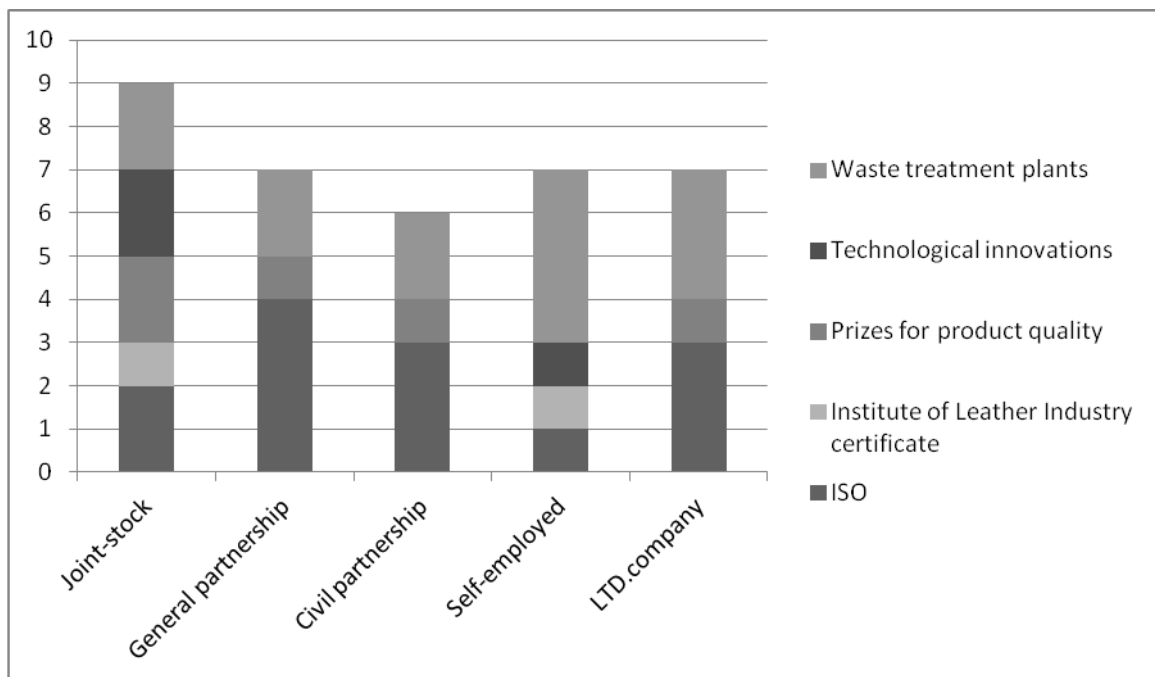
Pom. - pomorskie

The tanneries examined did not draft separate non-financial reports and non-financial information is reported as part of operation reports or additional notes to financial statements. 2014 financial statements were analysed to determine the extent of non-financial information disclosed. Due to the nature of the sector, it chiefly comprised environmental information and details of ISO or Institute of Leather Industry certificates, quality awards for products, innovative technologies, and waste treatment plants in place.

3 Results

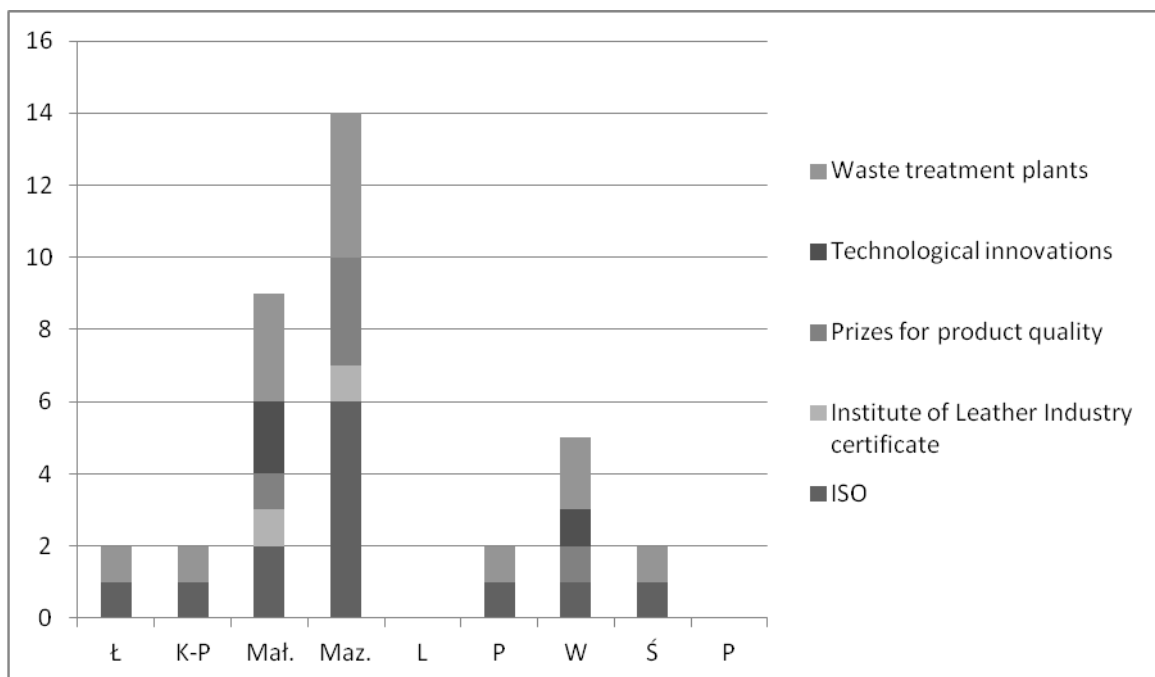
The tanneries examined do not compile separate non-financial reports and non-financial information is reported as part of operation reports or additional notes to financial statements. In view of the unique nature of the sector, deemed one of the 10 industries most obnoxious to the environment, this appears a paradox, since it is precisely these firms that should report their social and environmental actions as this is in the interest of the general public. In spite of the absence of non-financial reports, therefore, pro-ecological actions of tanneries which undergo ISO certifications implement new technologies or construct waste treatment plants must be seen as positive developments. Principles of non-financial reporting by tanneries were evaluated in consideration of their legal status (Fig.1), location (Fig.2), and headcount (Fig.3).

Fig.1: Reporting of non-financial information by legal status of business



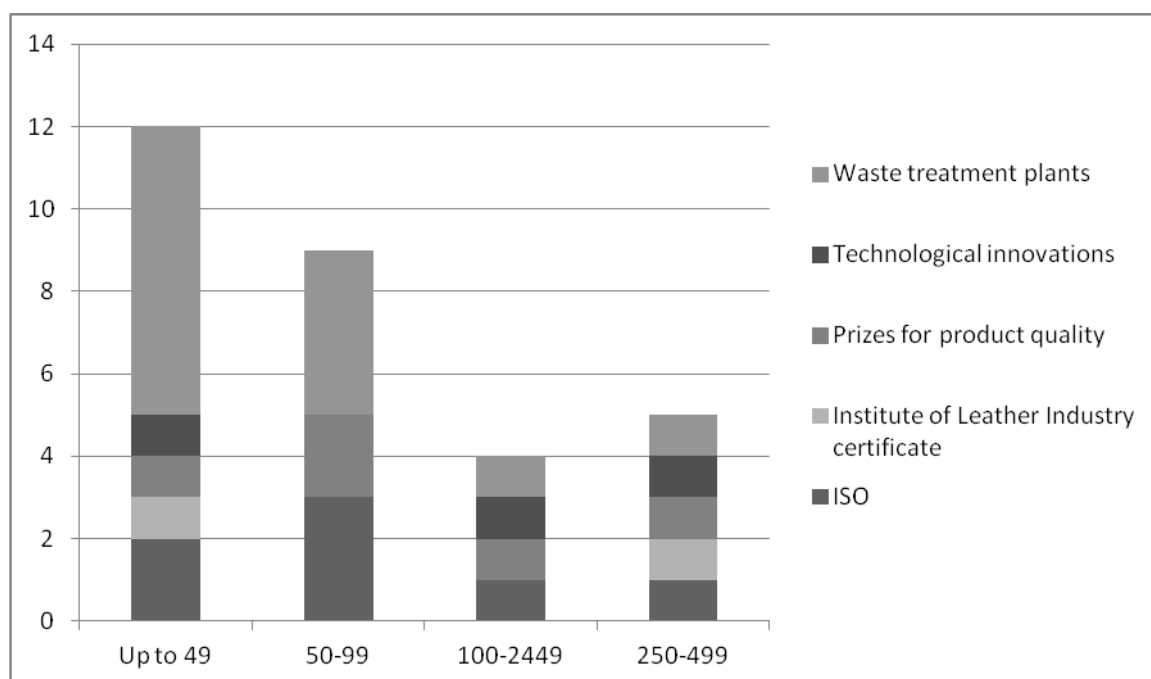
Source: The author's own compilation.

Fig.2: Reporting of non-financial information by location of business



Source: The author's own compilation.

Fig.3: Reporting of non-financial information by headcount



Source: The author's own compilation.

The results indicate:

- Joint-stock and limited companies and general partnerships most commonly report non-financial information. Joint-stock entities clearly undertake the most pro-ecological actions (100% operate ISO, implement innovative technologies, have waste treatment plants and are awarded for quality of their products). Small entities, self-employed individuals or civil partnerships less often engage in pro-ecological activities. 30% of civil partnerships examined are ISO certified, 10% have been awarded for quality of their products, and 20% operate waste treatment plants. As far as the self-employed are concerned, 10% are ISO certified and 10% have implemented technological innovations.
- Most pro-ecological actions are performed by enterprises employing more than 100. Virtually all of these carry out all pro-ecological actions. In the case of businesses employing up to 49, 21.6% have ISO in place, 18.9% operate waste treatment plants, and 2.7% have been awarded for quality of their products and have introduced technological innovations. As far as companies with staff of 50-99 are concerned, 60% have implemented ISO, 40% have been awarded for quality of their products, and 80% have waste treatment plants running.

- A majority of entities studied operated in mazowieckie and małopolskie regions. They were not best at their pro-ecological actions, however. Businesses from wielkopolskie and łódzkie regions must be treated as the best in this respect.

Thus, large tanneries can be said to initiate the most pro-ecological actions. Details concerning the extent of non-financial information reported are included in Table 4.

Tab. 4: Reporting of non-financial information by tanneries in Poland in 2014

Item	Scope of non-financial information – pro-ecological actions				
	ISO	Institute of Leather Industry certificate	Prizes for product quality	Technological innovations	Waste treatment plants
Total	13	2	5	3	13
By legal status of business:					
• Joint-stock (2)	2 (100%)	1 (50%)	2 (100%)	2 (100%)	2 (100%)
• General partnership (4)	4 (100%)	-	1 (25%)	-	2 (100%)
• Ltd. Company (3)	3 (100%)	-	1 (33.3%)	-	3 (100%)
• Civil partnership (10)	3 (30%)	-	1 (10%)	-	2 (20%)
• Self-employed (25)	1 (10%)	1 (10%)	-	1 (10%)	4 (40%)
By location of business:					
• Łódzkie (2)	1 (50%)	-	-	-	1 (50%)
• Kujawsko-pomorskie (2)	1 (50%)	-	-	-	1 (50%)
• Małopolskie (9)	2 (22.2%)	1 (11.1%)	1 (11.1%)	2 (22.2%)	3 (33.3%)
• Mazowieckie (21)	6 (28.6%)	1 (4.8%)	3 (14.3%)	-	4 (19%)
• Lubuskie (2)	-	-	-	-	-
• Podlaskie (2)	1 (50%)	-	-	-	1 (50%)
• Wielkopolskie (2)	1 (50%)	-	1 (50%)	1 (50%)	2 (100%)
• Śląskie (2)	1 (50%)	-	-	-	1 (50%)
• Pomorskie (2)	-	-	-	-	-
By headcount:					
• Up to 49 (37)	8 (21.6%)	1 (2.7%)	1 (2.7%)	1 (2.7%)	7 (18.9%)
• 50-99 (5)	3 (60%)	-	2 (40%)	-	4 (80%)
• 100-249 (1)	1 (24.9%)	-	1 (100%)	1 (100%)	1 (100%)
• 250-499 (1)	1 (100%)	1 (100%)	1 (100%)	1 (100%)	1 (100%)

Source: The author's own compilation.

Conclusion

The literature review and empirical research have helped to verify the hypothesis H1 – identification of environmental threats is the cause of non-financial reporting.

Unfortunately, the research demonstrates non-financial reporting is not performed by tanneries, which undoubtedly identify environmental and social developments as having substantial impact on their operations. The unique nature of these businesses is closely linked

to environmental hazards and certainly influences their activities to a considerable degree. On the other hand, these are predominantly small businesses that limit their reporting duties with a view to costs. They fail to prepare non-financial reports in spite of the environmental risks they pose. It should be noted these enterprises undertake pro-ecological actions despite the absence of the reporting. This research shows, though, pro-ecological actions are not carried out by all the entities studied, while enterprises focus on positive environment impacts in their information. Information on adverse effects is not provided, hence imposing reporting duties on small businesses (prevailing in the sector) should be considered in spite of the costs. This could be a specific set of information to be presented either separately or as additional information in operation reports or notes to statements. Its scope should comprise environment issues such as water use, management of sewage and solid waste, and air pollution.

It should be concluded non-financial reporting by tanneries is poorly organised or virtually non-existent, although the industry generates substantial environmental and social risks. Introduction of more extensive information duties seems necessary, therefore. Legal regulations of non-financial reporting should possibly apply to enterprises not in respect of their size but sector of activity. The example of Denmark appears relevant in this connection, as compulsory submission of environmental information was introduced there in 1995 in relation to enterprises from selected sectors with significant impact on the natural environment.

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