IMPACT OF NON-FINANCIAL REPORTING ON RETURN ON EQUITY OF INSURANCE COMPANIES IN THE POLISH MARKET

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Abstract

This paper aim to analyze the relationship between social responsibility and financial performance, and assessment the impact of non-financial reporting on return on equity of insurance companies in the Polish insurance market. This aim could be attained by answering the research question: do institutions compiling non-financial reports perform better financially than entities failing to draft such reports? In search for an answer, scientific literature has been reviewed, deductive and inductive reasoning, statistical analysis of interdependences between variables, and the author's own observations have been utilised. The initial part is a review of relevant literature concerning impact of non-financial reporting on financial performance. The second section describes method of research. The third part examines impact of non-financial reporting on profitability of equity by insurance companies in the Polish insurance market. Non-life insurance companies active in Poland in 2011-2016 have been studied. It was found that the insurance companies that report non-financial information to achieve a higher return on equity than the insurance which not reporting non-financial information.

Key words: accounting, finance, reporting non-financial information, Corporate Social Responsibility, insurance companies.

JEL Code: M14, M41.

Introduction

Analysis of measurement of Social Responsibility performance and its relations to financial results seems pertinent in the perspective of financial efficiency, the basis of virtually any firm. Therefore, examining impact of non-financial reporting on financial results must be considered important from the viewpoint of both Corporate Social Responsibility – utility of the CSR concept - and finance management – assessment of effectiveness of socially responsible actions (non-financial reporting, social and ecological activities).

Insurance companies, acting in their fiduciary capacity, desire to be seen as reliable and hence make Corporate Social Responsibility part of their strategies as a tool contributing to improvement of their image. A research hypothesis has been posited in this connection – Social Responsibility achievements affect financial results of insurance companies.

Drafting of non-financial reports is adopted as a measure of Social Responsibility achievements. An insurance company is believed to meet this condition if it compiles a report on its own or if it is drafted by its parent company. Return on equity (ROE) is used as the measure of financial performance.

The aim of this study is to analyse dependences between Social Responsibility achievements and financial results and to evaluate impact of non-financial reporting on ROE of insurance companies in the Polish market.

This aim could be attained by answering the research question: do institutions compiling non-financial reports perform better financially than entities failing to draft such reports?

In search for an answer, scientific literature has been reviewed, deductive and inductive reasoning, statistical analysis of interdependences between variables, and the author’s own observations have been utilised.

1 Non-financial reporting and financial results – review of specialist literature

Causes of non-financial disclosures may be approached from a variety of angles (Lament, 2017, p. 65, Krištofik et al., 2016, p. 158). On the one hand, they are part of information policy of a business that help to build and strengthen relations with stakeholders, manage the reputation risk and enhance competitive edge. They affect financial results, on the other hand, although this is hard to demonstrate and research points to various dependences (neutral, negative, positive) (Sikacz, 2016, p. 241-252). In general, however, a firm opting to draft a non-financial report (it had not been obligatory till 1 January 2017) and incurring the associated costs does it for the sake of benefits. These can be diverse, including financial, that is, influencing financial performance and economic position of a business. Assuming non-financial reporting affects transparency of financial disclosures, risk and reputation of an entity, it also affects investment decisions, capital costs, and financial results. The fact non-financial reporting is largely facultative, nonetheless selected, supports impact of non-financial reporting on financial performance. This is the reason why entities undertaking to report follow prevailing trends, on the one hand, and wish to improve or strengthen their image and thus influence their financial results and goodwill. Firms that have implemented

CSR generally show better financial results than other entities (Malik, 2015, p. 421, Wolak-Tuzimek, 2014, p. 438).). The market perceives them as less risky (Casey and Garnier, 2014, p. 97-130, Harjoto and Jo, 2015, p. 1-20), which influences analysts' forecasts of their future financial performance, variability of returns, capital costs, and goodwill.

Researching interdependences between Social Responsibility achievements and financial results of enterprises is a complicated issue as far as measurement of both socially responsible achievements and a number of factors affecting financial performance are concerned (Margolis and Walsh, 2003, p. 268-305, Ballestero et al, 2015, p. 60-65).

Peloza (2009, p. 1518-1541) states effectiveness of socially responsible programmes can be measured with the following metrics:

- mediating, including input/ output, stakeholder groups, innovation, reputation,
- end state, including: market, accounting, and perceptual metrics,
- intermediate, including cost-based, revenue-based, and integrative metrics.

Measurements of socially responsible performance using accounting metrics, i.e. ROA, ROE, ROS, volume of assets, have been studied by Stanwick and Stanwick (1998), Donker et al (2007), Bek-Gaik and Rymkiewicz (2015), inter alia. The dependence between Social Responsibility and financial performance is normally tested by statistical means involving analysis of variable correlation.

2 Methods

Existence of dependences between Social Responsibility performance and financial results has been adopted as the research problem.

Compilation of non-financial reports is regarded as the measure of Social Responsibility achievements. A business is assumed to meet this condition if it reports on its own or if reporting is prepared by its parent entity. This has been established on the basis of non-financial reporting database GRI (*Global Reporting Intiative).* The parent companies are found in financial statements of the insurers studied.

Social Responsibility performance is the independent variable. Financial performance, expressed in numbers, variable and continuous, is the dependent variable. It is represented with return on equity (ROE). Position measures - average, median, maximum value, minimum value – served as statistical parameters. Financial data come from financial statements of the insurers studied collected in the PIU (*Polish Chamber of Insurance*) database.

The test sample was selected systemically and included insurance companies active in section II (property and casualty insurance) of the Polish market in 2011-2016. They are characterised in Table 1.

Tab. 1: Characteristics of the insurance companies studied

Number of insurance companies	Years					
	2011	2012	2013	2014	2015	2016
Total (section II)	30	32	30	31	33	34
Drafting non-financial reports	7	9	10	13	15	16
Not drafting non-financial reports	23	23	20	18	18	18

Source: The author own research on the basis of: PIU, GRI.

The group of insurers compiling non-financial reports and those not drafting such reports were studied. To begin with, values of ROE were established for insurance companies active in 2011-2016. Statistical parameters, position measures, were then used to determine average ROEs in the particular years for the group of insurance companies preparing non-financial reports, the insurers not preparing such reports, and the insurance companies overall. The results are presented in Table 2.

Tab. 2: Statistical measures characterising the group studied (%)

Specification	Years					
	2011	2012	2013	2014	2015	2016
Average ROE:						
All insurance companies (section II)	9,30	8,92	7,89	6,57	-0,79	-2,71
Insurance companies drafting non-financial reports	8,47	11,84	18,35	15,08	4,86	0,63
Insurance companies not drafting non-financial reports	9,55	7,78	2,66	0,43	-4,99	-5,28
Maximum ROE:						
All insurance companies (section II)	24,4	30,9	52,5	60,9	30,9	34,7
Insurance companies drafting non-financial reports	22,0	20,0	52,5	60,9	30,9	34,7
Insurance companies not drafting non-financial reports	24,4	30,9	29,4	18,5	16,8	9,6
Minimum ROE:						
All insurance companies (section II)	0,0	0,0	-73,5	-21,4	-59,7	-73,3

Insurance companies drafting non-financial reports	0,0	0,0	-6,9	-20,6	-21,5	-59,5
Insurance companies not drafting non-financial reports	0,0	0,0	-73,5	-21,4	-59,7	-73,3
Median ROE:						
All insurance companies (section II)	8,65	6,95	7,45	6,0	1,65	2,60
Insurance companies drafting non-financial reports	10,5	13,6	12,5	13,1	4,4	5,3
Insurance companies not drafting non-financial reports	8,5	2,5	2,85	3,5	0,2	1,4

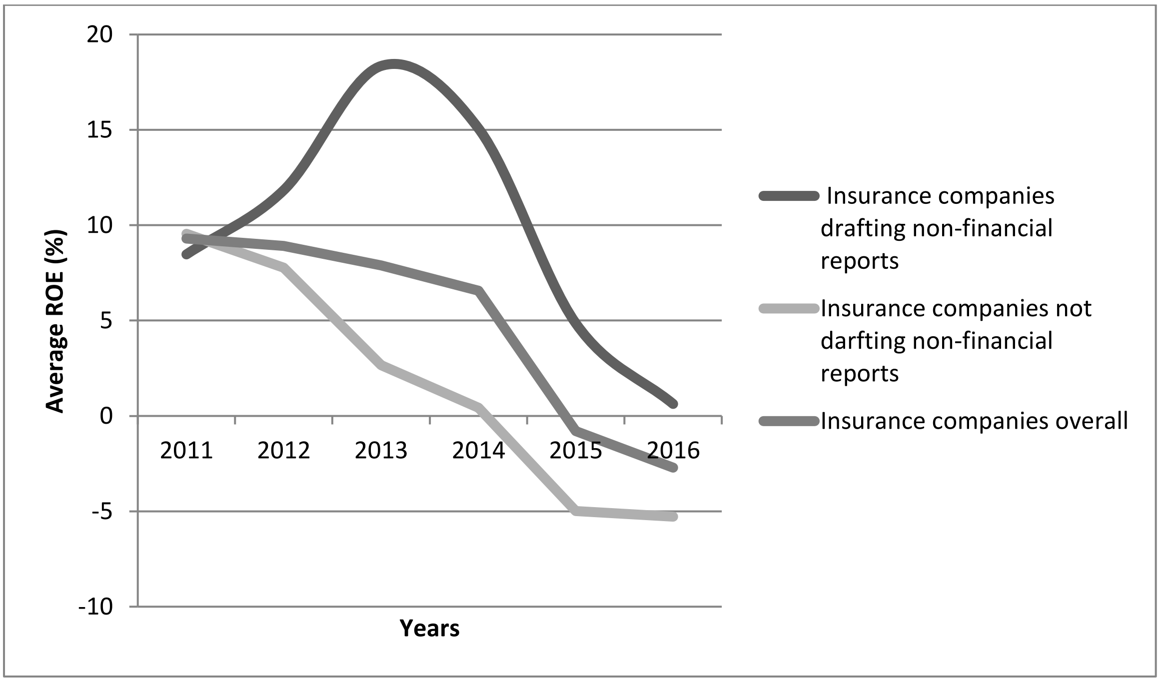
Source: The author own research on the basis of: PIU, GRI.

3 Result

The research implies:

1. Average ROE of insurance companies preparing non-financial reports in 2012-2016 was higher than average ROE of insurance companies not preparing non-financial reports and of all insurers (section II). Only in 2011 was the average ROE of insurance companies not preparing non-financial reports higher (Fig. 1).

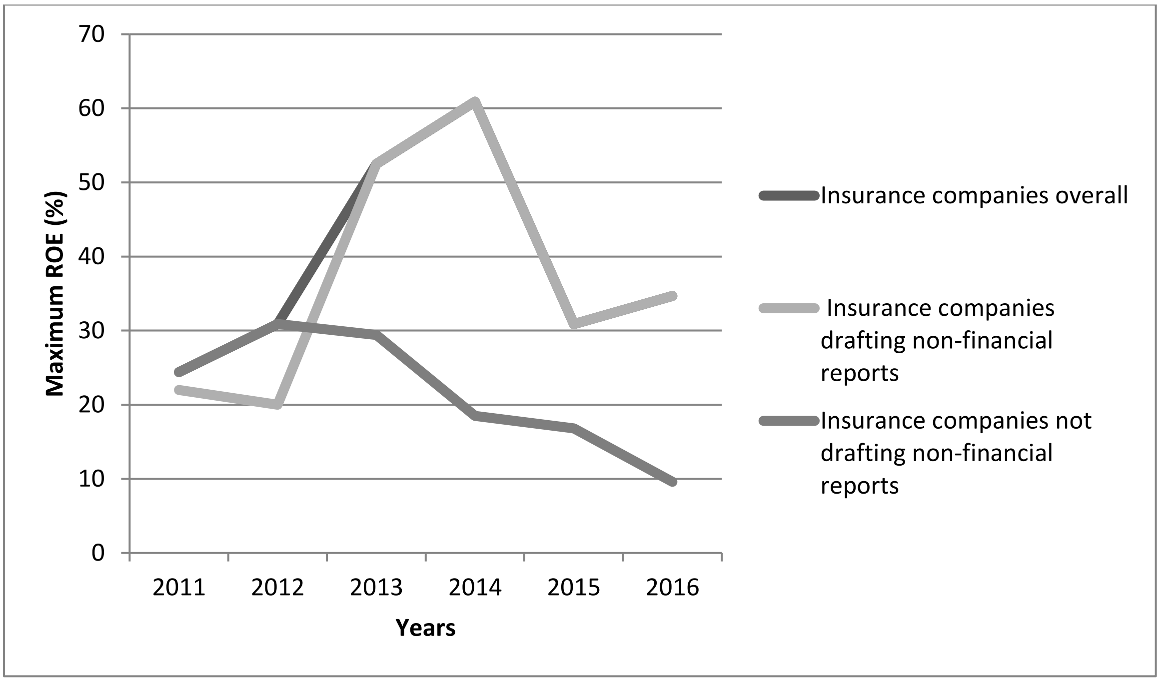
Fig. 1: Average ROE of the insurance company groups studied



Source: The author own research on the basis of: PIU, GRI.

2. ROE was maximum among the insurance companies failing to prepare non-financial reports in 2011-2012 and in the group of insurers reporting non-financials in 2013-2016 (Fig. 2).

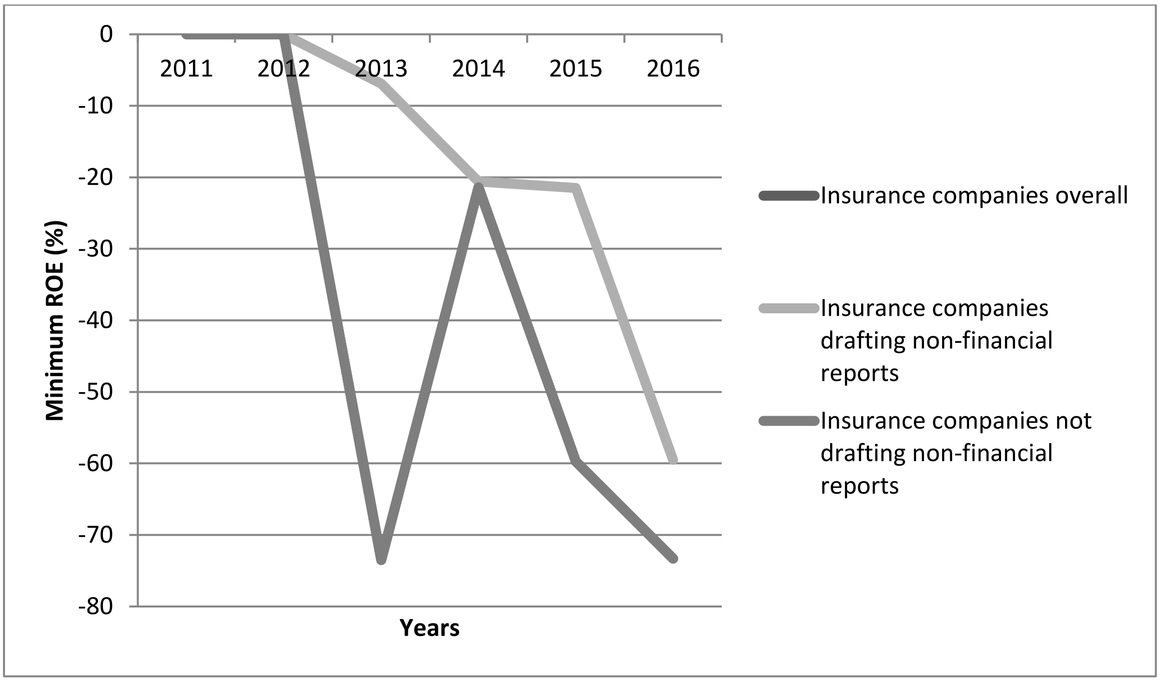
Fig. 2: Maximum ROE of the insurance company groups studied



Source: The author own research on the basis of: PIU, GRI.

3. ROE was minimum for the insurance companies failing to prepare non-financial reports in the entire period studied. It should be noted, however, the minimum ROE of 0.0% was generated by the insurers preparing non-financial reports as well in 2011-2012 (Fig. 3).

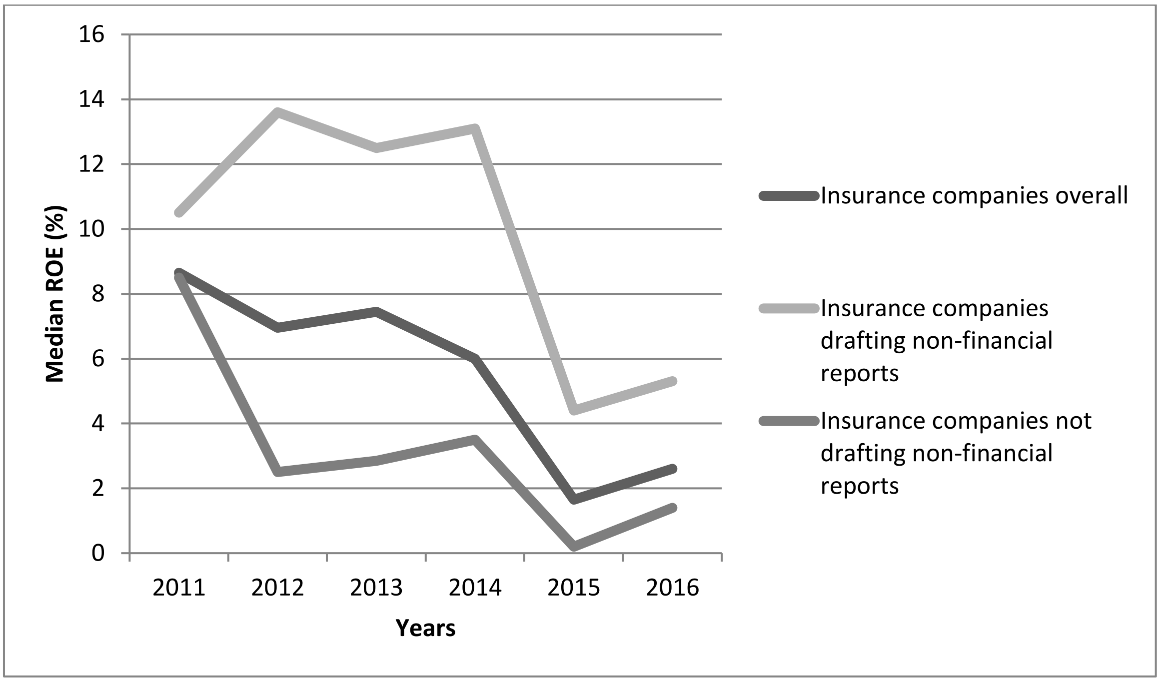
Fig. 3: Minimum ROE of the insurance company groups studied



Source: The author own research on the basis of: PIU, GRI.

4. Median ROE during the whole time examined was higher for the companies reporting their non-financial information than for those failing to compile such reports and for the insurance companies overall (Fig. 4).

Fig. 4: . Median ROE of the insurance company groups studied



Source: The author own research on the basis of: PIU, GRI.

This research demonstrates the values of ROE are better for the insurance companies that draft their non-financial reports.

Conclusion

The author's review of literature and studies have helped to answer the research question and to verify the hypothesis posited: Social Responsibility performance affects financial results of insurance companies.

Specialist literature contains studies that affirm both positive, neutral and negative relations between Social Responsibility performance, measured with non-financial reporting, and financial performance, measured with a variety of accounting metrics. In general, views pointing to positive impacts of CSR on financial standing of businesses prevail (e.g. Malik (2015), Bek-Gaik and Rymkiewicz (2015), Ballestero (2015).

Firms that have implemented CSR tend to outperform financially other entities. Return on equity (ROE) was higher in the group of insurance companies drafting non-financial reports than among those that fail to compile such reports. This is corroborated by statistical parameters – position metrics of ROE for individual years. The position measures considered, i.e. average, median, maximum value, minimum value, were better for the group of insurers preparing their non-financial reports.

It must be concluded the insurance companies which draft non-financial reports perform better financially, as measured with their return on equity, which means the research hypothesis presented has been upheld.

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