

Ex-ante Study about Disclosure of Non-financial Information by Romanian Companies from Agriculture and Manufacture of Food Products

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Abstract

In Romania, starting with the financial statements of the year 2017, companies with more than 500 employees are required to report the non-financial information in line with the requirements of the 2014/95/EU Directive transposed into Romanian legislation. The purpose of this paper is to evaluate the degree of disclosure of this information by the Romanian companies in the field of agriculture and manufacture of food products before applying these regulations. The analysis reveals that the level of information disclosure is low, influenced by a number of factors: the type of ownership, the membership of a group and the trading of shares on the capital market. The evaluation of reporting practices is useful to track how companies in the future will apply to non-financial reporting requirements.

Keywords: non-financial reporting; disclosure; sustainability; Directive 2014/95/EU.

Introduction

The introduction of mandatory non-financial statement by companies with more than 500 employees according to the requirements of the Directive 2014/95/EU affects companies from all fields.

In this paper we analyze the Romanian companies implied in Agriculture and Manufacturing of food products, because these are areas that have an important impact on all the stakeholders of these companies through the products they provide, but especially by the way they choose to respect the environment and through the need to adopt sustainable practices to provide people with food. The non-financial information that companies will publish is based on corporate social responsibility (CSR), respective environmental, social and governance disclosure.

The purpose of the present paper is to show whether the analyzed companies were prepared to carry out these reports before they were required to report, or voluntarily provided information on social responsibility.

The paper contribution rely on examining the stage in which non-financial reporting companies are a source for future research; for managers the study sustain the internal analysis and the establishing of future CSR practices.

The article is structured as follows: Literature review, Research methodology, Result and discussion, Conclusions.

Literature Review

Companies in agriculture and food industry need to be careful regarding CSR policies, not only because of the impact of these policies on the products they sell, but also as a response to the possible food crises that can occur and can influence sales (Assiouras et al., 2013). On the other hand, Chen and Yang (2017) notes that the CSR effects in these industries lead to a reduction in profit, which is also affected by the regulation of prices and product quality.

Hartmann (2011) believes that small and medium enterprises (SMEs) in the European food sector must engage in a more active

strategy on CSR face to large companies that have already applied, thus defending the need for SMEs to publish sustainability reports.

In their study, Nagyvoova et al. (2016) interviewed representatives of 100 SMEs and large companies from the Slovakian food industry in 2015 and found that CSR's predominant activities were reducing pollution and using environmentally friendly raw materials. Blažková and Dvouletý (2017) analyzed the determinants of the profitability of Czech food industry companies in the context of market concentration and found that an increase of market concentration leads to increased sector profitability.

Deák and Karali (2014) have analyzed the impact of environmental news on the stock price of food industry companies and the results obtained showed that internal factors have a greater impact than the company's external factors on the stock price.

Kassem et al. (2017) proposed a “set of key performance indicators on the four dimensions (economy, environment, social and governance)” to assess the sustainability of agricultural companies and have developed a website where sustainability reports can be uploaded.

Hoepner and Yu (2010) found that the link between CSR and financial performance differs from one business sector to another, so the results of the studies can't be generalized.

Another topic that has been studied by researchers was the reason why food industry companies are involved in CSR activities. Garst et al. (2017) has identified instrumental and rational motives and their correlation with innovative practices and Zhang et al. (2018) found that reasons are given by internal factors: ensuring safety, improve food quality, maintaining the integrity of business and external factors: consumer demand, regulatory pressures, ensuring the supply chain.

Considering that Central and Eastern European countries are facing common problems in the field of sustainable development of agriculture, comparative studies have been carried out to highlight the strengths and weaknesses of each country (Moudrý et al., 2018).

All study topics on this subject addressed by the researchers are communicated to the stakeholders through the reports they publish, which contain financial and non-financial information. Thus, Dumitru et al. (2017) conducted a comparative study on the reporting stage of companies in Romania and Poland before applying Directive no. 2014/95/EU and found that the strengths of Romanian companies

consists by the fact there are faced prior regulation, while the Polish companies had a higher voluntary reporting.

Concerning the reporting of non-financial information, Ogorean (2017) considers that the introduction of the mandatory disclosure could also leads the other Romanian companies to a voluntary reporting, in order to be more competitive.

Research Methodology

In order to demonstrate the objective of the paper, we conducted a qualitative analysis of financial and non-financial information, to identify the stage of non-financial reporting of companies.

In Romania, agriculture is less developed because it is working on small area of land; the labor force is aging and has a low productivity (Aceleanu, 2016). This is one of the reasons why there are not many large companies in this field.

The analyzed sample contains 36 companies that exceeded the minimum number of employees at the end of 2016. Data was collected from the companies' website and official data published by the Romanian Ministry of Public Finance. The companies are divided into two sectors: Agriculture and Production of food products sectors, which are divided into two subsectors: plants (vegetal) and animal, being located on the Romanian territory in all the eight development regions.

The considered financial indicators were grouped into two categories: Accounting indicators - number of employees, turnover, profit or loss and Key performance indicators (KPI) – profit margin and employee's turnover ratio.

In agriculture we must take into account the particularities of the sector in choice to use some performance and efficiency indicators (Pantea and Cuc, 2009). Performance is not synonymous with efficiency, because it includes a wider sphere, depending on the objectives pursued by the company and the ability to reach them (Imbrescu and Hategan, 2011). Also, another aspect to be taken into account is the valuation of biological assets (Mates et al., 2015).

The non-financial indicators are mentioned in the EU Directive and implemented in the national legislation and were structured into four categories: general information, environment, social and other information.

The studied period was 2015-2016, because it is the reference period for establishing the non-financial reporting obligation of year 2017.

Results and discussion

For the beginning, the companies included in our sample were classified by sectors to see which ones are predominant.

Table no. 1. Classification of companies by sector

Sector	Total	From which	
		Plant/ vegetal subsector	Animal subsector
Agriculture	7	3	4
Manufacture of food products	29	12	17
Total	36	15	21

Source: authors own projection

From table no. 1 results that most companies activated in the manufacture of food product sector (80%), with preponderance in the animal subsector (59%).

Another factor needed to be analyzed is the distribution of companies on the development regions of Romania.

In table no. 2 we can see that the studied companies operate in all regions of the country, contributing to the economic indicators of each region (Hategan et al., 2017). Most companies are located in the SM region (25%) due to the plain area relief and the economic specificity of the region, with tradition in agriculture, followed by the BI region (19%) due to the fact that it is the capital of Romania, where the most companies in the field of food production have registered there headquarters and could easily ensure the product distribution throughout the country. Also foreign-owned companies are predominant in these two regions, where the investors are making profitable investments. The number of companies in a region is also correlated with the number of employees in agriculture, and the existence of labor force dependence in this sector has been the subject of studies on the disparities of unemployment in Romania (Cismas et al., 2011).

Table no. 2.Regional distribution of companies

Regions	No. of companies	From which				
		Listed	State owned	Foreign capital	Multi-nationals	Registered loss
Bucharest -Ilfov (BI)	7			6	3	1
Center (C)	6					
North – East (NE)	3				1	
North –West (NW)	2					1
South – East (SE)	5	1	1			1
South – Muntenia (SM)	9			4		
South-West (SW)	2					
West (W)	2			2		1
Total	36	1	1	12	4	4

Source: authors own projection

Agricultural companies were not attractive in Romania in order to be listed on the stock exchange, so there is only one company listed on the secondary market from the SE region, having as activity the poultry rising. Also, the state is not the majority owner in the agricultural companies. In our sample there was only one public company from the SE region, having as activity: growing of other non-perennial crops.

Four of the analyzed manufacture of food product sector companies registered losses in the past two years.

The analyzed financial indicators were divided into two categories: indicators from company accounting and financial ratios calculated on the basis of accounting data.

The analysis of the data presented in Table no. 3 shows that the number of employees is on average 906, from a minimum of 506 employees of a company in the Central region having as activity the manufacture of ice cream, to a maximum of 2825 employees of a companies in the NW region having as activity, meat production.

Table no. 3. Financial indicators in period 2015-2016

Indicators	Mean	St dev	Min	Max
<i>Accounting indicators</i>				
Number of employees	906	497	506	2825
Turnover (sales)	349076329	217406505	25720377	960125675
Profit or loss	8474945	52944296	-387370918	89344806
<i>Key Performance Indicators</i>				
Profit margin (Profit/ Turnover) for all companies	3.01%	16.93%	-125.91%	25.30%
Profit margin (Profit/ Turnover) for companies with profit	6.01%	5.68%	0.08%	25.30%
Employees turnover ratio (Turnover/No employees)	420518	293983	37221	1541132

Source: authors own projection

The turnover is in the range of RON 25.720.377 obtained by the only state-owned company included in the sample from the SE region, to a maximum of RON 960.125.675 obtained by a company having as activity the growing of cereals (except rice), leguminous crops and oil seeds from the SM region.

Out of the 36 companies analyzed, four achieved loss, the biggest loss was registered by a company in the NW region with activities in manufacture of other food products, and the highest profit of RON 89,344,806 obtained by a company from *West region* with activity: Raising of swine/pigs.

If we analyze the performance indicators, the situation changes from the absolute sums of the financial result, so the biggest profit margin ratio of 25.30% was achieved by a company which manufactures ice cream, from the SW region (the same company that has the smallest number of employees), so this area is the most profitable for the sample and the analyzed period. For profit-earning companies, the lowest profitability rate was 0.08% achieved by a company from SM region, having as activity bread, fresh pastry goods and cakes manufacture.

Employees turnover ratio was at the minimum level of RON 37.221/employee in a state-owned company, which shows a reduced state administration performance, and the highest rate of RON

1.541.132/employee was held by a company with the highest turnover in the SM region.

Analyzing the evolution of the financial indicators in period 2015-2016, we found that half of the companies improved marginal profit in 2016 compared to 2015, which shows that there are good business conditions in the two analyzed sectors.

Table no. 4. Non-financial indicators

Non-financial indicators	Yes	No	Yes, at parent companies
General information			
Website of companies	31	1	4
Information about Quality standard	22	10	4
Business model	9	23	4
Environment			
Impact on the environment	19	13	4
Use of renewable energy	3	29	4
Greenhouse gas emissions	4	28	4
Air pollution	7	26	3
Water use	5	28	3
Social			
Gender equality	8	26	2
Working conditions	29	4	3
Social dialogue	19	14	3
Health and safety at work	16	17	3
Implication in local communities	17	16	3
Other information			
Human rights	2	33	1
<i>Discrimination</i> in the workplace	3	32	1
Diversity information	7	28	1

Source: authors own projection

Non-financial CSR indicators were designed to complete the company's image with the financial indicators presented (table no. 4), information being taken from the companies' websites, writing "Yes" if they were presented, "No" if we did not find or could have linked them

to other sources, such as financial newspapers, and “Yes, at parent companies”, if this information is found only on the website of parents companies. Thus, it is noticed that only one analyzed company did not identify its own website, and four companies publish CSR information on the website of the groups they belong to.

One of the most important information on product quality is the quality standards leading to increased stakeholder confidence in the company, so over two-thirds of the companies have chosen to inform users about the quality standards they have implemented.

Description of the business model of a company is an indicator that contributes to the understanding of its activity, so only one third of the companies have posted such detailed information.

Regarding environmental indicators, two-thirds of the companies are interested in the impact of their activity on nature and communicate their concerns about reducing environmentally damaging activities. Their number drops below a third in terms of information on renewable energy, gas emissions, air pollution and water use.

In terms of social indicators, most companies are aware of the importance of working conditions for employees. Also two-thirds of the companies state that social dialogue and workplace security are their priority objectives.

More than half of the companies surveyed said they were involved in community activities in the form of direct sponsorship or funding of strategic programs in the fields of health, education, sport and environmental protection.

The publication of other information such as human rights, discrimination at workplace and diversity information was not in the companies’ attention, having just isolated information on the companies’ websites.

From the 36 analyzed companies, two were selected for a study conducted in 2017 by The Azores Company, specialized in CSR services: Smithfield Farms and Transavia. The results of the study showed that these companies were prepared in terms of CSR reporting.

Smithfield Farms is a company with foreign capital from the West region of Romania, with a high level of profit and a profit rate higher than the average of the sector (12.2% in 2016). Transavia is a company from the Center Region, with Romanian capital and a profit rate of 12% in the last two years.

The non-financial information provided by the companies does not contain values (amounts) spent or invested in CSR actions, that's why we could not analyze their share in the turnover, which is considered an important indicator in evaluating CSR activities (Hategan and Curea-Pitorac, 2017).

In the analyzed companies, CSR activities are closely related to financial indicators, as companies that are aware of the importance of CSR are those that had indicators above the industry average. But this situation is not a rule, and companies that have losses, regardless of their activity were involved in CSR activities (Hategan et al., 2018).

Conclusions

Non-financial reporting is an important factor for the companies that have realized that sustainable long-term value can be created only if they are involved in CSR activities.

Our study shows that most of the companies in the sample are those from the manufactured food products sector and almost half of the companies are located in two regions: South-Muntenia (SM) and Bucharest-Ilfov (BI). 90% of the surveyed companies obtained profit, the highest profit rate being obtained by an ice cream manufacturing company, in the Romanian SW region.

Regarding the non-financial indicators it is noted that a small number of companies are aware of the importance of CSR strategies, the published information does not show that they had the objective of voluntarily presenting the sustainability information, but will have to comply with the legal requirements. The highest level of voluntary CSR reporting was given to companies from manufacturing food products (animal subsector) with a good financial situation.

The results of the study are in line with other research in food industry (Blažková and Dvouletý, 2017). We believe that the paper contributes to the understanding of how important disclosure of non-financial information is, when examining the status of the non-financial reporting companies. Managers can use the information to identify their company's situation by performing internal analyzes and establishing future practices on social responsibility.

The paper has limitations due to a small sample of companies and the fact that no information was voluntarily published by the companies analyzed. Therefore, in a future research we propose an ex-post study on the degree of compliance of the companies after the

publication of the 2017 reports, expanding the number of companies sampled to the manufacture of beverages and tobacco, wholesale and retail sale of food, beverages and tobacco sector, and to generalize the results. Also, it is opportune to make a comparison with similar companies from other countries.

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