

The Paradigm of Public Non-financial Reporting as a Tool for Investment Decision Making



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Abstract The paper focuses on the development of public non-financial reporting as a source of information for potential stakeholders. The paper analyzes the international and Russian legislative space for the formation and presentation of public non-financial reporting as a tool for investment decision-making to improve business efficiency. Special attention is paid to ESG (environmental, social, and corporate governance) criteria that integrate environmental, social, and management indicators used by investors in measuring the sustainability of investments. The paper highlights the benefits of ESG criteria. These criteria outline the definition of a core set of reporting indicators, and formats and methods of disclosure (the same for all companies). They allow using an additional indicator set (in the variable part of the report) depending on the industry, scale of operation, accounting system, etc. During our research, we have identified the following contemporary groups of problems in Russian non-financial reporting: the lack of a legal framework, the lack of a unified methodology and methods of formation, the lack of an information platform consolidating public non-financial reports of companies of various industry affiliations. We established a roadmap for dealing with these problems. Solving these problems will allow regulating, standardizing, and verifying public non-financial reporting. The development of public non-financial reporting will significantly improve the accounting and analytical support for innovative and sustainable development of complex socio-economic systems.

Keywords Public non-financial reporting · Problems · Bill · Large business · Solutions · Investment attractiveness · ESG factors

1 Introduction

Currently, sustainable business development is an important topic for various groups of stakeholders. For example, the UN created the Global Investors for Sustainable

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Development Alliance, which includes 30 major corporations from more than 20 countries, including Bank of America, Citigroup, ICBC, Infosys, Investec, Santander, and UBS. UN Secretary-General António Guterres said, “It is both good ethics and good business to invest in sustainable, equitable development” [14]. Public non-financial reporting [PNR] acts as a tool reflecting corporate responsibility of business, which is an important criterion for information and business transparency.

Investors are paying more and more attention to non-financial reporting and ESG factors. The International Organization of Securities Commissions [IOSCO] recently issued a public statement highlighting the importance of including information on ESG factors in the data provided to investors for making business decisions.

According to the World Federation of Exchanges, 35 exchanges already have guidelines for ESG reporting [15].

According to the global study conducted by the PricewaterhouseCoopers [PWC], management of about 60% of surveyed companies notes that disclosure of information on ESG indicators contributes to the growth of the investment attractiveness of companies [10]. Disclosure of information on sustainable development helps demonstrate transparency and efficiency of management processes, which creates favorable conditions for attracting long-term resources.

The ESG profile should be evaluated based on reliable information that presupposes the judicious selection of information sources and its interpretation. A well-developed and balanced system of non-financial information disclosure will help solve the problem of competent assessment of Russian companies in the field of sustainable development.

At the same time, the transition to the digital economy determines new conditions for the functioning of companies, including the rapid development of technologies, the emergence of new markets, business models, and interaction models, etc. Such digital tools as prognostic analysis, digital monitoring panels, artificial intelligence, and high-tech algorithms provide insight into how businesses can increase their profits. For example, digital monitoring panels can function as strategic hubs providing real-time data for managing business operations. While the automation of financial functions is mainly related to the optimization of processes, their experiments with data visualization aim to improve the organization [4].

In addition to the undeniable advantages of the digital economy (increased efficiency and productivity), the impact of risks (social, environmental, economic, political, etc.) also increases.

To increase investment attractiveness, large businesses should focus on disclosing not only financial indicators of their activities but also on providing non-financial data to stakeholders in various aspects of their activities (environmental, social, risk, strategic, management reports, etc.). Public non-financial reporting within business entities serves as a tool for solving a wide range of tasks:

- The improvement of the mechanism for identifying and reducing internal and external risks;
- The development and improvement of the management system efficiency;
- The development of corporate governance and business ethics practices;

- The development of meaningful cooperation with interested stakeholders;
- Strengthening of business reputation;
- Increasing the investment attractiveness of the business.

As such, large businesses in Russia should be interested in disclosing financial and non-financial statements.

2 Materials and Methods

The research was conducted using a dialectical method of cognition, allowing for real-time analysis of interrelated socio-economic processes. In this research, we applied general scientific methods and instrumental technologies of scientific knowledge. The list of methods and technologies includes logical and comparative analysis, graphical analysis, as well as retrospective and systematic approaches.

The paper aims to analyze the contemporary Russian practice of forming public non-financial reporting, identify problems, and ways to solve them. The paper aims to analyze development prospects (factoring in international practices), which will meet the growing demands of stakeholders in non-financial data.

The development of non-financial reporting in Russia begins in 2000. The practice of analytical reviewing was initiated by the Russian Union of Industrialists and Entrepreneurs [RSPP] combined with the establishment of the National Register and Library of corporate non-financial reports in order to monitor, analyze and summarize the practice of developing the reporting process in comparison with world practice (among other things) [5]. Since 2000, the RSPP has prepared six reviews, which, in various years, have collected facts, trends, key drivers, and key events related to the development of non-financial reporting in Russia and worldwide.

During the analyzed period, presented in analytical reviews, we can observe the following dynamics of growth in the number of public non-financial reports (Fig. 1).

In general, there is a growth trend in public non-financial reports disclosing the activities of companies in various aspects. We observe some stabilization and a slight increase in the number of public non-financial reports starting from 2011.

The distribution of the number of public non-financial reports is shown in Fig. 2.

As of January 13, 2020, 180 companies were registered in the National Register and Library of corporate non-financial reports, with 995 registered reports issued since 2000. These include: 86 environmental reports (EO), 337 social reports (SO), 347 sustainable development reports (OUR), 176 integrated reports (INTR), and 27 industry reports (INDR) [9].

It must be acknowledged that the number of companies and their submitted reports relative to the country's economy is insignificant. But at the same time, the high demand of investors for non-financial reporting data facilitates the development of non-financial reporting in Russia (including the ESG-criteria format), which becomes extremely relevant for the Russian economy.

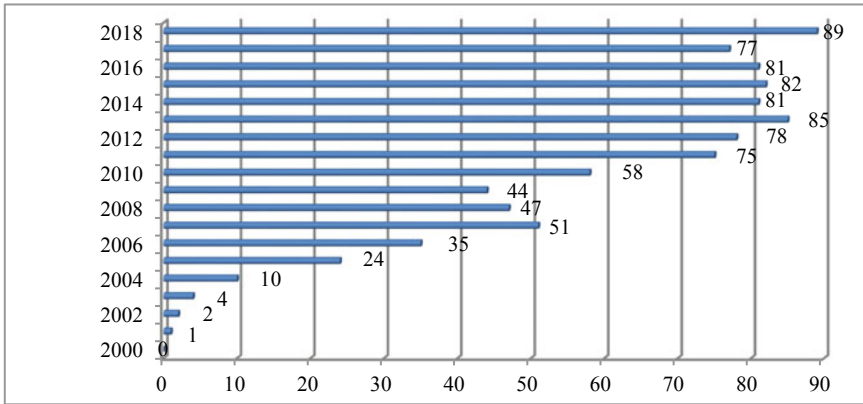
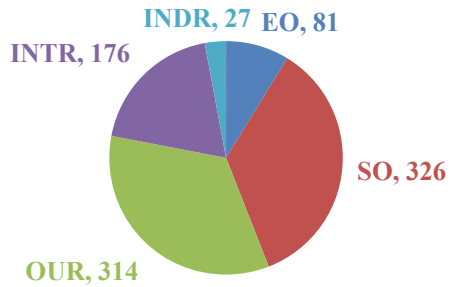


Fig. 1 The number of public non-financial reports registered in the National Register in Russia, by year of issue *Source* [5]

Fig. 2 The distribution of public non-financial reports, 2020 *Source* [9]



3 Results

The subject of sustainable development in Russia continues to be relevant since 2000. Nevertheless, it saw rapid development recently. However, international investors are forced to close positions within the top Russian companies due to their inability to meet the ESG criteria or confirm this with reliable data. Disclosure of these criteria can no longer be ignored by any of the Russian companies planning to attract investment, not only those involved in energy-intensive or extractive industries. The level of disclosure of non-financial information by companies is on the rise, but it still lacks a balance between social and environmental components and corporate governance.

At the same time, investors are demanding more and more comparable non-financial information from public companies.

The lack of unified, standardized criteria for non-financial reporting and the disparity of information sources leads to insufficient quality of analytics in the field of sustainable development, which is why investors receive distorted or incomplete information on the ESG profile of a company. The lack of uniform standards also makes it difficult to prepare consolidated non-financial statements for company

groups and reduces their quality. It is necessary to define a basic set of indicators for non-financial reporting as well as the format and methodology for their disclosure common for all companies within the consolidation perimeter. ESG criteria in Russia are essential to the companies with a pool of foreign investors that are focused on meeting the criteria for sustainable development or large consumers, primarily within the extractive sectors.

The upcoming law on non-financial reporting [8] will have a greater impact on the activities of small and medium-sized companies. The formation and disclosure of non-financial statements following established standards will help these companies obtain formal recognition in the field of sustainable development necessary to increase capitalization (participation in indexes, rankings, and expert ratings). In any case, the presence of public markets will create additional obligations relating to ESG and disclosure of relevant data. However, this fact also gives serious impetus to the development of the company.

ESG is the environmental, social, and management indicators used by investors to measure the sustainability of their investments.

Environmental indicators include information related to global warming, energy consumption, and environmental pollution.

Social indicators reveal the company's attitude to its employees, health and safety conditions, and so on.

Management indicators consider business ethics, management structure, executive compensation policy, accounting, anti-corruption management, and so on.

ESG indicators can be used in many forms of responsible investment.

Currently, the ESG reporting system is formed based on Sustainable Development Goals [UN], Sustainability Accounting Standards Board [SASB], Carbon Disclosure Project [CDP], United Nations Global Compact, RSPP Basic Performance Indicators, International Integrated Reporting Framework [IIRC], GRI Standards.

The GRI sustainable development reporting standards are the de facto most common standard for non-financial reporting (about 2/3 of reports in Russia and worldwide are conducted using the GRI Guidelines) [6].

Since 2018, the European Union has introduced mandatory non-financial reporting for companies (reaching 500 employees or more and meeting certain criteria).

Similar legal initiatives are being implemented in several countries, including Brazil, China, India, and South Africa.

In Russia, the formation of non-financial reporting of the organization is guided by:

- Corporate Governance Code [2],
- Concept of public non-financial reporting development in the Russian Federation (approved by order of the Government of the Russian Federation of 05.05.2017 N 876-p) [7].

This Concept describes the gradual transition of various Russian companies to the disclosure of non-financial data on the activities of an economic entity, which is presented in Table 1.

Table 1 Organizations disclosing non-financial performance reports per the Concept of non-financial reporting development

Stages	Period	Organizations subject to the requirement of non-financial statement publishing
I stage	2017–2018	Consolidation of organizations catalog
II stage	2019–2020	- state corporations - business entities with at least 50% of shares in state ownership, as well as state unitary enterprises (SUE) with revenue of more than 10 billion rubles and (or) with an average number of employees of more than 4,000 people per in the accounting period - business entities with 50% or more shares in state ownership, whose securities participate in on-exchange trading
III stage	2021–2022	- aforementioned, along with - SUE with revenue of more than 5 billion rubles and (or) with an average number of employees of more than 2000 people in the accounting period
IV stage	from 2023	- aforementioned, along with - Five hundred largest organizations with revenue volume meeting the criteria of the leading Russian ratings

Source [7]

Based on this step-by-step plan for the transition to non-financial disclosure, we outline the catalog of company groups required to publish their non-financial statements. Comprehensive disclosure of financial and non-financial statements on all aspects of its activities significantly increases the investment attractiveness, both within the domestic Russian and foreign international markets.

The Corporate Governance Code and the Concept of public non-financial reporting development in the Russian Federation cite the GRI Guidelines as one of the recommended reporting standards. In addition, the Ministry of Economic Development of the Russian Federation has prepared a draft federal law “On public non-financial reporting.”

Having reviewed international and Russian legislation, as well as the practice of forming and presenting public non-financial reports, we can note the weak regulation, and lack of standardization and verification.

Despite the development of public non-financial reporting in Russia and the availability of partial regulatory support analyzed earlier [1], there are several problems, a significant part of which is related to the lack of a regulatory framework, namely the absence of the federal law “On public non-financial reporting” [8] restricting the development and adoption of some necessary documents.

The adoption of this law and the development of its rules, regulations, and catalogs will allow us to initiate the solution of today’s problems within PNR, namely:

1. The lack of a unified methodology for PNR generation. Even though the draft law and the Concept of public non-financial reporting development assume a variety of types of public non-financial reporting (report on activities in the field of sustainable development, corporate social responsibility report, annual report (as a mandatory reporting form), integrated report), there are currently

no regulations governing the specific content and methodology for the indicator calculation. This, in turn, makes it impossible to compare PNR data even within the same organization in real-time if the set or methodology for calculating previously used indicators changes. It seems necessary not only to approve the set and methods of calculating indicators mandatory for each of the types of PNR (provided by the legislator) but also to approve several presentation forms (in the form of fixed tables containing a certain set of quantitative indicators), which would make it possible to compare the PNR of various organizations, although this comparison is essentially impossible at the moment. If the mandatory indicators of reporting forms are adopted and approved, the methodology should indicate the possibility of using additional variable indicators, illustrative material in the form of tables, graphs, and photographs to maximize the performance of PNR.

2. The lack of regulations and automated reporting forms. Even though PNR usually contains some illustrative material, the adoption of recommended reporting forms is essential. This is caused by the fact that it is necessary to interact and consider both the interests of stakeholders and the ability of organizations to generate reports in the process of PNR indicators development. Establishing the recommended reporting forms, which can be partially filled in using previously generated indicators within the organization's management, tax, and financial accounting, will allow organizations to minimize PNR generation costs. This is linked to the proposed possibility of embedding automatic generation of PNR modules in existing software products (used in accounting) or in the development of independent software products forming public non-financial reporting integrated with the information platform used by the company in order to operate and generate financial, tax and other types of reporting.
3. The lack of specific organization catalog verifying the PNR. Despite the fact that the Concept of public non-financial reporting development provides for both external (public and professional) and internal forms of PNR assurance, a legally approved catalog of public organizations and specialized associations (unions) confirming the PNR following existing standards is essential in order to increase the level of confidence in public non-financial reporting.
4. The lack of liability for non-submission of PNR. Although annual reports are mandatory for many organizations, there is no legal norm (and there is no mention of a legal form within the draft federal law "On public non-financial reporting") defining the responsibility of organizations and their managers for non-submission of PNR.
5. The lack of a unified database (register) of public non-financial reporting. At the moment, organizations publish PNR on their websites, significantly complicating PNR analysis in terms of report collection. Moreover, the search for a report can become a significant problem for the user. Organizations do not provide an appropriate tab on the site map and do not save earlier reports. We have set the following experiment in the process of conducting this research: we searched for PNR on the official website of a large company. For example, the official website of the Coca-Cola company (<https://www.coca-colarussia.ru>) does not dedicate a tab for PNR, although the company compiles and

publishes sustainable development reports. The 2018 report was found in the form of a news article on the primary site. The report is posted on a separate website (<https://admin-ru.coca-colahellenic.com>). This situation is typical for many large companies, not to mention medium-sized ones. Note that some organizations additionally publish reports in the National Register of corporate non-financial reports, but not all of them. This fact makes it very difficult to analyze any industry or region. Therefore, it is necessary not only to create a register of public non-financial reporting, which is provided for by the draft federal law “On public non-financial reporting,” and to establish the obligation of enterprises to submit annual public non-financial reports to the register. It is also important to oblige businesses to allocate a special section (tab) on the site dedicated to PNR. This allows users with an interest in a particular business to find the report without accessing the registry.

In addition to the problems mentioned above and ways of solving them, attention should be paid to promoting public non-financial reporting for those organizations that will not be required to provide PNR following the law. It may be necessary to consider incentive measures for such organizations and encourage non-mandatory forms of PNR such as reports on sustainable development activities, reports on corporate social responsibility, and integrated reports.

4 Discussion

Formation and presentation of public non-financial reporting is a new direction in accounting and analytical support of innovative and sustainable development of complex socio-economic systems. Companies generate and disclose non-financial reports in the selected format, depending on the specifics, scope of activities, organizational structure, accounting, analytical support, and development strategy. Various aspects of the public non-financial reporting development are studied in the scientific community.

In particular, Chaldaeve et al. [3] identify qualitative and quantitative problem groups hindering the development of non-financial reporting in Russia.

The variety of on-financial reporting types, each of which aims to solve a certain class of applied problems, generates dissatisfaction with the information requests of stakeholders [12].

Tryastsina [13] insists on the mandatory use of social policy indicators (levels of occupational diseases, occupational injuries, accidents, availability of training, counseling, etc.) and their display in the “Social sustainability” report section in order to assess the investment attractiveness of the business.

The disclosure of core and additional indicators in non-financial reporting is also related to the “mechanism of optimal informativeness of non-financial reporting of

the company based on the coordination of standards, normative-legal and methodological provisions of non-financial reporting generation, as well as specific features of the organization, its goals, and priorities, and the needs of interested parties" [16].

The work of Pryadkina [11] indicates the need to develop internal regulations establishing the requirements and norms for providing information to individuals generating the reports (for example, "Social report. The preparation and keep" or "Committee for social reporting. The order of formation and work" enterprise standards).

The presented views on the formation and presentation of public non-financial reporting in commercial organizations are not exhaustive. However, we can identify the main problems of non-financial reporting disclosure that concern the scientific and professional community.

Based on the analysis of modern Russian and international practice of public non-financial reporting, we have identified enlarged groups. The solution problems within these groups (while factoring in the disclosure of ESG indicators) will allow forming non-financial reporting in a new format meeting the growing demands of stakeholders in non-financial data.

5 Conclusion

Thus, non-financial reporting can be considered both as a result and as a process. Non-financial reporting (as a result) is a summary of systematic information reflecting the economic, environmental, and socially significant results of activities in the accounting and analytical support of innovative and sustainable development of complex socio-economic systems.

Non-financial reporting (as a process) is a part of the corporate governance system; a set of continuous processes for collecting, analyzing, and consolidating information about economic, environmental, and social aspects of activities; a tool for operational management decision making improving business efficiency; and a tool for internal and external communications.

The features of non-financial reporting are as follows: it is mandatory for a certain number of commercial organizations defined by law; it complements the financial statements and discloses the results of the company's activities in various areas (economic, social and environmental) significant for all interested parties.

The main advantages of non-financial reporting include the ability to track performance (both quantitative and qualitative), the ability to assess the organization's responsibility to key stakeholders, the ability to demonstrate financial performance in direct connection with the effectiveness of operations.

Synchronization of criteria with national legislation, Russian and international requirements in the field of ESG will contribute to the development of a system of public non-financial reporting in companies. It will also contribute to the definition of a basic set of indicators for such reporting, as well as to the format and methodology for their disclosure common for all companies.

Thus, the development of public non-financial reporting consists of solving the identified groups of problems consisting in the imperfection of the existing legislative framework, the lack of a unified methodology and methods of formation, as well as the lack of an information platform consolidating public non-financial reports of companies of various industry affiliations.

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