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SUSTAINABILITY REPORTING IN ROMANIA THROUGH THE SUSTAINABILITY CODE

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Abstract: *Humanity today faces major challenges related to climate change, the food crisis and social problems, realities that have an impact on the business world. Classic financial reporting proves to be limited. Europe initiated the process towards non-financial reporting of large companies a decade ago. In 2023 the European Sustainability Reporting Standards (ESRS) were adopted. In Romania, sustainability reporting is carried out through the Romanian Sustainability Code, which represents a strategic tool for transparent and unitary reporting of an entity's activity from the point of view of the impact on sustainable development.*

Key words: *sustainability, sustainability reports, Romanian Sustainability Code, non-financial information*

1. Introduction

The 21st century brings humanity to face real challenges generated by climate change, the food crisis and social problems. In this context, so complicated, a paradigm shift in the perception of the business world is urgently needed. More and more companies, through their investors and management, must accept the fact that the economic result is no longer the only stake and the most important key to success.

Companies today must demonstrate a deep understanding of business sustainability, so that the economic benefits obtained are felt by all stakeholders, namely: shareholders, business partners, employees, the communities in which they operate, state authorities. Sustainability forces us all to look at the world differently than we were used to. Companies can no longer be focused exclusively on the financial returns of shareholders, it is necessary, more than ever, to generate non-financial returns for stakeholders (Caraiani et al., 2009).

In recent decades, large companies have constantly developed a concern for the development of corporate social responsibility (CSR) or sustainability reports. Certainly, one cannot discuss sustainable development without it being accompanied by an adequate reporting policy on the part of companies. Initially, corporate social responsibility (CSR) reporting was voluntary, being determined by stakeholders and not

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by governments. Today, the situation has changed and governments have started to require companies to submit various reports, indicators or statements on social and environmental aspects. Moreover, the European Union is the region of the world where companies are most interested in the practice of CSR reporting (Gușe et al., 2016).

In 2010, the International Integrated Reporting Committee (IIRC) was established. The IIRC developed a document entitled "Towards Integrated Reporting" in 2011. The conceptual framework of integrated reporting is constantly evolving (Lapteș, Sofian, 2017).

An integrated report tracks the value created by the entity over time and is "a concise communication on how the organization's strategy, corporate governance, performance and prospects lead to value creation in the short, medium and long term" (PwC, 2014).

A major shortcoming of sustainability reports is related to the difficulty of their comparability because, for many years, there was no unified regulatory framework in this field. Companies reported on different sustainability reporting standards or developed their own standards based on existing ones (Albu et al., 2013).

This reality has limited the comparability of sustainability reports and the quality of information provided to users for business decision-making. For the development of CSR reports, large companies implement the GRI (Global Reporting Initiative) reporting framework, while small and medium-sized entities prefer the United Nations Global Compact (UNGC) (Albu et al., 2013).

The year 2025 has brought significant changes in the area of corporate annual reporting practices at the European Union level, implicitly in Romania, because, on July 31, 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS), applicable as of 2025, according to the CSRD (Corporate Sustainability Reporting Directive). These standards establish the obligation for entities, especially large or listed ones, to disclose, beyond traditional financial information, aspects regarding the impact of their activity on the environment, governance and social aspects (ESG).

2. Research Methodology

This study has as its fundamental objective the analysis of the sustainability reporting process at the level of the European Union and in Romania, in order to shed light on the advantages and limits of policies in this area. To achieve this objective, fundamental research was carried out, by studying the specialized literature and the reports published by the authorities in the field of sustainability reporting.

Through this study, answers will be formulated to questions such as:

- Which companies are required at the EU level to publish sustainability reports?
- What are the main limitations of the first sustainability reports prepared by EU companies?
- What does the principle of dual materiality promoted by the European Sustainability Reporting Standards (ESRS) imply?
- What is the Romanian Sustainability Code?

3. Research Results

At the European Union level, the path towards non-financial reporting, to complement the traditional financial reporting of large companies, began in 2013 through Directive 34/2013, amended by EU Directive no. 95/2014 on the presentation of non-financial and diversity information by certain large entities and groups.

Directive 2014/95/EU on non-financial reporting was implemented in Romanian accounting regulations as of 2016, through OMFP no. 1938/2016 and was applied in corporate reporting starting with 2017. In Romania, through OMFP no. 1938/2016, similar to European practice, only entities that at the end of the financial year exceeded the only imposed criterion of having an average number of 500 employees during the reporting year are required to include in the administrator's report non-financial information regarding the impact of the company's activity on the environment, social and personnel aspects, respect for human rights, the fight against corruption and bribery.

A study conducted in 2019 shows that this solution proposed by the Romanian accounting standardizer for non-financial reporting only by entities with an average number of employees during the financial year of over 500 people is not the most appropriate. According to data reported at the end of 2020 by the National Trade Register Office, there were 970,000 entities registered in Romania, of which only 680 entities meet the required criterion for disclosing non-financial information. Furthermore, in the study published in 2019, the authors emphasized that this unique criterion, which obliges entities to communicate non-financial information, is not representative for the agricultural sector, because in this sector of activity the average number of employees per agricultural holding is, most of the time, below the imposed average of 500 employees. Therefore, at this moment, through the legislative context, entities are eliminated from the sustainable development trajectory, which, due to the specifics of their activity, must find their role and social responsibility on the path of sustainable development, with a minimal impact of their activity on the environment (Brabete, Drăgan, Goagără, 2019).

In Romania, the practice of CSR reporting has been determined by coercive isomorphism. Isomorphism is the process by which an entity adopts an institutional practice, and coercive isomorphism refers to the pressures imposed by the government, capital markets, or society as a whole, which determine the organization to comply with certain rules (Gușe, et al., 2016). The study conducted in 2016 by Gușe et al. demonstrates that the reporting practices of Romanian companies are determined mainly by legislative requirements, in the absence of parties truly interested in implementing CSR reporting practices.

The same conclusion was found in another study, published in 2019, on the transparency of environmental information at the level of large companies in Romania, which revealed that there is low information transparency. The sample included in the research was represented by 100 companies listed on the Bucharest Stock Exchange. The highest score obtained by the companies analysed was achieved by an entity that recorded only 15 points out of the maximum score set at 29 points. The same study shows that most companies listed on the Romanian Stock Exchange are interested in complying with the regulations in force and generating performance in relation to environmental management, with little emphasis on communicating financial information related to the environment, namely: environmental assets, environmental liabilities, expenses and revenues generated by environmental policy (Dincă et al., 2019).

The European Sustainability Reporting Standards (ESRS), applicable starting in 2025, bring into practice a new concept in annual reporting, namely dual materiality, according to which the entity must report, on the one hand, information on the impact of its activity on the environment and society as a whole, and on the other hand, aspects regarding how social or environmental issues can generate financial risks or opportunities for the reporting company.

It should be noted that, in the new context, financial auditors will have a decisive role, as they will have to express their opinion on companies' sustainability reports. According to the CSRD Directive, for the first time, the financial auditors' opinion will be formulated on the basis of a limited assurance engagement (CAFR, 2023). According to the CSRD Directive, the first reporting under the ESRS Standards will be carried out as of 2025, for the financial year 2024, at the level of large, listed companies, banks and insurers, which have more than 500 employees. This practice will gradually extend to the level of listed SMEs, starting with 2027 (CAFR, 2023).

In Romania, to ensure sustainability reporting, in 2018, the Government laid the foundations of the Romanian Sustainability Code (RSC), which is based on the German Sustainability Code and represents a strategic tool for transparent and unified reporting of an entity's activity from the point of view of the impact on sustainable development (www.codsustenabilitate.gov.ro).

The Romanian Sustainability Code is defined as a methodology for sustainability reporting, which provides recommendations for interested companies regarding the content requirements and the process of preparing sustainability reports. The sustainability reporting methodology was adopted by the Romanian Government and published in November 2023. Furthermore, the Romanian Sustainability Code will bring added transparency to the business environment because all sustainability reports that will be published on the Code Platform will be accessible to all stakeholders.

Entities required to prepare and publish sustainability reports in Romania are those that, at the end of the financial year, exceed the average number of 500 employees and which, according to the regulations in force, are required to prepare a non-financial statement, which complements traditional financial reporting with information on environmental, social and personnel aspects, respect for human rights, combating corruption and bribery. Furthermore, the Romanian Sustainability Code can be used voluntarily by any entity, public or private, that wishes to inform stakeholders about its achievements in the field of sustainability (Government of Romania, 2023).

The Code Platform is in the process of being updated by the end of 2025 to comply with the requirements of the CSRD Directive and, as of 2026, over 4,000 companies will be required to report on sustainability (www.codsustenabilitate.gov.ro).

Within the framework of the Project "Sustainable Romania - Development of the strategic and institutional framework for the implementation of the National Strategy for Sustainable Development of Romania 2030", a Guide on the use of the Romanian Sustainability Code was developed in 2023, with a comprehensive content of 171 pages. From this Guide, which is based on the German experience, we learn that the average duration of preparing a sustainability report, which must refer to 20 well-defined criteria, is approximately 21 days (Government of Romania, 2023). According to the Guide on the use of the Romanian Sustainability Code, reporting entities, public and private, will be required to prepare sustainability reports, in accordance with European practice in the matter, in the content of which they must inform about the following 20 criteria (Government of Romania, 2023):

- Criterion 1. Strategic analysis and actions;
- Criterion 2. Materiality;
- Criterion 3. Objectives;
- Criterion 4. Value chain complexity;
- Criterion 5. Accountability;
- Criterion 6. Rules and processes;
- Criterion 7. Control;
- Criterion 8. Incentive system;
- Criterion 9. Stakeholder engagement;
- Criterion 10. Innovation and product management;
- Criterion 11. Use of natural resources;
- Criterion 12. Resource management;
- Criterion 13. Climate-relevant emissions;
- Criterion 14. Employee rights;
- Criterion 15. Equal opportunities;
- Criterion 16. Qualifications;
- Criterion 17. Human Rights;
- Criterion 18. Corporate Citizenship;
- Criterion 19. Political Influence;
- Criterion 20. Conduct in Accordance with Law and Guidelines.

These criteria are a set of guidelines that ensure the classification of sustainability reporting areas and bring together one or more relevant aspects and certain performance indicators, which form the basis for the development of sustainability reports. Moreover, these criteria become a guide to good practices regarding sustainability reporting and will certainly bring added value by ensuring the compliance of the reporting process, transparency and, above all, the comparability of sustainability reports.

4. Conclusions

If, in the first years of the implementation of the practices, which target non-financial reporting by large companies, it was difficult to ensure the comparability of sustainability reports, the latest initiatives at the EU level, including Romania, are meant to eliminate this shortcoming related to the lack of comparability of sustainability reports. It remains to be seen to what extent the Romanian Sustainability Code will demonstrate its efficiency and how many companies in Romania, beyond those required by the norms, will voluntarily develop and publish sustainability reports in the coming years. A new challenge also arises for the accounting professional, forced to adapt to the new requirements regarding sustainability reporting practice.

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