



**Transilvania University of Braşov**

# **HABILITATION THESIS**

## **SUMMARY**

**Title: Sustainability Reporting and Financial Performance of  
the Economic Entities**

**Domain: FINANCE**

**Author: Assoc. Prof. PhD. Camelia Mirela BABA  
Transilvania University of Braşov**

**BRAŞOV, 2021**

Sustainability reporting has received increasing attention in recent years, being considered an important topic of debate that reflects the responsibility and commitment of entities to the economic, social, and environmental issues/problems. The approach includes the sustainability reports that outline an economic entity's sustainable development policies and strategies, as well as the impact they have on the economy, society, and environment.

The sustainability report is an important communication tool for companies. Transparency, openness, and communication carried out by means of sustainability reports can lead to increased trust, reputation among business partners and implicitly to an increase in the performance of economic entities.

The topic addressed in my research focuses mainly on sustainability reporting, as well as on the connection between the information disclosed by means of reports and the financial performance of economic entities. Trust in an economic entity and, implicitly, in its management depends on the degree of understanding and perception of the financial and non-financial information by those interested.

The research I have carried out lately has allowed me an insight into the field of financial and non-financial reporting, which is presented and analyzed both in terms of its role in substantiating user decisions and in terms of its role as a tool meant to increase the performance of economic entities.

The habilitation thesis is elaborated on two main sections: scientific and professional achievements and career evolution and development plans. The scientific and professional achievements fall into five research directions, respectively five chapters:

*1. The sustainability reporting of economic entities and their environmental responsibility*

*2. Reorganization of economic entities by demerger and sustainable development strategies*

*3. Financial sustainability and performance reporting of economic entities*

*4. Measuring the risk of insolvency. Prevention methods*

*5. Other research directions*

The published articles, transposed in research directions, contain an introductory part, an analysis of the literature in the approached field, the research methodology, as well as the main results and contributions.

The first research direction, entitled "*Sustainability reporting of economic entities and their environmental responsibility*" aims at the transparency and responsibility of companies to environmental issues, as well as the dependence relationship that may exist between the degree of disclosure of environmental information and various economic and financial measures (the performance of companies, their size, the seniority of the entity and degree of indebtedness).

In this sense, in order to evaluate the transparency related to the environmental aspects, data were extracted from the annual reports and the sustainability reports for 100 companies listed at the Bucharest Stock Exchange, companies that carry out their activity in areas with major environmental impact, with activities and products prone to damage the environment. For each of the 100 selected companies, an index was used to measure the degree of disclosure of environmental information. The environmental disclosure index is, in fact, a centralized list that allows a score to be assigned to each analyzed company, depending on the environmental information it presents in the annual reports or in their sustainability reports. The environmental disclosure index includes a set of environmental performance indicators which are aligned to relevant international standards, in particular ISO 14031, as well as to the GRI (Global Reporting Initiative). The obtained scores reflect the degree of environmental information disclosure, transparency, and company responsibility in terms of environmental issues.

The analysis of the dependency relationship between the degree of disclosure of environmental information (DEI, Disclosing Environmental Information) and the financial and non-financial measures has been tested by several different econometric approaches.

The results of the study have shown that the interest in publishing environmental data is relatively low. The highest score obtained by the sampled companies has been 15, compared to the maximum possible value of 29. Unfortunately, there is still a significant part of listed companies that are reluctant to provide information on the impact of their activities on the environment. In Romania, only the companies with over 500 employees are obliged to publish sustainability reports. Equally, the results of econometric processing show that the disclosure of environmental information greatly depends on the size of the company and its performance.

This study adds value to the existing literature by completing and expanding the research area in the field of environmental reporting. The results of the study may contribute to: (a) the improvement of environmental reporting and disclosure practices; (b) the increase in managers' transparency about and awareness of environmental issues. Managers should be aware of the need to provide relevant, clear, real, and complete information on environmental protection. Managers could use our index as a guide for designing a framework for reporting environmental information in the companies they run; (c) the change of the behaviour/mentality of the listed companies; (d) the increase in awareness of regulators and the need to support them when taking steps to cause companies to disclose the effect of their operations on the environment. Environmental information disclosure is based less on voluntary initiatives and more on official ones, on regulations.

The second research direction entitled "*Reorganization of economic entities by demerger and sustainable development strategies*" argues for the need to reorganize and rethink business strategy, especially in the context of the pandemic generated by Covid-19. One

solution for the recovery and reorganization of the economic entities' activity is the partial division.

In this sense, in order to assess the impact of demerger on the sustainable development of Romanian economic entities, both a statistical analysis of the financial performance before and after the demerger was performed and a content analysis of 268 demerger projects have been carried out for the period April 2012 - April 2021.

The results of the study indicate that there are no significant differences between the financial performance (expressed by the return on assets - ROA and the return on equity - ROE) before and after the demerger, but the demerger still has a positive effect on companies helping them survive and rethink their business strategy and continue their long-term business. The demerger does not lead to an immediate improvement in performance, but rather to the maintenance of efficiency levels for about four years, after which it is possible to see a slight increase. The demerger leads to increased independence and a focus on core business, thus ensuring companies' efficiency and sustainable development. A smaller company can benefit from a greater efficiency in managing, using its resources more efficiently, and maintaining long-term financial profitability.

The statistical processing in this study provides a comprehensive analysis of the impact of the demerger of Romanian economic entities on the financial performance and efficiency of their activity. The analysis of the financial profitability rates before and after the demerger is particularly important for the managers of an economic entity because they will be able to assess the impact and benefits of the demerger to decide on the form of restructuring they want to implement in the entity they lead. The study reveals the economic and financial implications that the demerger process may have on the sustainable development of economic entities.

The third research direction refers to "*Financial sustainability and performance reporting of economic entities*." The periods of economic and financial crisis impose on companies the need to develop a model of sustainable development. A sustainable company is an efficient company, and efficiency can be defined in the form of financial performance, profitability, or productivity.

Sustainability is an economic component that economic entities need to integrate into their business strategies in order to meet the challenges, but also in order to ensure the continuity and development of their long-term activity. Sustainability has a financial side as well, highlighted by financial indicators. Obtaining favourable financial results (profit) as well as the efficiency in the use of resources can be considered an expression of financial sustainability.

Zabolotnyy and Wasilewski (2019) define the financial sustainability of a company as the ability to generate value for owners and to provide continuity to long-term operations, using an optimal combination of investments and sources of financing.

*„Financial performance shows the success of a company and the attractiveness of shares in the financial markets. It helps investors make investment decisions in stock markets and managers make financial decisions”*(Madaleno and Bărbuță-Mișu, 2019).

The financial performance of the economic entities has been the subject of discussion in most of the articles we have published in recent years; either it was analyzed in correlation with the degree of disclosure of environmental information; or it was analyzed before and after the reorganization process of an entity; or it has been analyzed as dynamic in different sectors of activity (pharmaceutical sector, construction, and textile industry).

In diagnosing the financial health of the analyzed companies, we have used the following indicators: return on assets, return on equity, turnover, net result, liquidity rates, solvency rates, degree of indebtedness, etc.

This section covers both published and forthcoming articles, an example being the research on the "*Financial Sustainability of Companies in the Agricultural Sector*." The mentioned article, currently forthcoming, offers a financial perspective on the sustainability of companies in the agricultural sector, using the econometric processing of the financial data for a sample of 524 companies in Romania, the analysis period being 16 years.

The fourth direction of research entitled "*Measuring insolvency risk. Prevention methods*" heads towards insolvency risk forecasting models. In this regard, a model for insolvency risk forecasting was designed and was econometrically tested by logit and logistic models. The model, unlike the models based on score functions, is based exclusively on the analysis of the fluctuation of financial rates over time, more precisely on the information provided by means of financial statements; this model provides generally valid and reliable results and allows of the generalization of data and implementation of results in any economic circumstances.

The model, designed for an early warning of financial difficulty of economic entities, is based on a set of five measures, respectively general solvency, patrimonial solvency, accounts receivable conversion period, assets' liquidity, and assets' efficiency ratio.

The selection of financial indicators was conditioned by the availability of financial data provided by Romania's Administration of Public Finance.

Based on the designed model, those interested can identify the companies at risk of insolvency and decide whether to start or continue business relationships with those companies. The insolvency situation in Romania has been analyzed, after the financial crisis of 2008, for a period of five years, for 70 companies from different domains. Regression results show assets liquidity and patrimonial solvability are insignificant factors for insolvency risk.

All five indicators which make up the model have had a descending trend (in the last three years preceding the insolvency entry), and values outside the ranges considered normal for healthy companies (having lower levels than the minimum accepted values).

The inability to honor creditors' obligations (general solvency with low and declining values), accelerated de-capitalization (unsatisfactory and declining level of economic solvency), growing delays in collecting the value of goods and services sold (increasing A/R conversion period), the lack of real liquidity (declining assets' liquidity) and inefficient use of assets (downward trend of assets' efficiency) are the five measures that, together, led to a situation of imminent insolvency, within a three years' period.

The end, the fifth chapter is reserved for "***other directions of research***". This section includes two articles published on the following topics: "*Cyclicalities of Fiscal Policy in the European Union*" and "*Explaining The EU Regional Economic Growth Through Regional- And Country-Level Achievements in Education*".

The article "*Cyclicalities of Fiscal Policy in the European Union*" analyzes the way in which fiscal policy works throughout the phases of the economic cycle, more precisely it verifies the pro-cyclical characteristics of this policy. The sample includes EU countries, except Cyprus and Malta, for the period 1995-2014. Multiple regressions have been used to measure the pro-cyclicality and the way fiscal policy responds to social and political stimuli. It has been found that, throughout the period under review, most countries pursued a pro-cyclical fiscal policy, regardless of whether they were developed or developing countries.

The research entitled "*Explaining The EU Regional Economic Growth Through Regional- And Country-Level Achievements in Education*" examines the impact that factors such as investment in education and ICT (Information and Communication Technologies) have on EU country and regional growth (Communication Technologies). The research methodology uses multi-level mixed-effects models, and the data cover the period 2001-2017, and they are available on Eurostat. The study shows that achievements in the field of education, when



significant generate positive effects for the regional growth in both the new Member States (NMS) and in the old Member States (OMS), and it seeks to design measures for the regional-national policies in education and ICT.

The second section of the habilitation thesis summarizes the plans for the evolution and development of the future professional career, both in the direction of the teaching activities and in terms of the research activity.

The last section is intended for the bibliographic references used in the research approach.