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Non-Financial Information, CSR and Ethics in the Digital Era

THEORETICAL BACKGROUND

CSR

For a long time, both CSR (Corporate Social Responsibility) and reporting of non-financial information has attracted the attention of practitioners and researchers.
At the European level, the Commission's 'Green Paper – Promoting a European Framework for Corporate Social Responsibility' in 2001 laid the foundations for a European CSR policy.
CSR has been defined in many ways. **International Organization for Standardization** (ISO) defines CSR as "the responsibility of an organization for the impacts of its decision and activities on society and the environment, through transparency and ethical behavior that:

- Contributes to sustainable development, including the health and welfare of society
- Takes into account the expectation of stakeholders
- Is in compliance with applicable law and consistent with international norms of behavior
- Is integrated throughout the organization and practices in its relationship".

The European Commission assumes CSR as "the responsibility of enterprises for their impacts on society". The Commission encourages enterprises to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders.

The responsibility of companies focuses on the consequences of their decisions, actions and policies from at least, three perspectives: economic, social and environmental.

Economic responsibility. The achievement of company objectives that consume the available resources efficiently in order to survive on the long term. Examples of economic responsibility are: the creation of value for the shareholders; the disclosure accurate financial and accounting information; profitability.
Social responsibility. Companies operate and interact in a particular social environment. Their actions have consequences within the company and may also affect other people and organizations. Examples of social responsibility are: the implementation of schedule facilities for the staff; redesign of their products to increase consumer safety; collaboration with local NGOs.
Environmental responsibility. This responsibility takes environmental concerns into account in business decisions, i.e. environmental friendliness. There are two possible attitudes: preventing environmental problems or solving/mitigating the damage caused. Examples of environmental responsibility are: incorporating the concept of eco-efficiency; being transparent in terms of issues concerning environmental impact; taking ecological criteria into account when making new investments.

The importance attached to incorporating CSR criteria in company management has motivated several national and international organizations to develop several initiatives and instruments to facilitate the implementation process, performance, communication and evaluation of CSR, including the adoption of **Codes of conduct and Management standards** and frameworks (e.g. quality, environmental, health and safety, workplace standards) that enable an organization to embed social and environmental considerations and stakeholder participation into business decision-making and operations (such as the ISO 26000).
Moreover, according to the need for more transparency, companies are required to be accountable towards all stakeholders by providing information about their overall activity in terms of both financial and non-financial performance.

CSR reporting

Corporate reporting world has been shaken by a strong wind of change in recent years and new forms or reporting have been diffusing; among these are: sustainability reporting, social reporting, environmental reporting, intellectual capital reporting, integrated reporting and – more recently, according to UN Agenda 2030, SDGs (Sustainable Development Goals) reporting.

CSR reporting is the process of communicating economic, social and environmental performance to stakeholders. The recent increase in corporate sustainability reporting is linked to the demand for greater company accountability and transparency. The term is thus referred to both the process of disseminating information and the report released by an organization. Reports can vary in structure and content, ranging from sustainability reports to citizenship or environmental reports.

CSR reporting increased after the 1970s because of corporate needs to demonstrate company attention toward society and the environment. Over time, the use of negative screening by ethical investment funds, corporate scandals (as the case of Enron), environmental disasters (for instance those caused by Exxon Valdez and British Petroleum), the financial crisis and new challenges (such as global warming, corruption, equality) have increased the interest toward reporting on environmental and social aspects, but despite its popularity, CSR reporting has remained a voluntary business practice for decades. Recently, the quality and comparability of disclosure have become crucial aspects because of the growing number of investors and financial analysts that ask for reliable information concerning environmental, social and governance (ESG) aspects to support their decision-making process. High-quality CSR reports enable greater accuracy in analysts' earnings forecasts and lowers the cost of capital, particularly in stakeholder-oriented countries and where financial disclosure is opaque.
As a result, various initiatives to increase the quantity and quality of the information provided have been put in place, also with the aim of reducing the existing differences in the level of disclosure.
Currently both voluntary and mandatory CSR practices and reporting vary across countries and companies due to context-related factors ranging from regulations to fewer formal constraints including normative pressures from stakeholders.

CSR Reporting standards and frameworks

Company approaches to reporting are as varied as are their approaches to CSR: the nature of each report depends upon the variety of issues covered; the range of stakeholders for whom it is intended; and the aims of the reporting organization. In the latest decades, several framework and standards aimed to guide companies in implementing and releasing CSR reports have been produced (see Table 1). An example of this kind of instrument is the reporting framework developed by the IIRC (used to release the integrated report) and the Global Reporting Initiative (GRI) used to release the sustainability report. The latter are among the most highly recognized international reporting standards.

Table 1

Reporting Standards and Frameworks	Implementation Guidance
• ***International Integrated Reporting Framework*** to provide greater transparency on business performance and value creation over time • **Global Reporting Initiative (GRI),** the comprehensive Sustainability Reporting Framework, widely used around the world to enable greater organizational transparency; GRI Sustainability Disclosure Database provides access to all types of sustainability reports • Sustainability Accounting Standards Board sustainability accounting standards that help public corporations disclose material, decision-useful information to investors • Single-issue accounting frameworks such as the Greenhouse Gas Protocol and the Australian Water Accounting Standards Board's Water Accounting Conceptual Framework and General Purpose Water Accounting Reports • Climate Disclosure Standards Board, Climate Change Reporting Framework, to encourage a harmonized approach to the preparation of climate change-related disclosures	• IFAC, *Principles for Effective Business Reporting Processes* • World Business Council on Sustainable Development, *Reporting Matters— WBCSD 2013 Baseline Report* • Integrated Reporting Committee of South Africa, *Preparing an Integrated Report, A Starters Guide* • Chartered Accountants Australia and New Zealand *Integrated Reporting—A Guide for Audit Committees in Australia and New Zealand* • IFAC, Sustainability Framework 2.0 highlights international accounting standards relevant to environmental issues • US Environmental Protection Agency, Greenhouse Gas Reporting Program • Australia's National Greenhouse and Energy Reporting Scheme • Examples of environmental profit and loss accounts include Novo Nordisk, Trucost, and PUMA. • ACCA, *Carbon Avoidance? Accounting for the Emissions Hidden in Reserves*

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world. The GRI mission is to develop and disseminate a global framework of sustainability reporting guidelines for voluntary use by organizations that encompasses the economic, environmental and social dimensions of their activities, products and services. The guidelines have evolved since they were first issued, but they still require disclosures in the following categories: economic, environmental, social performance/labor practices, social performance / human rights, social performance / society, and social performance / product responsibility. The main objective of the GRI reporting principles is to achieve transparency and consistency in sustainability reporting.

GRI guidelines provide a **Sustainability Report** structure that helps reporters to organize the information they want to communicate. Given that SR has to be a tool to manage the organizations' sustainability strategy, it also helps them to establish their goals, measure their performance, and adjust their decisions towards better achievements.
An "in accordance" SR fulfills all the GRI requirements. "In accordance" SR can be: core (central information); comprehensive (central plus other information about strategy, governance, ethics and integrity), and additional performance indicators. On the contrary, a "not in accordance" SR only uses parts of the GRI reporting framework. Moreover, depending on the economic sector, companies can implement GRI specific standard disclosure structured in three categories: Economic, Environmental and Social divided into four sub-Categories).

Organization can disclose the information for each identified material aspect as a disclosure on management approach and as Indicators (Table 2).

Table 2. Indicators

Economic	Environmental
Economic Performance Market Presence Indirect Economic Impacts Procurement Practices	Materials Energy Water Biodiversity Emissions Effluents and Waste Products and Services Compliance Transport Overall Supplier Environmental Assessment Environmental Grievance Mechanisms

Social

Labor Practices and Decent Work	Human Rights	Society	Product Responsibility
Employment Labor/Management Relations Occupational Health and Safety Training and Education Diversity and Equal Opportunity Equal Remuneration for Women and Men Supplier Assessment for Labor Practices Labor Practices Grievance Mechanisms	Investment Non-discrimination Freedom of Association and Collective Bargaining Child Labor Forced or Compulsory Labor Security Practices Indigenous Rights Assessment Supplier Human Rights Assessment Human Rights Grievance Mechanisms	Local Communities Anti-corruption Public Policy Anti-competitive Behavior Compliance Supplier Assessment for Impacts on Society Grievance Mechanisms for Impacts on Society	Customer Health and Safety Product and Service Labeling Marketing Communications Customer Privacy Compliance

Sustainability reporting is mainstream amongst the largest organisations, with many viewing it as an opportunity to integrate sustainability into their business practices and strategies and achieve benefits and efficiencies, rather than a compliance burden.

According to the **IIRC Framework** released by the **International Integrated Reporting Council** (IIRC; 2013 and 2021), **integrated reporting** is an evolution of corporate reporting, with a focus on conciseness, strategic relevance, and future orientation. Integrated reporting is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in several ways. It focuses on the ability of an organization to create value in the short, medium, and long term.
The <IR> Framework (IIRF) establishes a set of Guiding Principles and Content Elements that aim to define the contentand orientate the presentation of IRs (**Integrated Report**). The main purpose of an integrated report is to explain to financial capital providers how an organization creates value over time. For its aim, the IIRF proposes the disclosure of quantitative and qualitative, financial, and non-financial information, through what they identify as the six capitals that every company uses, transforms, or affects by their activities or by their outputs. The six capitals are: financial, manufactured, intellectual, human, social and relationship, and natural. These capitals are stocks of value that are affected or transformed by the activities and outputs of an organization. The integrated report should reflect the interactions and value creation process of these capitals.

In 2013, the GRI and the IIRC, while promoting the use of sustainability reports and integrated reports respectively, signed a memorandum of cooperation to create convergence. More recently, in 2021 a new organization -The Value Reporting Foundation has been created in 2021 from the merger of the International Integrated Reporting Council and the Sustainability Accounting Standards Board to support the establishment of the International Sustainability Standards Board under the IFRS Foundation and create a set of rules that will – over time – bring sustainability reporting on a par with financial reporting. Regarding the content, the IIRF refers to eight Content Elements that are formulated as questions that the information disclosed in the integrated report should address. There are contents linked to each other and are not mutually exclusive. The Content Elements are: Organizational overview and external environment; Governance; Business model; Risks and opportunities; Strategy and resource allocation; Performance; Outlook; and Basis of presentation.

Non-financial reporting

Disclosure of non-financial information (social, environmental, ethics and governance information) is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. Moreover, it allows companies to increase stakeholder trust, learning from the reporting process, generating continuous improvements in business impact, and highlighting their business integrity. In this context, it helps the measuring, monitoring, and managing of undertakings' performance and their impact on society.

EU activities encourages corporate transparency and CSR disclosures from years. In the past, the EU has led and supported several initiatives that seek to increase the capacity of the private sector to become more sustainable and transparent, to integrate corporate engagement into transformative strategies, and to reshape corporate transparency to align better with the demands and needs of sustainable finance. The communications of the European Commission (EC) on its policy agenda over the past years reveal one major priority: The United Nations' SDGs. The 17 SDGs that are part of the United Nations' 2030 Agenda for Sustainable Development, provide a coherent, holistic framework for addressing the world's most urgent sustainability challenges – such as climate change, human rights, corruption, poverty, inequalities and justice, naming just a few – to help create a better future for all. As such, the SDGs cover all areas of the EC's work.

As argued by the EU mandatory disclosure is necessary because voluntary CSR reporting hinders comparability and leaves significant room for symbolic practices that can endanger the credibility of EGS information. In Europe, the first substantive effort to harmonise the disclosure of ESG information occurred in 2014, when the EU issued the NF Directive, that complements the efforts of the Agenda on SDGs in *encouraging companies, especially large and transnational companies*, to adopt sustainable practices and integrate sustainability information into their reporting cycle.

The EU Directive of non-financial and diversity information (Directive 2014/95/EU)

The introduction of the Directive on the disclosure of non-financial and diversity information also called the Non-Financial Reporting Directive (NFRD) – has set a clear course towards greater business transparency and accountability on social and environmental issues. With this Directive the European Union debate around the need for CSR and transparency regulation took an important step to harness the power of transparency to create social and environmental benefits.

The EU Directive for non-financial information consolidated the regulatory framework for CSR reporting. The cooperation with GRI and Accountancy Europe has represented a key element to support companies and local organisations to understand the policy environment and the practice of non-financial reporting. The role of the accountancy profession is gaining ground in the discussion on non-financial reporting and advancing the creation of sustainable business models throughout Europe and beyond.

Overview

EU law requires certain large companies to disclose information on the way they operate and manage social and environmental challenges. This helps investors, civil society organisations, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies and encourages these companies to develop a responsible approach to business.

Directive 2014/95/EU lays down the rules on disclosure of non-financial and diversity information by certain large companies. This directive amends the Accounting Directive 2013/34/EU.

Companies that must comply

EU rules on non-financial reporting currently apply to large public-interest companies with more than 500 employees. This covers approximately 11 700 large companies and groups across the EU, including

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities

Information to be disclosed

Under Directive 2014/95/EU, large companies have to publish information related to

- environmental matters
- social matters and treatment of employees
- respect for human rights
- anti-corruption and bribery
- diversity on company boards (in terms of age, gender, educational and professional background)

Accompanying guidelines

In June 2017 the European Commission published its guidelines to help companies disclose environmental and social information. These guidelines are not mandatory and companies may decide to use international, European or national guidelines according to their own characteristics or business environment.

In June 2019 the European Commission published guidelines on reporting climate-related information, which in practice consist of a new supplement to the existing guidelines on non-financial reporting, which remain applicable.

Proposal for a Corporate Sustainability Reporting Directive (CSRD)

On 21 April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the NFRD. The proposal

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)
- requires the audit (assurance) of reported information
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards
- requires companies to digitally ‘tag’ the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan

EU sustainability reporting standards

The Commission’s proposal for a Corporate Sustainability Reporting Directive (CSRD) envisages the adoption of EU sustainability reporting standards. The draft standards would be developed by the European Financial Reporting Advisory Group (EFRAG).

The standards will be tailored to EU policies, while building on and contributing to international standardisation initiatives. The first set of standards would be adopted by October 2022. See the EFRAG reports on development of EU sustainability reporting standards

State-specific requirements in the Directive 2014/95/EU

The Directive 2014/95/EU allows Member States to impose state specific requirements on companies regarding the following key aspects of reporting.

Reporting Framework	**Disclosure Format**	**Reporting Content**
International reporting framework EU-based reporting framework	Management Report Separate Report	Safe harbour principle

State-specific requirements:
Whilst state specific requirements have been instrumental in the adoption of Directive 2014/95/EU, so too has the power of the EU Member States to determine which organisations must adhere to the Directive's requirements. Member States differ in the ways in which they:

1. Define an organisation as a large undertaking
2. Consider organisations to be public interest entities

The Directive also allows Member States to define:

1. Whether or not reports must be verified by an independent assurance services provider
2. If any penalties will be imposed upon organisations which fail to report adequately.

Moreover, the European Commission (EC) encourages Member States to work towards "further improvements to the transparency of undertakings' non-financial information". This call has been met by several Member States adapting and expanding the definitions of large undertakings and public interest entities – thereby increasing the Directive's scope.

Company scope

1. Organisations must produce a non-financial report if they are both: An average number of employees exceeding 500 during the financial year Either: a balance sheet total exceeding EUR 20 million, or a net turnover exceeding EUR 40 million

2. A public-interest entity, meaning any entity which is:
Trading transferable securities on the regulated market of any Member State, or A credit institution, or An insurance undertaking, or Designated by a Member States as a public interest entity.
Report features
Companies must disclose a brief description of their business model, and non-financial key performance indicators relevant to the business.
Information must be provided at the minimum for the following matters:

- Environmental
- Social and employee matters
- Respect for human rights
- Anti-corruption and bribery matters

Companies must disclose, for each of the above four matters, the following information:

- A description of the group's business model
- A description of the policies pursued by the group in relation to those matters, including due diligence processes implemented
- The outcomes of those polices
- The principal risks related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks
- Non-financial key performance indicators relevant to the business.

A company is also required to describe, where relevant and proportionate, the business relationships, products and services which are likely to cause adverse impacts relating to the principal risks identified above.

The European Directive has also led to changes to the Disclosure and Transparency Rules which require listed companies to disclose the following in their corporate governance statement in respect of Diversity reporting requirements include:
-the diversity policy applied to the company's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds;
- the objectives of the diversity policy;
-how the diversity policy has been implemented; and. the results in the reporting period.
If no diversity policy is applied by the company, the corporate governance statement must contain an explanation as to why this is the case.

This information shall be presented in:
The management report (including a section called non-financial statement), or a separate report published alongside the management report or within 6 months of the balance sheet date, made available on the undertaking's website and referenced in the management report **Which may rely upon:** A national, EU-based or international reporting framework.

Ensuring compliance- Principles

Comply and Explain
Where the group does not pursue policies in relation to one or more of the listed matters, the consolidated non-financial statement shall provide a clear and reasoned explanation for not doing so.
Safe Harbour
Member states may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting with the competencies assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such an omission does not prevent a fair and balanced understanding of the undertaking's development, performance and position and of the impact of its activity.
Auditor's involvement
Presence of Statement
Member States shall ensure that the statutory auditor or audit firm checks whether the consolidated non-financial statement has been provided.
Content of Statement
Member States may require that the information in the consolidated non-financial statement be verified by an independent assurance services provider.
On 26 June 2017, the EC released the non-binding ***Guidelines on non-financial reporting*** (EC Guidelines), giving companies the opportunity to use them as a support tool as they launch their new reporting cycles, to comply with the requirements of the Directive.
The EC Guidelines seek to help companies prepare relevant, useful, concise, and comparable non-financial statements, which are essential to enable sustainable finance.The EC Guidelines refrain from prescribing one reporting framework, and provide a list of frameworks and methodologies that companies can avail in order to report non-financial information. Nevertheless, a standardised disclosure would facilitate more effective use of the collected data and would reinforce the ambition of the Directive 2014/95/EU to generate consistent and comparable disclosures of non-financial information by undertakings.

Useful links

- Directive 2014/95/EU: Impact assessment accompanying the original proposal from the Commission
- Frequently asked questions on Directive 2014/95/EU
- Frequently asked questions on the CSRD proposal
- EFRAG reports on development of EU sustainability reporting standards
- Commission guidelines on reporting climate-related information
- Commission guidelines on non-financial reporting
- Public consultation on the review of the non-financial reporting directive (20 february 2020 Financial stability, financial services and capital markets union) aimed to collect the views of stakeholders on possible revisions to the provisions of the non-financial reporting directive.
- Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting
- Sustainable development goals EU 2030: https://ec.europa.eu/info/publications/reflection-paper-towards-sustainable-europe-2030_en
- Social value statistics": https://impactreporting.co.uk/social-value-stats/)

Breaking News

New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament

21 June 2022 The Council and European Parliament today reached a provisional political agreement on the **corporate sustainability reporting directive (CSRD)**.

The **provisional agreement reached on June 21 2022 is subject to approval by the Council and the European Parliament.**

From the Council's side, the provisional political agreement is subject to approval by the Permanent Representatives Committee (Coreper), before going through the formal steps of the adoption procedure. The directive will enter into force 20 days after its publication in the Official Journal of the European Union.

The proposal aims to **address shortcomings in the existing rules** on disclosure of non-financial information, which was of insufficient quality to allow it to be properly taken into account by investors. Such shortcomings hinder the transition to a sustainable economy.

The corporate sustainability reporting directive amends the 2014 non-financial reporting directive. It introduces **more detailed** reporting requirements and ensures that large companies are required to **report on sustainability issues** such as environmental rights, social rights, human rights and governance factors.

The CSRD **also introduces a certification requirement for sustainability reporting** as well as **improved accessibility** of information, by requiring its publication in a dedicated section of company management reports.

The European Financial Reporting Advisory Group (EFRAG) will be responsible for establishing European standards, following technical advice from a number of European agencies.

The application of the regulation will take place in three stages:

- 1 January 2024 for companies already subject to the non-financial reporting directive
- 1 January 2025 for large companies that are not presently subject to the non-financial reporting directive
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings

Useful links

- General approach – proposal for a directive on corporate sustainability reporting
- Commission proposal for a directive on corporate sustainability reporting (21 April 2021)
- Directive of the European Parliament and the Council as regards corporate sustainability reporting (CSRD) - link added on 30 June 2022