

EUROPEAN DIRECTIVE ON DISCLOSURE OF NON-FINANCIAL AND DIVERSITY
INFORMATION AS A NEW DIMENSION OF BUSINESS PERFORMANCE VERIFICATION

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Abstract. Despite the fact that European Parliament approved The Directive on disclosure of non-financial and diversity information, that became a basis for European Action Plan on Integrated Performance and Reporting and should be implemented in national laws of EU states not later than December 2016 up to now there is neither binding methodology for such reporting no non-financial KPIs. The article describes the ways existing standards of sustainable reporting allows businesses, investors and auditors to be prepared for such changes. The study provides insight and adds to literature regarding the level of disclosure how sustainable report standards can be used by the business sector of the countries signed Association Agreement with EU.

Key words: corporate social responsibility, non-financial reports

JEL: A13, K20, M14

Introduction. It is widely recognized that people judgment of corporations for their actions raised business consciousness and awareness of social needs, resulting in a powerful trend towards Corporate Social Responsibility (CSR). As far as CSR underpins the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth more and more documents appears, that direct and measure acts of socially responsible businesses. UN GPRF [1] provides straight forward guidance for companies to report on how they respect human rights. IRIS [2] issued by The Global Impact Investing Network for measurement practices across the impact investment industry. IRIS is the list of generally-accepted KPI to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry. We also can remind GRI standards.

However, to make CSR more strict EU affects crucial aspects of business by legislative changes. European Parliament approved at the end of 2014 The Directive [3] on disclosure of non-financial and diversity information (*further Directive*), that became a basis for European Action Plan on Integrated Performance and Reporting and should be implemented in national laws of EU states. It becomes the 1st legislative act that makes firms to prepare non-financial statements. All the documents issued by EU before it, were in the form of recommendations.

Research question. Directive is not something new. Today CSR principles are accepted by dozens of companies. Investigation websites of corporation show, that each of them has something

that proves social responsible activity of the company. Non-financial reports prepared according different standards are common practice for the companies all around the world and in EU as well.

The present paper attempts to describe the ways existing standards of sustainable reporting allows business in EU and in countries signed Association Agreement with EU be prepared for changes that will be implemented by the Directive and entered into force as a national legislation in 2016.

Results. Directive became the logic continue to the policy in the sphere of CSR. In July 2001, European Commission (EC) published a Green Paper on CSR. The aim of it was stimulating CSR discussion and its promotion. That year EU started to support the UN Global Compact. The EC started to promote changes also inside the companies by implementing EU Environmental Management and Audit System (EMAS), a management instrument for companies to evaluate, report, and improve their environmental performance, as well as later ISO 14001, ISO 9001 and ISO 26000, that requires operating policy in the sphere of CSR. The core set of CSR standardization became internationally recognised principles and guidelines: OECD Guidelines for Multinational Enterprises, United Nations Global Compact, ISO 26000, ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, United Nations Guiding Principles on Business and Human Rights. These acts became the EU CSR framework.

In 2006 the Commission published a new CSR policy called the European Alliance for CSR. It became the partnership of enterprises. The partners of the Alliance agree to take stock through high level meetings and also to communicate the Alliance results in the context of the European Strategy for Growth and Jobs. Key driver for Alliance was the European Roadmap for Businesses on CSR – 2010 [4]. In this Alliance the Commission used few years’ experience of public debate, consultation and dialogue with enterprises and their stakeholders to raise awareness and improve knowledge on CSR and reporting on its achievements.

As a result by 2010-2011 business becomes more acquainted with CSR and companies become more involved in CSR activities (table 1).

Table 1. Indicators of EU business changes in the sphere of CSR

| # | <i>Indicators</i> | <i>Year 2006</i> | <i>Year 2011</i> |
|---|--|------------------|------------------|
| 1 | number of EU enterprises that have signed up to the ten principles of the UN Global Compact | 600 | 1900 |
| 2 | number of organisations with sites registered under the EMAS | 3,300 | over 4,600 |
| 3 | number of EU companies signing transnational company agreements with global or European workers’ organisations, covering issues such as labour standards | 79 | 140 |
| 4 | number of EU companies – members of The Business Social Compliance Initiative to improve working conditions in their supply-chains | 69 | 700 |
| 5 | number of European enterprises publishing sustainability reports according to the GRI | 270 | over 850 |

Source: self-developed based on [5].

However, the number of companies that regularly disclose non-financial information was not high. Non-financial reports were prepared according to the different standards that led to the difficulties for investors and stakeholders to understand and compare companies' performance. For instance 86% of companies claimed labor indicators of GRI in their report and just 11% actually did in 2012 [6, p. 29]. Overall the information disclosed by companies did not adequately meet the needs of users.

To ensure a level playing field across the EU and to improve the transparency of CSR information and to raise a similarly high level transparency of the CSR information in non-financial reports in all EU member states in 2011 was issued CSR Communication [5]. The aim of the communication was encouraging enterprises in shared value maximisation by adopting strategic approach to CSR. The European Parliament acknowledged the importance of non-financial disclosure by companies in its resolutions dated 2013, respectively, "Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth" and "Corporate Social Responsibility: promoting society's interests and a tour to sustainable and inclusive recovery.

Such way of CSR implementation in EU for last 15 years shows quite independent approach to it. CSR development was the decision of the enterprises; public authorities played just supporting role and complementary regulation. Some unfair enterprises used this situation to create misleading marketing. They made images based on "being a good citizen". That is why attention to the CSR activity is not quite positive in society (table 2).

Table 2. Survey of the Europeans attention to the CSR

| # | Question of the survey | Answer | |
|---|---|----------|----------|
| | | Positive | Negative |
| 1 | How do you assess the overall influence of companies? | 52% | 41% |
| 2 | How do you assess the influence of food production and agriculture companies? | 70 % | X |
| 3 | How do you assess the influence of retail companies and supermarkets? | 67 % | X |
| 4 | How do you assess the influence of finance and banking, and mining, oil and gas | 34% | X |
| 5 | How do you assess the efforts of SME to behave in socially responsible ways? | 71% | X |
| 6 | How do you assess the efforts of large companies to behave in socially responsible ways? | 48% | X |
| 7 | Do you feel informed about what companies do with regard to socially responsible behaviour? | 36% | 62% |
| 8 | Are you interested in what companies do to behave in a responsible way towards society | 79% | X |

Source: self-developed based on the Flash Eurobarometer 363 [7].

In this situation is raised the question about social performance of the enterprises necessity for society or just trying to create an image of being good. The Commission intends to create specific measures on this issue in communication, so Directive implementation looks like the next step of

such measurement control. Directive objective is increasing transparency and CSR performance and, therefore contribute to long-term economic growth of EU enterprises.

According to the Directive reports should be prepared by large public-interest entities (average number more than 500 employees and exceeding either a total balance sheet of EUR 20 million or a net turnover of EUR 40 million in the meaning of Art.3 (7) of the Directive 2013/34/EU), that includes listed companies, credit institutions, insurance undertakings, other public-interest entities. Now about 2,500 European companies among 42,000 large companies operating in the EU publish non-financial reports.

The Fourth Directive on annual accounts 2003/51/EC requires enterprises to disclose in their annual reports information necessary for an understanding of the company's development, performance or position together with a description of the principal risks and uncertainties that it faces. According to the multidimensional nature of CSR report should also include: human rights, labour and employment practices; environmental issues; combating bribery and corruption; community involvement and development. European Commission promotes also good tax governance by 3 principles: transparency, exchange of information and fair tax competition among EU members. The report shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business. To provide fair and comprehensive view of their policies each part of the report should have description of the: 1) undertaking's business model; 2) policy pursued by the undertaking in relation to those CSR matters, including implemented due diligence processes; 3) outcome of the above policies; 4) principal risks to those matters; 5) non-financial key performance indicators relevant to the particular business¹. It also have to have supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts as well as non-financial key performance indicators relevant to the particular business. Report shall also consider on an annual basis contain information on, as a minimum, profits made, taxes paid on profits and public subsidies received for each third country in which enterprise operates. Company that does not pursue a specific policy on one of the non-financial areas is required to provide an explanation for not doing so.

So, CSR reports become an important element of building public trust to enterprises. The Directive provides companies with possibility to disclose relevant information in one of two ways: 1) integrated or in the consolidated management report; 2) separate non-financial report. Reports should be prepared according to the national², EU-based (such as EMAS) or international frameworks (the UN Global Compact or the ISO 26000).

¹ The Commission should prepare non-binding guidelines, including general and sectoral non-financial KPIs.

² 15 out of 27 EU Member States EU member states have national non-financial disclosure requirements that go beyond existing EU legislation.

Statutory auditors and audit firms should only check existence of non-financial statement of the company and express an opinion and check that the information just in the case of need.

Non-financial report should be available within six months period, on the company's website.

Member States will have two years to transpose the Directive into national legislation. Companies concerned will start reporting for the financial year starting on 1 January 2017 or during the calendar year 2017.

SUMMARY

By Directive EC intends to promote responsible business conduct in its future policy initiatives towards more inclusive and sustainable recovery and growth in EU members and in the countries that have intention to be the part of EU. It will become a part of the national legislation by 2017 and will increase the number of reports to disclose the business performance in Europe.

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