NEW TRENDS IN CORPORATE REPORTING IN THE LIGHT OF SUSTAINABILITY

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Abstract Independently of the negative economic, social and human effects of the COVID-19 virus, sustainability is an emerging issue. The purpose of sustainability and integrated reporting is to create a holistic approach to performance measurement, bridging financial and non-financial measures based on integrated thinking that covers all the key elements of a business. Publishing these reports is a way for external communication to show a comprehensive picture. In order to prepare a good quality report, companies need to identify their stakeholders, their interests, needs and expectations while also presenting all the relevant information in a concise and structured report. In this paper, we describe the background and development of sustainability/integrated reporting in terms of its regulatory and application environment. We concluded that although there are different interests and approaches, intensifying intensions to form generally accepted and uniform regulations in sustainable reporting are existing and escalating. In this paper, we summarise the practice of companies from some EU countries in sustainability/integrated reporting. In practice, despite the common EU directive, the content, level of detailed presentation and structure of the reports of non-financial information differs from country to country and company to company, which restricts the ability to compare these reports or elements.

Keywords: sustainability, integrated reporting, COVID-19, disclosure, non-financial information

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1 Introduction

In recent years, financial crises, accounting and remuneration scandals, as well as growing public awareness about the impact of business activity on social and environmental issues, have led to a greater demand for transparency and accountability in corporate reporting and behaviour (Wulf et al., 2014). The last financial crisis has heightened criticism of the short-term shareholder value perspective (Velte, 2014) and companies have come under increasing pressure from stakeholders to adapt their business practices and become more accountable on environmental, social and governance issues (Kolk and van Tulder, 2010; Seuring and Mueller, 2008).

Therefore, traditional accounting and financial reports come to be regarded as no longer being sufficient to meet reporting needs on all these issues. Initially, the focus was on intangible assets and their increasing importance for business value (Graham et al, 2005). This led to companies publishing supplementary information through voluntary reporting (Wulf et al., 2014). The focus subsequently broadened to include environmental and social issues (Kolk, 2006). The issuing of standalone sustainability reports has since become standard business practice. However, a key criticism of the publication of a range of different reports by companies concerns the large amount of information produced in disconnected and unrelated formats, without sufficient integration of financial and non-financial information (Eccles and Krzus, 2010; Eccles and Serafeim, 2014).

The idea of integrated reporting has been considered for about 40 years by companies, accountants and academics, and the first integrated reports were published by companies in the early 2000s (Delphine et al., 2019). Todd (2005, p.1) broadly defines integrated reporting as '*reporting that meets the needs of both statutory financial reporting and sustainability reporting.*' In practical terms, this usually means one annual report containing sustainability performance information and financial statements.

2 Development of sustainability regulations and reporting

As consequences of sustainability initiatives – as milestones: the Burtland Report of WCED (World Commission Encironement Development) in 1982, Rio Declaration in 1992, document of EAA (European Environmental agency) titled The United Framework Convention on Climate Change in 1993, the Kyoto Protocol in 1997, the Paris Agreement in 2016, the Net Positive Impact in 2013, the UN SDGs (United Nations Social Development Goals) in 2015, the term and concept of circular economy of UNCTAD (United Nations Conference on Trade and Development) in 2015, the EU Green Deal in 2019 – the environmental issues became more relevant and regulated in corporate and financial reporting. Different approaches for standardisation have been published detailing what and how to report.

The concept of Corporate Social Responsibility (CSR) can be treated as the first one in sustainability. It can be linked to the American economist Howard Bowen and his publication of 'Social Responsibilities of the Businessman' in 1953. The concept of CSR became widely known and used from the 1970s, first in the USA and later worldwide (Lapati Agudelo et all, 2019.) CSR Europe was founded by European business leaders in 1995. In July 2001, the European Commission presented a Green Paper titled 'Promoting a European Framework for Corporate Social Responsibility'. The Green Paper defined CSR as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' as they are increasingly aware that responsible behaviour leads to sustainable business success (CSR, EC, 2002)
The Global Reporting Initiative (GRI) was founded in 1997 and the first GRI Guidelines were published in 2000. After the issue of four guidelines in 2016, the GRI transitioned from providing guidelines to setting a global standard for sustainability reporting – the GRI Standards. The GRI Standards allow an organisation to report information that covers all its most significant impacts on the economy, environment and people, or to focus only on specific topics. In 2020, approximately 73% of the G250 and 67% of the N100 used the GRI (KPMG: Survey on Sustainability, 2020).

The Carbon Disclosure Project (CDP) was established in the beginning of 2000s as a not-for-profit charity that develops disclosure systems focusing on climate, water and forest issues. The CPD differentiates between companies, cities, governments, investors, states, public authorities and supply chains. More than 13,000 companies apply to report CDP (cdp.net).

The Greenhouse Gas (GHG) Protocol establishes a comprehensive, global, standardised frameworks to measure and manage greenhouse gas emissions from private and public sector operations, value chains and mitigation actions. Its history dates back to the 1990s when the need for GHG accounting and reporting arose. The first publication was the Corporate Standard in 2001, which was updated in 2015, and since then five standards and several guidance and calculation tools have been issued (ghgprotocol.org).

The Climate Disclosure Standard Board (CDSB) was established in 2007. In 2010 a document was published titled 'Framework for reporting environmental and social information' and in 2015 the 'Framework for reporting environmental and climate change information' was released. Other guidelines were developed for climate, social, biodiversity and water topics. The frameworks are voluntary, and their main objectives are to support companies in reinterpreting their sustainability information into long-term value, providing financial information supplemented with other relevant sustainability information for investors and minimising the reporting burden and simplifying the reporting process (cdsb.net).

In 2010 the ISO 26000 'Guidance on Social Responsibility' was issued, which is an international standard developed to help organisations effectively assess and address social responsibilities that are relevant and significant to their mission and vision. It can be said that this was the first standard with a holistic integrated approach that set seven core subjects and states with interdependencies between. The organisation of a company was in its focus and the core subjects are governance, consumer issues, community involvement and development, human rights, labour practices, the environment, and fair operating practices (ISO 26000, iso.orgh).

The Sustainability Accounting Standard Board (SASB), which operates with the support of the Value Reporting Foundation (VRF), has developed standards for 77 industries in ESG issues. The Board provides guidance for financial and sustainability materiality, thus supporting the understanding of integrated thinking (sasb.org). At the end of 2021, the VRF and CDSB were consolidated into the International Sustainability Standard Board within the IFRS Foundation (sasb.org).

The IIRC was founded in 2010, with an ambitious mission to establish integrated reporting as the primary reporting vehicle (IIRC, 2011) and 'the' corporate reporting norm. The IIRC defines its framework – published in 2013 and updated in 2021 – as being principle-based rather than rule-based. According to the IIRC, the purpose of integrated reporting (<IR>) is to explain to providers using the Six Capitals approach – financial, manufactured, intellectual, human, social and relations and natural - how an organisation creates value over time by developing integrated thinking (integratedreporting.org).

In financial reporting, the first non-financial disclosure requirements were published at the beginning of the 2010s. In 2014 the European Union amended Directive 2013/34/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. The 2014/96/EU regulation applies to public companies with more than 500 employees that are required to report on environmental, social and employee-related, human rights, anti-corruption and bribery matters. Additionally, these large corporations are required to describe their business model, outcomes and risks of the policies on the above topics, and the diversity policy applied for management and supervisory bodies. The reporting techniques are encouraged to rely on recognised frameworks such as GRI Standards, ISO 26000, OECD Guidelines, UN SDGs, etc.

The SFDR (Sustainable Finance Disclosure Regulation) (2019/2088 EP SFDR)came into effect in March 2021, which imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants. The SFDR was introduced by the European Commission alongside the Taxonomy Regulation and the Low Carbon Benchmark Regulation as part of a package of legislative measures arising from the European Commission's Action Plan on Sustainable Finance. It aims to create transparency in relation to sustainability risks, the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products.

The Taxonomy Regulation (EU: 2020/852 EP) came into effect in January 2022 and establishes a classification system – a taxonomy – which provides businesses with a common language to identify whether a given economic activity should be considered as **'environmentally sustainable'**. It must be applied by financial market participants and all companies are subject to the NFRD (Non-Financial Reporting Directive) or CSRD (Corporate Sustainability Reporting Directive).

The CSRD (EU CSRD) is the latest regulation is in a proposal stage which is expected to apply from 2023. The scope will be all EU large companies and all listed companies (except listed micro companies). It will introduce more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards. It also requires companies to digitally 'tag' the reported information (Taxonomy Regulation). It is challenging for audit companies as well, as the CSRD requires the audit (assurance) of reported information.

3 Research

We surveyed the published financial statements, including non-financial information and sustainability reports, of listed entities in order to gain a comprehensive understanding and draw conclusions about their reporting practices. We conducted desk research on German and Italian practice and compared them in order to obtain a more global view.

The research methodologies of this paper include desk research and a review of scientific and professional papers in order to present the trends and variety in sustainability regulations and reporting initiatives. Desk research was used for German and Italian practice and empirical research was carried out in the case of Hungarian practice by looking through the financial statements of listed companies. The results of this process were then summarised.

3.1 Practice in Hungary

We analysed the financial statements, annual reports and sustainability reports or other non-financial information of companies listed on the Hungarian Stock Exchange. The accounts are made fully public in Hungary for companies that are subject to the Accounting Act. Companies listed on the stock exchange required to prepare standalone and consolidated financial statements in accordance with International Financial Reporting Standards as of the 2017 financial year, however, they must also comply with the requirements of the Accounting Act while remaining subject to the Hungarian Accounting Act.

The securities of 63 companies are traded on the Budapest Stock Exchange, of which 20 issue bonds and four are not registered in Hungary but whose securities are traded on the Budapest Stock Exchange. For the purposes of analysis, we selected the published 2020 financial statements of the remaining 39 companies that trade shares. The research questions were whether the companies disclose non-financial reporting content in the financial statements prepared in accordance with the IFRS and the NFRD and whether they prepare separate sustainability/integrated reports in addition to the financial statements or are integrated in their annual reports.

We classified the 39 share trading listed companies based on their activities and we were able to confirm that all the main industries and business activities are represented.

Table 1 shows the minimum, maximum and average sales, the balance sheet total in HUF million and the number of the employees for the financial year 2020 of the listed companies under review.

Table 1: Financial statement data (LCU=local currency unit)

	Total assets m LCU 2020	Sales m LCU 2020	Number of employees 2020
Min	7	0,45	2
Max	23,335,841	4,011,022	38,626
Average	961,278	175,587	2,921

Source: authors' own data collection based on data obtained from financial statements

The company with the largest balance sheet total and the highest number of employees is OTP Bank Nyrt (Plc), while MOL Nyrt (Plc) achieved the highest sales and the highest operating profit in the 2020 financial year. Of the companies surveyed, 85% published an annual report, two-thirds of which contain information on environmental protection.

According to Directive 2014/95/EU, disclosure of non-financial and diversity information by companies is mandatory. We examined to what extent these companies disclose information in accordance with the requirements of the NFRD:

- 30% of the published reports contain a business model presentation
- 55% include social and employment policy issues
- 18% deal with the fight against corruption
- 21% deal with human rights
- 33% contain specific data and information
- 13% relate to integrated thinking

From the percentages above, it can be concluded that even if the reporting of non-financial information is mandatory, the companies do not mention all the elements. This can be explained with materiality, i.e. they select those issues that are relevant and material to the company. Of course, it could be argued whether the materiality approach is appropriate in such circumstances.

Of the companies researched, only four publish sustainability reports, and these are under GRI standards: ALTEO Plc. (energy service and trading), Magyar Telekom Plc. (telecommunication), MOL Plc. (oil and gas exploration and production), and OTP Bank Plc. (financial institution).

There are numerous other notable points in these reports:

- Two of the reports (ALTEO and MOL) are integrated reports and integrate the IFRS financial statements and a sustainability report. The other two companies published separate sustainability reports as a supplement to their financial statements.
- The sustainability/integrated reports are audited and verified by external audit companies, which issue assurance of the proper application of the GRI.
- Only one company (ALTEO) does not have an international background but nevertheless prepares a sustainability report.
- Although the main sustainability reporting guideline for these companies is the GRI, they also applied and referenced several other reporting frameworks and standards. In their reports the companies refer to SASB standards and indicators.

In addition, due to its specific activities, in its reports MOL also mentions the IIRC's IR Framework and the UN SDGs, the 'Sustainability Reporting Guidance For The Oil And Gas Industry', and GHG protocols.

3.2 Practice in Germany

Recent practitioner studies have analysed the reporting behaviour of DAX 160 companies since the implementation of Directive 2014/95/EU into German law (Kirchhoff, 2018; 2019; PWC 2018). The most recent study, which analyses the reporting year 2018 (Kirchhoff, 2019), shows that of the 92 companies analysed, 75% published a separate sustainability report and 25% chose some form of a combined report. Eighty-eight percent of the analysed companies used the GRI framework. Two companies also used the IIRC framework – BASF and SAP.

For the 2013 and 2014 reporting period, PWC conducted benchmark surveys of the reporting behaviour of DAX 30 companies and analysed them in relation to the content elements of the IIRC framework. For the 2013 reporting period, PWC concluded that DAX 30 companies were increasingly moving towards IR. This assessment was based on the increase in the number of companies publishing combined reports and the increase in IIRC-relevant information in annual reports (PWC, 2014). Three companies (BASF, Bayer, SAP) published integrated reports, of which BASF and SAP referred to the IIRC framework. A further four companies published combined reports and the remaining companies published a suite of multiple reports. However, in terms of IIRC-relevant information, some of the changes in the reporting behaviour were brought about by changes in German law (German accounting standards GAS 20). For the 2014 reporting period, PWC's survey highlighted a decrease in the pace at which DAX 30 companies were moving towards IR, with reporting remaining primarily 'compliance-driven' in most of the DAX 30 companies (PWC, 2016).

3.3 Practice in Italy

Many Italian large firms (e.g. Ansaldo, Cattolica Assicurazioni, Edipower, ENAV, ENEL, FCA, Ferrovie dello Stato, Leonardo, Maire Tecnimont, Mondadori, Monte dei Paschi di Siena, SNAM, Terna) that are subject to the provisions of Legislative Decree No. 254/2016 in terms of non-financial reporting publish sustainability reports separately from financial accounts, usually based on the GRI's Sustainability Reporting Standards. IIRC standards are mentioned in all the corporate reports included in the sample. A growing number of large firms (e.g. A2A, Barilla, Luxottica) are starting to report their non-financial performance, referring explicitly to the Sustainable Development Goals.

A relatively small number of larger companies (e.g. DESPAR, Fideuram, GTS, UNICREDIT) have opted for fully-fledged Integrated Reporting <IR>. Most companies tend to explicitly adopt the 'Six Capitals' model, while others (e.g. A2A, Poste Italiane) published sustainability reports for many years, but have more recently switched to <IR>.

There are also examples of companies that have stopped issuing sustainability reports (e.g. Landi Renzo) and integrated reports (e.g. Bombardier Transportation Italy).

Interestingly, not only companies but also the Italian Football League adopted <IR> as early as 2013, and the Municipality of Sasso Marconi was the very first in Italy to adopt <IR> in 2019. Other companies (e.g. A2A) published sustainability reports for a few years but have more recently switched to <IR> (Dyczkowska, Madarasi-Szirmai, Tiron-Tudor ed., 2020).

4 Conclusions

From researching the sustainability initiatives with various focuses, it can be concluded that since the mid-1950s there have been several valuable and strong regulatory and professional intentions throughout over the world. The initial emphasis was on how to save the world, and how a sustainable, circular economy can be 'created'. These initiatives also directed attention to reporting issues. As a result, several frameworks, standards and guidelines were developed to support uniform understanding and measurement approaches and methods. There have also been strong debates over whether sustainability reporting and measurements should be voluntary or mandatory, what kind of information should be published, how this can be measured and presented in a comparable manner, and the size and activities of the companies where this has significant relevance.

Based on this research, we concluded that sustainability reporting and integrated thinking is less widespread in Hungary compared to the practice in Germany and Italy. Several reasons for this can be mentioned: the different sizes and interests of investors in these companies, the differences in managing risks, the companies' maturity, and the level and quality of integrated and responsible thinking and management. It is inevitable that the issue of the measurement and reporting of sustainability will also become increasingly relevant in Hungary, as the regulatory requirements are becoming more fixed. In addition, the application of these regulations will have rolling and multiplicative effects on companies throughout the economy, as there is an increasing internal need for companies to become sustainable.

From the empirical research carried out, it can be concluded that the largest listed and publicly accountable companies work on sustainability issues as they have an obligation to operate sustainably and the positive impact can increase the company's value and share price. In contrast, the ways such companies present sustainability issues vary greatly, so it can even be challenging to compare and analyse companies in the same industry. As there are many regulations, standards, etc. that must be applied, or are worth applying, the reporting burden and the cost of reporting will increase for companies.

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