DEVELOPMENT OF CORPORATE REPORTING – RECENT CHANGES AND A SHIFT TO NON-FINANCIAL INFORMATION

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Abstract
Company reporting is developing as it focused for long time on pure financials and neglected material non-financial information. PIEs were the first mover and included in their perpetual communication to stakeholders selected topics like sustainability and other CSR topics. Social responsibility is discussed in various views and gets more popular. Stakeholders have an increasing demand for decision useful financial and non-financial information. Corporate reporting will develop to fulfill the information needs of stakeholders in supporting their decisions. The recent changes in law and regulation strengthen the reporting obligations regarding non-financials. The paper gives an insight into the new mandatory reporting requirements in Germany, especially CSR and an outlook the development in corporate reporting.

Keywords
Sustainability, CSR and non-financial Reporting,

JEL Classification
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Introduction

Financial reports were in the past the primary source of information to shareholders and other stakeholders. In giving stakeholders a better insight into the reporting entity the financial reports were occasional accompanied by Corporate Social Responsibilities or other sustainability reports. These additional and non-mandatory reports delivered stakeholders decision useful additional information to the financial statements. Financial reports got during the years more and more complex and overloaded and are therefore nowadays hard to understand without specific knowledge or education in accounting. The complexity of the reporting is driven by new accounting entries like hedging, offsetting pension obligation with plan assets, the usage of derivatives, deferred taxes and nevertheless the fair value accounting that should be included in the reports to give a true and fair view of the reporting entities. Financial statements are today highly regulated and have limited possibilities to include additional information. Thus, additional non-financial information that is decision useful, demanded by stakeholders, is given in separate reports. These separate reports have the flaw of not been issued timely, been not mandatory also regarding the content and are

without an audit obligation. Thus, the reliance and trust by stakeholders on the non-financial reports is limited.
Financial reports differ from non-financial reports for instance in a lower impact of regulations on the reports, focus or stewardship. Non-financial reports are in addition a second or third reporting line of entities and not reconcilable to the financial statements. Below an overview to distinguish between financial and non-financial reporting is displayed:

Table 1 Synoptic comparison between financial and non-financial reporting

Guiding principles of the reporting	Financial report /reporting	Non-financial reporting
Transparency on financial and non-financials on performance of companies	Focus on reporting on financial performance of the reporting business year	Holistic view on company's performance. Giving shareholders and other stakeholders non-financial decision useful information
Stewardship	Financial capital	All kind of capitals
Focus	The core information is related to past financial performance	Past and future orientated
Timeframe	Presenting one business year in comparison to the prior year. Short term. Outlook limited to one year.	Long term focus. Sustainability of the business
Regulation	Highly regulated information with limited scope and no variations.	Wide Scope and flexible.
Understandability	Not easy to understand	Comprehensive

Source: by the authors based on the EU CSR directive 2014/95/EU 2014.

Regulations enforced lately in the EU obliged reporting entities giving various non-financial information to stakeholders. Reports in that respect have a more holistic view and are giving better insights into the reporting entities. After an overview on new reports and the CSR reporting the next developments in company reporting are outlined the combining of various reporting silos of companies in one report.

1. New reporting requirements beyond financial information

In following the additional mandatory reporting requirements for German reporting entities to shareholders and other stakeholders are explained. Not all are enforced as of today.
Listed companies must fulfil the highest standards as stock owner, which are holding mainly minorities of shares, were seen as in need for protection. Thus, more reporting requirements exist for companies that are listed or are using the capital markets by issuing bonds (PIE). Information about the supply chain will be required in the future (Regulation 2017/821/EU, 2017). Companies must give further information on operating segments, equity reconciliation and cash flow and are in focus of the CSR directive. Non- PIE like SMEs are also concerned by new regulations and should give additional insights. Below an overview of the new requirements is displayed giving also the background of the regulation

Table 2 Overview of new reporting requirements for companies

Reporting	Scoping	Content of information	Transparency envisaged
CSR /ESG based on EU-directive 2014/95/EU	PIE with more than 500 employees	Mandatory topics	Harmonization of sustainability reports.
Equal opportunities and equal employment (Entgeltbericht)	Limited companies with more than 500 employees	Measures to foster equal payment of woman and men.	Transparency to foster equal payment
Report on payment to governments (Zahlungsbericht)	All limited companies that work in the mineral oil, gas and minerals industry or perform wood harvesting of primary forests.	Disclosure of all payments to governments like taxes, rents, entry fees, licensees, compensation fees	Transparency and disclosure of dependencies between government and reporting entity
Report on salaries of top management. (Not enforced)	PIE, AG and SE	Information about the policy of salary and bonuses granted to those charged with governance of the company	Transparency on compensation to top management
Minerals in conflict based on EU directive 2017/821/EU. (Not enforced)	All companies that are importing minerals which destination are classified as risky into the EU	Supply chain information including risk management and undergone audits	Disclosure of supply chains and sources of goods

Source: by the authors based on the research.

2. Reporting on CSR

Financial reports were in the past accompanied by sustainability and CSR reports. These reports were given to stakeholders separated from the financial statements. On 22 October 2014 the adoption of the EU directive 2014/95/EU was reached. This is seen by many authors as a turning point: "disclosure of non- financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection […] Thus, the European Parliament called on the Commission to bring forward a legislative proposal on the disclosure of non-financial information by undertakings" (2014/95/EU, 2014).

Disclosing non-financial information is since the start of the business year2018 a regulatory requirement for PIRs. The voluntary initiative to give stakeholders additional information as in the past changed to a binding obligation. In Germany the mandatory reporting topics are included in a special section of the management report or could be given in separate reports.

The content of the report was harmonized by giving obligatory topics that must be included. Companies obliged by the directive must provide at least information about five defined key topics.

Table 3 Overview with examples of mandatory key topics in CSR reports

Key topics of non-financial information	Example information 1	Example information 2	Example Information 3
1. Environmental	Water consumption in the production process. Recycling of water.	Air pollution due to the production process and measurements taken to reduce	Overall energy consumption to renewables energies
2. Employee matters	Diversity and programs to develop diversity	Health and safety and work	Respecting labor rights
3. Social matters	Development of local area	Interaction with local institutions and parties	Protecting of local environment
4. Respect for human rights	Supply chain controls	Child labor	Polluting industries – pathogenic impact
5. Anti-corruption and bribery matters	Whistleblower hotline	Compliance to the 4th EU directive	KYC procedures performed

Source: by the authors based on the EU CSR directive 2014/95/EU 2014.

The EU directive includes a comply-or-explain principle that requires all topics mentioned in the EU directive must be explained by the PIE (Lanfermann, 2015). In case that one of the mandatory topics is not relevant the PIE must explain reasoned the fact that no information is given to stakeholders (Seibt, 2016). This principle allows to customize the reporting, but did not diminish the comparability.

The EU directive includes in addition an escape rule. The rule allows entities preparing a separate report for the same financial year, if relying on national, EU-based or international frameworks, such as UN-Global Compact, ISO 26000, GRI, IIRC and covering all information required for the CSR reporting, from preparing an additional CSR report (Seibt, 2016). EU member States must exempt, based on a transformation in local law, companies from providing the EU CSR report, if it fulfils the requirements of the Directive in another report and this report is published in due time with the financial statements (Hinze, 2016). The EU directive allows in remote and rare circumstances, if disclosure may have a negative impact on the commercial position of a PIE, to hide the relevant information (2014/95/EU 2014). Risks of certain exposure for the commercial position might allow too omit information to the stakeholders (Lanfermann, 2015).

The aim of the EU CSR directive is harmonizing the reporting of companies within the EU. The EU Commission's assumes rightly that stakeholders have beside pure financial information "interested in social and environmental information" (2014/95/EU, 2014). The EU assumes also that published non-financial information by entities may not be biased.

Entities tend to outline positive aspects and to mask or leave out negative aspects. Thus, mandatory and standardized reports may force companies to give more reliable information.
The EU is supposing that a better comparability of non-financial information given is necessary to reduce the cost of information. Stakeholders compare entities to each other regularly by analyzing the prospects of companies. Harmonized reports have the advantage that the efforts to analyze are clearly lower, if the reports base on the same underlying requirements. This cost reduction measures are especially useful and desired by multinational entities (Szabó, Sørensen 2015).

Table 4 Example of CSR reporting requirements

Reporting Requirement for each of the five mandatory topics	Examples of information given
Business model of the reporting entity: a brief description	Distribution of sport equipment produced in Germany, but also outside the EU in emerging markets.
A description of the policies pursued by the PIE in relation to those matters, included due diligence processes implemented	Brief description of the supply chain and the procedures performed to avoid a negative impact on the reporting entity.
The outcome of those policies	Number of supplier reviewed. Number of certified suppliers.
The principal risks related to those matters linked to the company'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 these risks are managed	Disclosing possible risk resulting out of the supply chain and impact. Likelihood and amount of risk should be mentioned.
Key performance indicators - non-financial.	Water consumption per year; fluctuation of personnel; number of bribery matters reported; amount of industrial accidents.

Source: by the authors based on EU CSR directive 2014/95/EU 2014.

The directive outlines interpretation on the reporting topics to give guidance for preparing the CSR reports in line with the EU directive.
The disclosure of CSR information will have a material impact on the PIE organizational processes as topics to report are wide and covering many sustainability and non–financial aspects. The overall ratio between non-financial information to financial information will be improved (Szabó, Sørensen, 2015).
The directive gives a lot of flexibility to companies in the information to disclose as they can choose what to report as long they cover the obligatory topics (2014/95/EU, 2014). The directive does not request to report on precise issues and general overview of companies' non-financial information in relation to their business is deemed enough. Today most of the large companies, which are in scope, already provide information about CSR, either on their webpage or in specific reports (Stawinoga, Velte, 2016). Thus, the directive confirms and harmonize from a regulatory perspective a current practice.
Finally, a noticeable change is the role of statutory auditors occurred as the auditors must confirm the existence of the non-financial statement, even if the examination of the content is not obliged (2014/95/EU, 2014).

3. One report combining financial and non-financial information

Reports of companies to stakeholders have no long tradition as companies were very reluctant giving any information to outsiders. Starting with the development of the stock markets in the twenties of the last century, especially in the USA, the demand for decision useful information by shareholders and potential shareholders increased (International Integrated Reporting Council, 2015). New regulations, like the ones that resulted out of the first stock market crash in the late 1920, improved the quality of company reports. The demand for information beyond financial increased over time resulting in a higher amount of requested decision useful trustworthy non-financial information (Seibt, 2016). Information given in financial statements is structured, strictly regulated and a huge amount of time was spent to develop them. The relevance of this information is increased by an audit obligation of the underlying reports (Singer, Bußian, Stiegler & Hell, 2017).

Reports are developing and will change in the future. Due to the World Wide Web, the digitalization, the shorter IT processing times and the possibility to get information from different public sources, the overall amount of available and process able information increased sharply in the last decades (Singer, Bußian, Stiegler & Hell, 2017). Today the share of non-financial information in overall available information is excelling the traditional financials (Vaessen, 2016). But financial statements are not designed or cannot give important information about capitals that contribute to the overall performance of companies like human capital, social and relationship capital, natural resources, manufacturing or intellectual capital (International Integrated Reporting Council, 2013). New reporting formats, like the integrated reporting or one report deliver information on all kind of capitals not only financial capital (International Integrated Reporting Council, 2013).

The integrated reports are boosted by a higher demand on non-financial information combined with the need of giving material information in a structured way. Relevant, sufficient and modern sustainable reporting be a reporting that is combining all material information on capitals used in one report on which stakeholders can trust (International Integrated Reporting Council, 2015).

Reports outlining all decision useful capitals at one time are reducing the costs by companies and the information cost by the stakeholders (Eccles, Schulschenk & Serafeim, 2012). In addition, the implementation of an audit obligation for non-financial information could contribute in building trust.

Conclusion

Performance measurement by companies today is taking non-financial measures into account to describe the actual performance and the gap to the desired targets. Performance measurement systems are considering measures and value drivers beyond financials. Balance scorecards include customer, process and learning perspectives (Kaplan & Norton 1996). Company reports on the other hand are neglecting such wider view on performance and are focused still on financials.

It is common understanding that information to stakeholders must be relevant for their needs (PricewaterhouseCoopers, 2016). Information is relevant if it is decision useful. Whether to invest or disinvest, whether to sign a contract as supplier or employee is not been judged by pure financial information (PricewaterhouseCoopers, 2016). Stakeholders take regular non-financial information into account in their decision process (Hinze, 2016). New reporting requirements are established giving harmonized information on CSR, payments to governments and the equal payment of women and men beside the financial statements.

The next development for corporate reporting will be an integrated report that will combine all material decision useful information in one report to stakeholders. This combined report is not the end of the development of corporate reporting as printed reports will be complemented by a perpetual reporting to stakeholders. The future of company reporting will be an interactive perpetual communication between the reporting enterprises and the shareholders and other stakeholders based on online platforms (Eccles, Schulschenk & Serafeim, 2012). Stakeholders will be enabled to perform their own analyses and can combine individual reports customized to their needs assisted by professional tools free available for them. Reporting will shift to communication building stakeholder involvement and trust.

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