

ANALYSIS OF EFFECTS OF CHANGES IN REGULATORY REQUIREMENTS FOR DISCLOSURES ON THE FINANCIAL AND NON-FINANCIAL REPORTING OF COMPANIES

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Abstract: *Strong competition in all segments of the economy requires companies to adapt more quickly to market demands and market participants. In such an environment, companies are required to adapt the decision-making and management process. At the same time, stakeholders demand a wider range of information for making business decisions. The public is increasingly loud and emphasizes the awareness and the need for corporate social responsibility, the need for environmental protection and human rights. In order that all stakeholders (investors, creditors, suppliers, current and future employees and others) will have a more complete insight into the operations of a particular company, beside financial reporting, the non-financial reporting is becoming more and more important. Non-financial information enables different stakeholders to see more clearly the impact of a company's operations on society as a whole, the environment, and the economy within which it operates, apropos to create a clearer picture of how each individual company creates value. Non-financial information, along with financial information, represents a more quality information base for short, medium and long-term business decisions. In order to regulate the non-financial reporting, the European Commission by Directive 2014/95/EU has prescribed the preparation of the non-financial report for certain entities for the reporting periods beginning on 1 January 2017. In that effect, the aim of this paper was to investigate whether the changes in regulatory requirements for the disclosures of financial and non-financial information affected a more transparent and comprehensive presentation of information about the companies' business. The research was conducted on the basis of the analysis of secondary data sources, primarily published non-financial information on the company's website and in their annual reports. Research sample consists of five companies from five different EU countries. Published secondary data were analyzed in qualitative and quantitative terms using comparative and compilation methods and methods of analysis and synthesis. The research results showed that non-financial reporting was not standardized, and that the introduction of legal obligation for non-financial reporting did not affect the scope and presentation of non-financial information. The main reason for this research results can be the fact that the observed companies, already before the introduction of this obligation, realized the significance and importance of non-financial reporting.*

Keywords: *Non-financial reporting, Directive 2014/95/EU, Transparency of business, Corporate social responsibility*

1. INTRODUCTION

Information about the company's business is the basis for making various business and investment decisions both for internal and external users. For many years, companies have informed their stakeholders about their business solely through financial statements, or only in the form of financial information. During the past twenty years, the awareness of the interested users (investors, employees, customers, suppliers, state and others) has been strengthened that the informa-

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tion in the financial statements is insufficient to understand and illustrate the entire business of a particular company [1]. Financial statements contain information on the financial position, the financial performance and the cash flows of the company incurred in the reporting period as a result of management decisions. However, from the information that is presented in financial statements is not seen how the company creates added value, that is, how the company's everyday business relates to the environment, employees and society as a whole and to the economy in which it operates, nor it is clear whether the company's current management system ensures its sustainability in the long run. For these reasons, the regulator sought to fill gap in reporting of the company in order to meet the information needs of all stakeholders. The European Parliament and the Council of the European Union have adopted Directive 2014/95/EU amending Directive 2013/34/EU as regards disclosure of non-financial information and diversity information by certain large undertakings and groups [2], whose main purpose is to increase the transparency, consistency and comparability of non-financial information or information about corporate social responsibility. It is important to point out that the European Union is the first largest economy in the world that has set a regulatory obligation for non-financial reporting. According to Directive 2014/95/EU, non-financial reporting is primarily directed towards the publication of information related to environmental matters, social and employee-related matters, as well as issues related to respect for human rights, the fight against corruption and bribery. The aim of this paper is to examine whether changes in regulatory requirements for disclosure of financial and non-financial information have led to a more transparent and comprehensive view of information about the company's business.

2. SIGNIFICANCE OF FINANCIAL AND NON-FINANCIAL REPORTING IN MODERN BUSINESS ENVIRONMENT

The high quality of corporate reporting system functions in a way that effectively reduces the information asymmetry between internal and external users, and supports the efficient allocation of information among participants in the financial market. Today, most stakeholder's business and investment decisions are based not only on financial but increasingly on non-financial information. It is important for stakeholders to be timely informed, and information should be reliable and comprehensive, thereby boosting public confidence in the company. Reliable and timely information on participants in the financial market contributes to the stability of the financial market. As the initiators of the need for corporate social responsibility are quoted growing environmental pollution, insufficient resources and the challenges of globalization [3].

2.1. Publication of financial and non-financial information

Reporting and publishing information about the company's business may be voluntary or compulsory. The regulatory framework specifies the minimum information that are required by all companies in each country, while the supervisory authorities may prescribe additional information that have to be disclosed by the financial market participants. In this section, it is primarily about financial information. For a number of years, only the publication of financial statements was mandatory. However, the companies have seen their benefits by making voluntary disclosure of numerous non-financial information over the mandatory disclosure of financial information [4]. Also, from the stakeholders' perspective, the financial statements do not provide all the information needed for evaluation the company's business and they need an additional information [5], [6].

Financial reporting is mandatory, standardized and regulated by numerous laws and bylaws, and financial statements are published on prescribed forms. However, non-financial reporting

is not yet standardized and it was voluntary for many years. The move towards the introduction of the obligation for preparation of the non-financial report was made in 2014 by adopting the Directive 2014/95/EU. The application of Directive 2014/95/EU is obliged for large companies that are public interest entities and which on the balance sheet date exceeds the criterion of an average number of 500 employees. The application of Directive 2014/95/EU started from January 1, 2017. The framework that is used for the preparation of the non-financial report is not the same for all companies. When company prepares information for the purposes of compiling its non-financial report, it can be used different internationally recognized frameworks, such as the Global Reporting Initiative Standards (GRI), Integrated Reporting (<IR>), Guidelines for Multinational Enterprises from the Organization for Economic Co-operation and Development (OECD), the International Organization for Standardization ISO 26000, the United Nations Global Compact (UNGC) or others [1]. Different frameworks that can be used for the preparation of non-financial report show that non-financial reporting is still not standardized. In that sense, the compilation of a non-financial report largely depends on management's willingness to cover the scope of non-financial information which it wants to publish about the company. So, the regulator should set more precise and more specific reporting requirements in order to enable the comparability of non-financial information.

The most popular channels of company's communication with the users are the Internet and the company's website [7]. Presentation of financial and non-financial information over the Internet, especially through the company's website, enables timely information to stakeholders, at the time when information is generated and without delay of its publication. It is important to point out that information can be presented in the form of different reports, but also in the form of different presentations, or video clips about the company. In order to be user-friendly and for the purpose of easier reading, information is also often presented in the form of different tables, pictures and charts. The non-financial report is most frequently published as an integral part of the company's annual report; also, all other information that is voluntarily disclosed by the company is published in the annual report [8].

2.2. Benefits of publishing financial and non-financial information

Financial information presented in the financial statements shows the financial position, business performance and cash flows of the company realized over a reporting period. Such information points out the financial effects of business and investment decisions of managers in the reporting period. However, the market value of a company is largely determined on the basis of non-financial information, where [9] up to 80% of the company's market value does not have to be the result of financial information presented in financial statements, and that non-financial information has a significant impact on the creation of company's value. According to [10], corporate social responsibility and company's disclosure about it contributes to increasing the company's value. Publishing of non-financial information over a longer period contributes to strengthening stakeholders' confidence in the company, but also contributes to the stability of the market value of shares of the company. Furthermore, disclosure of non-financial information leads to lower borrowing costs [11]. Companies that publish non-financial information and thus improve transparency about their business have a significantly greater potential for more accurate forecasts of future earnings compared to companies that publish a very small number of non-financial information [12]. Publishing non-financial information in corporate social responsibility reports affects the company's reputation and can contribute to improving the company's image [13].

3. SAMPLE AND RESEARCH METHODOLOGY

The European Union is a good example of an economic association with differently developed economic systems. By improving the existing and developing the new regulatory framework, the European Union is continuously developing and integrating the European financial market, with a special emphasis on the standardization of reporting of business entities. The latest reporting trends emphasize the importance of non-financial reporting through the introduction of an obligation for preparing the non-financial report for large business entities, which aims to improve the transparency of reporting of business entities that are operating in the international market. For this reason, the countries from the European Union represent an appropriate sample for the analysis of effects which the Directive 2014/95/EU, by prescribing the obligation to prepare a non-financial report, had on the greater transparency of business operations, i.e. the comprehensive financial and non-financial reporting of business entities in the European Union.

The research sample consists of five companies whose primary business is trade, and which headquarters are in five different European Union countries (France – Carrefour, Croatia – Atlantic Grupa, Spain – Mercadona, Sweden – Hennes&Mauritz and United Kingdom – Tesco). The research covers a five-year period (2013-2017).

In the research of the effects which the implementation of obligation for preparing the non-financial report has on the coverage and quality of the observed companies, were used secondary data published primarily on the web pages and in the annual reports of the observed companies. These data sources are considered appropriate since all the companies included in the research sample are using their web page as the primary channel of communication with stakeholders. The published data were analyzed in qualitative and quantitative terms, i.e. the types and number of published information were analyzed. The collected data are processed by appropriate scientific and research methods of synthesis and analysis, and by methods of comparing and compilation.

4. RESEARCH RESULTS AND DISCUSSION

Financial information is presented in financial statements, and it comprises an information on the financial position and financial performance of the company and its cash flows realized in the accounting period. Information that is important for investors is a share price and historical stock price information, dividend and equity information, information about the corporate debt, and a calendar of important events for shareholders and management. Non-financial information includes information on corporate profile and corporate governance (vision, mission, strategy), key business risks, business ethics, corporate social responsibility, environmental responsibility and environmental protection, relationship with partners (value chain maintenance), employee accountability, responsibility to the community, and more. It is important to note that all investors are to a large extent negatively respond to bad news, and the long-term value of the company is determined and depends on a large number of different factors.

Carrefour is publishing the report on social responsibility and corporate governance throughout the reporting period in its annual report. Prior to the implementation of Directive 2014/95/EU, non-financial reporting of Atlantic Grupa has included all requested non-financial information, so it can be concluded that changes in regulatory requirements for the disclosure of non-financial information did not affect the reporting of Atlantic Grupa. During the last ten years, Mercadona has reported the high-quality and comprehensive non-financial information related to business

operations, primarily in relation to the environment, the relationship with suppliers and employees, about human rights, and anticorruption. For more than ten years, Hennes & Mauritz is compiling reports containing non-financial information, so new regulatory disclosure requirements did not affect additional reporting because all of the requirements had already been met through existing company reports. Also, the new regulatory requirement for the publication of the non-financial report has not affected the Tesco's reporting since the importance and significance of this report has been recognized earlier, as it is seen through the observed periods and earlier when this company has published non-financial reports (under various names) since 2006. The results of this analysis are showing that the number of non-financial information is increasing during the observed period and that had an impact on greater volume (more pages) of the non-financial report, but such a trend was noted still before the introduction of Directive 2014/95/EU.

The comparison of the disclosure channels and presentation of non-financial information and reports, the frameworks that are applied for the preparation of the non-financial report of the observed companies is presented in Table 1.

Table 1: Comparative presentation of non-financial reporting
Source: author's processing by [14] - [18]

| <i>Company</i> | <i>Carrefour</i> | <i>Atlantic Grupa</i> | <i>Mercadona</i> | <i>H&M</i> | <i>Tesco</i> |
|---|---|--|---|--|--|
| <i>Characteristic</i> | | | | | |
| Channels of disclosure of non-financial information | Website, annual report | Website, magazine Atlantic news, annual report | Website, annual report, biennial report on environmental impact | Website, annual report, and others reports within the year | Website, annual report, other unrelated reports |
| Submission of a non-financial report | Within the annual report - Social responsibility report | Independent GRI report, summary of this information presented in the annual report | Independent report sent to the UN Committee, and it is then published in the framework of the annual report | Independent report – Sustainability report, summary of information is published in the annual report | Special Strategic report which is also part of the Annual Report |
| Framework for disclosure of non-financial information | ISO 26000, and compliance with the OECD, UNGC, ILO, GRI framework | Until 2013 UNGC framework, since 2013 the GRI framework | UNGC framework | GRI and UNGC framework | Until 2015, partially according to the GRI framework, since 2015 according to the UNGC framework |

The observed companies, as the primary channel of communication (about financial and non-financial information) with interested users, use the websites and other forms of Internet technology. The non-financial information of the observed companies is published within annual report and the interested users have easy access to this information. The observed companies (except Carrefour) have published independent non-financial reports, which are then incorporated in full or in a shortened form into the company's annual report. It was concluded that despite the fact that all companies included in research sample present non-financial information and

non-financial reports, this information includes similar thematic areas, but the form and manner in which the information is presented varies considerably between the companies included in research sample. Due to the fact that there is an obligation to prepare the non-financial report, but at the same time there is no prescribed structure and form for such reporting, it remains difficult to compare non-financial information between different companies. The observed companies use the GRI framework and/or some of the other frameworks for preparing the non-financial reports. Thus, the Carrefour's non-financial report is prepared according to six frameworks for non-financial reporting, and Mercadona's non-financial report complies only with the UN Global Compact framework. So, it is concluded that all the observed companies published non-financial reports in a certain way much before the Directive 2014/95/EU prescribed the preparation of the non-financial report (as of 1 January 2017).

5. CONCLUSION

Information about the company and company's financial result is presented to interested users in the form of financial and non-financial reports. Financial information is presented in publicly available financial statements, and for many years the financial statements have been the key and sole source of information on business operations. The purpose of the financial statements is to present to the users the financial position, financial performance and cash flows of the company over a given period. In modern business conditions where, amongst other things, a significant number of companies operate in the international market, harmonization of financial reporting has been achieved for many years, setting the basis for comparing the financial statements of the same company over several different accounting periods, as well as for comparing the financial statements of different companies.

In the time of globalization, modernization and automation of business, companies are increasingly focusing on other segments of business, and the public is showing interest in how companies gain added value. Such information is disclosed in the non-financial statements, and their objective is to indicate how the company refers to the society as a whole, the environment, its employees, the economy in which it operates, how ethical it is in its business, and other. Non-financial reporting becomes the common practice of almost all companies that are operating on the international market, but the structure and content of the non-financial statements are not prescribed and consequently there is not achieved the harmonization in the part of the non-financial reporting, which makes it difficult to compare non-financial statements between individual companies.

The research results showed that companies included in research sample have structured the presented non-financial information on a different way after the implementation the Directive 2014/95/EU. Accordingly, in the non-financial reports is disclosed separately non-financial information on human resources, the environment, waste and other issues, but in terms of coverage of the presented information there are not any changes before and after the implementation of Directive 2014/95/EU. The observed companies have reported information on economic and social issues and environmental issues during the research period. The approach that has been adopted by the companies included in research sample suggests that prior to the implementation of the obligation to prepare the non-financial report, they recognized the significance, importance and usefulness of non-financial reporting for different users. It can be concluded that the implementation of Directive 2014/95/EU in the national legislation of the observed countries has not affected the changes in the reporting of the observed companies.

Special attention in creation policies that will shape corporate reporting in future will need to be focused on confirming the coverage of company's final disclosures. The credibility of disclosure the non-financial information may be questioned if there is no opinion of an independent party who is officially confirming that presented information is to the extent adequate and accurate. Although confirming the non-financial information means a new cost for a company, it is necessary in order to make the overall picture of the company as credible for the final user of the report. In the research sample, only the United Kingdom requested auditors that in carrying out the audits to verify whether non-financial information published in the annual report was credible and consistent with the rest of the report.

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