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Curriculum
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MANDATORY NON-FINANCIAL DISCLOSURE
IN EUROPE

The evolution of CSR reporting
after the European Directive 2014/95/EU

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ABSTRACT

The European Directive 2014/95/UE handed over to large companies’ indicators and procedures on how to report non-financial information. This kind of disclosure comes from the increasing demand by investors and stakeholders in general to acquire information about environmental, social and governance activities of the main European companies. The purpose of this dissertation is to study and analyze the quality evolution of non-financial disclosure after the implementation of the European Directive and to find possible correlation with the economic performance of the companies. Through a randomized sample of 150 companies coming from Austria, Belgium, Cyprus, Croatia, Denmark, Estonia, Finland, Germany, Greece, Portugal, United Kingdom, Romania and Slovakia, it’s going to be analyzed the quality of non-financial disclosure on the 2017 sustainability and integrated report published by companies (if not published the analysis will be based on the 2017 annual report). In the first chapter there will be an academic study of the evolution of non-financial disclosure from the first definition of Corporate Social Responsibility to the implementation of Integrated Thinking. In the second chapter, instead, there will be first an analysis of the European Directive 2014/95/EU and then of the national background on the practices of sustainability reporting for each Member State of the Sample. In the final chapter of this master thesis there will be, at last, a comparison with the results reached by two Ca ’Foscari students on the analyses of 2016 reports. The results are going to be discussed also by their possible relationship with companies’ mechanisms of Corporate Governance. In particular, the governance mechanisms that were analyzed with their possible influences on companies’ level of non-financial disclosure are: Boards’ gender diversity, the companies’ total number of managers and directors and the level of directors’ independence from shareholders. The results showed a positive correlation for what concerns the number of non-financial topics disclosed and the total number of companies’ managers and directors. Moreover, from the comparison with the results obtained in 2016 we notice an increase on the quantity of non-financial matters disclosed in reports and a convergence in European companies’ CSR reporting practices.
INTRODUCTION

During last decades, there has been a continuous transformation and a progressive evolution of Corporate Reporting. These changes have been caused mainly by the increased importance of stakeholders’ awareness and involvement. Sustainability Reporting practices started in Europe between the 1960s and 1970s and slightly later reached the United States. However, it became an important movement only in 1987 with the “United Nations report, Our Common Future, better known as the Brundtland Report. This report promoted sustainability as a means of balancing economic and environmental issues.”1 The companies’ environmental impact is more and more relevant for investor, customers, governments and stakeholders in general. The unconcerned attitude of most organisation and companies towards the environment and human rights that prevailed in the past, brought several serious consequences that are still affecting us nowadays. The numerous scandals about companies’ governance, financial crisis, pollution, climate changes, increasing social inequality and the shortages of fossil fuels are the main factors that led to this increased global relevance of Sustainability Reporting. The globalisation pushes companies to be more competitive in the market and to meet the stakeholders demand for information. Corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. “The European Commission believes that CSR is important for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy. It brings benefits for risk management, cost

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savings, access to capital, customer relationships, and human resource management.” The European commission started to view and judge companies, not merely by their financial and economic factors but also by their overall impact on society. This pushes companies to integrate CSR practices not only by promoting few initiatives or using them as a marketing strategy, but also by looking more carefully to their possible outcomes. First, companies started to pay more attention to possible evolutions of laws and regulation (ex. A limit on gas emissions), then they started to integrate environmental and social matters on their vision and missions. This new approach gave life to a variety of different associations and organisations that have the role to structure and guide companies on reporting and be updated on the current practices. Governments and institutions as well, started to develop new laws and directives that helped corporations and enterprises to effectively plan and manage their business in a suitable and sustainable way. By building frameworks and writing standards, companies’ practices on CSR started to become more comparable and more impartial. Companies started to publish their Sustainability Report together with the usual Annual Report. For the first time companies officially published information on social and environmental business performance, giving them the right weight. However, although this upgrade on the level of transparency and social responsibility, stakeholders were still looking for something else. Something that could connect and, if it is possible, create a real correlation between the CSR topics and the financial side of the company. The Integrated reporting is now representing the best alternative that could face this need of stakeholders. In fact, it presents an integrated view of all the business activities in a single report and a long-term view of company’s perspectives for the future. The main difference with the separate method of communication is explained by the new possibility of reading more clearly and understanding better all the relations between the company’s activities and externalities and the consequences generated by them. It is also easier to understand the relationship between the company and the context in which it operates.

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“Increasingly, governments around the world are experimenting with initiatives in transparency or ‘open government’. These involve a variety of measures including the announcement of more user-friendly government websites, greater access to government data, the extension of freedom of information legislation and broader attempts to involve the public in government decision-making”\(^3\). The well-known agency problem is more and more significant, perceived and a current topic. Transparency in politics has become a key factor to collect votes and consensus. Companies too have to gather a sort of consensus from their customers and rest of stakeholders to increase their legitimacy and run their business. This is why transparency is, as a matter of facts, important for them too. An effective and proper communication on company’s practices and on core ideas for the future is now more important than ever before. However, when there is an increased flow of information there is also the need for an increase in regulations and education. This because data, images and graphs disclosed by companies must be understood by stakeholders and, if it is possible, compared with others disclosed by other companies. Until now company’s disclosure on CSR topics was mainly voluntary. The European Commission understood and faced the problems that could bring a voluntary disclosure of new information as non-comparability and non-reliability. “(...) the Commission identified the need to raise to a similarly high level across all Member States the transparency of the social and environmental information provided by undertakings in all sectors.”\(^4\) With the introduction and implementation by the Member States of the European Directive 2014/95/EU, the European Commission made a step to further regulate and improve CSR reporting. By making non-financial disclosure compulsory, even companies that still didn’t understand the innovation and importance of relating with CSR are forced to face the problem. The risk comes from the fact that this kind of communication remains only on formal disclosure with few consequences on the business, on the environment and on stakeholders’ interests.


\(^4\) European Directive 2014/95/eu and European Commission (2014) as regards disclosure of non-financial and diversity information by certain large undertakings and groups
After going through the evolution of non-financial disclosure and its key aspects, this thesis is going to analyse the evolution of 150 companies between 2016 and 2017 after the compulsory implementation of the Directive 2014/95/EU by all Member States. This paper is also going to create possible relations between governance characteristics of certain companies and their CSR reporting level, finding out possible positive or negative correlations. Through the paper, we will try to give possible solutions and answers connected to the results obtained by comparing and analysing the reports disclosed by these companies. The possible differences in the methods and quantity of non-financial disclosure could be caused by the industrial sector in which firms operates, by the country, by the region or by their governance structure and policies.
CHAPTER 1: NON-FINANCIAL INFORMATION AND REPORTING

1.1 The beginning

“Development which meets the needs of the present without compromising the ability of future generations to meet their own needs”\(^5\). With the definition of sustainable development companies started to seriously understand the importance of having a wider look in terms of time at their business and activities. So, did governments and institution that started to find new ways to regulate companies and to better judge and guide managers. This, through the use of long-term indicators rather than looking only to profits and other short-term indicators. The need of transparency comes by the increased availability of information brought by social medias, Google and internet in general. People nowadays are able to gather all sort of information rapidly and want to be informed more and more on what is happening around them. Initiatives as the ones carried by WikiLeaks and Julian Assange increased and arose the agency problem\(^6\) between people, governments and companies. Governments all

\(^5\) Our common Future, report published by the World Commission on Environment and Development (the Brundtland Commission), 1987. With this publication the idea of sustainable development became widespread in the world. This publication came after an urgent call by the general assembly of the United Nations to find a Global Agenda for change.

\(^6\) Agency problem arise in any kind of relationship where one party is expected to act in the best interest of the other. In corporate finance the it usually occurs between the company’s management (agent) and the company’s stockholders (principal), but it is also relevant with the rest of stakeholders.
over around the world started to stress the importance of transparency, “On his first day in office, President Obama issued a Memorandum on Transparency and Open Government that emphasised that government should be transparent, participatory, and collaborative. Prime Minister Cameron has similarly emphasised the value of opening up government data to wider access”7. Companies as well started to perceive the pressure coming from stakeholders to be more transparent and to disclose more information about their activities and plans for the future. Therefore, after a period of scandals and financial crisis, companies started to feel the need for a change in the way of thinking and carrying out business. The idea of sustainability became widespread. In 1987 the United Nation and the World Commission on Environment and Development (WCED), published the Brundtland report. The mission of this report was to convince European countries to follow sustainable development together. After a period of indiscriminate exploitation of natural resources people started to perceive the limit, the need for a change. Considering all this context and the external pressures related to it, companies started to disclose information on the impact that their activities have on the environment. The benefits of this new communication method are different and depends on the nature of the business. Companies may will to public more non-financial information to increase their brand value, to differentiate and find competitive advantage from competitors, increase employee awareness and loyalty, to find the right legitimacy to operate in the market or to follow specific regulations (etc.). From the first definition and official appearance of the topic of sustainable development there has been a quite fast and spread evolution. “An important first step in solidarity was given by the Prince of Wales, who in 2007 gave birth to an initiative called ‘The prince’s Accounting for Sustainability Project’ (A4S), proposing a form of reporting, a framework on environmental, social factors and governance.”8 Governments in Europe started to develop new regulation and launch new initiatives to follow this new topic that was getting more and more popular. If everything started from external pressures and the need to reduce information asymmetries, as time goes by, companies started to understand the

importance of making sustainable plans for the future. But this new movement made by companies is mainly voluntarily and differentially spread around Europe. This causes difficulties in reading and elaborating information that are collected with different methods and different languages. For this reason, a diversified number of organisations arose to increase the reliability of reports and information disclosed through standards recognized worldwide. Here we can see the most important:

**The International Organisation for Standardization 26000 (ISO 26000)** aim is to deliver voluntary consultation on social responsibility to any organization regardless size or type. It was formally created in 2010 by ISO (International Organisation for Standardization). ISO was born in 1946, after WWII with the aim of creating and discuss global standards and became the world leader in the creation of global standards for industrial, commerce and engineering application. It produces standards for any kind of business activity and help companies to lower costs and wastes. “80 out of the more than 160 ISO member countries have so far adopted ISO 26000 as a national standard”.

**The Organization for Economic Cooperation and Development (OECD)** was created in 1961, it now involves 30 countries that made an agreement to face the impacts that globalisation and economic growth are bringing to the environment and to the population. The organisation provides a “forum” where countries can identify and elaborate best-practices in order to find possible solution for a sustainable growth. “OECD uses its wealth of information on a broad range of topics to help governments foster prosperity and fight poverty through economic growth and financial stability. We help ensure the environmental implications of economic and social development are taken into account.” After the discussion governments are encouraged to implement the OECD recommendation into laws.

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10 ISO 26000: https://iso26000.info/iso26000/ 
11 OECD What we do and how: http://www.oecd.org/about/whatwedoandhow/
**The Global Reporting Initiative** started to develop standards in 1997 and now is one of the most recognized organisations and its standards are used by most of the top companies worldwide. “Since GRI’s inception in 1997, we have transformed it from a niche practice to one now adopted by a growing majority of organizations. In fact, 93% of the world’s largest 250 corporations report on their sustainability performance.”\(^\text{12}\) Its objective is to improve the quality of non-financial disclosure and use them to improve business performance. In *Table 1* is described the structure and the purpose of these standards.

Another important step towards an increased Social Responsibility happens in 2009, when the Prince of Wales together with standards setters, companies, accounting bodies and investors gave life to the first International Integrated Reporting Committee (IIRC). In 2012 the IIRC\(^\text{13}\) releases a first framework, that in 2013 will become the IR framework. Some companies already started publishing non-financial report. However, with the introduction of the Integrated Report, non-financial topics not only became relevant in terms of reporting and formal adherence to regulation but also became part of the companies’ missions and visions. Then in 2014 there has been probably what is until now the most important step in terms of sustainability reporting by European countries and main topic of this essay. The European Directive 2014/95/EU made mandatory the disclosure of non-financial and diversity information for the largest European companies that had to comply to specific regulation not after 2017. This was important to reduce the problems on the comparability and the reliability and so to improve the efficacy of information that was not achieved by voluntary disclosure.

\(^{12}\) ABOUT GRI: https://www.globalreporting.org/information/about-gri/Pages/default.aspx  
\(^{13}\) The International Integrated Reporting Committee changed name in 2011 becoming the International Integrated Reporting Council (IIRC)
Table 1 (GRI series)\textsuperscript{14}

<table>
<thead>
<tr>
<th>Series</th>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Foundation</td>
<td>It contains the principles to achieve a high-quality report and fundamental in producing a report according to GRI standards. These Reporting Principle define the content:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stakeholder inclusiveness (defining stakeholders)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sustainability context</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Materiality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Completeness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>And the quality of the report:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accuracy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Balance</td>
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<td></td>
<td></td>
<td>• Clarity</td>
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<td>• Comparability</td>
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<td>• Reliability</td>
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<tr>
<td></td>
<td></td>
<td>• Timeliness</td>
</tr>
<tr>
<td>102</td>
<td>General disclosure</td>
<td>It includes all the general information regarding the organization: organization’s profile, strategy, ethics and integrity, governance, stakeholder engagement practices, and reporting process.</td>
</tr>
<tr>
<td>103</td>
<td>Management approach</td>
<td>Information on how the organization manages material topics</td>
</tr>
<tr>
<td>201-206</td>
<td>Top specific (Economic)</td>
<td>It regards information about:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Economic performance (201)</td>
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<tr>
<td></td>
<td></td>
<td>• Market presence (202)</td>
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<tr>
<td></td>
<td></td>
<td>• Indirect economic impact (203)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Procurement practices (204)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Anti-corruption (205)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Anti-competitive behaviour (206)</td>
</tr>
</tbody>
</table>

\textsuperscript{14} GRI: “Consolidated Set Of GRI Sustainability Reporting Standards 2018”
| 301-308 | Top specific (Environmental) | It regards information about:  
- Materials (301)  
- Energy (302)  
- Water and effluents (303)  
- Biodiversity (304)  
- Emissions (305)  
- Effluents and Wastes (306)  
- Environmental compliance (307)  
- Suppliers environmental assessment (308) |
| 401-419 | Top specific (Social) | It regards information about:  
- Employment (401)  
- Labour/management relation (402)  
- Occupational Health and Safety (403)  
- Training and Education (404)  
- Diversity and Equal Opportunity (405)  
- Non-discrimination (406)  
- Freedom of Association and Collective bargaining (407)  
- Child labour (408)  
- Forced or Compulsory Labour (409)  
- Security Practices (410)  
- Rights of Indigenous People (411)  
- Human Rights Assessment (412)  
- Local Communities (413)  
- Suppliers Social Assessment (414)  
- Public Policy (415)  
- Customer Health and Safety (416)  
- Marketing and Labelling (417)  
- Customer Privacy (418)  
- Socioeconomic Compliance (419) |
1.2 Sustainability Reporting

Sustainability Reporting has been a topic of research from mid-1900s. “It embodies the promise of societal evolution towards a more equitable and wealthy world in which the natural environment and our cultural achievements are preserved for generations to come.”\(^{15}\) The first definition and attempt to talk about sustainability can be traced back to 1960s. Theorists argued on the need for social audits to elaborate a management tool that could help stakeholders to understand management’s decision making and to discuss whether their action are on the best interest of the company’s future performance. In this period (60s-90s) there is a proliferation of CSR (Corporate Social Responsibility) definitions and practices. This led to a first attempt to construct a model for elaborating an efficient report. The first model on CSR has been published by Suresh P. Sethi. He conceived a model based on three tiers:\(^{16}\):

- social obligation (representing the legal and market constraint);
- social responsibility (societal norms and expectations);
- social responsiveness (anticipatory competence and preventative adaptation to social needs).

This model was concentrated on the social aspects related and influenced by companies. Later, Archie B. Carroll based on the study conducted by Sethi developed the Pyramid of Social Responsibility that described a model divided in 4 tiers.


The CSR pyramid developed by Carroll was adding an economic and legal tier to the CSR theory. These concepts that CSR matters are tied to economic and legal issues for business, laid down the basements for what is known nowadays as sustainable business management.

However, it was in 1987 that the CSR concept became widespread with the publication by the World Commission on Environment and Development (WCED) of the Brundtland report with the title *Our Common Future*. This report had the aim “to propose long-term environmental strategies for achieving sustainable development by the year 2000 and beyond”\(^{18}\). It gave a worldwide accepted definition of sustainability and challenged governments to promote action in order to construct a world with social equity, environmental protection and economic stability. It created an opposite view to the indiscriminate growth that characterized globalization. These concepts will then become even more clear in Rio during the 1992 Rio de Janeiro Conference on Environment and Development.
Development. Topics as climate change, shortages of fossil fuels and consequent need for alternative energy sources, social inequality, human rights, pollution and economic crises were becoming more and more discussed all over the world. People and rulers started to ask themselves what the role of enterprises was, in facing these problems. To answer this question, UN agency formed the UN Global Compact in 2000. Its aim is still nowadays to support companies to “do business responsibly by aligning their strategies and operations with Ten Principles on human rights, labour, environment and anti-corruption; take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals, with an emphasis on collaboration and innovation.”

Their mission and vision were established on four principle: the Universal Declaration of Human Rights, the ILOs’ (International Labour Organization) declaration of fundamental principles and rights at work, the Rio declaration on environment and development and UN’s convention against corruption.

This international movement towards sustainability concept was one important driver that pushed companies to build a sustainability report. The first companies that engaged this practice were operating on the chemical sector. They had to disclose new information on environment protection and risks on generated pollution to overcome possible scandals. But why companies may feel obliged to produce a sustainability report? There are different theories for answering this question.

- **Legitimacy theory**

  “According to legitimacy theory, a company needs to have legitimacy in the sense of a social license to operate” \(^{20}\). With a sustainability report the company can increase its legitimacy towards the market just by the fact that it’s disclosing more information. More information disclosed, permits the external parties to feel safer and more eager

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\(^{19}\) UNGC Mission: https://www.unglobalcompact.org/what-is-gc/mission

to collaborate with the company. Otherwise it would be difficult for enterprises without accrued legitimacy to find resources and buyers.

- **Stakeholder theory**

  Similar to legitimacy theory, companies must deal with stakeholders’ opinion and demand and have the objective to create value for each kind of stakeholder. “Media exposure and stakeholder pressure as external determinants are also consistently found to have a positive influence on sustainability reporting”\(^{21}\). Especially for companies that may have difficulties in reaching a good economic performance, the pressure exercised by stakeholders is higher. Companies may try to mitigate this pressure by disclosing new information through the sustainability report.

- **Institutional theory**

  This theory “suggests that corporate activities do not necessarily follow a business rationale but instead answer to the institutionalized expectations of the environment”\(^{22}\). According to this theory companies may disclose a sustainability report due to political pressures. These pressures may be exercised by governments or institution for reasons that we discussed before and for the cultural context in which the company operates. In fact, to disclose certain type of information on environment protection or gender equality may be less important in certain region in respect of others. Enterprises may publish a Sustainability report to adhere to national laws, international directives or recommendations, to be aligned with the “good practices” established by the market and to follow competitors. For these reasons, the typical practices showed by companies can be conducted, by institutional theory, to: “normative isomorphism through standard-setters, mimetic isomorphism through industry trends and coercive isomorphism.”\(^{23}\)

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\(^{22}\) Ibidem

\(^{23}\) Ibidem
1.2.1 Structure and Assurance

Since the publication of non-financial information started as a merely voluntary action, the structure of reports was very different from one company to another. However, as time went on, theorists and associations started to create a set of best practices. First of all, it is important for companies to internalize the process. By publishing a sustainability report that has the only objective of listing information about the activities for environmental or social behaviour of the company, the board wouldn’t be able to construct a real advantage for the future. It’s common in fact, especially in first reports but even nowadays, to see discrepancies and incoherence between the CSR report of one company and its movements and strategy in the market. Many criticisms to the adoption of sustainability reporting practices come from this concept. “Unlike financial reports, the content and presentation of which are standardized and follow regulatory standards, all aspects of CSR reports are entirely controlled by the issuing corporations, which makes their evaluation and comparison difficult, if not impossible.”

Even standards as the GRIIs are still not able to guarantee a full reliability of the report. However, they state the fundamental principles that each type of company that wants to be aligned with GRIIs must follow no matter its size or nature of business. “A company’s self-assessment of the quality of its CSR report carries a measure of public scepticism, which must be mitigated by (a) providing information that meets societal expectations, (b) meets or exceeds industry standards for similar information, and (c) contains robust measures of verification and transparency.” The authors, in fact, show a list of fundamental practices that are in accordance with GRIIs standards. It’s important for companies to rely to external accepted frameworks and standards to decrease the public scepticism that is more and more relevant nowadays. Distrust on institutions, politicians and big companies is even greater in these years than was before. This is due to the increasing number of scandals and also to the increased ability acquired by people of gathering easily information and the consequent


25 Ibidem
pressure on companies. There are mainly two ways in which the company can increase the reliability of its report: Internal assurance and external assurance. The internal assurance is achieved most of the times by an internal audit company. This type of assurance is not the best choice to reassure external stakeholders since they might think at the CSR report “as a self-promotional document by the company and thus the CSR report loses its value as an instrument for enhancing public trust in corporate performance and statements”\textsuperscript{26}. To overcome this kind of problems companies are more and more concerned on the materiality of information disclosed and its connection with the nature of the business. Companies operating on the chemical industry may be less interested on social indicators rather than environmental protection indicators. The opposite we may say for banks. However, internal assurance is definitely cheaper compared to external assurance. This type of assurance consists on the approval of the report reliability by external experts that are well recognized for their reputation and authority. There is a wide range of assurance providers worldwide but considering the research conducted by Thomas Singer for the CPA Journal, we can see that few of them are actually the most common used by S&P 500 companies. “Bureau Veritas is the most frequently used assurance provider among the S&P 500, used by approximately one-fifth of companies that include ESG assurance. The next three most commonly ERM Certification and Verification Services, Ernst & Young, and Lloyd’s Register Quality Assurance”\textsuperscript{27}. Other relevant providers are: Trucost, Deloitte, WSP, iCompli Sustainability, PwC and SGS. For what concerns standards, the most used are ISAE 3000, AA1000AS, ISO 2006 and GRI. GRI started in 2003 to be used by more than half of 1200 S&P companies and we discussed about them more in detail in previous paragraphs together with ISO 2006. They are used more as general frameworks compared to the first two that are used as verification standards.

For what concerns the \textbf{ISAE 3000}, they were defined by the IAASB (International Auditing and Assurance Standards Board) in 2003. Their purpose “is to establish basic principles and

\textsuperscript{26} Ibidem
essential procedures for, and to provide guidance to, professional accountants in public practice (for purposes of this ISAE referred to as “practitioners”) for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).”

AA1000AS were created by AccountAbility in 2008 with the aim of judging the correct use of the reporting principles developed by the organisation itself. These standards can be used by different kind of assurance companies and agents since they are less specific compared to ISAE3000 that need experts.

Together with the development of international standards for the assurance of sustainability reports, it started to be important also to look for a general report’s structure that could be recognized and accepted by all companies. This is again a way to increase the comparability between companies operating in similar sectors but in different regions. KPMG experts developed few guidelines that in their opinion are important for managers that are willing to publish a CSR report. It is important first of all, as already mentioned, for the sustainability core goals to be implemented in the strategy of the company. The sustainability strategy should be integrated in the company strategy and in its vision and mission. It must be clear that the company future goals are according to their sustainability plan otherwise the CSR report becomes only a ‘short-term’ report that has the goal of decreasing external pressure and will in the end become a boomerang decreasing the credibility of the company.

There are six key components identified by KPMG, that management has to look at when developing the report:

29 KPMG, SID (Singapore Institute of Directors) “Sustainability Guide For Boards”.
• **Engage Stakeholders**

The company must identify and divide stakeholders by their different interests and needs, develop a stakeholder engagement plan in order to create a two-way process based on the relationship between the company and the stakeholder involved. At the end the company must review the output (stakeholders’ identification and plan) and analyse the outcomes (the stakeholder’s response).

• **Assess Materiality**

It is important for companies to identify the significant ESG (Environment Social Governance) risks and opportunities related to the company. Then find potential topics related to each ESG risk or opportunity and their possible correlation between one another. Then gather information for each category identified before and develop a sort of list in terms of priorities that the Board must look at. At the end of the process it is necessary to obtain the Board approval and analyse stakeholders’ feedback.

• **Establish Policies and Practices**

Policies and Practices are important to guide company’s and employee’s behaviour. There are many and diversified type of polices that a company can implement. They can be for example Environmental polices such as waste management, Social policies such as diversity inclusion and Governance policies such as anti-corruption.

• **Set and Review Targets**

It is necessary to define possible performance indicators that are needed to be set, measured and rewarded. Targets must be: specific measurable, achievable, relevant and time-bound. Each target must also be periodically revised and if necessary corrected and adapted to the need of the company.
• **Measure Performance**

It is necessary to find possible feedback of the implementation of the sustainability strategy. Indicators developed by the company can be used and data must be updated and reliable. Assurance on performance data collected can be external or internal.

• **Build Capacity**

The company must build capacity to meet its sustainability objectives. There are four kinds of capital recommended for company's investment: Human Capital (e.g. Sustainability experts and a Chief Sustainability Officer), Intellectual Capital (e.g. systems and procedure, data collection programs, Customer Relationship Management systems), Natural Capital (Effective use of natural resources, solar panels, wastes of water), Social and Relationship Capital (e.g. long-term relationship with suppliers, communities in which the company operates).

1.3 **Integrated Reporting**

The Sustainability Report was adopted by most of the largest companies worldwide but still has some limits that stakeholders and managers need to solve. In particular it doesn’t appropriately correlate the non-financial side of the company with the financial side. For this reason, it is difficult for stakeholders to have a clear picture of the company’s performance and risk keeping the two reports separated. In 2010 the IIRC (International Integrated Reporting Council) started to propose the Integrated Report as a solution for the limits of the Annual Financial report and the Sustainability Report. “An integrated report is a concise communication that illustrates how an organization's strategy, governance, performance and prospects make it possible to create value in the short, medium and long term in the context in which it operates. Furthermore, it aims to illustrate the ways in which an organization interacts with the external environment and must be able to highlight the connectivity of
information, in order to communicate the way in which value is created over time.” The IIRC is composed by a group of experts, NGOs, accounting professions, regulators, investors, companies and standard setters. Its mission is to “establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.” The aim of this organisation is to change the widespread view that non-financial matters are not related to financial aspects of the company’s performance. The IR is not just a document, but it has the objective to find possible risks and casual connection between the company’s actions. It wants to promote integrated thinking inside the management of companies and make it as more widespread as possible. Integrated thinking means “the conditions and processes that are conducive to an inclusive process of decision making, management and reporting, based on the connectivity and interdependencies between a range of factors that affect an organization’s ability to create value over time.” In 2013 the IIRC released the so-called IR framework. This framework is embodying the fundamental principles of integrated thinking and reporting through six capitals.

- **Financial capital**

  It is the capital most reported by companies. It includes funds related both to debt and equity finance. This capital is more concerned to the acquisition of fund and their sources (e.g. funds generated by investments, operation or financing) rather than their application.

- **Manufactured capital**

  It consists of material goods owned by companies. They can be infrastructure, equipment, buildings and other material goods that contribute to company value creation. Even this type of capital together with financial capital is reported by almost all companies.

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• **Intellectual capital**

   It is related to company’s intangibles that can create competitive advantage for the company. Brand value, patents and company’s reputation can be examples of this type of capital.

• **Human capital**

   It consists on competencies (tacit and implicit knowledge), skills, capabilities and talent of the company’s employees. It includes the employees’ ability to implement company’s strategy and employees’ motivation.

• **Social and relationship capital**

   All kinds of relationship between the companies and external parties. Relationships with local communities, special long-lasting relationship with suppliers and customers that can give the company a specific competitive advantage. It includes also the strong relationships inside the company between the different company’s actors. The OECD defines social and relationship capital as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups”\(^\text{33}\).

• **Natural Capital**

   Resources and environmental assets that are able to produce value for the company and in which the company’s activity have an impact (e.g. water, soil and forests).

This image shows how the six capitals can be interconnected. Financial and Manufactured capitals are the ones that typically are reported by all organization, but other capitals should be considered since they are influencing the first two. The IIRC produced also a document in 2013, “Consultation Draft of the International IR Framework” (CD), in which there are the guiding principles and the main content that should have an Integrated Report. These guiding principles can be summarized by:

- **“Strategic focus”**
  
  An integrated report should provide insight into the organization’s strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.

- **Connectivity of information**
  
  An integrated report should show, as a comprehensive value creation story, the combination, interrelatedness and dependencies between the components that are material to the organization’s ability to create value over time.

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34 IIRC, NBA (Netherlands Institute of Chartered Accountants), ACCA (Association of Chartered Certified Accountants) (2013) “Capitals: Background paper for IR”
• **Stakeholder responsiveness**
  
  An integrated report should provide insight into the quality of the organization’s relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations.

• **Materiality and conciseness**
  
  An integrated report should provide concise information that is material to assessing the organization’s ability to create value in the short, medium and long term.

• **Reliability and completeness**
  
  An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

• **Consistency and comparability**
  
  The information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization’s own value creation story.  

For what concerns the aim of principles, it is important to stress the point that the readers of the integrated report are mainly the providers of the capitals. For this reason, data provided should be readable and perceived reliable to institutional investor that want to know whether the company will be profitable in the short, medium or long-run. The integrated business model gives a picture of how the company can use Integrate thinking.

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For what concerns the content of an Integrated Report we can identify by reading the Consultation Draft seven important questions and answers that are in the interests of managers that want to publish this kind of report.

1. An Integrated Report should provide information on what the company does and on the circumstances in which it operates. It should include an organizational overview and a description of the external environment.

2. The report should include a description of the governance structure of the company and explain its role in the company’s value creation process.

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3. The Integrated Report should have a section in which risks and opportunities are analysed. It must show how the organisation is trying to reduce and to face the main risks that are arising in the value creation process and what are the current opportunities that the company is trying to catch.

4. The company must disclose its strategy and its key resources to meet the projected objectives.

5. The report must also include and explain the Business Model of the company.

6. It must be clear for the readers of the report how many objectives have been reached, in the considered period, by the company and the outcomes in terms of effects on the capitals.

7. Future Outlook: the report, at last, should also explain what are the possible challenges and uncertainties that the company may encounter in the future by perusing its strategy. It also has to show the possible implication for the future in terms of performance.37

The practice of Integrated Reporting has been evolving in the past 10 years. Some benefits and some limits of this practices have already emerged and have been perceived by managers and investors. Most of the companies that decided in past years to disclose an Integrated Report, did so because they were looking for something different that could reduce the external pressure for information coming from the society. From the ideas launched by the IIRC, companies also found potentials for internal and external growth. However, it is still early to fully understand the implication that the integrated report could have in the market and companies cannot decide to engage in the production of IR on the bases of other companies’ experience. Chiara Mio and Marco Fasan conducted a research to understand whether this

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introduction of Integrated Thinking actually satisfied both companies and stakeholders. Their research was based on Italian companies and investors’ response. They found that there is an expectation gap between investors and companies. This gap is based on the different benefits that Integrated Reporting can actually give. Investor are interested on external benefits, the reliability, completeness, conciseness and readability of information. Companies can gather also internal benefits from IR as shown in the results of the research: “Our results may therefore suggest that IR has already provided significant benefits internally, and this is confirmed by the fact that companies reported better internal strategy communication and improvement in integrated thinking.” Investors still find difficulties in understanding the benefits generated by IR because it is still not able to disclose information that can be easily comparable. Companies found difficulties in gathering data on non-financial information and sometimes the assurance is not that easy to be obtained. “Providing useful information to investors does not only require internal communication, but also adequate measurement.”

For this reason it is important in the future to develop efficient ad-hoc KPIs (Key Performance Indicators) that could better fit for companies and that will help management in the measurement process. Now KPI’s are simply a list of predetermined indicators that sometimes are very difficult to be used by organizations. “Some companies set broad or ambiguous goals that do not in themselves enable progress to be measured, such as an aspiration to become ‘Carbon neutral’ without a clear definition of the goal’s scope or end date”.

### 1.4 Integrated Reporting vs Sustainability Reporting

The importance of reporting non-financial information is higher than ever before. In 2016 Ernest and Young conducted a research on the role of non-financial information for investments decisions. A sample of investors had to answer to some questions on their past

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39 Ibidem
40 SDG Compass: The guide for business action, p.17
investments, it turned out that “68% responded that nonfinancial information played a pivotal role frequently or occasionally, up from 58% in 2013.”\textsuperscript{41} From the research conducted by Chiara Mio and Marco Fasan in Italy we are also able to see that investors weren’t fully satisfied by the introduction of the IR but also that “all the investors in our sample also believe that IR represents the future of external disclosure”\textsuperscript{42}. We discussed in previous paragraphs why investors showed this gap between expectation and results. However, IR evolved from the insufficient quality of the other forms of reporting. In last years it has been clear that the financial report was not sufficient in showing the value creation process of companies. It in fact excludes the analysis of the Intangible assets that are fundamental in determining the company’s capacity to generate value in the future. The Annual Financial Report is more concerned on past data and performance rather than future expectations and projections. This, for all investors, is of course a big limit. For this reason, companies started to produce the sustainability report. The main limits of this report can be found in the ‘overload’ of information and its tendency to become just a formal document unconnected with the company’s strategy. This of course causes difficulties in stakeholders’ comprehension and lowers the credibility and reliability of the report. It is common in non-financial report to show merely qualitative information and rarely we find KPIs that are able to connect non-financial data with their relative incidence in the finance-economic aspect of the company.


Table 2 (Summary of reports main features)

<table>
<thead>
<tr>
<th></th>
<th>Annual Reports</th>
<th>Sustainability Reports</th>
<th>Integrated Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target</strong></td>
<td>Not all of the stakeholders are able to understand the financial information that are inside the annual reports. This type of reports is on the interests of shareholders and investors only.</td>
<td>It involves a broader number of stakeholders. All stakeholders that might be interested on the social and environmental impact of the company (e.g. People living near by the company, future employees).</td>
<td>The Integrated report target are the providers of the six capitals. Information disclosed in this report is considered material if it results significant for institutional investors.</td>
</tr>
<tr>
<td><strong>Mandatory/ Voluntary</strong></td>
<td>Mandatory</td>
<td>Mainly voluntary</td>
<td>Mainly Voluntary</td>
</tr>
<tr>
<td><strong>Regulations/ Guidelines</strong></td>
<td>National and international laws, GAAP, IAS, IFRS</td>
<td>GRI, ISO 2006</td>
<td>IIRC Framework</td>
</tr>
<tr>
<td><strong>Comparability</strong></td>
<td>High since the information disclosed are following precise standard and are monetary information that can be easily compared</td>
<td>Medium, since its information are more qualitative and sometimes it is impossible to express EGSs topics through monetary terms. However, tanks to GRI and other standards it developed a quite definite structure that helps in making comparisons.</td>
<td>Low, since in many cases it discloses only the information peculiar of the company and there aren’t yet proper KPIs that could help the comparisons process. It will be easier to compare reports of companies operating in the same industry.</td>
</tr>
</tbody>
</table>

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### Industry Customization

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low.</td>
<td>Companies operating in different industries may disclose information in different ways. However, GRIs standards and this type of report expect a full disclosure of information.</td>
</tr>
<tr>
<td>High.</td>
<td>Information must be consistent with the need of capital providers that may differ from one industry to another.</td>
</tr>
</tbody>
</table>

### Assurance level

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High.</td>
<td>It is easier to find external assurance companies since data disclosed is easier to verify.</td>
</tr>
<tr>
<td>Low.</td>
<td>Difficult to verify some of non-financial information. Companies are in-fact trying to increase the assurance level for these types of reports.</td>
</tr>
<tr>
<td>Low.</td>
<td>Difficult to verify some of non-financial information. Companies are in-fact trying to increase the assurance level for these types of reports.</td>
</tr>
</tbody>
</table>

### Scope

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Reporting entity</td>
<td>Broader than financial reporting entity. It has the scope to increase company reputation and to decrease the external pressure. It has also the scope to introduce Integrated thinking inside the company’s strategy. It increases the cohesiveness inside the company with benefits between suppliers and employee awareness.</td>
</tr>
</tbody>
</table>
CHAPTER 2: THE 2014/95/EU DIRECTIVE

2.1 The application of the directive: disclosure of non-financial information becomes compulsory in the EU

Non-financial information, as explained in the previous chapter, is becoming more and more important for companies. Ernst and Young conducted a study on the evolution of non-financial disclosure that brought to the implementation of the European Directive 2014/95/EU. It resulted that intangible assets, that are not included on financial statements, increased their importance in determining companies’ market value. In fact, if in 1975 intangibles counted only 17% and tangibles 83%, in 2015 it became the opposite. Intangibles were counting 84 % in determining companies’ market value. For many years the disclosure of non-financial information came mainly by a voluntary decision. This created different problems in the readability and reliability of information. Standards started to appear around the world trying to limit the information asymmetries that were caused by this voluntary disclosure. Many companies, since the disclosure of non-financial information was not mandatory, avoided publishing information about the negative impact that their activities were having on the environment or society. They limited their disclosure on their positive impact showing a misleading picture of the company’s performance. For all these reasons

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44 Results on S&P 500 companies achieved by Ernest and Young (2017) “EU Directive on disclosure of non-financial information and diversity information”. EY is a global leader in assurance, tax, transaction and advisory services.
some companies, organizations and institutions decided that there was the need for new regulations. The European Commission and the European Parliament decided that it was time to impose to at least the biggest European companies the obligation to properly disclose non-financial information. Since 2011 the European Institution started to think at social responsibility. “In its communication entitled ‘Single Market Act — Twelve levers to boost growth and strengthen confidence — Working together to create new growth’, adopted on 13 April 2011, the Commission identified the need to raise to a similarly high level across all Member States the transparency of the social and environmental information provided by undertakings in all sectors.”

In the Single Market Act the European commission stated that it would have used new methods of communication on Corporate Social Responsibility before the end of 2011. From 2011 there will be in fact a change in the definition of CSR. The first definition was from a communication of the European Commission in 2001, CSR was defined 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.”

In 2011 CSR will change its definition to “the responsibility of enterprises for their impacts on society.” The voluntary side of enterprise’s decision vanishes. Companies are held accountable on their action towards environment and society. The European Union has several types of legal acts:

- “A "regulation" is a binding legislative act. It must be applied in its entirety across the EU”.
- “A "directive" is a legislative act that sets out a goal that all EU countries must achieve. However, it is up to the individual countries to devise their own laws on how to reach these goals.”

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46 European Commission COM(2001)- 366
• “A "decision" is binding on those to whom it is addressed (e.g. an EU country or an individual company) and is directly applicable.”
• “A "recommendation" is not binding. A recommendation allows the institutions to make their views known and to suggest a line of action without imposing any legal obligation on those to whom it is addressed.”
• “An "opinion" is an instrument that allows the institutions to make a statement in a non-binding fashion, in other words without imposing any legal obligation on those to whom it is addressed. An opinion is not binding. It can be issued by the main EU institutions (Commission, Council, Parliament), the Committee of the Regions and the European Economic and Social Committee. While laws are being made, the committees give opinions from their specific regional or economic and social viewpoint.”

From the implementation of the European Directive 2014/95/EU, companies had to change their mentality and their disclosure methods. Companies that before were disclosing non-financial information following just the rules and pressures of the market, had now to face their new national regulations. It was a proper political change in measures, conducted by the European parliament towards the enterprise’s management. Already in 2001, the European Commission made suggestions on new approaches that companies should consider in order to develop a sustainable management. These suggestions include the multi-stakeholder approach, companies are encouraged to identify and consider all type of stakeholders and their possible involvement in company’s activities in order to better understand their needs and increase their satisfaction in the long-run. Another suggestion was to increase transparency on environmental and social policies adopted by the management. Enterprises are encouraged to do several actions in order “to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

• maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
identifying, preventing and mitigating their possible adverse impacts.”

The objective of increasing the comparability and the reliability of non-financial information could only be reached, in the opinion of the European Commission, through an intervention of the Union as this objective couldn’t be “sufficiently achieved by the Member States but can rather, by reason of its effect, be better achieved at Union level”\(^{50}\). Of course, this intervention received also some critics. Theorists and managers that saw the European intervention as a positive movement for the future, were also agreeing with the necessity of new regulations on non-financial disclosure. “Regulation may favour greater transparency that reduces information asymmetries leading to higher market efficiency and lower cost of capital”\(^{51}\). An increase on the reliability of information disclosed by companies leads to an increase investors’ trust. The main critic on European Union’s intervention, is based on the comparison with non-European institutions. There is the fear that European companies might lose competitive advantage in respect of companies located outside the Union. This because Union enterprises will be bond to new types of regulation and limits that in the opinion of critics could decrease their financial performance. At the same times critics argue that there could be an increase in administrative and control costs. Others instead doubt on the real benefits that an increased regulation could have on the quality and number of non-financial reports. “Luque-Vilchez and Larrinaga (2016) use the Spanish regulatory case to show how regulation did not impact the number of reports and marginally increased the reporting quality. They argue that this may anticipate the outcomes of the NF Directive”\(^{52}\). This was later argued on the fact that regulation in Spain was not enough to create a norm. There are than other theorists that pointed out the risk that enterprises may disclose information just ‘pro-
forma’, of a positive environmental impact and social attitude but may hide an opposite nature in managing their business. This for the difficulties, explained in the previous chapter, of reaching a good assurance on some non-financial information. Of course, this could cause an increased mistrust of investor towards companies and a decreased overall reliability of company’s communication making the non-financial reporting useless.

However, on the 22nd of October 2014, the European Commission presented the European Directive 2014/95/UE regarding “disclosure of non-financial and diversity information by certain large undertakings and groups”\(^{53}\). This directive is related only to “large undertakings and groups”, to limit the critics and the possible problems with increased costs and inflexibility of companies. Of course, the pressure for information on large enterprises is much greater than SMEs. Again, this directive is considering the possible companies’ inability to disclose certain information. The lack of disclosure must however be fully explained, and the company must show how a specific sensitive information could create competitive losses.

2.1.1 The Directive

The European Directive on the disclosure of non-financial information is presented on the 22nd of October 2014 and published on the Official Journal of the European Union on the 15th of November 2014. Each Member State had to translate this directive in national law not after the 6th of December 2016. It will then have mandatory for designated enterprises to publish non-financial information not after the 2017 accounting period. This Directive was published after different communications and resolutions previously made by the European Commission. In particular the motivation that pushed the European parliament to develop this Directive are summarized in point 3): “European Parliament acknowledged the importance of businesses divulging information on sustainability such as social and

environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust. Indeed, 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. In this context, disclosure of non-financial information helps the measuring, monitoring and managing of undertakings' performance and their impact on society.  

Large undertakings and groups are the main subjects of this Directive. The European Council in 2011 “called for the overall regulatory burden, in particular for small and medium-sized enterprises (‘SMEs’), to be reduced at both European and national levels, and suggested measures to increase productivity, while the Europe 2020 Strategy for smart, sustainable and inclusive growth aims to improve the business environment for SMEs and to promote their internationalisation. Thus, in accordance with the ‘think small first’ principle, the new disclosure requirements should apply only to certain large undertakings and groups.” Again, there is the shrewdness of not imposing new binding regulation to SMEs (Small and Medium Enterprises) that may suffer in respect of competitors. Furthermore, in the growth plan of the European Union it is clear the will of reducing the overall number of SMEs. This directive applies to large listed companies and to large public interest entities. Non-financial information must be disclosed by companies that are recognized by Member States governments as public interest organisations (mainly banks, insurance companies and listed companies), that have at least 500 employees, a balance sheet total of more than 20,000,000 euros and a net turnover higher than 40,000,000 euros. Moreover, there is a distinction for what concerns the disclosure of diversity information. This regards only listed companies that show the same requirements of Total Turnover and Balance Sheet but that have more than 500 employees. Non-financial and Diversity information may be disclosed by the designated organisations together with the usual annual report or through a separated statement in accordance with international, national or Union based frameworks. In the Directive there are also suggestions and examples of these frameworks and standards and most of them are

54 Directive 2014/95/EU point 3)
55 Directive 2014/95/EU point 13)
described in the previous chapter: Eco-Management and Audit Scheme (EMAS), OECD guidelines, GRI, IFRS, ISO 26000, and UN Global Compact.

The companies’ statement should contain “as regards environmental matters, details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution. As regards social and employee-related matters, the information provided in the statement may concern the actions taken to ensure gender equality, implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and the dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities. With regard to human rights, anti-corruption and bribery, the non-financial statement could include information on the prevention of human rights abuses and/or on instruments in place to fight corruption and bribery.”56 For what concerns diversity, the statement should include: “age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.”57

The European Parliament in this directive impose also methods of controls. In fact, Member States are responsible of controlling the companies’ disclosure: “Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement referred to in paragraph 1 or the separate report referred to in paragraph 4 has been provided.”58 This again to decreases the assurance problems explained before. There are also possible exemptions that are identified by the European Union. In particular for what concerns subsidiaries, it is possible to do not present a separate non-financial report if the main

56 Directive 2014/95/EU point 7)
57 Directive 2014/95/EU Article 1, Paragraph 1 point g)
58 Directive 2014/95/EU Article 1, paragraph 5
company is already exempted or it includes information of subsidiaries in its annual reporting. Companies also may avoid disclosing certain types of sensitive information, they must, however, follow the principle of ‘comply or explain’. If information is omitted, companies must explain fully the reasons, explaining why the non-financial disclosure doesn’t include all the information required by the directive. It is on Members States’ responsibility to assure, through their law enforcement bodies, if there are specific information that for reasons of market negotiation or sensitiveness cannot be disclosed. However, the overall companies’ impact on environment and social aspect must always be clear. “Moreover, the NF Directive does not provide stringent and detailed rules for disclosure, but it simply states that non-financial information should be published ‘to the extent necessary to understand the evolution of the business, the results and the situation of the company as well as the impact of its activities’. This ‘minimum harmonisation’ approach to European legislation, which allows Members States to decide whether to apply more stringent regulations or not, does not always lead to minimum impacts on national contexts.” 59 Authors, indeed, explain how, in Denmark, there were problems in the process of assurance of non-financial information. The implementation of “the European Eight Directive in Denmark disturbed the balance within the auditing profession and triggered a conflict between state-authorized and registered auditors over the statutory audit jurisdiction” 60.

2.2 Sustainability perception in Europe: a look at the single member states

The adoption of the Directive has been made in different periods and different contexts throughout the Member States. In this chapter are going to be described briefly the peculiarities that characterized the transposition of the non-financial Directive into national


60 ibidem
laws for each Member State analysed in this paper. This master thesis, as explain in the introduction, is considering the evolution of non-financial information after the European Directive in 13 countries: Austria, Belgium, Croatia, Cyprus, Denmark, Estonia, Finland, Germany, Greece, Portugal, Slovakia, Romania and United Kingdom. The Directive formal implementation is a sensitive process that not always leads to a proper real practical implementation. Not always Member States are able to translate into formal regulation the principles described in the Directive. This is due to cultural restraints, undeveloped or updated governments’ law enforcement bodies or corruption and other lacks of neutrality in the law formulation process. “At the stage of formal implementation, the Member States use a variety of techniques for transposing directive provisions into national law, like copying parts of the text from a directive in a new national regulation, transposing with minor or major terminology changes or other adjustments and opting for elaboration and/or formulation. Over-implementation and under-implementation are also possible (Dimitrakopoulos, 2001). In this sense, discretion can be used to set requirements that exceed the EU law (gold plating) or not.”

The differences between Member States implementation of the Directive can be caused by multiple factors. Some are the ones already listed before that can cause negative practical results. Others are found for example in the nature of Directive’s text. The European Union might in fact sometimes publish Directives that leave to Member State a high decision’s margin. The non-financial Directive for example explicitly states the possibility for Member State to develop more stringent regulations. Other reasons that may lead to a diverse implementation of Directives by Member States may be found on the poor quality and clarity of some Directives or by the high costs that might be incurred by governments for the formal transposition into national law. The ‘Comply or Explain’ Principle is also not always implemented correctly by Member States and companies that sometimes forget to provide the necessary “clear and reasoned explanation” for omitting information. Another important principle provided by the Directive, that leaves margin to increase Members States differences in the transposition process, is the ‘Safe Harbour Principle’. This Principle says that

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61 ibidem
“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”

63 Ibidem
64 Ibidem

Table 3 (“Transposition summary table”)

<table>
<thead>
<tr>
<th>Country</th>
<th>Definition of Large Company</th>
<th>Definition of Public Interest Company</th>
<th>Report Topics and content</th>
<th>Reporting Framework</th>
<th>Auditor’s involvement</th>
<th>Safe Harbour Principle</th>
<th>Diversity Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Adapted by National Law</td>
<td>Adapted by National Law</td>
<td>Same of the Directive</td>
<td>Adapted by National Law</td>
<td>Adapted by National Law</td>
<td>Omitted</td>
<td>Adapted by National Law</td>
</tr>
</tbody>
</table>

Ibidem
Looking at the table above, it’s easy to notice how Member States have transposed differently the European Directive adapting it to the context and needs of the specific country. Countries like Finland, Germany, United Kingdom, Austria and Denmark are certainly a step above others in terms of non-financial reporting. However, this will be explained later through the data collected from the reports. Following there will be a description of how and when each country transposed the Directive 2014/95/EU.

### 2.2.1 Austria

The Non-Financial Directive was transposed into Austrian national law on the 6th of December 2016 with the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und
Diversitätsverbesserungsgesetz). The directive will consider business exercises for the period starting the 1st January 2017. Enterprises that have more than 500 employees had to disclose non-financial information from 2017. Requirements for what concerns companies’ dimension: the Total Net Turn Over (over than 40 million), the Balance sheet Total (over than 20 million) and the number of employees are the same of the Directive. “Pursuant to Section 243b para. 1 of the Commercial Code, large undertakings that are simultaneously public-interest entities exceeding on the reporting dates the criterion of the average number of 500 employees during the financial year (Section 221 para. 6 of the Commercial Code) are in future required to include in the management report a non-financial statement, instead of the information specified in Section 243 para. 5 of the Commercial Code. These undertakings are thus subject to a reporting obligation under the Sustainability and Diversity Improvement Act.”65 The Act impose undertakings of disclosing in the same accounting period of the annual financial statement or consolidated annual financial statement, the non-financial statement (consolidated or unconsolidated) of the company. There is also the specific imposition that this kind of statement must be checked by an auditor or an audit firm. For what concerns diversity the Sustainability and Diversity Improvement Act, introduces a diversity policy that “covers the composition of the management and supervisory board, taking into account aspects of diversity such as age, gender, and educational and professional backgrounds.”66 Even if the European Directive stated that diversity information should have been disclosed by all undertakings that had public interest, Austrian national law exempt medium and small sized entities irrespective of their status.

2.2.2 Belgium

The Non-Financial Directive was transposed into Belgium’s national law on the 3rd of September 2017 and published on the Belgian Official State Gazette on the 11th of September


66 ibidem
2017. The law⁶⁷ “amends Articles 96 and 119 of the Belgian Companies Code (‘BCC’) and sets out that certain large undertakings must draw up an annual non-financial statement containing information on the entity’s development, performance and position, as well as the impact of the entity’s operations on environmental, social, employment, human rights, anticorruption and bribery matters”⁶⁸. Belgium identified the entities subject of the new requirements on non-financial disclosure differently from the European Directive. These in fact, are Belgian public interest entities that exceed 500 employees (same as the Directive) during the reporting period and that shows “at least one of the following thresholds: balance sheet total of €17 million or annual turnover of €34 million.”⁶⁹ For what concerns diversity, Belgian law adapted the Directive with mandatory disclosure for entities with more than 250 employees. The company’s statutory auditor has the role of guaranteeing the assurance of the reports. The non-financial information can be included in the management report of the company or can be disclosed through a separate non-financial report, but it must be stated also on the financial statement. There aren’t specific penalties in the case of infringement of the law according to the principle of soft law governing non-financial disclosure. However, it counts the Safe Harbour Principle and in case of omissions, there must be a clear and full explanation on the financial statement published by the company.

2.2.3 Croatia

The Non-Financial Directive was transposed into Croatian national law on the 6th of December 2016 by an amendment of the Croatian Accounting Act and it came into force on the 1st of January 2017. “The term ‘public interest entities’ is far broader according to Croatian Accounting Act (see: Art. 3/1) than according to Non-Financial Reporting Directive. Under the Croatian Accounting Act (Art. 3/1), beside listed companies, credit institutions and

⁶⁷ (loi relative à la publication d’informations non financières et d’informations relatives à la diversité par certaines grandes sociétés et certains groupes)- SERVICE PUBLIC FEDERAL ECONOMIE, P.M.E., CLASSES MOYENNES ET ENERGIE – 3 SEPTEMBRE 2017, official publication: Moniteur Belge, 11.09.2017
⁶⁹ ibidem
(re)insurance companies (which are public interest entities according to Directive 2014/95/EU), public interest entities are also: financial institutions (such as leasing companies, factoring companies, investment and hedge funds, pension funds, stock exchange markets, etc.) and companies or other legal entities of strategic or special interest for The Republic of Croatia. A list of strategic and special interest companies for The Republic of Croatia is compiled by the Croatian Government.70 The subject entities are then different compared to the European Directive and their identification is based on Croatian government system. For what concerns undertakings dimension, are considered companies that have at least 500 employees, that shows a net turnover of at least HRK 30 million (4,064,127.35 euros) and a Balance Sheet Total of over HRK 15 million (2,032,063.67 euros). For diversity matters, the Croatian law imposes the disclosure of information to companies with more than 250 employees. Information must be disclosed on the management report or through a separate report not later than 6 months after the disclosure of the financial statements. In case of non-fulfilment, the Croatian law impose also penalties for companies: “The prescribed fine is between 10.000,00 and 100.000,00 HRK (approximately 1.500,00 – 15.000,00 EUR). Civil liability or criminal sanctions are not prescribed for person liable to issue a non-financial statement.”71 These certainly increase the number of companies disclosing non-financial information, but it doesn’t necessarily imply that there is a development in terms of reporting quality. In fact, Croatia by entering in the European Union had to change many aspects of its policies and approaches. For what concerns CSR, the government didn’t pretend immediately a change for companies and in-fact the sustainability approach of Croatian companies is still in the development phase. Most of companies are now more concerned on the law requirements creating a formal document that is not connected with the strategy of the company. This process of harmonization inside the company is expected to develop even more after the introduction of the Non-Financial Directive.72

71 ibidem
2.2.4 Cyprus

The Non-Financial Directive was transposed into Cyprian national law on the 2nd of June 2017 with Company Act Amendment n. 374 published in the national official Gazette. For what concerns the transposition process of the Directive, the national law covers almost all the requirements exactly as found on the European Directive. However, there is a small difference on the subjects of mandatory non-financial disclosure. Public interest companies include, in Cyprian law, credit institutions and insurance and reinsurance institutions. For what concerns companies’ dimensions the law retrace the Directive definitions and requirements. Cypriot companies don’t have a long tradition of CSR and most of CSR’s ranks shows Cyprus at the bottom of the line. Certainly, there’s much work to be done for Cypriot companies to reach high quality non-financial reporting standards. In 2016 started to appear different organisations that had the aim of improving CSR and to help companies in producing a non-financial report. One of these organisations is CSR Cyprus that is a “non-profit business-led membership organisation aiming to promote the concepts of corporate social responsibility and sustainability to Cypriot businesses and organisations”73. A study than was conducted in 2018 on Cypriot CSR situation inside the European project ‘Road-CSR’ financed by Interreg Europe. “Interreg Europe helps regional and local governments across Europe to develop and deliver better policy”74. It came out that “The key elements that outline the current situation of CSR in Cyprus are:

- The recognition of the importance of CSR but failure in integrating it in business decisions,
- The reduced involvement of Cypriot enterprises, mainly due to the lack of knowledge and confusion about the concept of CSR,

74 Interreg Europe- What is Interreg Europe: https://www.interregeurope.eu/about-us/what-is-interreg-europe/
• The absence of an overall strategic direction for CSR affecting issues of systematic involvement, management issues, the implementation of international standards and communication,
• The current mentality of detachment of SMEs towards CSR,
• The limited implementation of accountability and reporting practices on CSR issues,
• The role of the public sector in the development of CSR defined as partially supportive whilst it could have developed more of an institutional and participatory character.”

2.2.5 Denmark

Denmark is one of the few European countries that were already regulating the disclosure of non-financial information. “It is important to notice that France, UK, Denmark and Sweden were only EU member states that provided mandatory non-financial reporting even before Directive entered into force.”

On the 16th of December 2008 Denmark made non-financial disclosure mandatory for large companies through the Act amending the Danish Financial Statement Act (Accounting for CSR in large businesses). Later, on the 21st of May 2015 “the Danish parliament adopted an amendment to the Danish Financial Statements Act, including new requirements for the disclosure of non-financial information, hereby implementing EU Directive 2014/95/EU.” The subjects of this new amendment would have been liable for the accounting year 2016. By this act Denmark became the first European country to implement the European Directive on Non-Financial information. Of course, since Denmark already had a solid background on non-financial reporting it had to adopt many

sections of the Directive. It is important to say also that from the 1100 identified large Danish undertakings, only 50 will have to comply to the amendment in 2016, the others 1050 that were already regulated by the 2008 Act, had to comply to the new adaption by the financial year 2018. For Danish law companies with over than 250 employees are already considered large companies. Subjects of the amendment are adapted to entities with over than 500 employees, undertakings of class D (listed companies and state-limited liability companies) and credit and insurance institution. Entities that have less than 500 employees should also disclose non-financial information but regarding only human rights, climate issues and environment issues. The information may be disclosed on the management report and through a separate report with a 5-year period with reference on the management report. Information must be disclosed 4 months from the end of the considered accounting period for what concerns public interest companies and 5 months for other companies. For what concerns the principles, the ‘Comply or Explain’ principle is included by the Danish law but not the Safe Harbour principle. “The Danish legislation excludes the option in the NFI Directive to permit non-disclosure of certain information if such disclosure would be seriously prejudicial to the entity’s commercial interest”. For what concerns the content of the non-financial report, the Danish law follows the requirements of the European Directive. The disclosure of Diversity information follows the same rules and format of the others non-financial information. Assurance of the report is guaranteed by the involvement of auditors check and statement of the management report. And also “10-20% of listed companies are selected for full scope enforcement each year, checking presence and content of statement. The enforcement approach will be based on materiality.” The Danish parliament also provides fines for the non-disclosure of non-financial information according with the Danish Financial Statement Act.


79 FEE (Federeation of European Accountants) (2016) “EU Directive on disclosure of nonfinancial and diversity information-Achieving good quality and consistent reporting”.

Estonia implementation of the European non-financial Directive came through an amendment of the Accounting Act on the 10\textsuperscript{th} of December 2015. Estonian companies already had a tradition on non-financial disclosure. It was, as most of other entities in Europe, a voluntary and non-regulated disclosure till the accounting period starting from 2017 with the enforcement of the amendment. In 2014 Natalja Gurvits, Emilia Startseva and Inna Sidorova conducted a research on the quality of non-financial disclosure of the top 10 Estonian companies. They found out that most of the companies preferred to disclose non-financial information on the management report rather than on a separate statement. “The aim of this present research has been achieved, it can be stated that top 10 Estonian companies by Profit Growth are in line with the latest CSR trends and practices and are successfully implementing CSR and indeed pay attention to the matters of social responsibility through either annual reporting and/or respective website. It also seems that these companies prefer to disclose information via website or annual report, which may be related to the fact that preparation of the standalone CSR report requires more time, human resources and practical knowledge and skills.”\textsuperscript{81} By reading their conclusion, it’s clear that Estonia was already a step head in disclosure but, as later specified by the authors, it seems that companies lacked on the knowledge of who and how should prepare the non-financial report.

In implementing the Directive, the Estonian law includes insurance undertakings and credit institution keeping the dimension definition of large company of over than 500 employees but without requirements for what concerns Total Turnover and Balance Sheet Total. Information should be included on the management report and not in a separate report. The law also doesn’t contain the Safe Harbour Principle giving less margin to companies. However, there aren’t expected fines for the unfulfillment of non-financial requirements. For what concerns

\textsuperscript{81} GURVITS N., STARTSEVA E., SIDOROVA I. (2014) “CSR Reporting by the Top10 Estonian Companies rated by Profit Growth” published by Tallinn University of technology.
diversity information requirements, information must be disclosed in the management report and must follow the same standards and regulation of other non-financial topics.

### 2.2.7 Finland

Finland transposition of the European Directive into national law occurs on the 29th of December 2016 with the amendment 1376/2016 and the amendment 1441/2016 to the Accounting Act. The Directive has been fully transposed on the national law, that doesn’t show any kind of differences from the Directive’s requirements. Finland has a long tradition on Corporate Social Responsibility, “it has traditionally been largely implicit in nature, meaning that the state is assumed to take care of social issues and there has not been as strong a philanthropic tradition as in many countries.”  

Finland has always achieved high scores on CSR compared to other European countries, in an evaluation accomplished by Accountability in 2017 for example, Finland placed 3rd in the quality disclosure of non-financial information. Nevertheless, legislation on CSR haven’t started before as in some others European countries. “Regardless of the intensive responsibility debate in the society in the 2000s, the documentation of the Finnish Parliament debates (Parliament of Finland, 2014) indicated that there is no corresponding policy on corporate responsibility at the national level unlike in the European Union. The main reason for this might be the welfare state status and advanced social legislation that have created an adequate framework guaranteeing minimum social services to the citizens and reasonable business environment for the private sectors. Also, the free-willing status of corporate responsibility as a set of actions that go beyond the legal obligations explained the low number of policy initiatives during the last decade.”  

Finland companies started to disclose non-financial information already from the mid-2000. This process was mainly driven by Non-governmental organisations (NGOs) as Finnwatch that not only were promoting mandatory disclosure before the implementation of the directive but

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were also the adoption of international standards for non-financial information by companies. This led Finnish large companies to become one of the first group of companies adopting GRI standards. Finnish companies in a sort, already interiorized the concept of sustainability based on “the Finnish way of thinking that one should be responsible and behave ethically in business. Although a normative statement, such thinking is hinged on the Northern European high regard for ethics and good morals. This is reflected in many references by Finnish managers claiming the representatives of the company to act responsibly and behaving ethically in dealing with their employees as well as other stakeholders and community around them”.

Finnish companies found from their tradition a source of competitive advantage that led to high quality in non-financial disclosure. This can be seen also by the words used by the CEO of UPM-Kymmene (one of the world’s largest pulp and paper companies): “Risk management, dialogue, eco-design, competitive advantage and environmental certificates”.

Through a tweet, he summarized the key point of CSR for Finnish companies. It’s easy to understand why recent research found out that the Integrated Thinking and the adoption of Integrated Reporting through the six capitals is getting bigger in Finland rather than in other European countries.

2.2.8 Germany

Germany’s transposition of the European Directive 2014/95/EU occurs on the 18th of April 2017 through the law n.20 on the CSR implementation of the Directive. The national law follows the Directive’s requirements for almost all the aspects. It shows some differences for what concerns the interested subjects. Public interests’ companies are defined as credit institutions, insurance undertakings, capital market-oriented companies in the legal form of a limited liability company and cooperatives. Moreover, companies must disclose non-financial information in the management report or through a separate statement within 4 months after the balance sheet date.

84 ibidem
85 ibidem
There are different opinions on the CSR level and background of German companies. Some theorists argue that CSR practices didn’t appear early on the German territory for the difficulties in the process of reunification with the fall of the Berlin wall in 1989. Compared to many other countries, Germany found initial greater difficulties in regulating the increasing number of multinationals corporations that was growing due to globalization. However, many other theorists pointed out that corporate social responsibility aspects are widespread in German companies and that even if this practice started later than in other Member States it strongly reached more areas in the country. This can be a consequence of the increasing number and influence that trade unions and labour organisation started to have on the German society. “A growing civil society, which had been largely absent in Germany for the entire twentieth century, put more pressure on business to behave socially responsible.”

However, this also has been argued as not a real positive incentive to reach a high-quality CSR. Some theorists argued that this led German companies to disclose information only to face the high pressure of trade unions and labour organisation. By doing so, they are unable to develop and integrate a proper CSR strategy in their business model. Windolph, Harms, and Schaltegger conducted a study in 2013 on 109 German companies and found out that “89 % of the companies surveyed saw public relations/communications as a functional area promoting sustainability management, where finance, logistics, and production were hardly seen to play a role. Moreover, the awareness for the need to develop social and environmental management tools is rather limited. On average, less than 20 % of the companies see the need for designing CSR management tools.”

From the same survey they found out that the strongest motivation that pushed companies in preparing a CSR statement has to be found on the desire of keeping their legitimacy. For what concerns the German state, we can find the first discussion on CSR in 2010. If we think that in Europe this discussion started much earlier, we can understand why Integrated Thinking and CSR practices started later in Germany. However, in recent years there has been an important development by German companies toward sustainability. This pushed from the increasing pressure and importance of


\[87\] ibidem
CSR in the market. German companies that wanted to keep their legitimacy, as explained before, had to adopt and find new methods of communication. This led to a greater involvement of stakeholders promoted also by the 2017 law that transposed the non-financial Directive. This guaranteed as we might see in the third chapter of this paper a generally high disclosure and compliance with the European Directive. However, from the theorists’ opinions and CSR studies conducted on German companies, we may expect in the near future a greater development on Integrated Thinking and a greater strategic implementation of CSR by German Companies that will transform a good quantitative disclosure of information into a qualitative use of information.

2.2.9 Greece

Greece’s transposition of the European Directive on non-financial disclosure occurs on the 7th of July of 2016 through the law 4403/2016 and later, on the 6th of June 2017, through the circular ΨΟΥΨ465ΧΙ8-BM4. The Greek transposition of the non-financial Directive follows almost all the requirements and standards provided by the Directive and also enlarge its limits. For what concerns the definition of large companies, the national law is the same as the one provided by the European parliament (over 500 employees). However, the subjects of the law include also small and medium sized companies. “Small companies, if they have more than 10 employees, a net turnover of over EUR 700,000 or a balance sheet total of over EUR 350,000 must also engage on reporting, particularly on environmental performance and employee matters.”88 The same limits on net turnover and balance sheet total are required also for large companies. The government showed the clear intention to increase transparency and sustainability in Greek companies. In order to decrease the possible burden felt by small sized companies, the national law doesn’t require them to obtain auditors approval. Public Interest entities are also identified differently compared to the European Directive. In particular are recognized: listed companies, credit institutions, insurance undertakings, banks, large entities

in logging of primary forests, large entities in the mining sector and large entities owned by the government.

Greek tradition towards CSR can be traced back to ancient Greece, in the context of the city state. “Those days being a privateer with no concern for the society was called ‘idiotis’ (which became ‘idiot’ nowadays) and was considered a social abomination. To avoid being seen as enemies of the society the wealthy and rich were seeing it as their duty to privately sponsor (‘choregia’) activities like theatrical performances, gymnasiums and public dinners among others. The premise upon which such practices were established was simply that ‘personal wealth is possessed only through delegation from the city state’.” As nowadays the perception of CSR in Greece is quite different. The law degree on non-financial disclosure showed by Greek companies can be traced back to the financial and political crises that is currently facing the country. “The challenges Greek corporations are facing nowadays (Aravossis & Panayiotou, 2008) in the CSR area (in addition to the economic crisis) are aggravated by the lack of transparency, corruption, bureaucracy, and the lack of incentives and support by the state.” In this modern context is based the national transposition of the Directive that strive to increase transparency and CSR awareness in companies.

2.2.10 Portugal

Portugal’s transposition of the non-financial Directive occurs on the 28th of July 2017 through the law No. 89/2017. The national law follows all the Directive guidelines with some exceptions in the definition of subjects. The Portuguese national law in fact, identifies large companies just by the number of employees (over 500) and not by Total Turn-over and total Balance Sheet. Public interest entities are also identified differently as: “listed companies, Credit institutions, Investment and collective, investment undertakings, Venture capital,

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90 ibidem
venture capital investment and venture capital, funds undertakings, Alternative investment funds, Credit securitisation undertakings and securitisation funds, insurance undertakings, Reinsurance undertakings, Holding undertakings, Pension funds, Public undertakings which have a turnover of more than EUR 50 million or net assets of more than EUR 300 million.” 91 The other characteristics and requirements of the regulation are in line with the Directive.

The Portuguese state is “fragmented and ‘clientelistic’ support focusing on income maintenance (pensions, still under development, making older systems of social support (family, church) indispensable” 92. Portugal is one of the less developed European countries and social issues are very important in public debate. In this context topics concerning social equality and environment protection are discussed more and more. CSR in Portugal started to gain importance from the approval of the Lisbon Agenda 2000. In Portugal there are a lot of medium and small sized companies that operates locally and are very integrated with local communities. For this reason, it is important for them to develop a network with their stakeholders and to develop plans for their possible involvement. However, reporting information is always riskier since companies make themselves accountable to external parties. For this reason and for a matter of management capacity it’s difficult for most of these medium and small companies to develop CSR reports. These as usual are more present on large Portuguese companies and concentrate on environmental issues. This can also be deducted by the results achieved in the study conducted by Midttun et al.’s. In this study were analysed the adherence to international indicators, as GRI and ISO, by European countries in general. Results showed that “all Mediterranean countries scored low in terms of inclusion in sustainability indices, and Portugal was the only country with no participation at all in said indices; Portugal was the Mediterranean country with higher score in terms of adhesion to CSR initiatives, and was only surpassed by Norway and Denmark; in terms of CSR reporting and the adoption of voluntary standards, Portugal ranked very low, similar to the other

Mediterranean countries with the exception of Spain.” This study was conducted in 2006, now there has been a change and an improvement in CSR practices all over Europe but this formal gap is still clear in Portuguese companies. A study conducted by KPMG showed that already in 2011 there has been an important increase in the number of companies disclosing non-financial information: they passed from 52% of the 100 largest Portuguese companies in 2008 to 69% in 2011. A study conducted later by Ernest and Young showed that one of the less disclosed topics is related to corruption and bribery avoidance. This is why in recent years there has been a push by the government and stakeholders to increase transparency and fight corruption inside companies. Finally, we are able to conclude that the Portuguese tradition on CSR is quite strong in terms of integration and initiatives but not widespread in the country in terms of reporting. This leads to a gap between the high-quality reports disclosed by the top firms in the country and the absence of information disclosed by the others smaller companies. “Some aspects of CSR are currently well developed in Portugal. Such is the case of sustainability reporting, whose level of development in Portugal may be depicted as relatively high. Moreover, Portuguese leading companies in terms of reputation for sustainability leadership are also worldwide leaders.” Other topics as corruption needs still to be covered more in depth.

2.2.11 Romania

Romania transposition into national law of the 2014/95/EU Directive occurs on the 17th of August 2016 through the Order No. 1.938 on the Amendment and Completion of Accounting Regulations. In the transposition process the Romanian government made several adaptations of the European Directive. First of all, the definition of large entities is referred only to the number of employees (over 500) and doesn’t take into account Total Turnover and Total Balance sheet. The public interests’ entities that are identified as subjects of the law are:

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94 ibidem
listed companies, credit institutions, insurance and reinsurance undertakings, non-bank financial institutions, payment institutions and e-money institutions, privately managed pension funds, financial investment services companies, national/state owned/companies, companies with full or majority state capital and self-managed public company. Another adaptation concerns the content of information disclosed. The Romanian law requires the subjects to disclose additional information on the impact on the environment and climate. It also requires more information about diversity and wastes reduction policies adopted by subject entities. For what concerns penalties, the law no.82/1991 also impose fines in case of unfulfillment in the disclosure of non-financial information. The other points follow the directive guidelines.

As in many other European countries the first concept of Corporate Social Responsibility was brought in Romania by several NGOs. It appeared quite lately (late 1990s) in comparison of other Member States and developed slowly. In 2000s it received a boost from the various reforms conducted by the government in preparation for joining the European Union. These reforms regarded mainly social behaviour by companies. Now “in Romania, the development of CSR/SR is still in an early stage. While multinationals and large Romanian companies have gradually developed a culture of responsible behaviour, in many cases CSR/SR is still associated with philanthropy and focuses on donations, sponsorship and public relations activities. CSR/SR instruments and tools most commonly addressed include: codes of corporate conduct, social investments, social and environmental reporting and auditing. A small number of companies have adopted a strategic approach, integrating CSR/SR within their basic practices, influencing company’s decisions and activities.”

In 2013 a study conducted by Trends and Realities in Romania involved through a questionnaire on CSR 77 different executives of local companies. “Based on the data gathered and analysed some conclusions were drawn up. CSR has fostered increasingly more defined in Romania, too as around 78 % of respondents stated that their company had a CSR strategy, while 67 % of them

considered that the public interest in CSR grew in 2012–2013.\textsuperscript{96} This is a result of the great effort put by the government in aligning the national regulation with those of the European Union. However, in terms of budget and money spent on CSR projects the results of the study showed that companies weren’t spending so much on this kind of topics. Another survey conducted by KPMG in the same years showed how the number of companies that voluntary disclosed non-financial information increased by 10 basis point compared to 2011. However, less than 50% of Romanian companies didn’t referred to any kind of standards and showed a poor structure in the disclosure. Later the Trends and Realities in Romania conducted similar studies and showed how the general situation of CSR in Romania became stagnant.

\textbf{2.2.12 Slovakia}

Slovakia’s transposition of the European Directive 2014/95/EU occurs on the 6\textsuperscript{th} of May 2015 with the \textit{Act No. 130/2015 Coll., amending Act No. 431/2002 Coll. on Accounting}. This law, however, would come into force in the accounting period starting in 2017. The Slovak national law transposed differently some key Directive’s points. First of all, large companies are defined same as the Directive in terms of dimensions (over 500 employees) and Turn-over and Total Balance Sheet requirements. However, public interests entities are identified as: “listed companies, insurance and reinsurance, undertakings and subsidiaries, banks, subsidiaries and export-import bank of the Slovak republic, health insurance companies, asset management companies and subsidiaries, pension fund management, companies supplementary, pension insurance companies, stock exchanges, railways of the Slovak republic, entities that prepare consolidated financial statements of the central administration, higher territorial units and A municipality, town or city under special regulations, which complies with the following conditions: total amount of assets exceeds EUR 100 million as recorded in the consolidated financial statements of the public administration entity and

\textsuperscript{96} ibidem
number of inhabitants exceeded 50,000”⁹⁷. The non-financial information must be disclosed in the management report and not through a separate statement and should follow international or European frameworks rather than national frameworks. Another difference is the absence on the national law of the Safe Harbour principle and the chance for the subjects to omit some non-financial topics. Fines in case of unfulfillment are also expected by the law.

The Slovak tradition on Corporate Social Responsibility is still not very explored by theorist. However, it appears by looking at international rankings on CSR that Slovak companies are still a step back. In fact, Slovakia doesn’t even appear in most of the ranks. The idea of CSR started to appear in Slovakia only in 2004 with the help of several NGOs. “A study by the World Bank found that most companies in Slovakia consider shareholder, customers and employees, top management and a board of directors to be their key stakeholders. Only very few companies think of local communities as stakeholders”⁹⁸. This again, shows how CSR is still not well widespread in Slovakia. By looking at GRI database we are able to see that the first report appeared only in 2006, later there has been an increase till 2013 but after that it has declined. “Today the use of the GRI guidelines by companies in Slovakia is minimal. It could mean that companies in Slovakia prefer to use their own structure of CSR reports”⁹⁹. Another evidence of how CSR practices and principles are still not absorbed by Slovak companies comes from a study conducted on 2014 on the Slovak SMEs perception of CSR. The results showed that “only 8% of the companies, participating in the research, have a document on CSR. 73% of answers were negative, 19% of the respondents have some sort of reference about CSR in their firm’s strategy.”¹⁰⁰

⁹⁹ Ibidem
2.2.13 United Kingdom

UK transposed the European Directive on non-financial information through “The Companies, Partnerships and Groups (Accounts and Nonfinancial Reporting) Regulations 2016”\(^{101}\) on the 19th of December 2016. The national law transposed almost entirely and equally the points of the European Directive except for what concerns the entities subject of the law. Large companies are defined only by their number of employees (over 500) and not by levels of Total Turnover and Total Balance Sheet. Another important difference from the Directive requirements regards the method of disclosure. English companies must disclose the non-financial information inside the management report and cannot do it officially only through a separated statement.

United Kingdom is now one of the Member States with the best degree on Corporate Social Responsibility. This comes also from the country’s long tradition on matters of CSR. “Commencing from the early phases of the industrial revolution, circa 1750, what we today describe as, corporate social responsibility has played an important role in the development of social opportunities, justice and welfare within the United Kingdom.”\(^{102}\) The UK’s government started to talk and think about CSR as a voluntary movement. Later, on 1990s, due to different scandals, the pressures coming from stakeholders and the globalisation process the government had to change its mind. “During the 1990s and the prominence of environmental NGOs, Greenpeace actions in the North Sea were instrumental in convincing Royal Dutch Shell to change their intention to dispose of the Brent Spar oil platform at sea. Arguably the decision was to influence subsequent contemporary plans for de-commissioning of offshore installations. The example highlighted Greenpeace’s effectiveness at raising public awareness to such an extent that consumer boycotts ensued, Shell’s reputation was undermined, and corporate behaviour changed.”\(^{103}\) Similarly many other companies suffered


\(^{103}\) ibidem
of similar pressure and actions brought against an unaccepted social or environmental behaviour. The government at the beginning of 2000s decided that if before was the market to regulate the disclosure of non-financial information, it was time to impose standards and regulation to companies. This led to an increasing involvement of governmental organisations and NGOs in pushing UK’s companies to adopt ‘best practices’ in terms of CSR. To implement the directive “in February 2016 the Government consulted on the best way to transpose the Directive, including how best to address the differences between the EU and existing UK frameworks and how to use the flexibilities that the Directive offered.”

The respondents were coming from different sectors: civil society, companies, investors, representative bodies, consultancies, accountants, individuals and academics. The government took into consideration their responses in order to develop a regulation that could better fit the needs of the stakeholders. For example, it posed a question on the possibility of disclosing non-financial information through a separate report; 31 over 36 responses raised concerns about the reliability of a separate report published 6 months later the management report. For this reason, “the Government acknowledges the concerns raised by respondents concerning the use of the separate report and will not pursue this further.”

Other concerns brought out by respondents regarded the language and definitions used by the regulation and the directive. Many argued that some definitions as for example the requirement about ‘senior managers’ in disclosing gender information, appeared too broad. They in this case suggested the government to describe ‘senior managers’ into 3 different categories:

- Employees who are members of the Executive Committee
- Employees who are direct reports to members of the Executive Committee
- Employees in all other management grades.

105 ibidem
This particular attention by the society and dialogue with government on CSR are both key strengths of United Kingdom that guarantee companies to reach high quality disclosure and knowledge on CSR.
By reading the previous paragraphs we can deduct that the evolution and the general increased quality and quantity of Corporate Social Responsibility information differs across Member States. The geographical area and the political context in which firms operate certainly affects the disclosure of ESGs. The transposition process of the Non-Financial Directive conducted by European Member States occurred differently and in different times. In this paper I’m going to analyse and discuss the evolution in the disclosure of 150 European companies after the mandatory transposition of the Directive 2014/95/EU. Furthermore, Corporate Governance variables are expected to play a significant role in the percentage increase on companies’ disclosure. Theorists have recently conducted different studies on the role of Corporate Governance in promoting Social Corporate Responsibility. Many of these studies concentrated on the role that agency theory has in the continuous pressure for more qualitative information. Scholars and researchers, however, found out that the correlation between Corporate Governance mechanisms is not always confirmed empirically. “Some researchers found that effective monitoring had a positive impact on CSR, but others found that effective monitoring was negatively related to CSR. Similarly, the effect of incentive alignment on CSR was found to be positive in some studies, but negative in others.”106 Several scholars explained this inconsistency of some results with the hypothesis that Corporate Governance

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Governance mechanisms are mainly ‘independent’ and may act as substitutes between each other in certain situations and complements in other. “This complement versus substitute framework can address concerns about the inconclusive findings from the previous studies on CSR. For instance, this framework suggests that one governance mechanism can be more positively correlated to CSR if other governance mechanisms act as complements, but its positive effects can be diminished or even disappear if other governance mechanisms act as substitutes.”

These difficulties in the analysis and studies of Corporate Governance implication on CSR can also be caused by similar difficulties in finding positive correlation between CSR and financial indicators. These kinds of problems are in part explained in previous chapters. It’s not always possible to find a financial indicator that is able to fully represent the contribution of a company’s action towards the environment or others CSR topics. “Previous studies reported inconclusive, and in some cases even contradictory, results for the relationship between CSR and financial performance, pointing in different causal directions. If governance entities (e.g., large shareholders, boards of directors) assume that socially responsible decisions enhance a firm’s financial performance (i.e., positive relationship), effective governance mechanisms may promote CSR. In contrast, if governance entities assume that CSR engagement does not improve a firm’s financial outcomes (i.e., negative relationship), effective governance mechanisms may discourage CSR since they may perceive CSR as an overinvestment or a waste of valuable resources.”

Other scholars studied the impact of sustainability in family firms. Even in this study results are not harmonized. The variables are in fact many and not well correlated each other. The internal impact of sustainability on family firms has been argued, for example, by Laura Broccardo, Elisa Truant and Adrian Zicari. Through a literature study they found out that “a long-term orientation is the starting point for the other determinants and indicates a double perspective: occasionally, it leads to decisions that favour family members at the expense of the other stakeholders. However, a long-term orientation ensures the enduring robustness of the enterprise and builds relationships with stakeholders, causing the family business to have deep attachments and strong sentiments about its community and to favour sustainable
initiatives, such as environmental protection, communication and dialogue with local communities, and CSR policy practices and benefits.”\textsuperscript{109} However, the same attachment to local communities and tradition undermined the independency on decision making and on board management. This becomes even more clear for big firms that show different and contrasting results. They arrived, in fact, at the conclusion that “it appears that in FFs, the determinants do not all have a homogenous impact on sustainability initiatives, and this could be explained by the fact that characteristics, such as size, age, culture, moral capital, and self-identification, act in different ways in companies characterized by the presence of a family.”\textsuperscript{110} This highlights even more the importance of linking sustainability to companies strategy. Integrated Thinking and the practice of Integrated reporting is born with this precise objective. Sustainability drivers are different and must be found internally by each individual firm that must develop its strategic goals together with its sustainability strategy.\textsuperscript{111}

3.1 Formulation of hypothesis

In this paper I want to analyse the possible effects that the governance and cultural variables could have on Corporate Social Responsibility reporting. In particular:

- H1: Corporate Governance mechanisms can influence CSR reporting.
- H2: Companies with a low degree on CSR showed a major improvement after the implementation of the European Directive but are still influenced by their industrial sector and their cultural background.

\textsuperscript{110} ibidem
The relationship between Corporate Governance and Sustainability reporting, as previously mentioned, is a topic of recent studies that finds few evidences on their possible correlation. For what concerns the possible implication of the cultural and geographical background of countries and its influence on their practices on CSR reporting we will see, in this paper, how after the implementation of the European 2014/95/EU Directive countries with poor tradition on CSR were forced to improve their disclosure. However, we will also see that there is still a gap the needs to be reduced between Member States in order to increase the convergence on non-financial reporting practices.

3.1.1 **H 1.1: Companies with independent directors disclose more non-financial information**

Researchers and scholars have always studied the implication caused by the relationship nature between shareholders and the management of companies. The first hypothesis that it’s going to be analysed through this paper concerned the connection between Corporate Social Responsibility disclosure and the degree of independence of a company with regards of its shareholders. The number and the use of independent directors is different between Member States. In the OECD 2017 Corporate Governance Factbook, we can see that countries as Austria, Belgium and Portugal (among our sample) present companies with an ownership structure that is very centralised. In these countries, especially in Portugal, there are a lot of Family Firms and the use of independent directors is not well widespread. In countries as United Kingdom instead, the companies’ ownership structure is completely different. “The UK has a highly liquid listed company sector with dispersed ownership. In about 90% of companies listed on the LSE, there is no major shareholder owning 25% or more.” Of course, the ownership structure of a company and its possible implication in the financial market has been studied largely by scholars. However, there aren’t many studies on its possible relation with the disclosure of non-financial information. “In the

112 OECD (2017), OECD Corporate Governance Factbook 2017
European context a CG model known as dualistic is given preference, i.e. the bicameral model also referred to as European continental model which puts a greater emphasis on the interests of stakeholders. The monistic, unicameral model also referred to as Anglo-American model, accentuates the interest of shareholders. In Europe the monistic model is common in UK and Spain. This different interest perceived by companies is also important when disclosing information. Of course, family firms in the attempt to maintain or increase their legitimacy are more concerned on the opinions of stakeholders rather than shareholders. This as a matter of fact influences their communication methods and processes. As previously explained, scholars have different opinions on the correlation level between Corporate Governance variables and Corporate Social Responsibility reporting. James Salo conducted a research to find the possible correlation between corporate governance measures and environmental performance. He found out that while they “were not correlated to each other, nor to any of the performance indicators in the opposing database’s ratings, the disclosure scores are strongly and positively correlated to performance within their own databases. This suggests that, when a firm has strong disclosure practices, it is also more likely to have strong performance in the area disclosed.” This is an important result in matters of disclosure and showed the increasing importance of improving the quality and increasing the number of topics on the disclosure of non-financial information. However, it highlighted also the complicated nature of the relationship between Corporate Governance and Non-financial disclosure. In the literature study conducted by Patrick Velte these difficulties in identifying correlation are stated once more making this relationship between Corporate Governance and Sustainability reporting one of the most baffling between companies’ practices.

3.1.2 **H 1.2: Companies with a greater gender diversity in the Board are disclosing more non-financial information**

In the literature the relationship between board diversity and financial performance of companies has been a high debated topic. Some studies showed the positive effects on financial indexes of having high diversity in terms of gender and nationality in the board composition. “Gender and nationality diversity of executive directors is positively associated with both ROA and EBITDA. Moreover, nationality diversity has also a positive effect on Adjusted Tobin’s Q and Roe.”\(^{116}\) Other studies instead highlighted the opposite. “Using observations from 2003-2012, we find that a more gender and ethnically diverse board may enhance a firm’s performance on social, environmental and governance dimensions but increasing board diversity does not necessarily result in better financial performance for the firm.”\(^{117}\) In Gupta et al. results, we can also observe how gender diversity in the board is much more sensitive for stakeholders rather than shareholders. It will be then interesting to analyse whether this sensitiveness affects non-financial disclosure differently in countries where companies are more concerned on shareholders’ opinions (e.g. United Kingdom) and countries where companies are more concerned on stakeholders’ opinions (e.g. Portugal). Gender equity inside firms is still very far to be reached in almost all of the Member States. This is why the European Commission dedicated a point of the non-financial Directive to encourage the disclosure in this topic. However, even before the Directive 2014/95/EU gender equality in companies was a key objective of the European Union. “With its Strategy for Equality between Women and Men, the European Commission put the issue of women on boards high on the political agenda already in 2010. In 2011 it called for credible self-regulation by companies to ensure better gender balance in companies’ supervisory boards. One year later it became clear that progress was not visible, which is why in November 2012 the Commission started putting forward a legislative proposal aiming to accelerate the progress towards a more balanced representation of women and men on boards of listed


companies.” Nowadays the importance of reaching equality and a higher gender diversity in the board composition is clear both in terms of company’s performance and in terms of social welfare. The effects that gender diversity can bring to CSR disclosure are still not clear. As with many other Corporate Governance mechanisms, scholars and researchers haven’t been able to capture definitively the positive or negative effect that gender diversity has on disclosure. “The results reveal that board diversity in terms of gender and educational background does not fully capture firm CSR reporting. The study was not able to demonstrate the ability of female directors to enhance CSR reporting.” However, other scholars argued that these results are influenced by the fact that women are still a minority in most of the companies worldwide and that their influence on decisions for CSR disclosure is still difficult to be enforced. In Malaysia for example there are “only 8.2% women on boards of directors of Malaysian PLCs, they are a minority group among board members.” This argument has been also supported by other scholars that even if supporting the idea that women can bring a positive influence on matters of CSR reporting, they think that women are unable to do it because of their small numbers inside the company. Others researchers instead, were able to find a positive correlation between CSR reporting and gender diversity on companies’ Boards. Through an analysis based on the top 250 Global companies found by KPMG, Belen Fernandez-Feijoo, Silvia Romero and Silvia Ruiz Blanco searched if the inclusion of at least three women on the Board of directors affected the level of CSR reporting by companies. In their conclusions they found that their “results support that in countries with higher proportion of boards of directors with at least three women, the level of CSR reporting (defined based on the KPMG survey) are higher.”

120 Ibidem
3.1.3 **H 1.3: The company’s number of current managers and directors can influence the disclosure of non-financial information**

The relationship between companies’ size and CSR reporting is a topic largely discussed by scholars and researchers. It has also been considered by the European Union when writing the Directive 2014/95/EU. In previous paragraphs are explained the differences on the pressure exercised by stakeholders towards SMEs and larger firms and the implication on the formulation of the Directive. What this dissertation wants to investigate more is whether the number of directors and managers in large companies (with more than 500 employees) can influence the disclosure of non-financial information. The relationship between companies’ Board size and their financial performance has been studied by different scholars. Some of them highlighted the increased costs brought by large Boards and others highlighted the potential benefits brought by an increased number of experts and the positive correlation with market shares values.\(^{123}\) However the relation between Boards’ size and CSR reporting is a topic that only recently has been considered. A literature study on the relationship of Board characteristics and CSR reporting has been conducted by Patrick Velte in 2017. “Remarkably, the existing research primarily focuses on board systems in developing countries in the Asian region. Furthermore, the banking industry is focused in some research designs. In view of the huge regulatory measures within the EU in the context of board composition and CSR reporting (e.g., EU CSR Directive), future research should analyse their relationship in a multinational sample of EU member states with one-tier and two-tier systems with a separation of different branches of industries.”\(^{124}\) In his studies he finds how results on the correlation between Corporate Governance variables (as Board composition and gender diversity or boards’ size) are still not converging and are really different between scholars’ publications. For this reason, he suggests further studies on the correlation with the companies’ industrial sectors. Lin Liao and Yuyu Zhang conducted a study on Chinese

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companies to find if Corporate Governance variables are connected to the voluntary disclosure of non-financial information. It turned out, this time, that in China the size of the Board is positively and significantly correlated with CSR voluntary reporting\textsuperscript{125}. María Del Mar, Miras Rodríguez and Bernabé Escobar Pérez suggest, instead, how the cultural and law systems of different countries influence CSR disclosure and Corporate Governance mechanisms. And how “the CG mechanisms affected by the institutional environment also help to explain differences in CSR reporting practices. As relation-based societies evolve into rules-based environments, the information disclosed about CSR becomes more complex due to a strengthening of CG mechanisms.”\textsuperscript{126} The role of Corporate Governance mechanisms appears to be limited in enforcing the cultural effects on CSR reporting. There are many aspects of this relationship that are still not known by theorists, however, what is sure is that Corporate Governance variables can influence reporting practices.

### 3.2 Methodology

To verify the previously mentioned hypotheses, it was continued the analysis conducted by three other Ca’ Foscari students in their Master thesis. It was considered a randomized sample of 150 companies coming from 13 different European countries (Belgium, Cyprus, Croatia, Finland, Germany, Portugal, Romania, United Kingdom, Denmark, Austria, Estonia, Greece and Slovakia).

The sample has been constructed through Orbis database considering listed European companies with at least 500 employees. The limitation on the number of employees is to consider companies that are subjects of the European Directive 2014/95/EU. The parameters used in finding the sample considered different industrial sectors corresponding to:


Were then excluded, from the sample, all local governments, countries and public authorities together with companies that haven’t been disclosing financial information for the past 2 years. The analysis was then conducted comparing data collected from 2016 reports and data collected from 2017 reports. This caused the exclusion of some companies by the initial sample of 150 entities. During the data collection process, the overall number of comparable companies decreased to 120\(^{127}\). The final sample divided by countries figured as:

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of companies</th>
<th>Number of comparable companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Belgium</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Croatia</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Cyprus</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Denmark</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Estonia</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Finland</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>33</td>
<td>26</td>
</tr>
<tr>
<td>Greece</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Portugal</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Romania</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>UK</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Tot. Sample</td>
<td>150</td>
<td>120</td>
</tr>
</tbody>
</table>

\(^{127}\) See next chapter’s point: Data collection
The sample divided by industrial sectors considered figured, instead, as:

**Table 5 (Sample of companies divided by industrial sector)**

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Number of companies</th>
<th>Number of comparable companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Educational &amp; Health</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Machinery, Equipment, Furniture &amp; Recycling</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>Metals &amp; Metal products</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Other services</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>Post &amp; Telecommunications</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Primary sector</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Publishing &amp; Printing</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Textiles, Wearing apparel &amp; leather</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Wholesale &amp; Retail trade</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Wood, Cork &amp; Paper</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td><strong>Tot. Sample</strong></td>
<td><strong>150</strong></td>
<td><strong>120</strong></td>
</tr>
</tbody>
</table>

3.2.1 Data collection

This paper is going to compare the level of the disclosure of non-financial information achieved by countries between the years 2016 and 2017. The purpose is in fact to understand the possible impacts of the European Directive 2014/95/EU that had to be implemented by Member States not after 2017. The study wanted to examine if the companies’ level on environmental, social and governance communication increased after the transposition into national law of the Member States. Moreover, the following analysis will investigate if companies with certain corporate governance indicators are actually disclosing more non-financial information.
After acknowledging the sample of companies, I collected the sustainability/CSR reports 2017 or the management report 2017 for each of the 150 companies of the sample\textsuperscript{128}. The reports were collected on the companies’ websites and data was then collected and stored in a excel database. The purpose was to consider whether companies disclosed non-financial information following the European Directives requirements or not and then compare the results with the data collected previously from the 2016 reports. The database considers, in the columns, the 14 variables listed on point 7 of the European Directive 2014/95/EU. The data collection followed the guidelines and method adopted by students in 2016. After reading through each single report, I reported a value of 1 if the topic was reported by the company (a topic is considered reported if companies mentioned at least one among policies, risks and outcomes related to it) and a value of 0 if it was just mentioned or not even mentioned. From the overall sample of 150 companies it was then considered only a sample of 120 companies. Some of the companies in the sample didn’t disclose the 2017 report before October 2018. For this reason, it was impossible to consider them in the analysis and they have been excluded. Others disclosed the report only in national language (not English) and for this reason were not considered. A very few instead didn’t disclose only the 2016 report in English and even if the 2017 data was collected it was not possible to complete the comparison. The Non-Financial directives requires the disclosure of 14 variables that can be divided in Environmental variables, Social Variables and Governance variables.

The variables searched in management and CSR reports concerning the environment are 5:

- Current and foreseeable impacts of the undertaking’s operations on the environment and on health and safety.
- Use of renewable and/or non-renewable energy: energy consumption and relative weight of renewable energy.
- Greenhouse gas emissions reduction strategy: CO\textsubscript{2} emissions during company’s value creation process.

\textsuperscript{128} Appendix 1: list of companies in the sample
• Water consumption in company’s production and logistics processes.
• Level of air pollution generated by the company

For what concerns, instead, social variables the directive requires 7 different factors:

• Actions taken to ensure gender equality. Information on the presence of women at board level and on their overall percentage on the total of employees. Information on employees average age and background.
• Information on the implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue.
• Respect for the right of workers to be informed and consulted: number and types of survey conducted on employees’ satisfaction and opinions, number of general meetings and level of internal information of the company.
• Respect for trade union rights: trade unions involvement and agreements.
• Health and safety at work: number of work injuries and disease caused by particular working conditions. Deaths at work.
• Dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities.
• Prevention of human rights abuses.

There are, at last, 2 variables that consider the corporate governance policies adopted by the company:

• Instrument in place to fight corruption.
• Instrument in place to fight bribery.

After the collection of all these variables it was assigned to each company in the sample a value from 0 to 14 that describes the overall compliance of the company with Directive’s requirements. These values would be than compared with results collected in 2016 to verify the improvement achieved by European companies on the disclosure of non-financial information.
To verify the hypothesis concerning the influence of Corporate Governance variables on the level of Non-Financial disclosure, it was then extracted another database from Orbis. This database contains information on the overall independence of directors, the current number of managers and directors in the company and the proportion of women between managers and directors. To identify the degree of independence of a company with regards of its shareholders, Orbis uses the BvD Independence Indicator (IND). This indicator is provided by Bureau Van Dijk, one of the biggest companies of data gathering and analysis. To identify the level of independence from shareholders the BvD independence indicator gives a score ranging from A+ to U with the following meaning:

*Table 6 (BvD Independence indicators)*

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>There are no shareholders with more than 25% of direct or total ownership (&quot;Independent companies&quot;).</td>
</tr>
<tr>
<td>A</td>
<td></td>
</tr>
<tr>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>B+</td>
<td>There are no shareholders recorded with more than 50% of direct, indirect or total ownership. One or more shareholders recorded with more than 25% of direct or total ownership.</td>
</tr>
<tr>
<td>B</td>
<td></td>
</tr>
<tr>
<td>B-</td>
<td></td>
</tr>
<tr>
<td>C+</td>
<td>There are no shareholders recorded with more than 50% of direct ownership. There is at least one shareholder recorded with more than 50% of total ownership. (indirectly majority owned).</td>
</tr>
<tr>
<td>C</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>There is at least one shareholder recorded with more than 50% of direct ownership (directly majority owned).</td>
</tr>
<tr>
<td>U</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

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3.3 Results

In this chapter are going to be analysed the results obtained from the comparison on the data collected from 2016 reports and 2017 reports. The results are based first of all on a descriptive analysis and on a literature analysis. There are also limitations considered as the small time period for the comparison (1 year) and the characteristics of the sample. This in fact, shows an uneven distribution of companies between member states and in terms of industrial sector.

*Graph 1 (distribution of companies through countries)*
By looking at both graphs we see that the sample doesn’t present neither an equal distribution or a normal distribution. Germany and United Kingdom are the countries that can count on more observations and the industrial sectors more represented are “Machinery, Equipment, Furniture & Recycling”, “Other services”, “Wholesale & Retail trade”, “Banks” and “Food, Beverages and Tobacco”. This distribution obviously cannot give us a full picture of the current overall level of non-financial disclosure in Europe. However, as explained in the previous paragraph, it was collected randomly and can be topic for future deeper analysis.

Looking at the topics disclosed by companies in 2017 and in 2016 we can take into consideration Graph 3:
By looking at Graph 3 we can see that in 2017 with the mandatory disclosure of non-financial information there was as a matter of facts the expected increase on topics disclosed by Member States’ companies. In this graph were considered only the 120 comparable companies (only those companies that presented data for both 2017 and 2016) in order to better understand the relative increase related to each non-financial topic. The most disclosed topics in 2017 are confirmed to be the information on companies’ impact on environment and the gender equality measures adopted. In particular we can see how Corporate Governance variables received more attention by the companies in the sample. In fact, information on gender distribution and on the instruments adopted by companies to fight corruption and bribery are, among the Directive topics, those that showed a better increase. Respectively, there was a 20% increase on the number of companies that disclosed information on gender distribution and on instruments to fight corruption. For what concerns then the instruments to fight bribery the number of companies increased by 23% in 2017 respect to 2016. For what concerns the lowest disclosed topics, instead, we find that quite less than a company over 2
discloses information on air pollution (46% of companies), trade unions rights (38% of companies) and information on the company adherence to the fundamental principle on social dialogue and working condition described during the International Labour Organisation (ILO) convention (38% of companies). There are also almost half of the companies in the sample that are not disclosing information related to water consumption.

It is quite meaningful, instead, the number of companies that are not disclosing several of the analysed non-financial topics. These ‘uncompliant’ companies and these gaps on the disclosure of certain non-financial information required by the European Directive 2014/95/EU may be seen as problematic since the Directive foresaw the mandatory disclosure by the year 2017. However, as explained in the previous chapter the transposition of the Directive occurred differently and with different strength in the countries considered by the sample. In most of the cases there aren’t fines expected for the unfulfillment of the transposed law and companies operating in the industrial sector of “Banks”, for example, may be less interested in disclosing information on their water consumption since this kind information is certainly not very sensitive for their stakeholders as, instead, it might be for companies operating in the “Food, Beverages and Tobacco” industrial sector. Companies decision on whether to disclose or not non-financial information on their 2017 reports comes from many different factors that have been studied and commented by different researchers and scholars and explained in the previous chapters. Another possible answer to the absence of certain information can be connected to the method used in collecting the data and the different approach adopted by companies in writing their annual management report or sustainability/CSR report. In fact, for what concerns information regarding the ILO convention principles, during the data collection process and the report analysis were considered as positively reporting companies those that explicitly reported the ILO adherence. For these reasons some companies may have adopted initiatives towards social dialogue or initiatives that are promoting better working condition, but they might have not disclosed those initiatives through the report with their self-adherence to ILO convention. These can be caused by different factors that can be also summarized mainly by the absence of any reference to ILO in the respective national law or the scarce knowledge by managers on matters of sustainability and corporate responsibility reporting. It was explained in chapter 2,
how countries have a different background on sustainability and how some Member States still need to cover this gap. This process cannot be accomplished easily of course in one year, especially if the transposition into national law has begun lately in certain companies compared to other countries. For what concerns trade unions, their power is different in each European country and in recent years their density throughout the Member States has fallen dramatically\textsuperscript{130}. As a consequence, many companies may have lost interest on disclosing information about their negotiations with trade unions and might disclose other information as on number of meetings and initiatives accomplished to meet workers representatives’ expectations. In the following graph we are able to see the respective percentage increase on disclosure for each single non-financial considered topic.

\textit{Graph 4 (% increase on topic disclosure)}

\textsuperscript{130} Schnabel C. (2013) “Trade unions in Europe: Dinosaurs on the verge of extinction?”
3.3.1 Analysis by country

In this section I’m going to analyse the results dividing the companies in the sample by their respective Member States. It will be interesting to understand whether the result obtained through the comparison in reading the annual reports are according to the literature analysis of Member States background conducted in chapter 2.

Table 7 (2017 number of disclosed topics/country)

<table>
<thead>
<tr>
<th>Country</th>
<th>&lt;5</th>
<th>%</th>
<th>5&lt;=x&lt;10</th>
<th>%</th>
<th>10&lt;=x&lt;14</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2</td>
<td>17%</td>
<td>4</td>
<td>33%</td>
<td>6</td>
<td>50%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2</td>
<td>29%</td>
<td>3</td>
<td>43%</td>
<td>2</td>
<td>29%</td>
</tr>
<tr>
<td>Croatia</td>
<td>2</td>
<td>29%</td>
<td>2</td>
<td>29%</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>2</td>
<td>50%</td>
<td>1</td>
<td>25%</td>
<td>1</td>
<td>25%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0</td>
<td>0%</td>
<td>2</td>
<td>18%</td>
<td>9</td>
<td>82%</td>
</tr>
<tr>
<td>Estonia</td>
<td>1</td>
<td>25%</td>
<td>2</td>
<td>50%</td>
<td>1</td>
<td>25%</td>
</tr>
<tr>
<td>Finland</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>14%</td>
<td>6</td>
<td>86%</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>12%</td>
<td>4</td>
<td>15%</td>
<td>19</td>
<td>73%</td>
</tr>
<tr>
<td>Greece</td>
<td>1</td>
<td>14%</td>
<td>2</td>
<td>29%</td>
<td>4</td>
<td>57%</td>
</tr>
<tr>
<td>Portugal</td>
<td>0</td>
<td>0%</td>
<td>2</td>
<td>50%</td>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>50%</td>
<td>1</td>
<td>50%</td>
</tr>
<tr>
<td>Romania</td>
<td>3</td>
<td>43%</td>
<td>0</td>
<td>0%</td>
<td>4</td>
<td>57%</td>
</tr>
<tr>
<td>UK</td>
<td>6</td>
<td>27%</td>
<td>5</td>
<td>23%</td>
<td>11</td>
<td>50%</td>
</tr>
<tr>
<td>Tot. Sample</td>
<td>22</td>
<td>18%</td>
<td>29</td>
<td>24%</td>
<td>69</td>
<td>58%</td>
</tr>
</tbody>
</table>

In Table 7 are reported the number of companies for each Member State that respectively presents less than 5 disclosed topics (<5), a number of disclosed topics between 5 and 10 (5<=x<10) and a number of disclosed topics between 10 and 14 (10<=x<14). We can see how in 2017 almost 60% of the companies in the sample showed an overall number of disclosed topics higher than 10. It is also important to notice how German, Danish and Finnish companies showed outstanding results in terms of non-financial disclosure.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>7.25</td>
<td>9.50</td>
<td>31%</td>
<td>8.00</td>
<td>10.50</td>
<td>31%</td>
<td>3.86</td>
<td>4.03</td>
<td>4%</td>
<td>14.93</td>
<td>16.27</td>
<td>9%</td>
</tr>
<tr>
<td>Belgium</td>
<td>5.57</td>
<td>6.86</td>
<td>23%</td>
<td>7.00</td>
<td>7.00</td>
<td>0%</td>
<td>4.12</td>
<td>4.63</td>
<td>13%</td>
<td>16.95</td>
<td>21.48</td>
<td>27%</td>
</tr>
<tr>
<td>Croatia</td>
<td>8.29</td>
<td>8.86</td>
<td>7%</td>
<td>9.00</td>
<td>9.00</td>
<td>0%</td>
<td>5.25</td>
<td>5.67</td>
<td>8%</td>
<td>27.57</td>
<td>32.14</td>
<td>17%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>4.00</td>
<td>5.50</td>
<td>38%</td>
<td>4.50</td>
<td>5.00</td>
<td>11%</td>
<td>3.16</td>
<td>5.20</td>
<td>64%</td>
<td>10.00</td>
<td>27.00</td>
<td>170%</td>
</tr>
<tr>
<td>Denmark</td>
<td>8.55</td>
<td>10.09</td>
<td>18%</td>
<td>10.00</td>
<td>10.00</td>
<td>0%</td>
<td>2.54</td>
<td>2.21</td>
<td>-13%</td>
<td>6.47</td>
<td>4.89</td>
<td>-24%</td>
</tr>
<tr>
<td>Estonia</td>
<td>6.50</td>
<td>8.25</td>
<td>27%</td>
<td>7.00</td>
<td>9.00</td>
<td>29%</td>
<td>1.91</td>
<td>2.99</td>
<td>56%</td>
<td>3.67</td>
<td>8.92</td>
<td>143%</td>
</tr>
<tr>
<td>Finland</td>
<td>12.00</td>
<td>12.71</td>
<td>6%</td>
<td>14.00</td>
<td>14.00</td>
<td>0%</td>
<td>2.83</td>
<td>1.98</td>
<td>-30%</td>
<td>8.00</td>
<td>3.90</td>
<td>-51%</td>
</tr>
<tr>
<td>Germany</td>
<td>8.42</td>
<td>10.04</td>
<td>19%</td>
<td>8.00</td>
<td>11.00</td>
<td>38%</td>
<td>4.16</td>
<td>3.87</td>
<td>-7%</td>
<td>17.29</td>
<td>15.00</td>
<td>-13%</td>
</tr>
<tr>
<td>Greece</td>
<td>7.43</td>
<td>9.29</td>
<td>25%</td>
<td>10.00</td>
<td>11.00</td>
<td>10%</td>
<td>5.00</td>
<td>4.27</td>
<td>-15%</td>
<td>24.95</td>
<td>18.24</td>
<td>-27%</td>
</tr>
<tr>
<td>Portugal</td>
<td>6.50</td>
<td>10.00</td>
<td>54%</td>
<td>7.50</td>
<td>9.50</td>
<td>27%</td>
<td>3.87</td>
<td>2.94</td>
<td>-24%</td>
<td>15.00</td>
<td>8.67</td>
<td>-42%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.00</td>
<td>9.00</td>
<td>100%</td>
<td>0.00</td>
<td>9.00</td>
<td>100%</td>
<td>0.00</td>
<td>1.41</td>
<td>100%</td>
<td>0.00</td>
<td>2.00</td>
<td>100%</td>
</tr>
<tr>
<td>Romania</td>
<td>5.71</td>
<td>8.00</td>
<td>40%</td>
<td>4.00</td>
<td>13.00</td>
<td>225%</td>
<td>5.77</td>
<td>6.88</td>
<td>19%</td>
<td>33.24</td>
<td>47.33</td>
<td>42%</td>
</tr>
<tr>
<td>UK</td>
<td>6.91</td>
<td>7.68</td>
<td>11%</td>
<td>7.50</td>
<td>9.50</td>
<td>27%</td>
<td>4.40</td>
<td>4.26</td>
<td>-3%</td>
<td>19.32</td>
<td>18.13</td>
<td>-6%</td>
</tr>
<tr>
<td>Tot. Sample</td>
<td>7.44</td>
<td>9.07</td>
<td>22%</td>
<td>8.00</td>
<td>10.00</td>
<td>25%</td>
<td>4.32</td>
<td>4.23</td>
<td>-2%</td>
<td>18.69</td>
<td>17.91</td>
<td>-4%</td>
</tr>
</tbody>
</table>

*Table 8 (Results analysed by Country)*
Going back to the results obtained in the comparison of the non-financial disclosure. We are able to see looking at Table 8 that the countries with the greatest improvement on non-financial disclosure are represented by Portugal with 54%, Cyprus with 38% and Romania with 40% of more average disclosed topics. Following there are Austria and Estonia with an increase on topics disclosed of 31% and 27%. Slovakia showed an increase of 100% as it passed by a complete absence in disclosure in 2016 to an average of 9 topics disclosed in 2017. However, there are only 2 companies that represent Slovakia in our comparable sample, and this can hardly give us a complete picture. We can notice also how the bigger improvements, of Slovak companies for example, comes from a 2016 situation of poor disclosure. I expected this result since with the introduction in Europe of the Directive 2014/95/EU and the resulting non-financial mandatory disclosure for European companies, those companies that were not engaging CSR practices and reporting had to cover the gap. We see how companies coming from countries with an already solid background and tradition on sustainability reporting improved their disclosure but of course the relative percentage increased on the number of disclosed topics resulted to be lower. These countries can be represented for example by Finish companies that on average were already disclosing 12 out of 14 of the non-financial topics required by the Directive and in 2017 they increased their disclosure passing to an average of 12.71. Of course, these numbers were already high in 2016 and there was less margin for improvement. The median for Finish companies is also 14 giving us the idea of how well Finish companies embodied CSR concepts. These results are in line also with the literature studies explained in Chapter 2 that described Finnish companies as some of the best European companies in terms of Sustainability reporting.

What we expected before and after reading the average results accomplished by companies was to obtain a convergence on the number of disclosed topics by all the companies in the sample. We could also verify this expectation by looking the results of standard deviation and variance of the total sample. We see actually that the convergence is really small, amounting to a 4% overall decrease in variance. In particular by looking at the singular Member States we can see how countries like Finland, Greece, Germany, UK, Portugal and Denmark presented a decrease in standard deviation and variance. We can observe that all these countries are mainly countries that already presented in 2016 a good level of CSR
voluntary reporting. This can be explained also by the fact that companies that were not disclosing non-financial information and that were lowering the average of the country’s group of companies, had to cover the gap. For example, “PROGRESS-WERK OBERKIRCH AG”\textsuperscript{131} is a German company that in 2016 reported 3 topics out of 14 and passed in 2017 to report 11 non-financial topics, even more than the national average. The increase on standard deviation and variance for the less developed (in terms of sustainability reporting) countries, can be explained in some cases by the inexperience that most of the companies still have on CSR matters and others also by the characteristics of the sample. As previously explained the sample was formed by a random extraction of European companies that presented the characteristics to be subjects to the European Directive. Countries like Croatia for example, that overall present a quite high average of disclosed topics, are represented by 7 companies but one of this companies did not disclose any non-financial information neither in 2016 or in 2017. “3. MAJ BRODOGRADILISTE D.D.”\textsuperscript{132} is in fact a Croatian company operating in the ‘Machinery, equipment, furniture, recycling’ industrial sector and presented 0 disclosed topics. Of course, this is only a company out of 7 Croatian companies and since we do not have a very big sample one company result can compromise the overall picture. In other analogous situation as the one of Cyprus with the help of the literature we can see that only one company out of 4 increased the topic disclosure and this is another possible prove that Cypriot companies still doesn’t have the sufficient knowledge and preparation to develop an efficient non-financial disclosure. With the introduction of new reporting frameworks as the Integrated Reporting framework many companies that did not have any knowledge and tradition on non-financial disclosure may find some problems in constructing a non-financial report. “At the recent Edie Sustainability Reporting Conference, the theme that eclipsed all others was the confusion caused by the proliferation of different reporting and disclosure standards and frameworks.”\textsuperscript{133} This confusion that was also depicted on the literature analysis in chapter 2 surely does not help the convergence in terms of sustainability reporting among Member States companies. What is expected in the future is an increased convergence of non-financial

\textsuperscript{131} Appendix 1: Companies Sample
\textsuperscript{132} ibidem
\textsuperscript{133} Conran Design Group (2016) “Sustainability reporting standards — convergence or divergence?” article published online on Conran Design Group Website.
disclosure through also an increased convergence of corporate governance mechanisms. The two topics, in fact, are strongly connected in terms of convergence as pointed out by Daniela M. Salvioni, Simona Franzoni and Francesca Gennari. “Regardless of the nature of stock markets and the concentration of ownership, socially responsible companies have therefore amended their corporate policy, giving importance to the creation of sustainable value as a condition for growth and development in the medium to long term. Hence, a major factor of divergence between insider and outsider corporate governance systems attenuates, because of the different time orientation in the results statement.” The convergence is mainly achieved by the new time horizon in companies’ goals and strategy but to increase effectively convergence it’s even more important the internal development by companies of the Integrated Thinking and the union between company’s sustainable strategy and financial strategy.

3.3.2 Analysis by industry

In this section I’m going to analyse the results dividing the companies in the sample by their respective Industrial Sector. We can immediately notice, by looking at Table 9, how the sample is not equally distributed through industrial sectors. In fact, as previously mentioned some of them are much more represented than others. However, results show that there is an overall increase on non-financial disclosure with the exception for ‘Hotels & Restaurants’. This can be explained by the fact that there are only two companies of the sample operating in this kind of sector and both of them showed a very low level of non-financial disclosure in 2016. “TURISM FELIX S.A.” and “DO & CO AG” are companies respectively operating in Austria and Romania. The first one not even mentioned in its annual reports non-financial topics and the second reported few information about company’s impact on the environment and company’s policies towards internal gender equity. So, even if the ‘Hotels & Restaurants’

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135 Appendix 1: companies in the sample
industrial sector might seem a sector of high stakeholders pressure this sample cannot give us sufficiently reliable data. However, it must also be underlined that rarely restaurants feel pressures in terms of sustainability practices. Especially those required by the European non-financial Directive since their pressure comes mainly from topics as the food quality and sanitary condition of the restaurant. In contrast we can see how the sector with the highest topics’ number disclosed coincide with 'Wood, Cork & Paper’ that shows on average 13.5 out of 14 reported topics. It’s easy to understand why companies operating in this type of industrial sector need to prepare a proper and full non-financial disclosure. Deforestation and pollution are two of the main non-financial topics that regarded the major worldwide scandals. And this type of industry is of course very sensitive towards sustainable practices. However, even this industry has only two representatives’ companies and to formulate solid conclusions other studies must be carried out. For what concerns the highest growth in terms of number of topics disclosed, both ‘Banks’ and ‘Post & Telecommunications’ showed an increase of almost 65% (on average, in 2017, companies disclosed 4 new non-financial topics). For what concerns the ‘Banks’ industrial sector, in recent years with the economic crisis, it became one of the most attacked and controlled sectors and it is easy to understand why it reacted rapidly to the implementation of the non-financial Directive. It is also comprehensible the average of 9 topics out of 14. Banks in fact may have few non-financial information belonging to the 5 environment variables required by the European Directive 2014/95/EU. Other industries that show a relative high average of disclosed topics in 2017 are ‘Educational & Health’ with almost 12 topics disclosed on average, ‘Food, Beverages & Tobacco’ with an average of 10 disclosed topics and the two industrial sectors concerning ‘Metals and Metal Products’ and the ‘Primary Sector’ that respectively show a 11.4 and 10.4 on average disclosed topics. These are all sectors that receive a lot of external pressure for the disclosure of non-financial information.

For what concerns the convergence, we can see how almost all the sectors in the sample present a negative standard deviation. In particular the ‘Banks’ sector shows a decrease on variance of -35%. This is another evidence of the Banks’ convergence to the level of non-financial disclosure required by stakeholders. Other bigger changes on variance regards the ‘Educational & Health’ and the ‘Publishing & Printing’: the first present a big
decrease in variance (-94%) and the second a big increase in variance (+79%). However, as previously explained these data may be influenced by the small number of representatives for both the industrial sectors.
### Table 9 (Results analysed by industrial sector)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>10</td>
<td>5.4</td>
<td>9.0</td>
<td>6.0</td>
<td>10.0</td>
<td>4.7</td>
<td>3.8</td>
<td>22.3</td>
<td>14.4</td>
</tr>
<tr>
<td>Eductational &amp; Health</td>
<td>3</td>
<td>8.7</td>
<td>11.7</td>
<td>10.0</td>
<td>12.0</td>
<td>2.3</td>
<td>0.6</td>
<td>5.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Food, Beverages, Tobacco</td>
<td>10</td>
<td>8.9</td>
<td>10.0</td>
<td>9.5</td>
<td>10.0</td>
<td>3.3</td>
<td>3.2</td>
<td>10.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Hotel &amp; Restaurants</td>
<td>2</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.4</td>
<td>1.4</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Machinery, Equipment, Furniture and Recycling</td>
<td>27</td>
<td>6.1</td>
<td>7.9</td>
<td>5.5</td>
<td>10.0</td>
<td>4.0</td>
<td>4.6</td>
<td>15.7</td>
<td>20.8</td>
</tr>
<tr>
<td>Metals &amp; Metal products</td>
<td>8</td>
<td>9.8</td>
<td>11.4</td>
<td>11.0</td>
<td>13.0</td>
<td>4.7</td>
<td>3.9</td>
<td>21.6</td>
<td>14.8</td>
</tr>
<tr>
<td>Other services</td>
<td>24</td>
<td>5.5</td>
<td>7.3</td>
<td>5.5</td>
<td>7.0</td>
<td>4.1</td>
<td>4.8</td>
<td>16.7</td>
<td>23.5</td>
</tr>
<tr>
<td>Post &amp; Telecommunications</td>
<td>3</td>
<td>7.0</td>
<td>11.3</td>
<td>6.0</td>
<td>10.0</td>
<td>2.6</td>
<td>2.3</td>
<td>7.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Primary sector</td>
<td>5</td>
<td>8.0</td>
<td>10.4</td>
<td>10.0</td>
<td>13.0</td>
<td>5.8</td>
<td>5.9</td>
<td>33.5</td>
<td>34.3</td>
</tr>
<tr>
<td>Publishing &amp; Printing</td>
<td>4</td>
<td>6.5</td>
<td>8.8</td>
<td>7.0</td>
<td>10.5</td>
<td>3.4</td>
<td>4.6</td>
<td>11.7</td>
<td>20.9</td>
</tr>
<tr>
<td>Textiles, Wearing apparel &amp; leather</td>
<td>8</td>
<td>6.9</td>
<td>8.5</td>
<td>7.0</td>
<td>10.5</td>
<td>4.5</td>
<td>4.7</td>
<td>19.8</td>
<td>21.7</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
<td>14</td>
<td>7.6</td>
<td>8.4</td>
<td>8.0</td>
<td>9.0</td>
<td>4.7</td>
<td>4.4</td>
<td>21.8</td>
<td>19.0</td>
</tr>
<tr>
<td>Wood, Cork &amp; Paper</td>
<td>2</td>
<td>9.50</td>
<td>13.50</td>
<td>9.50</td>
<td>13.50</td>
<td>0.71</td>
<td>0.71</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Tot. Sample</td>
<td>120</td>
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<td>9.07</td>
<td>8.00</td>
<td>10.00</td>
<td>4.32</td>
<td>4.23</td>
<td>18.69</td>
<td>17.91</td>
</tr>
</tbody>
</table>
3.3.3 Results for H 1.1: Companies with independent directors disclose more non-financial information

For what concerns H 1.1 and the influence of independent directors on the disclosure of non-financial information, it was found that, from our sample, the two variables seem to be lacking of any type of correlation. We can arrive at this conclusion just by looking at the following table:

Table 10 (BvD independence indicators)

<table>
<thead>
<tr>
<th>N of topics disclosed</th>
<th>A+, A, A-</th>
<th>B+, B, B-</th>
<th>C+, C</th>
<th>D</th>
<th>U</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>8</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>5&lt;=x&lt;10</td>
<td>12</td>
<td>3</td>
<td>2</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>10&lt;=x&lt;14</td>
<td>22</td>
<td>11</td>
<td>2</td>
<td>27</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>21</td>
<td>4</td>
<td>46</td>
<td>7</td>
</tr>
</tbody>
</table>

In Table 10 we can observe on columns the different categories of independence indicators extracted through Orbis for each comparable company of the sample. We can see that the overall number of companies considered as ‘Independent companies’ (there are 42 companies with a grade of A+, A or A-) is similar to the overall number of companies considered as ‘Directly majority owned entities’ (there are 46 companies with a grade of D). It is also important to notice that these companies are also similarly distributed between companies with a high number of non-financial disclosed topics and companies with a low number of disclosed topics. In fact, there are 22 ‘Independent companies’ that disclosed more then 10 non-financial variables and 27 ‘Directly majority owned companies’ that disclosed as well more then 10 non-financial variables. This data doesn’t allow us to confirm the first hypothesis since it doesn’t show any kind of correlation between the two variables. However, to confirm even more this result I constructed an Ordinary Least Squares Model (OLS) to find possible correlation with our variables. The linear regression analysed appeared as follows:
\[ v2017=\text{const} + \beta_1nmanagers + \beta_2independence + \beta_3wratio \]

Where ‘\( v_{2017} \)’ is the dependent variable representing the number of topics disclosed by the 120 comparable companies in the sample and it can have a value from 0 to 14. The explanatory variable ‘\( nmanagers \)’ represent the number of current directors and managers of the company. The second explanatory variable ‘\( independence \)’ represent the BvD independence indicator and it can assume a value from 1 to 9\(^{136}\). For what concerns the third explanatory variable ‘\( wratio \)’, it represents the overall ratio of women in the top managerial levels of the company. The OLS model was computed using Grtl and the results can be seen in Table 11.

<table>
<thead>
<tr>
<th>Coef.</th>
<th>St. Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>const</td>
<td>6.81833</td>
<td>0.955043</td>
</tr>
<tr>
<td>nmanagers</td>
<td>0.0319887</td>
<td>0.0145012</td>
</tr>
<tr>
<td>independence</td>
<td>0.106852</td>
<td>0.110123</td>
</tr>
<tr>
<td>wratio</td>
<td>4.41058</td>
<td>3.55900</td>
</tr>
</tbody>
</table>

* 10% significant level. ** 5% significant level. *** 1% significant level

It is first of all important to restate that we cannot consider the result of this model as a good explanation of the reality. This for multiple reasons. The limited number of observations (113 companies)\(^{137}\) analysed and the small window of time of only 1 year, are two possible explanation to justify a R-square of almost 10%. However, the OLS model and the literature analysis let us drive some conclusions. It appears in fact that the only significant variable corresponds to the number of

\(^{136}\) 1 was assigned to companies with and independence indicator of A+, 2 was assigned to companies with an independence indicator of A and so on till 9 that was assign to companies with and independence indicator of D. The U indicator was not considered since it regarded only a few companies and means that the level of independence of directors it’s still unknown.

\(^{137}\) The number of observations used to compute the OLS model is 113 since 7 companies are excluded for the absence of the BvD indicator.
current managers and directors. For what concerns instead the BvD independence indicator, we cannot accept H 1.1. This results together with Table 10 suggest that there is not a correlation between the level of directors’ independence from shareholders and CSR reporting. This also highlights the difficulties found by scholars and researchers in describing the relationship of these two variables.

3.3.4 Results for H 1.2: Companies with a greater gender diversity in the Board are disclosing more non-financial information

For what concerns H 1.2 and how the number of women and the gender diversity ratio influences CSR reporting, the results of my analysis highlights once again the difficulties in finding any kind of correlation. The Table 6 gives an idea capturing the companies by their number of topics disclosed and internal ratio of women over managers and directors. The companies that were taken into consideration for the computation of this table are 119 and not 120 since “DEUTSCHE POSTBANK AG”\(^{138}\), a German company operating in the ‘Bank’ industrial sector, doesn’t have information in Orbis for what concerns top managerial gender composition.

<table>
<thead>
<tr>
<th>N of topics disclosed</th>
<th>Wratio</th>
<th>5%&lt;=x&lt;10</th>
<th>10%&lt;=x&lt;20</th>
<th>20%&lt;=x&lt;30</th>
<th>&gt;=30%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>&lt;5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;5</td>
<td>7</td>
<td>4</td>
<td>7</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>5&lt;=x&lt;10</td>
<td>1</td>
<td>8</td>
<td>11</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>10&lt;=x&lt;14</td>
<td>8</td>
<td>7</td>
<td>23</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>19</td>
<td>41</td>
<td>29</td>
<td>14</td>
</tr>
</tbody>
</table>

Appendix 1: list of companies in the sample

\(^{138}\)
From *Table 12* we can see how the relation between women ratio in companies’ top managerial levels and CSR reporting is difficult to be identified. However, the tendency is to find a positive relation with gender diversity and the willingness to disclose non-financial information. The problem can be found, according also to results achieved by the study conducted on Malaysian companies\(^{139}\), in the still small number of women in companies’ Boards. Researches in fact argued that it is difficult to study the incidence level of managerial gender diversity if the real power exercised by women inside companies’ top managerial positions is low. By looking at our results we see how only 14 companies out of 119 have a ratio higher than 30% and 35 companies have a ratio below 10%. This means that to achieve a sufficient level of gender diversity in the near future companies have to change their approaches immediately.

These results are also confirmed in the Ordinary Least Square model computed and described in the previous point. Looking at *Table 11* we can notice that the coefficient for the variable ‘*wratio*’ is not significant and the hypothesis should be as a consequence rejected. We can conclude that according also to the literature the relationship between gender diversity in companies and Corporate Social Responsibility reporting is still not clear and needs further studies. Our sample of companies showed an average ‘*wratio*’ of almost 17%. This means that the incidence of women on companies’ decision to engage in sustainability reporting is too small to find possible meaningful correlations.

### 3.3.5 Results for H 1.3: The company’s number of current managers and directors can influence the disclosure of non-financial information

The third hypothesis, on the possible influence of the total number of companies’ current managers and directors finds different results in our sample. In fact, by looking at *Table 7* we can see a possible positive relation between the total number of current managers and directors of a company and the numbers of non-financial variables disclosed. To better compare the data, I divided the data on the total number of current managers and directors in 5 groups. The first

includes companies with less than 10 managers, the second companies with a number of managers between 10 (included) and 15, the third with a number of managers between 15 (included) and 20, the fourth with a number of managers between 20 (included) and 25 and the fifth with a number of managers higher or equal to 30.

Table 13 (nmanagers)

<table>
<thead>
<tr>
<th>N of topics disclosed</th>
<th>&lt;10</th>
<th>10&lt;=x&lt;15</th>
<th>15&lt;=x&lt;20</th>
<th>20&lt;=x&lt;25</th>
<th>&gt;=30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>7</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5&lt;=x&lt;10</td>
<td>3</td>
<td>12</td>
<td>2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>10&lt;=x&lt;14</td>
<td>2</td>
<td>8</td>
<td>17</td>
<td>15</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>26</td>
<td>21</td>
<td>25</td>
<td>35</td>
</tr>
</tbody>
</table>

As in the analysis of H 1.2, the sample considered for computing this table amounted to 119 companies because the German company “DEUTSCHE POSTBANK AG” doesn’t have the data in Orbis on the number of current managers and directors. However, we can see from this table and its associated graph that there is a small positive relation between the two variables. We can see, indeed, that as the total number of current managers and directors increases so tends to do the total number of non-financial variables disclosed. The positive relation is also highlighted in Graph 5 where on the horizontal axes we have the five groups selected on the number of current managers and directors and on the vertical axes the number of companies.

Appendix 1: list of companies in the sample

Graph 1
Furthermore, this result is also verified by the OLS model. By looking at Table 5 we see that the only significant parameter is referred to the variable ‘nmnagers’ with a 5% significance level and a P-value of 0.0295. The positive relation is given by the positivity of the coefficient: 0.0319887 that tells us that there is in fact a positive, even if small, correlation between the two variables.

3.3.6 Results for H2: Companies with a low degree on CSR showed a major improvement after the implementation of the European Directive

For what concerns H2 we can observe from Table 8 that the hypothesis can, with high probability, be accepted. We see, indeed, that the major changes on the number of non-financial variables disclosed comes from those countries with a lower average in 2016, for example Romania Estonia or Portugal rather than Finland. Of course, this is due to the fact that companies with lower grade on non-financial disclosure had a higher margin for improvement and with the introduction of mandatory disclosure they had to cover the gaps. However, to verify this hypothesis even more I computed an OLS model keeping as dependent variables the ‘delta’ that represents the change on companies’ non-financial ‘scores’ from 2016. The linear relationship was constructed as follows:
\[ \Delta = \text{const} + \beta_1 \text{inmanagers} + \beta_2 \text{independence} + \beta_3 \text{wratio} + \beta_4 v_{2016} \]

The explanatory variables analysed are the same of the first OLS model with the supplement of ‘\( v_{2016} \)' that represent the total number of non-financial topics required by the European Directive 3014/95/EU disclosed by companies in 2016. The results are shown in the following table:

**Table 14 (OLS delta model)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coef.</th>
<th>St. Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>const</td>
<td>2.02612</td>
<td>0.580186</td>
<td>0.0007 ***</td>
</tr>
<tr>
<td>independence</td>
<td>0.0720336</td>
<td>0.0582757</td>
<td>0.2191</td>
</tr>
<tr>
<td>nmanagers</td>
<td>0.00836707</td>
<td>0.00779702</td>
<td>0.2856</td>
</tr>
<tr>
<td>wratio</td>
<td>1.70747</td>
<td>1.88906</td>
<td>0.3681</td>
</tr>
<tr>
<td>v2016</td>
<td>−0.178915</td>
<td>0.0489185</td>
<td>0.0004 ***</td>
</tr>
</tbody>
</table>

* 10% significant level. ** 5% significant level. *** 1% significant level

We can immediately see from *Table 14* that the only significant variable for what concerns the change on the number of topics disclosed is represented by the total number disclosed on 2016 reports. There is a high significant level (1%) and the negative coefficient confirms our hypothesis that the companies that showed a lower number of disclosures in 2016 had major increases on the number of topics disclosed for 2017. The R-square also increased for this model reaching almost 15%. Of course, it is still a low value without considering the same limitation explained in previous paragraphs. For what concerns the other variables of Corporate Governance we notice that the model excludes any kind of relationship with the dependent variable. However, this is comprehensible since Corporate Governance mechanisms take a much larger time interval compared to the 1 year analysed. Decision on Corporate Governance have in fact usually a long-term perspective. Consequences and relations with companies’ performance must be studied through several time periods. This is why we may see a positive correlation between the number of current managers and directors and the number of topics disclosed in 2017 but at the same time we are not able to see the same correlation for what concerns the changes from 2016 and 2017.
In this paper we passed from the literature study on Corporate Social Responsibility practices to an empirical analysis of the non-financial information disclosed by 150 European companies. We understood in first chapter that the only financial disclosure is no longer sufficient for stakeholders and that companies need to engage in non-financial disclosure through a separate statement and/or integrating the new information on their management report. The first chapter explained the peculiarities and structures of Sustainability Reports and Integrated Reports. We saw how the disclosure of non-financial information can create new sources of competitive advantage for companies. We verified also, how important is CSR for companies that want to maintain or increase their legitimacy. We then discussed the added value that Integrated Thinking can bring to organisations and the importance of connecting the financial strategy of the company with the sustainability strategy. This forces companies to change their time horizon and forces them to conceive long-term plans. In the second chapter, this paper analyses more closely the European Directive 2014/95/EU published on the Official Journal of the European Union on the 15th of November 2014. The paper wanted to understand some of the possible implications brought by the mandatory transposition into national law of the Directive in 2017. Moreover, in this paper are being analysed the relationship between corporate governance and cultural variable with the companies’ level of non-financial disclosure. This is a topic that theorists and researchers are recently suggesting for future studies and that should bring results that could help companies in better preparing and conceiving an efficient sustainable strategy for the future. “Future research might bring to discussion possible links between integrated reporting, governance and integrated thinking. The
complex interrelationships influencing the companies’ ability to create value for the multi-stakeholders need to frame the practice-oriented research”\textsuperscript{142}.

The European Directive forced large companies to be subjects of their relative national law on the disclosure of non-financial information by the 1\textsuperscript{st} of January 2017. However, even before the introduction of the Directive, companies understood the importance of finding new methods and forms of communication. “In the last quarter of the twentieth century, firms started to recognise the value of interacting with all major stakeholders; since then, they have adopted a broader concept of responsibility, which stresses the strong interdependencies among economic, social and environmental goals”\textsuperscript{143}. The imposition by the European Union on the companies’ disclosure of additional information immediately caused debates between theorists and researchers. The main critics came from the possible losses in terms of competitive advantage that could affect European companies compared to American and Asian companies. Critics suggested that these new requirements would have caused additional costs in terms of money and time that would have negatively affected Member States’ organisations. However, there are several benefits brought by the non-financial Directive. In particular theorists in favour of the Directive, pointed out that the convergence in terms of reporting practices and sustainable thinking could only help investors, companies and stakeholders in general to compare companies’ performance and sustainable practice inside the European Union. Another positive result of the mandatory non-financial disclosure is generated by the increased transparency of companies’ activities and plans to decrease the still growing external pressure generated by stakeholders. This would certainly benefit investors that could feel more protected and less uncertain after the numerous recent scandals in terms of environment and social policies adopted by certain companies. It could reduce information asymmetries and favour a fairer dialogue between investors and companies preventing top managers in not disclosing information on company’s negative impacts on the environment or on local communities\textsuperscript{144}. Moreover, the Non-Financial Directive could increase the convergence in

\textsuperscript{142} CARAIANIA C., LUNGUA C. I., BRATUA A., DACĂLU A. C. (2018) “Exploring the perspectives of integrated reporting for future research opportunities” article published in “Accounting and Management Information Systems” Vol. 17, No. 4- Bucharest University of Economic Studies (532-565)


terms of sustainable knowledge. European countries have in fact different backgrounds and traditions in terms of sustainability and these is of course reflected on companies’ action and practices. With the Directive implementation companies that did not have any tradition, background and knowledge on Corporate Social Responsibility are forced to reduce their knowledge-gap and study new methods that could increase their life expectations. Companies now are forced to implement new sustainable practices that could even translate in a possible implementation inside the companies’ mission and strategy, forcing them to conceive long term sustainable plans. Although theorists argued on the possibility that companies could limit their disclosure to formal practices and statements just to comply with the law and that this would not increase in practice the quality and number of non-financial reports. However, to face critics and limitations brought by researchers, the European commission wrote the Directive limiting its subjects to large companies and excluding Small and Medium Entities. Moreover, the Directive leaves a quite high margin to national legislatives bodies that can adopt and form ad-hoc regulation counting also their national tradition and most common practices in terms of CSR.

For what concerns the analysis of the sample that this paper took into consideration, the companies showed, as expected, an overall increase in the number of non-financial topics disclosed in their reports. The average number of topics disclosed passed from 7.44 in 2016 to 9.05 in 2017 with a percentage increase of 12%. This means that on average, with 9 topics over 14, companies are reasonably compliant with the European Directive 2014/95/EU. The missing variables and the gap can be explained by several factor as the still lack of specific knowledge of some Member States (e.g. Cyprus), with the fact that most of the countries in the sample doesn’t expect any kind of fines for law unfulfillment and for the application of ‘Safe Harbour’ and ‘Explain and Comply’ principle. Other losses in the data can be explain by the method used in analysing and collecting information. Especially in the case of the Social variables concerning the compliance of companies with the principles of the ILO conventions, were considered as reporting entities only those that effectively mentioned the ILO principles and not those that may have disclosed information about social dialogue and working conditions without mentioning the ILO convention. This was done, of course, for comparison reasons with the data collected in 2016 reports. It’s interesting then to see how the

external pressure of auditing companies, investors and new regulation brought companies to increase their disclosure particularly on the two governance variables concerning anti-corruption and anti-bribery policies.

In the paper were analysed 4 different Hypothesis that wanted to analyse the possible relation between corporate governance and CSR reporting. H 1 indeed, that concerned the relationship between Corporate Governance mechanisms and CSR reporting, was divided into three sub-hypothesis that want to examine possible correlation between CSR reporting and the level of independence of companies’ directors towards the shareholders of the company (H 1.1), the ratio of women working in the top managerial positions of the company (H 1.2) and the total company’s number of current managers and directors (H 1.3). At last I wanted to verify that companies that were disclosing less non-financial information in 2016, with the implementation of the Directive 2014/95/EU and the consequent mandatory disclosure, had to cover the gap and show the bigger increases in 2017. The results showed that there isn’t any kind of correlation between the independence levels of directors and Corporate Social Responsibility reporting. These findings highlight difficulties observed also by researchers and theorists. Some researchers found that the possible positive correlation between the presence of independent directors in companies and CSR can be explained more by their political and national background, others disagree and finds that higher is the level of directors’ independence, higher would be also the level of transparency in company’s disclosure of information. For what concerns our sample it was impossible to find a positive or negative correlation, this may also be due to the limitations of this study and may suggest further investigation in the future. The absence of any kind of correlation characterizes also H 1.2 on the relationship between CSR reporting and gender diversity in companies. However, this can also be explained by the low women ratio that characterized our sample. As a matter of fact, it is difficult for women to influence Corporate Governance decision on reporting if on average they are only 17% of top managers and directors as resulted by other studies conducted by other researchers. H 1.3 and H 2 instead showed a relation between the analysed variables and CSR reporting. For what concerns H 1.3, we find a small positive relation between the total number of


current managers and directors and the number of topics disclosed by the company. This relation was found first empirically and then through the construction of an Ordinary Least Square Model. The number of managers and directors affected positively the companies’ level of compliance with the directive requirements. This positive relationship was found previously on the study conducted on Chinese companies by Lin Liao and Yuyu Zhang\textsuperscript{148}. Moreover, there is also of course a positive correlation between firms’ size and its number of managers and directors. We studied and saw in the first chapters how larger firms are suffering of greater pressures from stakeholders. This because of the relative higher impact they have on the external social and natural environment. This again can be a possible explanation for our result. For what concerns H 2, instead, there is a negative relation between the number of topics disclosed by companies in 2016 (companies’ level of compliance with the European Directive 2014/95/EU) and the increase on the number of topics disclosed in 2017. This tells us that companies with a 2016 poor degree in CSR reporting showed higher increases on the Directive’s compliance level than companies that already had a high level of non-financial reporting. Therefore, this data confirms us the positive effect of mandatory disclosure in terms of the convergence in corporate reporting practices and topics by Member States.

To conclude, there must be explained the limitations of this study. The comparable sample reduced its size from 150 to 120 companies. The sample, as well, is neither uniformly or normally distributed limiting our statistical analysis. In collecting the data, in fact, the sample resulted to be too small to make reliable conclusions on the real relationship between corporate governance variables and CSR reporting as well as conclusion on the overall European companies’ compliance with the Directive 2014/95/EU. This possible results’ distortion from the reality could be solved by using a larger and more uniformed sample that equally represented each Member State and Industrial Sector. The small R-squared resulted in the OLS models embodies this unreliability of the study in giving a picture of the real world. For what concerns future studies, the inclusion of more years in the sample could help in analysing the expected increase on convergence of companies CSR practices and their level of compliance with the European Non-Financial Directive. For what concerns the study related to the relationship between CSR reporting and Corporate Governance mechanisms, instead, I would suggest both the introduction of more years in the analysis together

with more companies’ data that could partially reduce the influence of the outliers of the sample. Moreover, for what concerns H 1.2 on the relationship with corporate non-financial disclosure and the level of gender diversity it could be interesting to study the differences between a sample with companies with a higher number of women at top managerial levels. However, this unfortunately might be difficult for the nearest future.
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https://iso26000.info/iso26000/
https://www.accountability.org/
https://www.bvdinfo.com/en-gb
https://www.globalreporting.org/information/about-gri/Pages/default.aspx
https://www.unglobalcompact.org
https://ec.europa.eu
https://www.interregeurope.eu
ABBREVIATIONS

BvD-----------------------------Bureau van Dijk
CD-------------------------------Consultation Draft
CSR-----------------------------Corporate Social Responsibility
ESG-----------------------------Environmental, Social and Governance
EU-------------------------------European Union
GRI-------------------------------Global Reporting Initiative
HRK-------------------------------Croatian Kuna
IFAC-------------------------------International Federation of Accountants
IFRS-------------------------------International Financial Reporting Standard
IIRC-------------------------------International Integrated Reporting Council
ILO-------------------------------International Labour Organisation
IR-------------------------------Integrated Reporting
ISAE-------------------------------International Standard on Assurance Engagements
ISO-------------------------------International Standardization Organisation
KPIs-------------------------------Key Performance Indicators
NGO-------------------------------Non-Governmental Organisation
OECD-------------------------------Organisation for Economic Co-operation and Development
OLS-------------------------------Ordinary Least Squares
SDG-------------------------------Sustainable Development Goals
UN-------------------------------United Nations
### APPENDIX 1

#### AUSTRIA

- VOEST-ALPINE AG
- RAFFEISEN BANK INTERNATIONAL AG
- AGRANA BETEILIGUNGS-AKTIENGESELLSCHAFT
- MAYR-MELNHOF KARTON AG
- ZUMTOBEL GROUP AG
- DO & CO AG
- AMAG AUSTRIA METALL AG
- POLYTEC HOLDING AG
- BWT AG
- BANK FUR TIROL UND VORARLBERG AG
- OTTAKRINGER GETRAENKE AG
- JOSEF MANNER & COMP. AG
- WOLFORD AG
- HUTTER & SCHRANTZ STAHLBAU AG
- IMMOFINANZ AG

#### BELGIUM

- EMAKINA GROUP
- GALAPAGOS NV
- JENSEN-GROUP NV
- PICANOL NV
- REALDOLMEN NV
- TER BEKE NV/SA
- VAN DE VELDE NV

#### CROATIA

- 3. MAJ BRODOGRADILISTE D.D.
- DALEKOVOD D.D.
- DRVNA INDUSTRIJA SPACVA DIONICKO DRUSTVO
- *DURO DAKOVIC GRUPA D.D.
- ERICSSON NIKOLA TESLA D.D.
- JAMNICA D.D
- KONCAR DISTRIBUTIVNI I SPECIALNI TRANSFORMATORI D.D.
- *KRAS DD
- LEDO DIONICKO DRUSTVO ZA PROIZVODNJU I PROMET SLADOLEDA I SMRZNUTE HRANE
- TEKSTILPROMET D.D. TRGOVINA NA VELIKO I MALO

#### CYPRUS

- AGROTON PUBLIC LIMITED
- *CYPRUS TRADING CORPORATION PUBLIC LTD
- HELLENIC BANK PUBLIC COMPANY LIMITED
- MD MEDICAL GROUP INVESTMENTS PLC
- TCS GROUP HOLDING PLC
<table>
<thead>
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<th>Country</th>
<th>Company Name</th>
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<td>CARLSBERG A/S</td>
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<td>DANSKE BANK A/S</td>
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<td>Portugal</td>
<td>*BANCO BPI SA, CORTICEIRA AMORIM SGPS SA, GLINTT - GLOBAL INTELLIGENT TECHNOLOGIES, S.A., IMPRESA - SOCIEDADE GESTORA DE PARTICIPACOES SOCIAIS, S.A., REDITUS - SOCIEDADE GESTORA DE PARTICIPACOES SOCIAIS S.A.</td>
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HOTEL CHOCOLAT GROUP PLC
INTU PROPERTIES PLC
JOHNSON SERVICE GROUP PLC
K3 BUSINESS TECHNOLOGY GROUP PLC
LOOKERS PUBLIC LIMITED COMPANY
MARKET TECH HOLDINGS LIMITED
METRO BANK PLC
NMC HEALTH PLC
REDCENTRIC PLC
RENNISHAW PLC
RESTORE PLC
SAFESTYLE UK PLC
SYNECTICS PLC
TATE & LYLE PUBLIC LIMITED COMPANY
TRIBAL GROUP PLC
VEDANTA RESOURCES PLC
ZPG PLC