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Decade of Sustainability Reporting in EU: Main Changes and Trends. Case of Companies Listed on NASDAQ OMX Baltic Main List

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Decade of Sustainability Reporting in EU: Main Changes and Trends. Case of Companies Listed on NASDAQ OMX Baltic Main List

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Abstract

Recent decades have shown an increasing importance of sustainability reporting worldwide (Fernandez-Feijoo et al., 2014) and as a result significant developments of corporate sustainability reporting frameworks (Kücükgül et al, 2022). Nowadays the EU law requires certain large companies to disclose information regarding the way they operate and manage social and environmental challenges, (European Commission, 2021) thus making corporate sustainability reporting a powerful communication tool contributing to transparency and accountability of businesses. The main aim of this article is to investigate whether sustainability reporting has become a common practice among commercial organisations and find out the main features of the elements that are being disclosed.

This study fills a gap in determining the main changes and trends in sustainability reporting within Baltic countries. The main aim of this article is to determine whether sustainability reporting has become a common practice among commercial organisations and establish main trends and features of disclosed items. Main results of the study reveal that non-financial disclosures are being actively implemented by the companies who publish such disclosures in dedicated sections of annual financial reports. However, the number of standalone sustainability reports still remains low. It has also been established that the most common non-financial disclosures are: personnel related policies, client-oriented strategy, ISO certificates held by the respective organisations, EMAS registration, SDG and GRI referring. Authors believe that the main reason for slow growth of standalone sustainability reports is a lack of well-defined, universal, worldwide accepted standards.

The results of this research are completely in line with latest developments within the IASB, confirming that there is a definitive need for international sustainability reporting standards which will add to the transparency, credibility and comparability of non-financial reporting. These standards will provide companies with a new starting point in preparation of non-financial reports and make it easier for stakeholders to make decisions based on the information presented.

Authors believe that this survey would contribute to the current sustainability reporting practices among companies and serve as a basis for those searching for the optimal reporting tool. Also, it would shed light on the importance of implementing international sustainability reporting standards highlighting main obstacles, benefits and paths for future developments.

KEYWORDS: Corporate Social Responsibility, ESG, EU Directive 2014/95EU, Non-financial Reporting, Sustainability Reporting, SDG.



Recent decades have shown an increasing importance of sustainability reporting worldwide (Fernandez-Feijoo et al., 2014) and as a result significant developments of corporate sustainability reporting frameworks (Küçükgül et al., 2022). Nowadays the EU law requires certain large companies to disclose information regarding the way they operate and manage social and environmental challenges. (European Commission, 2021) thus making corporate sustainability reporting a powerful communication tool contributing to transparency and accountability of businesses.

The KPMG Survey of Corporate Responsibility Reporting conducted in 2020 revealed that there is a growing trend in CSR reporting all over the world – 80% of companies worldwide are reporting on sustainability, with the highest reporting rate observed in North America (90% of companies) and the highest growth since 2017 observed in France, India, Malaysia and Japan (KPMG, 2020). The survey also revealed that the Americas are still playing a leading role in sustainability reporting, whereas rates have remained static in Europe since 2017. However, almost all industry sectors worldwide exceed 70% reporting rate (KPMG, 2020). According to the KPMG survey, the underlying trend for companies to include sustainability information in their annual reports remains static and most common for Pakistan and Finland. It is also worth noting that while the Global Reporting Initiative (GRI) still remains a dominant standard for sustainability reporting, a “significant majority of companies connect their business activities with the SDGs in their corporate reporting” (KPMG, 2020). It should also be mentioned that so far Baltic countries have not been included into the KPMG surveys. Therefore, less is known about the current situation, main changes, latest trends as well as perspectives of future development of sustainability reporting in these countries.

At the time of conducting the present research the latest most significant developments in the field of sustainability reporting are as follows:

- » The European Commission has adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), to amend and replace the current Non-Financial Reporting Directive (NFRD) (XBRL the Business Reporting Standard, 2022).
- » In order to meet the needs and demands of stakeholders to receive information on sustainability-related performance and risks of companies, on 3 November 2021 the IFRS Foundation Trustees announced creation of a new standard-setting board—the International Sustainability Standards Board (IFRS, 2022).
- » ISSB published the first proposed standards - General requirements and climate exposure drafts announced for consultation (IFRS, 2022).
- » IFRS Foundation and GRI signed a cooperation agreement - ISSB and GSSB to create an interconnected approach for sustainability disclosures (IFRS, 2022).
- » The EU Commission’s proposal for a Corporate Sustainability Reporting Directive (CSRD) envisages the adoption of EU sustainability reporting standards. The draft standards are to be developed by the European Financial Reporting Advisory Group (EFRAG) and the first set will be adopted by October 2022 (An official website of the EU, 2022).

This study fills a gap in describing the main changes and trends in sustainability reporting within Baltic countries. The main aim of this article is to determine whether sustainability reporting has become a common practice among commercial organisations and establish main trends and features of disclosed items. Main results of the study reveal that non-financial disclosures are being actively implemented by the companies who publish such disclosures in dedicated sections of annual financial reports. However, the number of standalone sustainability reports still remains low. It has also been established that the most common non-financial disclosures

are: personnel related policies, client-oriented strategy, ISO certificates held by the respective organisations, EMAS registration, SDG and GRI referring. Authors believe that the main reason for slow growth of standalone sustainability reports is a lack of well-defined, universal, worldwide accepted standards.

The structure of this paper is organised as follows. After the linkage of the sustainability reporting topic to current literature, we provide a practical insight into non-financial reporting and its linkage with integrated reporting. Furthermore, we perform an analysis of sustainability reporting employed by the businesses operating in the Baltic States market. The listed companies from Nasdaq OMX Baltic stock exchange are evaluated in order to find out the changes in main trends and features of sustainability reporting.

Literature review

The contemporary literature widely discusses the following trends within the context of sustainability reporting: influence of the EU Directive 2014/95EU on quality and quantity of non-financial reporting and the linkage between sustainability reporting and the SDGs in different countries and jurisdictions.

Several studies investigate the impact of the EU Directive 2014/95EU on non-financial reporting within different countries (Mazzota et al, 2020, Mio et al, 2021, Posadas&Tarquinio, 2021 Ottenstein et al., 2021).) aiming to discover whether significant changes occurred in quality and quantity of reporting. Contemporary studies outline that before the EU Directive came into force European CSR reports “were not scored high on credibility, leaving much room for improvement” (Lock&Seele, 2016). Studies of Zanellato&Tiron-Tudor (2021) revealed that the Directive already had an impact on the non-financial reporting a year before its implementation by providing a small increase in the sustainability reporting. Increase in the quality of reporting after the implementation of the Directive was noted among German and Italian listed companies (Mion&Adauí (2019) and also among companies listed on Warsaw stock exchange (Matuszak&Róžańska, 2021). Findings of Balluchi et al. (2021) also showed a good level of credibility among the 152 Italian business entities as well as a high level of understandability already during the first year after (2018) after the implementation of the EU Directive. Findings of Bolotin, 2019 also reveal positive impact of the EU Directive on the non-financial reporting among Baltic companies, which are in line with the earlier studies of Gurvits&Sidorova, 2012, which revealed continuous uptrend in the number of social and environmental accounting disclosures among Baltic companies listed at Nasdaq OMX Baltic. Results of the study conducted by Agostini et al., (2021) suggest that in case of Italian listed companies Directive affected the quantity but not the quality of the reporting.

Results of Fernandez-Feijoo et al., (2014) indicate that listed companies tend to be more active in disclosing non-financial elements, tending to provide more information but with less credibility than the private ones. Lippai-Makra et al. (2022) suggest that in the context of Hungary Directive there has been a moderate impact on the reporting, as the level has grown from low to medium only. Tarquinio et al. (2020) noted that most of the companies they analysed during a three-year period have improved their disclosure ranking. Studies of post Directive reporting practices made by Korca et al. (2021) also reported increase in quantity of non-financial reporting with quite insignificant increase in quality.

Views presented in the today's management literature maintain that the major factors influencing the extent of a company's sustainability reporting are company size (Bhattacharyya, 2014, Fuertes&García, 2013), stakeholder power (Nicolò et al., 2020), strategic posture (Chiu&Wang, 2015), profitability (Hernández-Pajares&Pocomucha Valdivia, 2021), ownership (Glushkova&Gurvits, 2019) and media visibility (Bansal, 2005).

Numerous studies tend to find a correlation between the sustainability reporting and their contribution to the SDGs (Calabrese et al., 2021, Gerged&Almontaser, 2021). Pizzi et al. (2021) suggest that only a limited number of companies explicitly disclose information about their contribution to the SDGs. It seems like companies tend to concentrate on several selected SDGs in their business and reporting practices, which is also in line with the country's commitment (Gunawan et al., 2020).

Findings of Haywood&Boihang (2021) who investigated South Africa's top 100 listed companies revealed that as of 2017/2018 financial year in spite of the growing trend only 11% of companies have incorporated the SDGs into their business model and strategies. Bose&Khan (2022) discovered that the SDG referred reporting is a growing trend worldwide being more developed in shareholder-oriented countries as well as in developing countries, moreover, their findings suggest that "companies in developing countries did higher company-level SDGs reporting than those in developed countries" (Bose&Khan, 2022). Findings of García-Sánchez et al. (2021) indicate that the main drivers of integration of SDG into non-financial reporting are institutional pressures at the country level, size of an organisation and incentives associated with the monitoring of financial analysts and demands of investors, together with the specialisation and size of the board of directors.

In general, it can be summarised that the EU Directive 2014/95EU had a crucial positive impact on the quantity of the non-financial reporting while quality and the SDG implementation still remains the issue.

The aim of this research is to investigate whether sustainability reporting has become a common practice among business companies within a recent decade and find out the main features and trends of non-financial reporting. Companies listed on the main shares trading list of the NASDAQ OMX Baltic were analysed for the purpose of this research, as authors believe that listed companies tend to be more advanced in CSR reporting in comparison with the non-listed ones. Therefore, in order to analyse main changes within the last 10 years there were chosen information disclosed on the Nasdaq OMX Baltic data obtained from the stock-exchange website (Nasdaq Baltic, 2022), websites of companies and the annual financial reports of companies as of 31.12.2010 and 31.12.2020. The total number of cases was 37 and 33 (4 Latvian, 13 Lithuanian and 16 Estonian) companies respectively.

Table 1 presents the sample distribution among industries.

Authors looked into presentation, type and main features of sustainability reporting for the selected companies. Results are presented in the next section.

Industry	31.12.2010	31.12.2020
Basic Materials and Industrials	2	1
Consumer Discretionary	11	7
Consumer Staples	5	6
Financials	3	4
Health Care	3	2
Industrials	7	6
Real Estate	2	2
Technology	0	1
Telecommunications	2	2
Utilities	2	2
Total participating companies	37	33

Source: Annual reports of selected companies for years 2010 and 2020.

Research Design

Table 1

Participating Companies by Industry.

Results

Results of the research clearly reveal a growing trend in sustainability reporting within the Baltic countries. Authors note that disclosure by creating a dedicated section in the annual report is still prevailing over the standalone reporting. A summary of findings is presented in [table 2](#).

Table 2

Presentation of Social Accounting Disclosures for companies Listed on the Main List of NASDAQ OMX Baltic as of year 2010 and 2020 (number of disclosures, %)

Presentation of disclosures	2010	2020
Inside the Annual Report	24 (65%)	24 (73%)
Standalone Sustainability Report	6 (16%)	11 (33%)
Inside yearbook and the strategic plan	0	3 (9%)

Source: Annual reports of participating companies for years 2010 and 2020.

It should be noted that several companies prepare both standalone sustainability reports as well as provide information about non-financial performance in a dedicated section of their annual financial report.

In regard to the preferred way of reporting among countries the highest rate of commitment to standalone sustainability reporting was shown by Lithuanian companies, while Estonian companies prefer to make disclosures within the annual financial report. A summary of the results is presented in [table 3](#).

Table 3

Presentation of Social Accounting Disclosures by Country among Baltic Companies Listed on the Main List of NASDAQ OMX Baltic as of year 2020

Presentation of disclosures	Estonia	Latvia	Lithuania	Total
Inside the Annual Report	15 (94%)	0	9 (69%)	24 (73%)
Standalone Sustainability Report	2 (13%)	2 (50%)	7 (54%)	11 (33%)
Inside yearbook and the strategic plan	1 (6%)	0	2 (15%)	3 (9%)

Source: Annual reports of participating companies for the year 2020.

Among the selected companies the highest rate of commitment to standalone sustainability reporting was shown by companies involved in production of basic materials as well as telecommunication companies. A summary of the results is presented in [table 4](#).

Table 4

Standalone sustainability reporting by industry: Baltic Companies Listed on the Main List of NASDAQ OMX Baltic as of year 2020

Industry	Standalone non-financial reports (% from total number of standalone reports submitted)	Percentage of the total number of surveyed companies in the respective industry
Basic Materials	1 (9%)	100%
Consumer Staples	3 (27%)	50%
Financials	2 (18%)	50%
Health Care	1 (9%)	50%
Industrials	1 (9%)	17%
Telecommunications	2 (18%)	100%
Utilities	1 (9%)	50%

Source: Annual reports of participating companies for year 2020, website of Nasdaq OMX Baltic (Main list).

Data presented in [Table 4](#) shows that standalone reporting is mostly preferred by companies of the consumer staples sector, which may be explained by the high level of competition and the desire of companies to stand out of the crowd in attracting new customers.

In spite of the latest trend to integrate SDG into non-financial accounting and reporting in regard to the contribution of the sustainability reporting to the SDGs the number of referring companies still remains low (less than 25% of the selected companies). Companies tend to be more active in reporting of various certifications like ISO14001, ISO9001, ISO45001 and OHSAS, which is demonstrated by the findings of the current research presented in [table 5](#).

Industry	SDG Referring	GRI Referring	ISO 14001	ISO 9001	ISO 45001	OHSAS
Basic Materials	0	0	1(100%)	1(100%)	0	1(100%)
Consumer Staples	0	0	1(17%)	1(17%)	0	0
Consumer Discretionary	2(29)	0	3(43%)	2(29%)	0	1(14%)
Financials	0	0	0	0	0	0
Health Care	0	0	1(50%)	0	0	0
Industrials	0	3(50%)	6(100%)	5(83%)	6(100%)	4(67%)
Real Estate	0	0	0	0	0	0
Technology	0	0	0	0	0	0
Telecommunications	1(50%)	1(50%)	1(50%)	0	1(50%)	0
Utilities	2(100%)	2(100%)	2(100%)	1(50%)	1(50%)	1(50%)

Table 5

Allocation of types of Sustainability Disclosures by Industry among Baltic Companies Listed on the Main List of NASDAQ OMX Baltic as of year 2020

Source: Annual reports of participating companies for year 2020, website of Nasdaq OMX Baltic (Main list)

As demonstrated by the data in [table 5](#) reporting on compliance with International standard for occupational health and safety management systems (OHSAS) is more common for the companies of the industrials sector, there, indeed, these requirements play a crucial role for the successful operations. The same is valid for the ISO 14001 standard, which specifies requirements for environmental management systems, in order to develop and implement environmental policy and objectives. This standard has a growing popularity in Estonia and Worldwide (Gurvits, Habakuk, 2016) and according to the latest data available from the ISO Survey 2020 the highest number of ISO certificates is issued for companies of production sector (ISO Survey, 2020). This is also true for the ISO9001 – Quality Management Systems, as this certification adds value to the production process conforming to international requirements. In authors opinion GRI reporting is less popular and mainly implemented by the companies of the industrials sector due to time and effort consuming reporting process. The SDG referring seems to be not widely implemented yet and is only gaining its popularity.

Companies also disclose information about ISO45001, ISO 50001:2012 and ISO 22000/ FSSC 22000 certification, compliance with the ISO 13485 Quality Management System and EN60601-1 safety standard as well as the ISO 37001 anti-bribery management standard for better management.

Conclusions and discussion

The results of this study revealed that sustainability reporting is growing in popularity among the selected listed Baltic companies. As already stated in the practical part of this paper, non-financial reporting received a boost in 2018 after the EU Directive 2014/95EU became mandatory and has been implemented. However, it should be noted that the most popular form of sustainability reporting still presents as disclosures that are added into the annual financial statements while publishing of standalone sustainability reports is less popular. In the author's opinion it may be largely explained by the fact that the preparation of standalone non-financial reports is quite time and effort consuming. It is also worth mentioning that the lack of universal international standards makes it difficult for the companies to issue sustainability reports, which would satisfy the needs of all relevant stakeholders.

The results of the present research are completely in line with latest developments within the IASB, confirming that there is an absolute need of international sustainability reporting standards which will add to the transparency, credibility and comparability of non-financial reporting. These standards will give companies a new starting point in preparation of non-financial reports and make it easier for stakeholders to make decisions based on the information presented. This is also confirmed by the low level of GRI reporting expressed by the selected companies.

It should be mentioned that the companies involved into the industrials and productions sector tend to more actively report on various certifications like ISO14001, ISO9001 and OHSAS which adds value to socially responsible and reliable way of operating business. It is also notable that while the SDGs are widely implemented by various companies in their business policies and strategies they are still yet to become an inevitable part of sustainability reporting. Only few companies of consumer staples sector base their reporting practices on referring to SDGs and implementing these goals as a guideline for non-financial reporting, which in authors opinion is largely explained by their desire to stand of the crowd and being more competitive. Seems like there is a need to provide companies with more information on possible interlinkage of SDGs with business, sustainability and non-financial reporting.

The authors are also aware that this study has several limitations: first the research included only listed companies, while the performance of non-listed companies may reveal other trends and challenging results. Second, only two years were chosen – before and after the implementation of the EU Directive 2014/95EU, while it would also make sense to investigate the 10-year period – to reveal a trend in reporting defining all changes and newcomers.

Authors believe that this survey would contribute to the current sustainability reporting practices among companies and serve as a basis for those searching for the optimal reporting tool. Also, it would shed light on the importance of implementing international sustainability reporting standards pointing out main obstacles, benefits and paths for future developments.

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