QUALITY OF NON-FINANCIAL INFORMATION REPORTED BY FINANCIAL INSTITUTIONS. THE EXAMPLE OF POLAND

Marzanna Lament

Abstract

This paper aims to analyse and verify the applicable principles of CSR reporting in light of the regulations of Directive 2014/95/EU, as well as to evaluate quality of non-financial information presented in CSR reports of financial institutions in the Polish market.

Two research hypotheses have been postulated in connection with this aim:

(H1) - The Directive 2014/95/EU contains regulations that will contribute to improved comparability and usefulness of information presented in financial statements.

(H2) - financial institutions in the Polish market draft their CSR reports in different ways, which obstructs their comparability.

In order to verify hypothesis (H1), regulations of the Directive 2014/95/EU and specialist literature have been reviewed.

In order to verify hypothesis (H2), the author has conducted research into a group of financial institutions in the Polish financial market by examining and analysing CSR reports compiled in 2010-2015 with regard to quality of the information, in particular, its usefulness and comparability. This assessment involved reviewing of: principles of publication and verification of the reports, frequency of their drafting, volume, scope and structure.

Key words: reporting, financial statement, Corporate Social Responsibility.

JEL Code: M14, M41

Introduction

Non-financial reports are significant sources of information used in decision-making processes. It is therefore important that they meet appropriate qualitative criteria that ensure comparability and faithful presentation. Existing research points to qualitative deficiencies of CSR *(Corporate Social Responsibility*) reports with regard to comparability: Elkington, Spencer-Cooke (1997), Gray (2007), Adams (2008), DeSilva (2008), Horehăjovă, Marasovă (2008), Gray, Bebbington (2010), Lang, Lins, Maffett (2012), Martinčik, Polĭvka (2012), Szadziewska (2014), Ivanisevic, Stojanovic (2015), Maraková, Lament, Wolak-Tuzimek (2015). The issue of insufficient transparency of non-financial information, caused both by the regulatory gap and by market imperfections, is one of the subjects addressed in research undertaken by the European Commission (*Report on Corporate Social Responsibility: promoting society's interest and a route to sustainable and inclusive recovery (2012/2097/INI). Report on Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth (2012/2098/INI).* The Directive 2014/95/EU, which lays down principles of compiling CSR reports, is a solution to these issues, although it applies only to large entities employing more than 500 staff. Its regulations can be expected, therefore, to affect only large businesses and to contribute to improved comparability of results and usefulness of the information.

Consequently, the subject can be treated as topical and requiring resolution by assessing the regulations of the Directive 2014/95/EU concerning improvement of comparability and usefulness of information presented in the reports, as well as assessment of quality of information published by financial institutions.

This paper aims to analyse and verify the applicable principles of CSR reporting in light of the regulations of Directive 2014/95/EU, as well as to evaluate quality of non-financial information presented in CSR reports of financial institutions in the Polish market.

Two research hypotheses have been postulated in connection with this aim:

(H1) - the Directive 2014/95/EU contains regulations that will contribute to improved comparability and usefulness of information presented in financial statements.

(H2) - financial institutions in the Polish market draft their CSR reports in different ways, which obstructs their comparability.

In order to verify hypothesis (H1), regulations of the Directive 2014/95/EU and specialist literature have been reviewed.

In order to verify hypothesis (H2), the author has conducted research into a group of financial institutions in the Polish financial market by examining and analysing CSR reports compiled in 2010-2015 with regard to quality of the information, in particular, its usefulness and comparability. This assessment involved reviewing of: principles of publication and verification of the reports, frequency of their drafting, volume, scope and structure.

1 Regulations of Directive 2014/95/EU and quality of non-financial information

The goal of Directive 2014/95/EU is to enhance cohesion and comparability of non-financial information disclosed by entities operating in the EU, especially as a majority of large organisations are active in more than one country. This should lead to presentation of a correct and full view of policies, results and risks of a given business. Thus, the Directive fills an existing regulatory gap and can be expected to contribute to improving comparability and transparency of CSR reporting.

Directive 2014/95/EU applies to large enterprises of public interest, i.e. quoted companies, insurance companies, banks and other organisations of public importance in view of their business profile and employing more than 500 staff on average in a financial year as at the balance closing date.

Pursuant to Article 1 section 1 item 1 of Directive 2014/95/EU, the organisations concerned shall include in their reports non-financial information, including information required to understand the development, results and position of the organisation and the impact of its operations in respect of environmental and social issues, respect for human rights, counteracting bribery and corruption, including:

- A brief description of the business model.
- A description of practices with regard to such issues, including due diligence processes in place.
- The outcomes of these practices.
- The chief risks associated with these issues and with the operations of the organisation,
- The key non-financial performance indicators relating to a given business.

Notably, reporting organisations:

- Must, as a minimum, provide explanations if they do not follow any policies in respect of the foregoing issues.
- By way of exception, may omit information about expected occurrences or matters subject to negotiations in progress if their disclosure might have a seriously adverse effect on commercial position of an organisation while having no impact on a correct and objective understanding of the development, performance and position of the organisation and the impacts of its activities.
- Can rely on national, EU or international framework principles. These should be specified in the circumstances.
- May be free from the duty to report non-financial information if they prepare a separate report which is published together with financial statements, or on the organisation's

website, within six months of the balance closing date, and if financial statements contain a reference to such a report.

Analysis of the Directive's regulations shows:

1. Its scope covers only large entities; consequently, merely a narrow minority of businesses report,
2. Reporting standards may be selected from among certain specified international and EU norms of varying scopes of information. As a result, entities will report in accordance with different principles and guidelines.
3. An entity may not disclose its financials if it regards them as sensitive.
4. The compulsory verification applies only to the scope of non-financial information published and its compliance with the minimum. Non-financial information is not audited, therefore.

2 Principles of CSR reporting in financial institutions from the Polish market - results

This part of the paper aims to verify hypothesis (H2). To this end, the author has examined a group of financial institutions in the Polish market by analysing their CSR reports. The financial institutions that prepared CSR reports submitted to GRI (*Global Reporting Initiative*) in 2010-2015 were selected. These included: Bank Gospodarstwa Krajowego SA, PZU SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Provident, ANG Spółdzielnia Doradców Kredytowych. 21 CSR reports drafted by 8 financial institutions in 2010-2015 were reviewed, including those by 6 banks, 1 insurance company, and 1 financial intermediary. The following issues were analysed and evaluated in particular: principles of reporting, report verification, reporting period, volume and scope of reports. The group assessed are described in Table 1.

Table 1: Characteristics of the research group

Specification	2015	2014	2013	2012	2011	2010
Structure of CSR reports by type of financial institution – overall (quantity):	1	6	5	4	2	3
• Banks	1	4	4	3	2	2
• Insurance companies	-	1	-	1	-	1
• Financial intermediaries	-	1	1	-	-	-
Structure of CSR reports by type of financial institution – overall (%):	100	100	100	100	100	100
• Banks	100	67.0	80.0	75.0	100	67.0
	-	16.5	-	25.0	-	33.0

• Insurance companies • Financial intermediaries	-	16.5	20.0	-	-	-
Structure of CSR reports by the year of compilation (%)	4.8	28.6	23.8	19.0	9.5	14.3

Source: The author's own compilation on the basis of: CSR reporting financial institutions.

The research implies:

1. All the businesses examined drafted their reports in accordance with GRI guidelines, though using different versions as modified by GRI (Table 2).

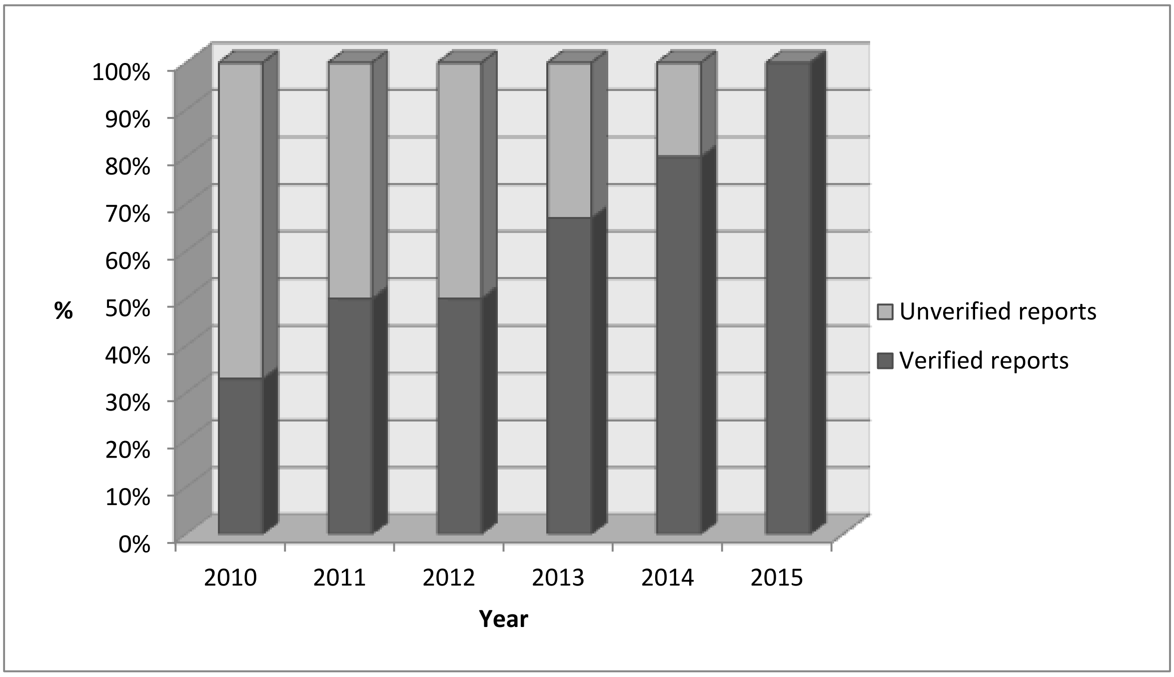
Table 2: Structure of CSR reports in 2010-2015 by principles of reporting

Specification	2015		2014		2013		2012		2011		2010	
	quantity	%	quantity	%	quantity	%	quantity	%	quantity	%	quantity	%
GRI – G3	-	-	-	-	2	40	2	100	2	100	3	100
GRI – G4	1	100	6	100	3	60	-	-	-	-	-	-

Source: The author's own compilation on the basis of: CSR reporting financial institutions.

2. The CSR reports were subject to external verification – 8, or 38%, of the reports were not verified. The shares of unverified reports in the overall structure in the particular years was as follows: 2010 – 67%, 2011 – 50%, 2012 – 50%, 2013 – 33%, 2014 – 20%, 2015 – 0%. Numbers of reports subject to the verification were increasing, therefore (Figure 1).

Fig. 1: Structure of CSR reports in 2010-2015 as per the verification criterion

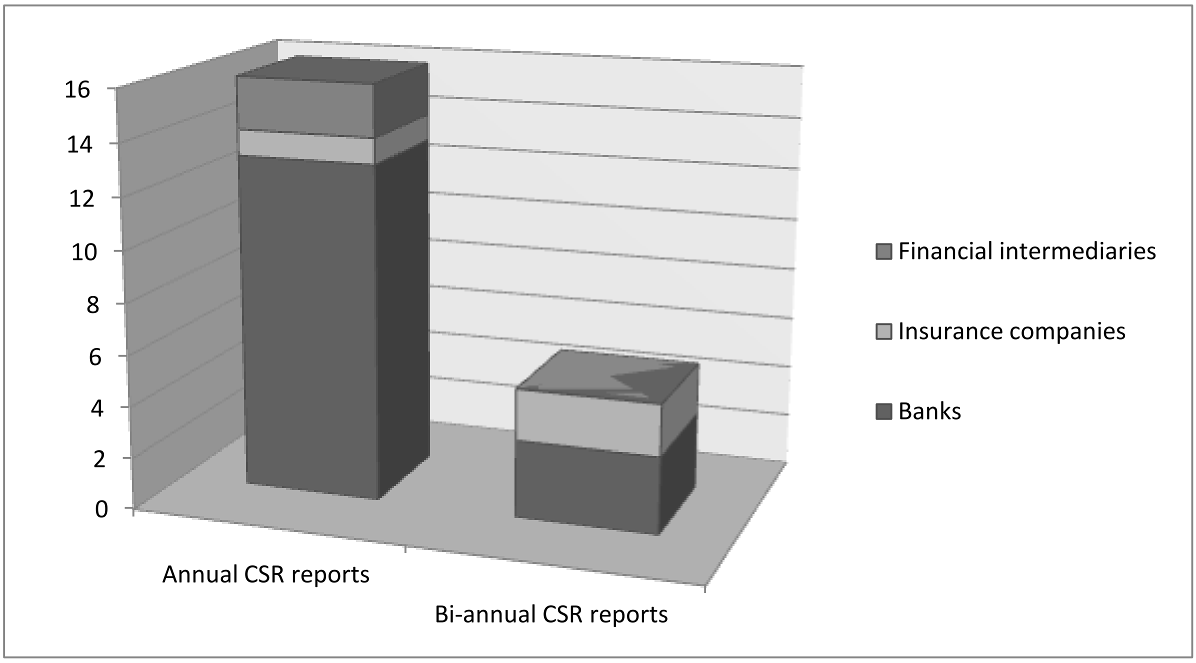


Source: The author's own compilation on the basis of: CSR reporting financial institutions.

3. Most businesses compiled their CSR reports for one year – this was true of 16, or 76.2% of all the reports. Bi-annual reporting was adopted in 5 cases, 23.8% of the total. Structure

of the reports as per frequency of their preparation by the individual types of financial institutions is illustrated in Figure 2.

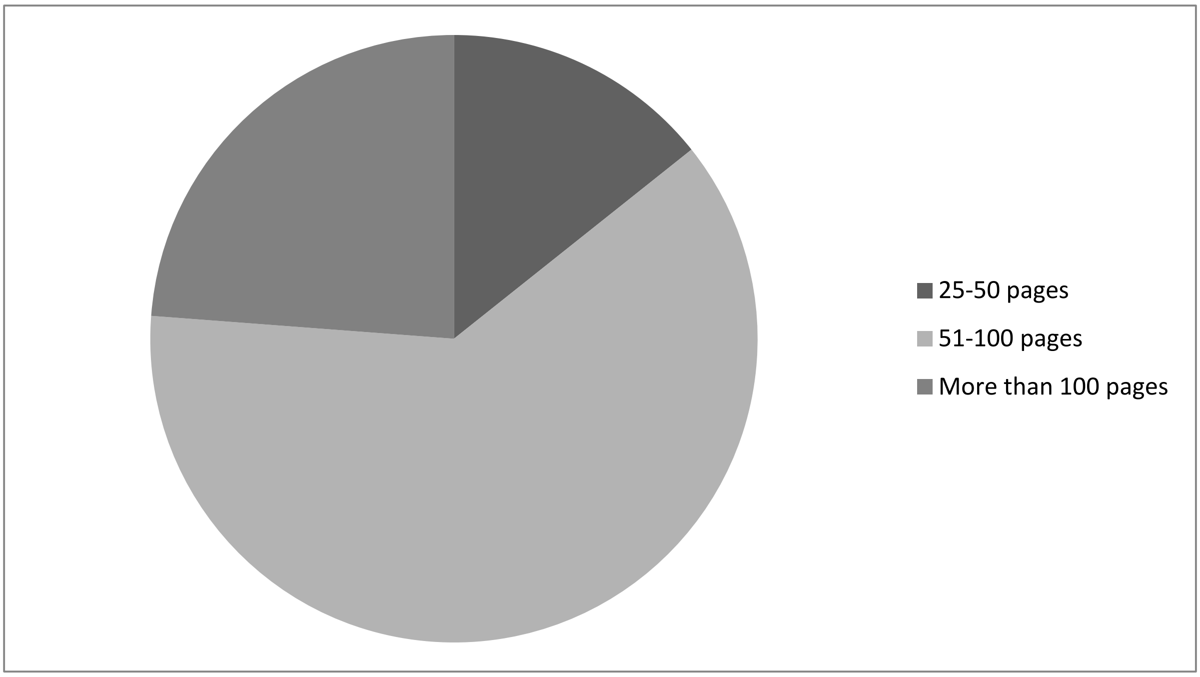
Fig. 2: Structure of CSR reports as per frequency of their preparation by the individual types of financial institutions



Source: The author's own compilation on the basis of: CSR reporting financial institutions.

4. Volume of the CSR reports ranges from 25 to 146 pages. Structure of the CSR reports according to their volume is presented in Figure 3.
5. Scopes of the CSR reports vary, though they are drafted following the same guidelines. Shared element can be distinguished, however, arising from application of identical standards, e.g. social actions, natural environment, employees, action strategy, etc. Incomparability of CSR reporting concerns not only different entities but also periods of reporting by the same businesses. Detailed results are summarised in Table 3.

Fig. 3: Structure of the CSR reports according to their volume



Source: The author's own compilation on the basis of: CSR reporting financial institutions.

Table 3: Areas of CSR reporting by financial institutions in the Polish market in 2010-2015

No.	Financial institution/ report CSR	Scope (structure) of report
1.	Bank Gospodarstwa Krajowego SA 2009-2010	Strategy, CSR actions, values of BGK SA, conditions of employment, relations with business partners, effect on the environment, activities of BGK SA. Foundation
2.	PZU SA 2010	About the company, strategy, CSR actions, employees, environment, business support and development, regional development
3.	PZU SA 2011-2012	About the company, strategy, corporate governance, CSR actions, relations with stakeholders, ethics, employment, environment.
4.	PZU SA 2013-2014	Strategy, values of PZU, CSR actions, conditions of employment, relations with partners, activities of PZU Foundation, effect on the environment, risk management.
5.	Millennium 2010	Mission, values, dialogue with stakeholders, transparency of activities and safety, a good workplace, aspects of environment impacts, working for society.
6.	Millennium 2011	Mission, values, parameters of reporting, organisation profile, corporate culture, financial results, dialogue with stakeholders, dialogue with customers, dialogue with investors, dialogue with business partners, dialogue with employees, transparency of activities and safety, a good workplace, aspects of environment impacts, working for society.
7.	Millennium 2012	Standards used by the bank, approach to sustainable development, parameters of reporting, organisation profile, key stakeholders, activities addressed to stakeholders (customers, investors, business partners, staff), working for society, transparency of activities and safety, effect on the

		environment.
8.	Millennium 2013	Organisation profile, stakeholders, safety, customers, investors, partners, employees, social activities, the natural environment
9.	Millennium 2014	Strategy, stakeholders, safety, customers, investors, employees, social activities, the natural environment
10.	Millennium 2015	Organisation profile, management system, stakeholders, safety, customers, employees, social activities, the natural environment
11.	BGŻ Paribas 2011	Bank's profile, Corporate Social Responsibility, effect on society, employees, environment, customers.
12.	BGŻ Paribas 2012	Values, strategy, structure and authorities, financial results, retail banking, investment banking, social parameters, environment, workplace, local communities, customer service, corporate governance.
13.	BGŻ Paribas 2013	About the bank, customers, local communities, employees, environment.
14.	BGŻ Paribas 2014	Economic responsibility, social responsibility, civic responsibility, environmental responsibility.
15.	Bank Zachodni WBK SA 2013	Key data, employees, market environment, local communities, environment.
16.	Bank Zachodni WBK SA 2014	Key data, customer and the market, employees and the natural environment, social investments.
17.	ING Bank Śląski SA 2011-2012	Bank, customers, employees, society, environment.
18.	ING Bank Śląski SA 2013-2014	Bank, compliance, employees, representatives and suppliers.
19.	Provident 2012-2013	About the company, society, socially responsible activities, relations with customers, strategy, employees, environment.
20.	ANG Spółdzielnia Doradców Kredytowych 2013	Stakeholders, about the company, strategy, financial results, customers, natural environment, foundation, about the report.
21	ANG Spółdzielnia Doradców Kredytowych 2014	About the report, social activities, ethics, business effectiveness, customers, human capital, social capital, environment.

Source: The author's own compilation on the basis of: CSR reporting financial institutions.

Conclusion

The author's research discussed in this paper has helped to verify the working hypotheses:

(H1) - Directive 2014/95/EU contains regulations that will contribute to improved comparability and usefulness of information presented in financial statements.

Regretfully, provisions of the Directive do not solve the existing problems related to assuring adequate quality attributed of CSR reports. This is due both to the subjective scope of the Directive, covering solely large businesses, and its objective scope, as it offers freedom of choice of reporting principles, fails to impose the duty of verifying non-financial data, allows for omission of sensitive data, and fails to provide for sanctions.

Directive 2014/95/EU must be therefore assumed to fill a regulatory gap yet will contribute to improvement of CSR reports' quality to a limited extent, chiefly in respect of comparability and clarity.

(H2) - Financial institutions in the Polish market draft their CSR reports in different ways, which obstructs their comparability.

This is affirmed by the author's research, which indicates CSR reports vary with regard not only to entities but also to reporting periods by the same businesses. Major differences relate to: principles and areas of the reporting, frequency and volume of the reports, as well as their verification.

It must be concluded neither the existing regulations nor the reporting practices ensure the qualitative features in question. As a consequence, CSR reports are incomparable and unclear. Introduction of sectoral reporting standards in future should be considered, as it would help to improve clarity and comparability of the reports.

References

1. Adams, A.C. (2008). A Commentary on: corporate social responsibility reporting and reputation risk management. *Accounting, Auditing & Accountability Journal*, 21(3), pp. 365-370.
2. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, Official Journal of the European Union L330/1.
3. DeSilva, T., A. (2008). *Voluntary Environmental Reporting: The Why, What and How.* Retrieved June 4, 2015, from http://researcharchive.linciln.ac.nz/dspace/bitstream/10182/928/3DeSolva.phd.pdf.
4. European Parliament, Committee on Employment and Social Affairs. (2013). *Report on Corporate Social Responsibility: promoting society's interest and a route to sustainable and inclusive recovery (2012/2097/INI).* Retrieved Mai 5, 2015 from http://www.europarl.europa.eu/sides/getDoc.do?pubRef=//EP//NONSGML+REPORT+A7-2013-0023+0+DOC+PDF+V0//EN.
5. European Parliament, Committee of Legal Affairs. (2013). *Report on Corporate Social Responsibility: accountable, transparent and responsible business behavior and sustainable growth (2012/2098/INI).* Retrieved Mai 5, 2015 from http://www.europarl.europa.eu/sides/getDoc.do?pubRef=//EP//NONSGML+REPORT+A7-2013-0017+0+DOC+PDF+V0//EN.
6. Elkington, J., & Spencer-Cooke, A. (1997). How do we measure up? *Tomorrow*. 6(1), p. 42-47.

7. Gray, R. (2007). Talking a long view on what we now know about social and environmental accountability and reporting. *Issues in Social and Environmental Accounting,* 1(2), pp. 169-178.
8. Gray, & Bebbington, J. (2010). Environmental Accounting, Managerialism and Sustainability: Is the Planet Safe in the Hands of Business and Accounting? [In] Gray, J., Bebbington, S., & Gray, S. (Eds.). *Social and Environmental Accounting,* t.III. Los Angeles-London-New Delhi-Singapore-Washington DC: Sage Publications.
9. GRI, Sustainability Disclosure Database. Retrieved January 5, 2016, from http://database.globalreporting.org.
10. Horehăjovă, M., & Marasovă, J. (2008). The institutional factors of the Corporate Social Responsibility development in the Central European countries. *E&M Ekonomie a Management,* 2, pp. 58-63.
11. Ivanisevic, A., & Stojanovic, A. (2015). Determinants of bank Social Responsibility: case of Croatia. *E&M Ekonomie a Management,* 2, pp. 117-134.
12. Lang, M., Lins, K.V., & Maffett, M. (2012). Transparency, liquidity and valuation: international evidence on when transparency matters most. *Journal of Accounting Research,* 50(3), pp. 729-774.
13. Maraková, V., Lament, M., & Wolak-Tuzimek, A. (2015). Reporting standards in socially responsible enterprises. *Economic Annals-XXI,* 9-10, pp. 56-59.
14. Martinčik, D., & Polĭvka, M. (2012). Contribution of Corporate Social Responsibility to the shareholder value: experimental perspective. *E&M Ekonomie a Management,* 3, pp. 108-124.
15. Szadziewska, A. (2014) *Rachunkowość jako źródło informacji na temat realizacji strategii społecznej odpowiedzialności biznesu,* Zeszyty Teoretyczne Rachunkowości", nr 75(131), pp. 95-123.

Contact

Marzanna Lament, PhD.

Institution: Faculty of Economics and Legal Sciences, Kazimierz Pulaski University of Technologies and Humanities in Radom

Full address of institution: Chrobry Street 31, 26-600 Radom (Poland)

Mail: marzannala@poczta.onet.pl