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

This paper aims is to analyse and verify the applicable principles of Corporate Social Responsibility (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 and in the Greek 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 and in the Greek 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 and in the Greek 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.

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.

JEL Classification Codes: M14, M41.

Keywords: accounting, reporting, financial statement, Corporate Social Responsibility (CSR), financial institutions.

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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), Lament (2015), Maraková, Lament, Wolak-Tuzimek (2015), Kristofik, Lament, Musa (2016), Lament (2017). 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 and in the Greek 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 and in the Greek 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 and in the Greek 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.

Author is aware of the limited subjective scope which might lead to some restrictions when extrapolating the results onto all financial institutions operating in world. Examination a group of financial institutions in the Polish and in the Greek market by analysing quality their of CSR reports.

CSR reporting in financial institutions

The financial sector is a key industry to stakeholders, only apparently unconnected to sustainable development. This is demonstrated, inter alia, by the share of financial institutions reporting on CSR, more than 12%, coming top amongst the huge variety of sectoral reporting. Table 1 and Figure 1 show results concerning numbers of reports drafted by financial institutions globally and in Poland and in Greece, their significance in CSR reporting worldwide, as well as the share of financial institutions in the Polish and in the Greek market in CSR reporting.

Analysis of the results in Table 1 proves numbers of CSR reports compiled by financial institutions both globally and in Poland and Greece have been raising, evidence of a growing interest in Corporate Social Responsibility and a contribution to reducing the information asymmetry.

Evaluation of the level CSR reporting can be assessed not only based on the number CSR reports, prepared by financial institutions, but also by their reference to the number of financial institutions. This is show in Table 2.

Analysis of the results in Table 2 shows that the level of CSR reporting in financial institutions is greater in Greece, both for banks and insurance companies.

Table 1. CSR reports by financial institutions presented to GRI (Global Reporting Initiative) in 2010–2015

Specification	2015	2014	2013	2012	2011	2010
Number of reports by financial institutions – globally	690	669	621	513	468	324
Share of financial institutions in CSR reporting worldwide (%)	12.7	12.4	12.5	11.5	13.0	12.6
Number of reports by financial institutions – Poland	5	5	6	1	0	1
Share of Polish financial institutions in CSR reporting worldwide (%)	0.72	0.75	0.97	0.20	0.00	0.31
Number of reports by financial institutions – Greece	5	8	9	8	7	4
Share of Greek financial institutions in CSR reporting worldwide (%)	0.72	1.19	1.45	1.56	1.50	1.23

Source: The author's own compilation on the basis of: GRI Database.

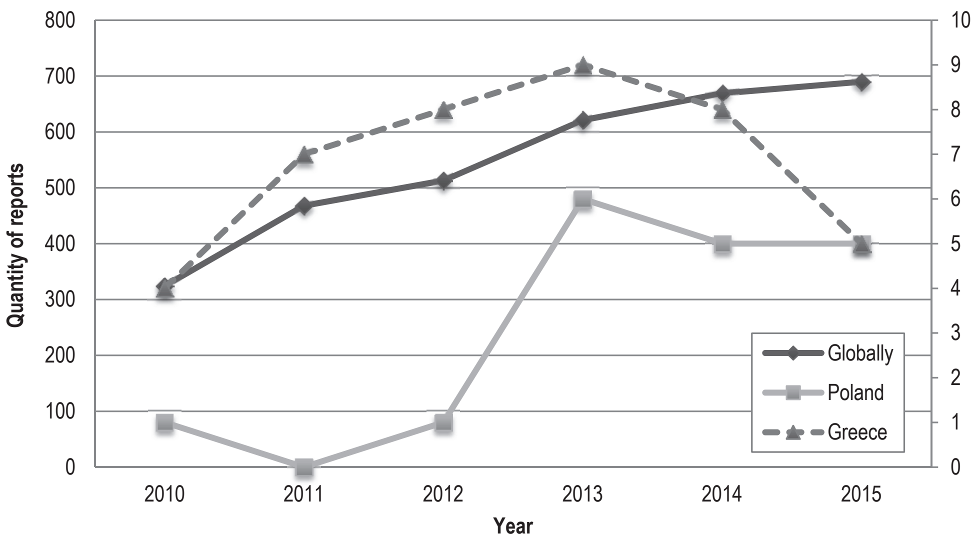

Figure 1. Quantity of CSR reports by financial institutions pressented to GRI in 2005-2015

Source: The author's own research on the basis of GRI.

Table 2. Level of CSR reporting in banks and insurance companies from the Polish and the Greek market in 2010–2015

Specification	Country	2015	2014	2013	2012	2011	2010
Number of banks	Poland	66	64	67	68	66	67
	Greece	39	37	36	53	53	62
Number of insurance companies	Poland	57	57	58	59	61	63
	Greece	40	65	66	69	69	73
Number of CSR reports (banks)	Poland	1	4	4	3	2	2
	Greece	0	4	6	7	6	5
Number of CSR reports (insurance companies)	Poland	0	1	0	1	0	1
	Greece	1	1	1	1	0	1
Level of CSR reporting in banks (%)	Poland	1.5	6.3	6.0	4.4	3.0	3.0
	Greece	0.0	10.8	16.7	13.2	11.3	8.1
Level of CSR reporting in insurance companies (%)	Poland	0.0	1.8	0.0	1.7	0.0	1.6
	Greece	2.5	1.5	1.5	1.4	0.0	1.4

Source: The author's own research.

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.

Methodology

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 and in the Greek market by analysing their CSR reports. The financial institutions that prepared CSR reports submitted to GRI (*Global Reporting Initiative*) in 2010–2015 were selected. The following issues were analysed and evaluated in particular:
- principles of reporting,
- report verification,
- reporting period,
- volume and scope of reports.

Examination subjects were 58 CSR reports (Greece – 37, Poland – 21), prepared in 2010–2015 by 18 financial institutions (Greece – 10, Poland – 8), including: 14 – banks, 2 – insurance companies, 2 – financial intermediaries. The group assessed are described in Table 3.

Table 3. Characteristics of the research group

Specification	2015	2014	2013	2012	2011	2010
Structure of CSR reports by country:						
– Poland	1 (50.0%)	6 (54.5%)	5 (38.5%)	4 (30.1%)	2 (22.0%)	3 (30.0%)
– Greece	1 (50.0%)	5 (45.5%)	8 (61.5%)	9 (69.9%)	7 (78.0%)	7 (70.0%)
Structure of CSR reports by financial institutions:						
– banks	1 (50.0%)	8 (72.7%)	10 (76.9%)	10 (76.9%)	8 (88.9%)	7 (70.0%)
– insurance companies	1 (50.0%)	2 (18.2%)	1 (7.7%)	2 (15.4%)	-	2 (20.0%)
– financial intermediaries	-	1 (9.1%)	2 (15.4%)	1 (7.7%)	1 (11.1%)	1 (10.0%)
Structure of CSR reports by financial institutions (Poland):						
– banks	1 (100%)	4 (67.0%)	4 (80.0%)	3 (75.0%)	2 (100%)	2 (67.0%)
– insurance companies	-	1 (16.5%)	-	1 (25.0%)	-	1 (33.0%)
– financial intermediaries	-	1 (16.5%)	1 (20.0%)	-	-	-
Structure of CSR reports by financial institutions (Greece):						
– banks	-	4 (80.0%)	6 (75.0%)	7 (77.8%)	6 (85.7%)	5 (71.4%)
– insurance companies	1 (100%)	1 (20.0%)	1 (12.5%)	1 (11.1%)	-	1 (14.3%)
– financial intermediaries	-	-	1 (12.5%)	1 (11.1%)	1 (14.3%)	1 (14.3%)

Source: The author's own research.

The data included in Table 3 shows that:
- CSR reporting is more popular in Greece than in Poland,
- most common reporting financial institutions are banks, both in Poland and in Greece.

Principles of non-financial information reporting in financial institutions from the Polish and the Greek market – results

The research implies:
1) The most widely the businesses examined drafted their reports in accordance with GRI guidelines, though using different versions as modified by GRI (GRI – G3 or GRI – G4) – Table 4.

Table 4. Structure of CSR reporting in financial institutions from the Polish and the Greek market in 2010–2015 by principles of reporting

Specification	2015	2014	2013	2012	2011	2010
All examined financial institutions::						
– GRI –G3	2 (100%)	7 (63.6%)	7 (53.8%)	10 (76.9%)	8 (88.9%)	7 (70.0%)
– GRI – G4	-	3 (27.3%)	4 (30.8%)	-	-	-
– Non GRI	-	1 (9.1%)	2 (15.4%)	3 (23.1%)	1 (11.1%)	3 (30.0%)
Poland:						
– GRI –G3	1 (100%)	6 (100%)	2 (40.0%)	4 (100%)	2 (100%)	3 (100%)
– GRI – G4	-	-	3 (60.0%)	-	-	-
– Non GRI	-	-	-	-	-	-
Greece:						
– GRI –G3	1 (100%)	1 (20.0%)	5 (62.5%)	6 (66.7%)	6 (85.7%)	4 (57.1%)
– GRI – G4	-	3 (60.0%)	1 (12.5%)	-	-	-
– Non GRI	-	1 (20.0%)	2 (25.0%)	3 (33.3%)	1 (14.3%)	3 (42.9%)

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

2) The CSR reports were subject to external verification. 32 reports were not verified (Poland – 8, Greece – 24), which accounted for 55.2% of CSR reports (Poland – 38%, Greece – 64.9%). In individual years, the percentage of reports not were verified is as follows: (Table 5).

Table 5. **Structure of CSR reporting in financial institutions from the Polish and the Greek market in 2010–2015 as per the verification criterion**

Specification	2015	2014	2013	2012	2011	2010
All examined financial institutions::						
– verified reports	1 (50.0%)	7 (63.6%)	6 (46.2%)	5 (38.5%)	4 (44.4%)	3 (30.0%)
– unverified reports	1 (50.0%)	4 (36.4%)	7 (53.8%)	8 (61.5%)	5 (55.6%)	7 (70.0%)
Poland:						
– verified reports	1 (100%)	5 (80.0%)	3 (67.0%)	2 (50.0%)	1 (50.0%)	1 (33.0%)
– unverified reports	-	1 (20.0%)	2 (33.0%)	2 (50.0%)	1 (50.0%)	2 (67.0%)
Greece:						
– verified reports	-	2 (40.0%)	3 (37.5%)	3 (33.3%)6	3 (42.9%)	2 (28.6%)
– unverified reports	1 (100%)	3 (60.0%)	5 (62.5%)	(66.7%)	4 (57.1%)	5 (71.4%)

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

3) Most businesses compiled their CSR reports for one year – 51 CSR reports, which accounted for 87.9% of all the reports (Poland – 16 CSR reports – 76.2%, Greece – 35 CSR reports – 94.6%). Bi-annual reporting was adopted in 7 cases (Poland – 5, Greece – 2), 12.1% of the total (Poland – 23.8%, Greece – 5.4%).
4) Volume of the CSR reports ranges from 25 to 146 pages. Structure of the CSR reports for financial institutions from the Polish and the Greek market according to their volume is presented in Figure 2 and Figure 3.

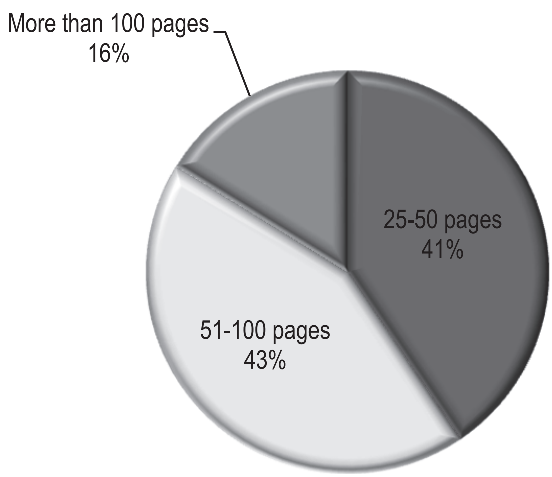

Figure 2. **Structure of the CSR reports in financial institutions from the Greek market according to their volume**

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

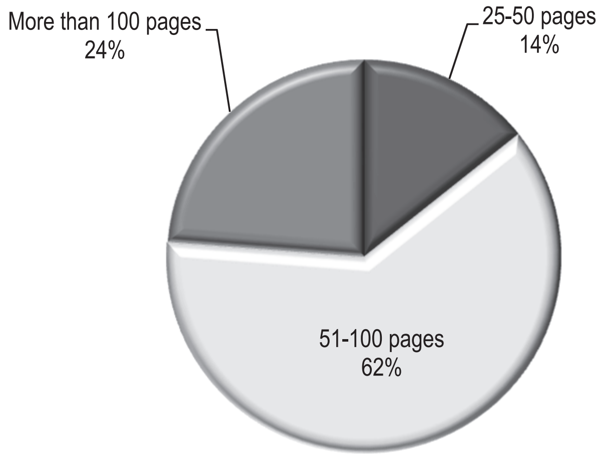

Figure 3. **Structure of the CSR reports in financial institutions from the Polish market according to their volume**

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

5) 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. Scopes of the CSR reports vary, though they are drafted following the same guidelines.

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 and in the Greek 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.

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