



**LECTURE 9  
NON-FINANCIAL DISCLOSURE**



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**Non-financial disclosure beyond the management report**

*Mandatory disclosure      Voluntary disclosure*

*'Large firms'*      Sustainability report  
*Listed firms*      Corporate Governance Report

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**WHY NON-FINANCIAL REPORTING?**

- Social contract, to motivate its existence
- For legitimacy among important stakeholders (customers, media)
- To attract important resources, (capital & labour & suppliers)
- Give information for decision making
- You get what you report, i.e., induce actions of sustainability
- Regulation
- Ethically correct
- Reputation risk management

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### Disclosure interest

<i>Financial disclosure</i>	<i>Non-financial disclosure</i>
Decision	Decision
Legitimacy	Legitimacy
Creditors/Stakeholders	Stakeholders/Creditors

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### Disclosure interest development

*Avantgarde*  
Events  
Media  
Social groups

Company

*Norms & Values*  
Ideologies  
Fashion

**Today**  
Sustainability  
Corporate social responsibility  
Corporate governance

**Tomorrow**  
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### SUSTAINABILITY

<i>1970-80</i>	<i>1980-</i>
Nuclear war Disarmament Peace	Environment Brundtland Report 1987 Agenda 21, 1992, Brazil Conference

*1950-60*  
Concerns about working conditions  
Social reporting

*Zeitgeist*  
*Tidsanda*

"...a renaissance of non-financial reporting practices rather than a completely new phenomenon" p. 385

**Timing is everything!**

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### SUSTAINABILITY

"Development that meets the needs of the present world without compromising the ability of future generations to meet their own needs"

Do not constrain the future.  
But why not enlarge the future possibilities?

Do some have more possibilities/capacity to avoid 'compromising'?  
Equal responsibility of sustainability?

Future generations concern all future generations, or only parts of the generations?

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### CORPORATE SOCIAL RESPONSIBILITY

To include social and environmental concerns beyond, but not excluding financial concerns, into the business activities of the company and its interaction with stakeholders of the company

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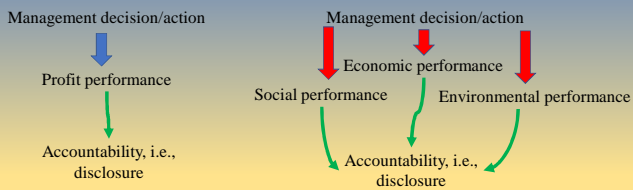
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### IDEOLOGICAL VIEWS OF CORPORATIONS



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**SOCIAL CONTRACT: TO EARN ITS RIGHT TO EXIST**

Regulation of financial reporting  
 Accountants educated in financial reporting  
 Financial reporting excluding 'externalities'

**Change of social contract**

To earn its right to exist in an environment that gives it its life  
 Internalizing 'externalities'  
 Internalizing into the financial report  
 Internalizing through qualitative report

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**SUSTAINABILITY IS NOT SO SIGNIFICANT  
 EVEN IF WE INTERNALIZE IT IN OUR WAY**

Net present value:  $NV = \text{Cost of Restoring} / (1 + \text{internal rate})^{\text{year}}$

Cost of restoring: 100  
 Internal rate: 0,10  
 Year: 20  
 Net Present Value: 14,9

Costs becomes less significant when considering future.....  
 So, it is less costly to consume the future than today,  
 when using our rational calculative methods

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**SUSTAINABLE DEVELOPMENT**

**Economy**  
 Revenues  
 Costs  
 Profit  
 Assets  
 Liabilities  
 Taxes  
 Charity  
 Subsidies  
 etc

**Environment**  
 Climate change  
 Biological diversity  
 Energy  
 Transports,  
 etc

**Social**  
 Health  
 Security  
 Sickness  
 Human rights  
 Corruption  
 Poverty  
 etc

**Missing anything?**

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### SUSTAINABILITY REPORT PROCESS

**Why:** Regulation, legitimacy (attract capital & labour), ethically correct, demand from stakeholders (customers), reputation risk management, induce change in organization (you get what you report)  
**Who:** Who is influenced? (*ethical*) Who can influence? (managerial). But... the unborn cannot influence  
**What:** Is the report important (symbol), or the content of the report (substance)? To understand the stakeholder and its needs, empathy (active and not re-active dialogue). But! A standard: GRI!  
**How:** Qualitative reports. GRI suggest reporting.

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### GLOBAL REPORTING INITIATIVE (GRI)

Private organisation (1997), many organisations supporting, among them UN  
Dominating in suggesting reporting standards  
2013 G4 standards, continuously developing standards and changing present standards

[www.globalreporting.org](http://www.globalreporting.org)

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### GRI PRINCIPLES

**Report content**  
Materiality: information have to have importance for the organization or stakeholders  
Stakeholder inclusiveness: identify stakeholders  
Sustainability context: Performance in context of sustainability  
Completeness: Include relevant areas of operations

**Report quality**  
Balance: Include both positive and negative aspects  
Comparability: Possible to compare over year and with other organisations  
Accuracy: Detailed to relevance of information  
Timeliness: Periodic reporting  
Clarity: Understandably and accessible  
Reliability: Able to examine the production of the information

**Disclosures**  
Strategy and profile: Business model, strategy and governance  
Management approach: What is being made  
Performance indicators: Economic, environmental and social indicators of performance

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**Non-financial reporting concerning sustainability in EU**

Directive 2013/34/EU

Disclosure of non-financial and diversity information by large companies

**Who?** Public-interest companies with more than 500 employees  
(listed, banks, insurance, other designated by public authorities to be of public interest)

**What?**

- Environmental protection
- Social responsibility and treatment of employees
- Respect for human rights
- Anti-corruption and bribery
- Diversity on company boards

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**Non-financial reporting concerning sustainability in Sweden**

All government corporations have to report in accordance to GRI (2008)  
EU law implemented 1 Jan 2017

Årsredovisningslag (1995:1554) 6 kap 10-14§

Separate report or included in management report (Förvaltningsberättelsen)

**Who?** The last two years the corporation fulfils more than one of these criteria's:  
> mean number of employees, > 175 mil kronor in assets, > 350 mil in sales,  
But independent of legal form, all of public interest (listed, governmental, finance,  
infra-structure and health)

Audit of report? No, but auditor has to assure that a report has been issued.

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**SUSTAINABILITY: A POTEKIN VILLAGE, A FAD, A MEAN FOR ORGANIZATIONAL DEVELOPMENT**

Family firms score high on CSR, but low on sustainability reporting. Why?

IKEA & H&M sustainability, to close the firm?

Sustainability becomes business as usual, well integrated or tradition?

Sustainability goes out of fashion. What is then next?

Sustainability creates a focus. What do we not see?

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### CORPORATE GOVERNANCE REPORT

Report on corporate governance  
 Code of Corporate Governance, issued 2015  
 Firms listed on a regulated market, Nasdaq Stockholm, NGM Equity  
 The board have to report in the annual report and on the web site  
 How the governance is structured and performed and how they implement the code

The Code directed by the idea of 'Good Governance',  
 i.e., that there is one way to govern a corporation.  
 Anglo-American influenced, but adjusted through negotiations to Swedish conditions,  
 For example, 'strong' shareholders, i.e., block holders, and 'weak' CEO's

However...  
 The code is dynamic: 'comply or explain' (follow the rule or explain why you deviate)

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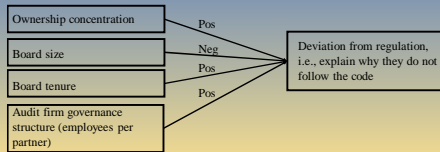
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### FLEXIBLE REGULATION IN THE CODE: COMPLY OR EXPLAIN



Tagesson, T. and Collin, S.-O. (2016). "Corporate governance influencing compliance with the Swedish Code of Corporate Governance". *International Journal of Disclosure & Governance*. Vol 13, No 3, 262-277

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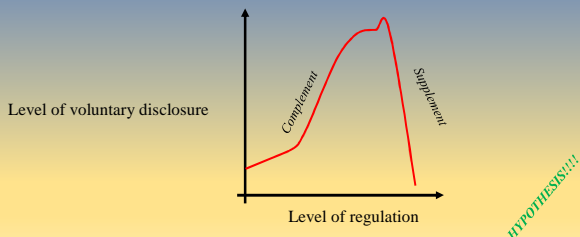
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### VOLUNTARY DISCLOSURE SUPPLEMENT OR COMPLEMENT TO REGULATED INFORMATION?



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## What explains the variation in voluntary disclosure?

Broberg, P., Tagesson, T. and Collin, S.-O. (2010) "What explains variation in voluntary disclosures - a study of annual reports from corporations listed at the Stockholm Stock Exchange". *Journal of Management and Governance*. Vol. 14, No 4, pp. 351 - 377

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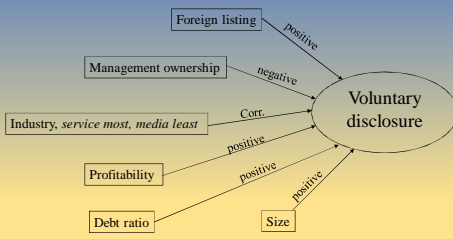
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