SUSTAINABILITY REPORTING: THE WAY TO STANDARDIZED REPORTING ACCORDING TO THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE IN GERMANY

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Abstract

The importance of sustainability is increasing in society as well as in the corporate environment. To force companies to deal with the topic in greater detail, the European Commission has revised the directive that regulates this reporting. This new version is to be mandatory from 2024 for reports on the 2023 business year. For this reason, companies must urgently deal with the increased requirements and implement them, because studies show that companies are not yet really well prepared for the innovations.

1. INTRODUCTION

There is currently no way around the issues of climate change and sustainability, and experts agree that global warming and the associated climate change must be combated. To achieve this goal, the EU Commission has taken up the issue and has already passed some directives in the past under the heading of the "Green Deal". One of these directives is the Corporate Social Responsibility Directive, which should, among other things, bring the idea of sustainability to companies. This directive has now been further improved and concretized in the course of the last two years. The Corporate Sustainability Reporting Directive (CSRD) was created, which creates a reporting obligation for sustainability in companies and which is to be applied for the first time for the 2023 business year (European Commission, 2021; Lanfermann & Scheid, 2021; Müller & Reinke, 2022; Müller, Scheid, & Baumüller, 2021).

Within the framework of this new directive, companies must now address the issue of sustainability in even greater detail and prepare a standardized annual sustainability report to replace the previous non-financial report (Lanfermann & Scheid, 2021). This poses new challenges for companies, as the associated processes and information must first be created in some cases. In addition, companies have to realize that climate change creates significantly more risks, but also opportunities than they have been willing to admit so far (Richter & Meyer, 2021).

2. CHANGES DUE TO THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

The implementation of the CSRD will increase the number of reporting companies and the requirements for sustainability reporting (Lanfermann & Scheid, 2021). In the future, all companies listed on a regulated market in the EU will have to prepare and publish a sustainability report, regardless of whether they are based in the EU or not. In addition, all large corporations and partnerships, as well as insurance companies, credit institutions and companies subjected to group accounting, will be affected by the CSRD, regardless of their capital market orientation (European Commission, 2021; Lanfermann & Scheid, 2021). The same applies to small and medium-sized companies with a capital market orientation (Deloitte, 2021).

Compared to the previous corporate sustainability reporting (CSR) guideline, companies are to provide significantly more detailed quantitative and qualitative information after the CSRD comes into force. However, the aspects of the environment, employee concerns, compliance, social affairs, and respect for human rights, which are reportable under the CSR guideline, will remain reportable after the introduction of the CSRD (Zülich, Schneider, & Thun, 2021). Specifically, the application of the CSRD means that companies must disclose information about their business model, business strategies, and sustainability goals. The same applies to the presentation of the role of the supervisory board and the board of directors in the area of sustainability, as well as the disclosure of significant negative impacts related to the company's value chain, which can occur at any stage of the value chain (Deloitte, 2021).

Furthermore, companies should report on implemented concepts, due diligence mechanisms as well as risks and non-financial performance indicators (Müller & Reinke, 2022). Finally, companies should also describe their materiality analysis in more detail, showing how the information to be reported was determined. In this context, companies must also continue to disclose when information is omitted, including an explanation of why the information was omitted (Müller et al., 2021).

Another innovation in the content of the report is the increased reference to the future with which the information is to be provided. This means that a distinction must be made between short-, medium- and long-term time horizons (Lanfermann & Scheid, 2021; Müller & Reinke, 2022). In addition, both perspectives of dual materiality need to be covered (Müller & Reinke, 2022; Zülich et al., 2021).

The sustainability information to be reported should be regulated uniformly throughout Europe through the development of a binding standard (Lanfermann & Scheid, 2021; Richter & Meyer, 2021). In addition, the report should be included in the management report and be subject to an external audit (Richter & Meyer, 2021; Deloitte, 2021).

3. STATUS OF SUSTAINABILITY REPORTING IN GERMANY

3.1. Location of the report

One of the most significant changes brought about by the CSRD will be the mandatory publication of information in the management report. Currently, companies are allowed to determine the location of their report or non-financial statement themselves. So far, the separate non-financial report is the companies' favorite (Accounting Standards Committee of Germany, 2021; Richter et al., 2021). However, in the 2020 financial year, 35% of the companies listed on the DAX already disclosed their non-financial statement in the management report and thus already fulfil the requirements of the CSRD (Zülich et al., 2021).

3.2. Content of sustainability reporting

The majority of companies report on the five minimum aspects required by the CSR guideline: environmental, social, employee, human rights, anti-corruption, and anti-bribery/compliance. In the sample of the Accounting Standards Committee of Germany (2021), almost all companies report on the required topics and in some cases even more. Many companies also provide, if the data situation allows, key figures that clarify and specify their information on the above-mentioned aspects. This is particularly the case in the area of environmental and employee concerns (Deutsches Global Compact Netzwerk, 2018).

3.3. Business model disclosures

Even before the implementation of the CSR guideline, companies in Germany were obliged to provide information on their business model in their management report. This is prescribed by § 289 para. 1 *Handelsgesetzbuch* (Commercial Code). For this reason, it is not surprising that in 2018 85% of companies included this content in their non-financial statement with a reference to this very management report (PricewaterhouseCoopers, 2018).

3.4. Dealing with non-financial risks

Since the introduction of the CSR guideline, all material non-financial risks are reportable and must therefore be included in the sustainability report or non-financial statement. However, it is up to the individual company to define which risks they consider material, so it is hardly surprising that by no means all non-financial risks are reported (Accounting Standards Committee of Germany, 2021; Richter et al., 2021; Deutsches Global Compact Netzwerk, 2018). Between 2017 and 2019, the number of non-financial risks reported has increased. Risk reporting is particularly present in the area of anti-corruption and anti-bribery, as well as in employee concerns, while the other topics are increasingly being expanded (Accounting Standards Committee of Germany, 2021).

3.5. Use of frameworks

To achieve standardized reporting, the European Commission is focusing on the development of a mandatory European standard, building on current standards such as those of the global reporting initiative (GRI) (Lanfermann & Scheid, 2021; Richter & Meyer, 2021). The 2018 studies here indicate that, depending on the sample, 20% to 30% do not use a framework to prepare their non-financial statement or sustainability report. The remaining 70% to 80% use the standards of the GRI or the German Sustainability Code (DNK) (Deutsches Global Compact Netzwerk, 2018; PricewaterhouseCoopers, 2018).

More recent studies also report that about two-thirds to three-quarters of the companies in the respective samples use a framework when preparing their report. Even in these samples, the GRI dominates as the leading standard (Zülich et al., 2021; Accounting Standards Committee of Germany, 2021; Richter et al., 2021).

3.6. External audit

In connection with the audit of the non-financial statement, which is not yet mandatory, a similar picture emerges compared to the previous chapter, because here too many of the companies considered are already CSRD-compliant and have their report externally audited. In the majority of cases, about 80%, of the external audit is done with limited assurance (Deutsches Global Compact Netzwerk, 2018; PricewaterhouseCoopers, 2018).

3.7. Materiality understanding

In the non-financial statement itself, information on the company's understanding of materiality is not prescribed, but a large majority of companies nevertheless inform their stakeholders about their considerations and methods applied in this context (Deutsches Global Compact Netzwerk, 2018; PricewaterhouseCoopers, 2018). The definition of materiality used in this context varies, however, as both the definition of the GRI, from the CSR guideline implementation act or others are described (Accounting Standards Committee of Germany, 2021; Deutsches Global Compact Netzwerk, 2018).

3.8. Information on target figures

The non-financial statements of the companies are currently rather unclear concerning the concrete goals they are striving for. Less than half of the companies in the sample of the Accounting Standards Committee of Germany report quantitative targets (Accounting Standards Committee of Germany, 2021). In this context, the majority of companies use the presentation of qualitative targets in their report (PricewaterhouseCoopers, 2018). Concrete information on the time horizon of these targets or target-performance comparisons is rather rare here. Furthermore, differences can also be observed between the individual contents of the report in the presentation of the goals. For example, the aspects "environmental concerns" and "employee concerns" are often dealt with and presented in more detail than the other aspects. However, an improvement in the quality of the report and the level of detail in the content can also be observed over time between 2017 and 2019 (Accounting Standards Committee of Germany, 2021).

4. RESULTS

The studies examined show that companies still have some work ahead of them to achieve CSRD conformity, because currently, for example, only about 10% of the companies listed on the DAX meet the requirements of the Corporate Sustainability Reporting Directive. Currently, the reporting landscape in the area of corporate social responsibility is very heterogeneous, which makes it almost impossible to compare reports. However, there is also clear potential to develop in the right direction, namely towards the CSRD. However, this does not change the fact that most companies still have a long way to go and a sometimes very time-consuming conversion process ahead of them. What is positive, however, is that they are already working step by step to improve their reporting by improving the quality and making adjustments in the direction of CSRD conformity.

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