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Sustainability Reporting: Summary Analysis of Sustainability Reports of Slovenian Public Interest Organisations

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Abstract

In the era of heightened global emphasis on sustainability, our study explores the sustainability reporting practices of Slovenian public-interest entities (PIEs) for the financial year 2021. Analysing annual reports of 166 companies, we emphasised organisations required to disclose sustainability due to public interest and an employee count exceeding 500. Data sourced from AJPES illuminates reporting practices across varied sizes, industries, and compliance levels. While 34 companies met mandatory reporting criteria, our findings reveal voluntary engagement in partial sustainability reporting by other entities. Recognising the role of banks and insurance entities in sustainable development, our sample extended to all public-interest entities. Examining non-financial statements, our objective was to determine company reporting comparability and analyse the facilitation of stakeholder sustainability assessments. Results from 166 companies show 89,2 % as large and 9,6 % as medium-sized, with sustainability reporting in 53 % of annual reports. This research details findings, emphasising systematics in disclosures, advocating ESRS compliance, and providing insights for academia and practitioners in Slovenian public interest entities' sustainability reporting.

Keywords: sustainability reporting, public-interest entities, corporate transparency, stakeholder engagement, European financial sustainability reporting standards, Slovenian companies

INTRODUCTION

The dynamic landscape of modern global business has made integrating environmental, social, and governance responsibility for economic success imperative. Sustainability reporting is an essential tool by which organisations convey their commitment to sustainable operations. We examined the complex sustainability reporting procedures Slovenian public-interest entities (PIEs) used in the financial year 2021.

Our study analysed annual reports from 166 public-interest institutions sourced as secondary data from the public consultation portal AJPES. In 2021, public interest organisations employing more than 500 employees had to submit sustainability reports according to new EU regulations. On the other hand, our data points to a wider voluntary engagement in sustainability reporting, which should spur a more thorough investigation of reporting procedures in different corporate sectors.

Our primary focus was to determine if non-financial statements, or sustainability reports, are included in firms' management reports due to the sustainability reporting obligation. The primary objective of the analysis was to examine the comparability of organisational reporting and comprehend how the revealed information aids external stakeholders in evaluating sustainability initiatives.

As we proceed through the following sections, our analysis highlighted the extent and prevalence of sustainability reporting in public-interest entities and the nuances of these entities' approaches to stakeholder considerations, business model and strategy disclosures, and plans that align with sustainability goals. Topics, including due diligence procedures, disclosures regarding intangible assets, diversity disclosures on business boards, regulatory compliance, and the role of boards and management in sustainability problems, are all included in the investigation.

SUSTAINABILITY REPORTS ANALYSIS

The annual reports of 166 Slovenian public interest organisations for the financial year 2021 were analysed based on secondary data. The data were obtained on the public consultation portal AJPES.

In 2021, public-interest entities with an average number of employees higher than 500 at the balance sheet date at the end of 2021 were required to report sustainable matters. In 2021, 34 companies were legally responsible for sustainability reporting. We found that many companies which do not have 500 employees and are public-interest entities partially report on sustainable issues. In the course of the research, we decided to extend the sample to all companies that are public-interest entities, such as banks and insurance companies, which do not have more than 500 employees but comply with the directive (European Commission, 2013, 2014) and have an important connection in sustainable development. Companies that do business with companies committed to sustainability reporting also report on sustainability development by requiring sustainability reporting progress reports.

Research subject

The research investigated the presence of a non-financial statement in the management report of companies required to report on sustainability (sustainability report). We reviewed if important details about environmental, social, and governance issues are included in the statement (ESG aspects).

The survey aimed to determine whether corporate reporting is comparable and whether the content presented facilitates the sustainability assessment of external stakeholders.

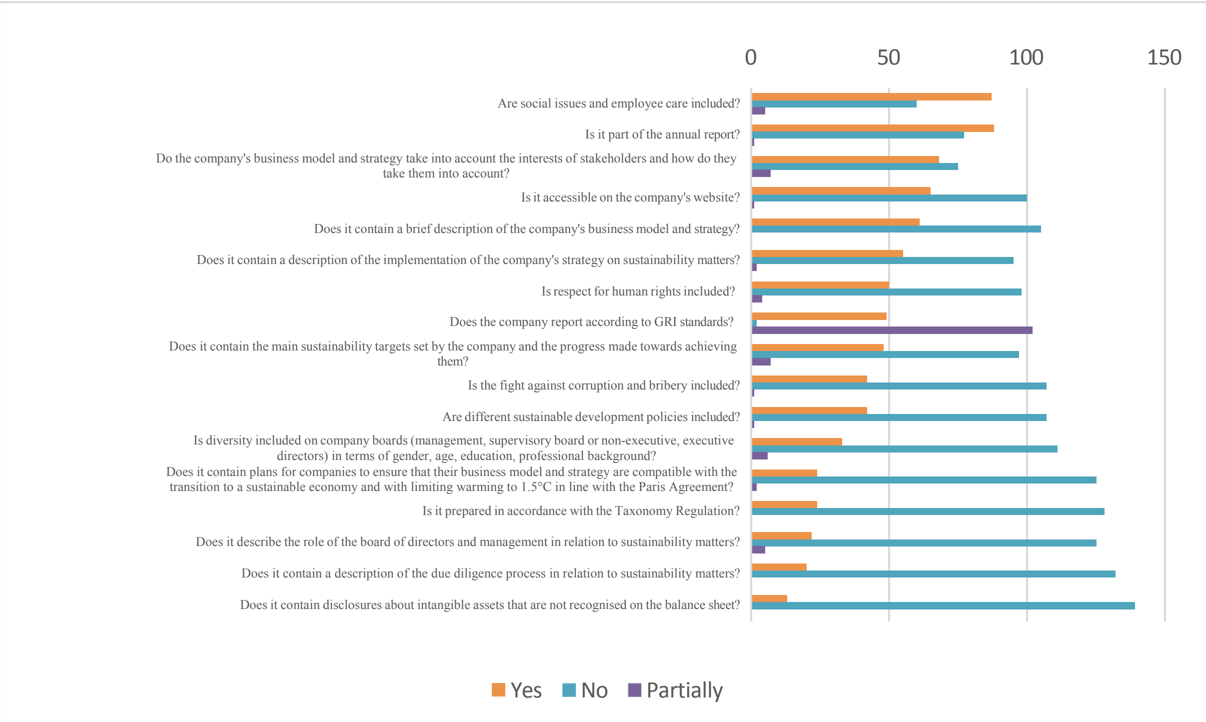
In our sustainability reporting analysis, we used 17 research questions and added sub-questions to determine how public-interest entities report sustainability reporting.

Presentation of results

We analysed 166 Slovenian companies of public interest, 89,2 % of which are large companies and 9,6 % are medium-sized companies.

The companies were classified according to activities or industries, where we find that 10,2 % of companies are in the water collection, treatment and distribution industry, in industry other monetary intermediation there is 8,4 % of companies, and 5,4 % are from hazardous waste collection and disposal, holding activities and insurance industry. In 2021, the analysis of PIEs showed that the companies belonged to a wide range of industries, covering as many as 68 different industries.

Figure 1: Analysis of sustainability reporting issues



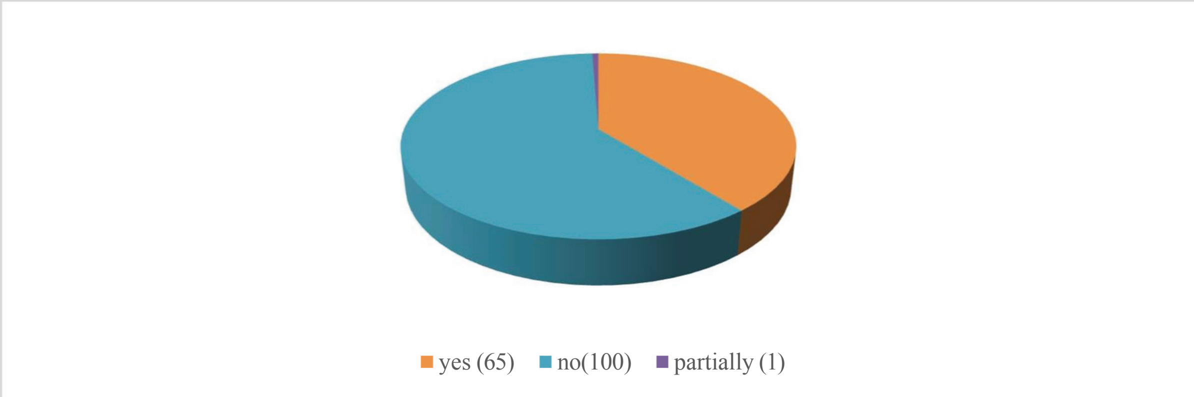
Source: own illustration

Figure 1 shows that sustainability reporting is, to a greater extent (88 companies, representing 53 %), part of the annual reports.

Below we present the analysis of different research issues that formed the research's basis. We only showed those questions that had the most yes or no answers.

The first question was about the availability of sustainable reports online or on the internet site.

Figure 2: Making sustainability reports available online



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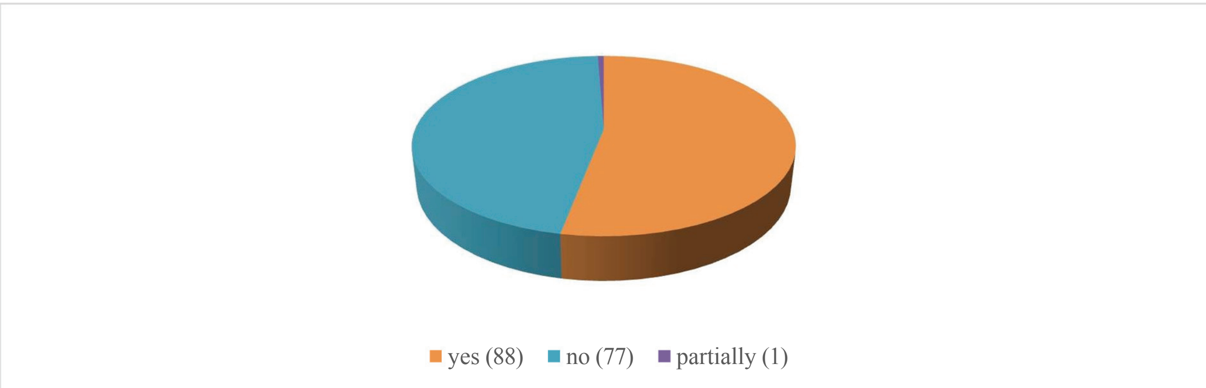
We concluded that more companies are reporting on sustainability than requested, as 34 companies were committed to sustainability reporting in 2021, and 65 companies reported sustainability.

As many as 100 companies do not have a separate sustainability report, and they incorporate the sustainability report into the annual report. 25 % of companies report sustainability matters, and 20 % include these contents in the annual report. Another 55 % do not report sustainable content.

In figure 3, we present an analysis of those companies that report on sustainable business. The reporting analysis showed that some companies that are not yet obliged to report on sustainability components also reported these matters in their annual reports.

Figure 3: Sustainability report as part of the annual report



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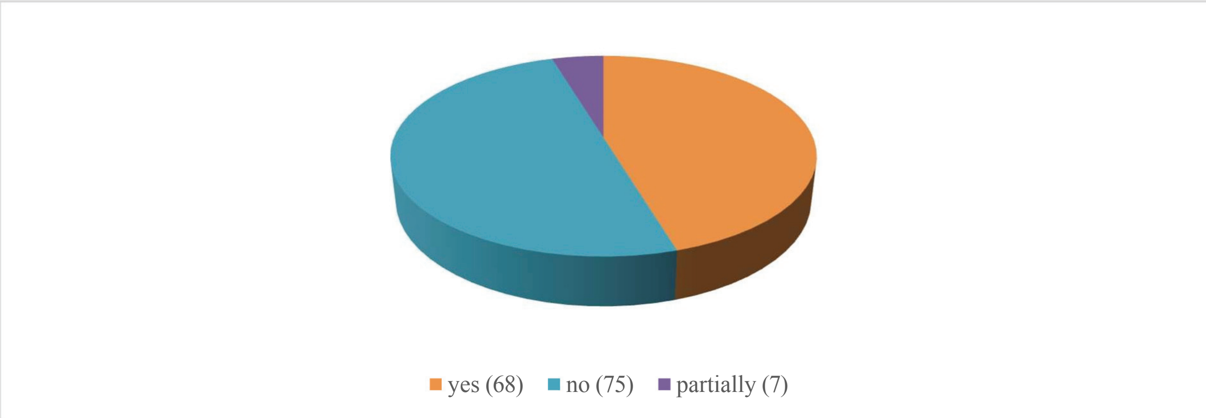
Of the 166 companies, 88 (53 %) have included sustainability content in their annual report, and 77 companies (46 %) do not report sustainability content in their annual reports.

We were interested in what separate sustainability reporting means for all 77 companies where sustainability content is not an element of the annual report. We found that sustainability or non-financial reports are published or presented under very different names. Detailed contents can be found in the analysis published by Kamenšek and Gornjak (2022).

Furthermore, we wanted to know whether the sustainability report briefly describes the company's business model and strategy. We found that 68 companies (45 %) reported their business model and strategy. Not all the described models of the analysed companies generally presented how they would measure progress or their goal in achieving the model, specifically in the indicators or KPIs.

Another question relates to the company's business model and strategy regarding considering stakeholders' interests.

Figure 4: Taking into account the interests of stakeholders



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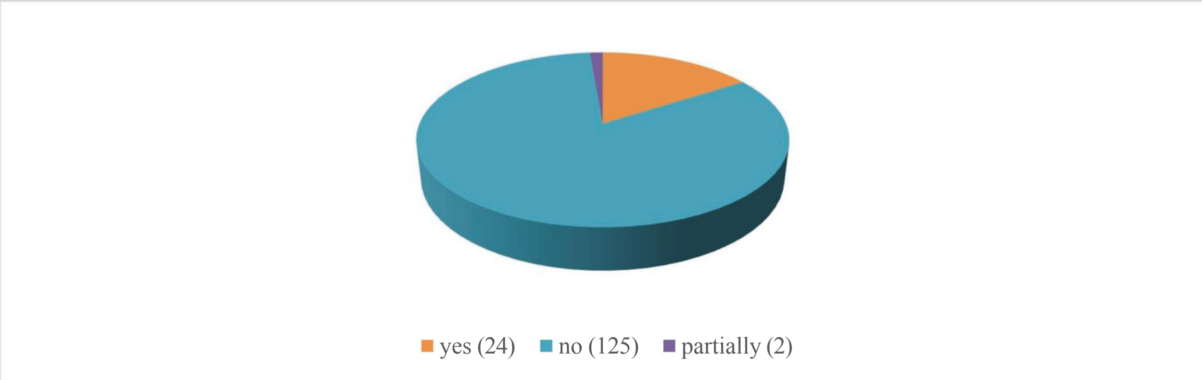
In the sustainability reporting, 68 companies (45 %) consider stakeholders' interests in their sustainability reporting in their business model and strategy. As external stakeholders, companies in the business process understand suppliers, customers and other partners who in any way participate in the company's business process.

We note that there is room for improvement in sustainability reports, particularly concerning increasing the systematics of disclosures and, of course, in future, compliant reporting with the adopted European Financial Sustainability Reporting Standards (ESRS) (European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, 2023). These topics are discussed in the ESRS S1 (own labour force), ESRS S2 (Workers in the value chain), ESRS S3 (Affected communities) and ESRS S4 (Consumers and end users).

Another important question we have been investigating is if the report contains plans for companies to ensure that their business model and strategy are compatible with the transition to a sustainable economy and with limiting warming to 1.5°C in line with the Paris Agreement.

Figure 5: Heating limit to 1.5°C in line with the Paris Agreement



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The 24 reports showed companies' plans to ensure that their business model and strategy are compatible with the transition to a sustainable economy and to limit warming to 1,5°C in line with the Paris Agreement.

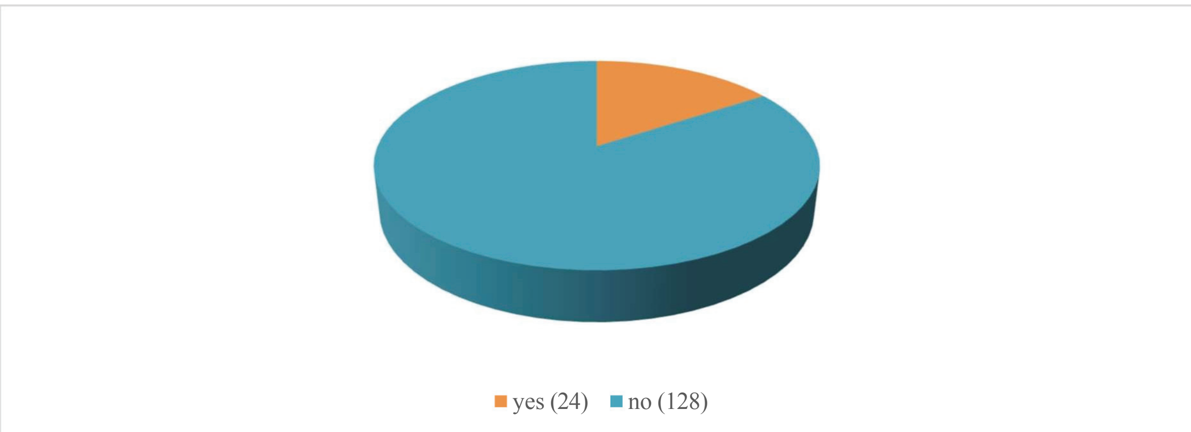
The most concrete records found about the business model and strategy compatible with the transition to a sustainable economy and limiting warming to 1.5°C under the Paris Agreement are as follows:

- By introducing various forms of sustainable mobility, they reduced their carbon footprint by 20 % in 2021 compared to 2020.
- A new distribution centre, an advanced measuring system, additional training, system renovation, construction of electric charging stations and replacement with electric cars are planned (expectations are missing regarding how these investments will contribute to achieving this goal and by when).

Otherwise, more general descriptions suggest that societies will strive in this direction without concrete, measurable goals.

The next research question we examined concerns preparing a company's sustainability report under the taxonomy regulation, where companies mostly do not report or are compliant with the taxonomy.

Figure 6: Compliance with the Taxonomy Regulation



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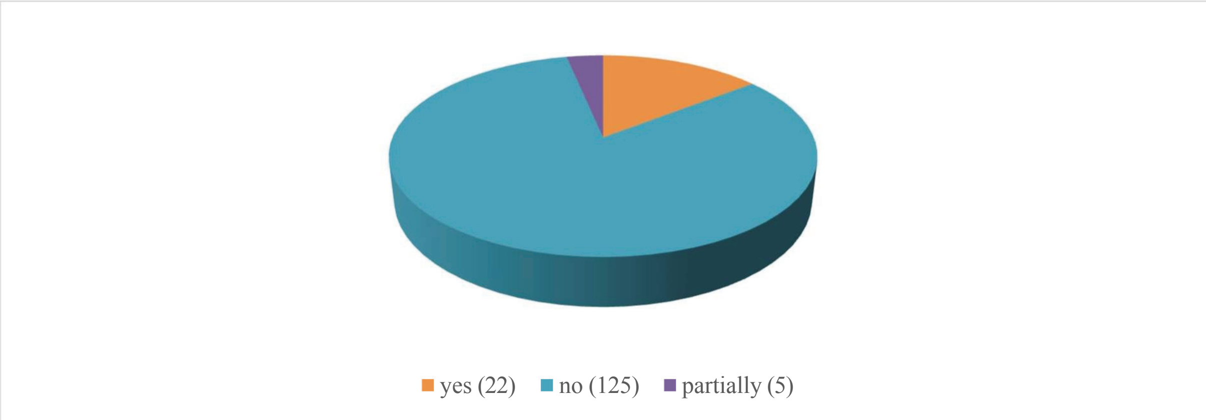
Taxonomy Regulation (Official Journal of the European Union, 2020) for sustainable activities, a European framework that defines common technical characteristics, criteria and labels for activities contributing to environmental sustainability. Sustainability goals include climate change adaptation, climate change mitigation, sustainable water use and protection, sustainable resource management, biodiversity conservation and restoration, and sustainable use and protection of the sea. Companies and financial institutions wishing to benefit from the taxonomy must assess whether their activities meet these sustainability objectives and make this information publicly available. This contributes to greater transparency and promotes sustainable investment. Only 24 companies have shown taxonomy in their reports.

The following research question concerns the role of the board of directors and management in sustainability matters.

Figure 7: The role of the board of directors and management concerning sustainability.



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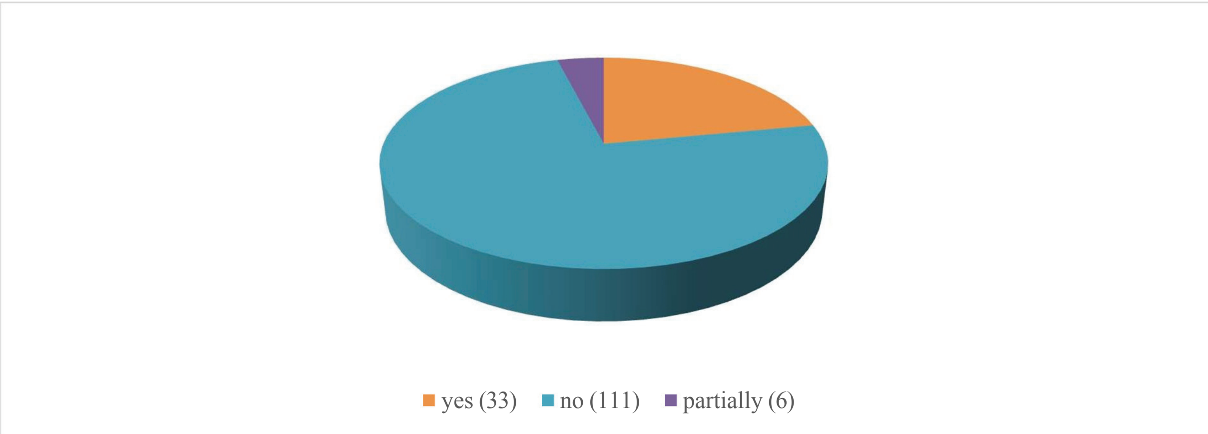
In the sustainability reporting, 22 companies described the role of the board of directors and management concerning sustainability matters. This result means that not even all companies committed to sustainability reporting in 2021 reported on this topic.

The next research question we analysed concerns diversity in company boards (management, supervisory board or non-executive, executive directors) about gender, age, education, and professional background.

Figure 8: Diversity disclosures on company boards



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Thirty-three companies reported including diversity on company boards by gender, age, education, and professional background. Diversity policy is presented very differently in the reports. Some companies report adopting a diversity policy detailing how they provide diversity. Furthermore, the reports mostly summarise concrete figures, mainly gender-specific. Sometimes, with a one-person board, they report that diversity cannot be guaranteed.

Only 20 companies described the due diligence process carried out for sustainability. On this issue, too, fewer companies reported than were obliged to report obligations. The disclosures show that companies understand the due diligence process in their way. This is also partly understandable, as they come from various activities.

The following research question concerned disclosures about intangible assets not recognised in the balance sheet. We found this disclosure in any reports on a sample of companies. This disclosure is assumed to be lacking mainly due to the association of this item with intangible long-term assets under Slovenian accounting standard 2, which is very strict about recognition. Some intangible assets may not be recognised on the balance sheet, for example:

- research costs incurred in the organisation,
- own goodwill,
- own developed brand,
- specific knowledge of employees.

However, these forms of intangible long-term assets can be crucial for a company's business in the sustainability field and will have to be disclosed by companies in the future.

We presented only the most important topics addressed in sustainability or annual reports in 166 public interest entities in Slovenia in 2021.

CONCLUSION

As mentioned in the introduction, the purpose of the study was to ascertain whether company reporting is comparable and whether the disclosures made may be used to evaluate sustainable business practices.

We discovered that businesses vary widely in their sustainability reporting. The more detailed research also showed other differences in sustainability reporting (Kamenšek & Gornjak, 2022).

The uniformity and visibility of sustainability reporting will be guaranteed by the European Standards on Permanent Reporting (ESRS). The first set of ESRS, adopted on 31 July 2023, addresses thematic requirements in addition to general data and disclosures. That will become operative on 1 January 2024. Therefore, companies committed to reporting sustainability will submit their first reports in 2024 or the first half of 2025, following the ESRS standards. Sustainability reports will be produced by businesses that are not compelled to disclose since buyers anticipate sustainability reports from corporations and advancements in sustainable development concerning due diligence in the value chain.

Even if the first reporting is not scheduled until early 2025, there is still some time for organisations to start planning for the systematic disclosures required by the new ESRS standards as soon as feasible in order to supply the information they are required to disclose and report.

By 2030, we could expect most EU-based and non-EU-based companies operating in the EU market to provide sustainability reports that showcase developments in ESG and other sustainable content.

We intended to give readers a comprehensive understanding of the sustainability reporting policies of Slovenian public interest groups. Our goal is to increase awareness of corporate sustainability and maybe impact future legislative and commercial decisions by contributing to the larger dialogue on the subject.

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