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STAKEHOLDER PERCEPTIONS OF NON-FINANCIAL REPORTING

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Contents

Executive summary 5
Stakeholder perceptions of non-financial reporting 5
Company perceptions of non-financial reporting 7
Conclusions 8
Introduction 10
Methodology 11
In-depth interviews with stakeholders 11
Survey of companies 12
Methodological considerations 13
Stakeholder perspectives on non-financial reporting 14
Introduction 14
Awareness, perceptions and understanding of the regulations 14
Usage of the reports 15
Content of the strategic reports 17
Materiality 17
Inconsistency and lack of comparability 19
Quality and completeness 20
Impact of the regulations 21
The evolution of non-financial reporting 21
Views on investor perspectives on the impact of non-financial reporting 22
Views on investor behaviours 24
Impact of non-financial reporting on business 24
Compliance with the regulations 26
Responsibility for monitoring and enforcing compliance 27
Levels of compliance and accountability 28
Assurance of non-financial reporting 28
Guidance and support 29
The future of reporting 31
Summary 32
Company perceptions of non-financial reporting regulations 34
Profile of participating companies 34
Costs of compliance 36
Implementation of non-financial reporting 38
Use of non-financial information 40

Impact of the regulations 41
Summary 45
Conclusions 46

Executive summary

Companies' annual reports include their accounts and, since 2013, a narrative report on the organisation's performance during the financial year. The non-financial reporting section of these reports includes: a fair review of the company's business and the principal risks and uncertainties it faces; the company's corporate governance (e.g. diversity on boards); their environmental behaviours; and corporate social responsibility. Additional duties were placed on large Public Interest Entities as defined by the Companies Act 2006[1] in 2016, following the transposition of the EU Non-financial Reporting Directive.

Many of the new requirements in 2016 were already in UK legislation for UK quoted companies when the Directive was adopted, except that they were not required to disclose information on anti-bribery and corruption policies and diversity policies. Also, where information was not provided on a specified non-financial matter, UK legislation only required companies to state that it had not been provided: under the Directive they are required to provide a reasoned explanation.

As part of the Post Implementation Review of the respective regulations, BEIS commissioned PwC, in Autumn 2018, to undertake research with businesses and wider stakeholders to explore the impact of the regulations on them. This report presents the findings from both phases of this research.

Stakeholder perceptions of non-financial reporting

While the stakeholder base for the qualitative research was very varied, and there are limits to which the findings can be generalised, there are a number of consistent themes emerging from the depth interviews. There was a general agreement that corporate reporting has improved since the introduction of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Not all stakeholders could recall whether there was widespread reporting of non-financial information prior to 2013, but there was a sense that this was only undertaken by a minority of committed companies in the FTSE 100. There was also a consensus that non-financial reporting is becoming and will be increasingly important in the future as investors become more engaged with non-financial risks. While there was a view that the corporate reporting and governance regime in the UK is strong, some respondents suggested that companies might struggle to keep up with the pace of regulatory change.

While many respondents in the qualitative research welcomed the emergence of non-financial reporting as a way of focusing a company's attention on their strategic purpose, there was a strong view that the quality of reporting varies greatly between companies. It was also thought that for many businesses, the provision of this information is merely an exercise in compliance rather than a meaningful assessment of the risks to their organisation.

Nearly all stakeholders could not distinguish between the impacts of the 2013 regulations and the non-financial reporting regulations introduced following the 2016 EU Directive. A

[1] A traded company – s474(1)
A banking company – s1164(2) and (3)
An authorised insurance company – s1165 (2), or
A company carrying on insurance market activity – s1165(7)

substantial proportion of respondents (around one in three) noted that non-financial reporting is constantly evolving and that further integration between new initiatives and requirements such as the Sustainable Development Goals and the recommendations of the Taskforce on Climate-related Financial Disclosures should occur.

Views differed however on the usefulness of the reports and the extent to which companies should have complete autonomy to decide the content of the reports. On one hand, it was thought that one of the key benefits of the 2013 regulations was that it focussed attention on the strategic purpose of the business at board level and enabled it to tell its “story”. On the other hand, however, a lack of common metrics makes it difficult for investors to compare across reports. Indeed, there was also a recognition that it is difficult to quantify many of the impacts reported.

Materiality was also a key concern for respondents, particularly in terms of how significant and specific the risks identified are, and in relation to their potential impact. Some respondents (who commented from an investor perspective) suggested that any investor frustrations with the reports and the value they are able to derive from them tend to centre on the length of the reports produced as well as the sometimes vague and wordy nature of the information contained within them. Linked to the materiality point are concerns about the length of some companies’ annual reports, with some documents about 500 pages long, and the vagueness of some reports’ content, which one respondent described as “verbiage”.

Over half of respondents mentioned the variations in reporting between companies and the consequent difficulties in comparing reports. Several mentions were made of the challenge in not only comparing organisations with one another but in monitoring and tracking year on year performance within individual organisations as approaches to non-financial reporting can vary significantly from one year to the next. This is due to a lack of a clear framework or defined metrics for reporting. However, other respondents thought it is important not to be too specific to allow companies to tell their story. There was a recognition, however, from some stakeholders that it is difficult to quantify some of the impacts. Clarity or greater guidance around some of the terminology was also suggested, and in particular around the use of “employees” and the PIE definition.

Questions were raised over the extent to which organisations give a fair and accurate reflection of both the positive and the negative with non-financial reporting. There were mixed opinions on the quality of the reports produced since the 2013 regulations and although many respondents agree with the rationale for the regulations, in some instances it was felt that the impact of mandatory reporting has been to reduce non-financial reporting to a compliance and ‘box ticking’ exercise for some companies. To this end, some businesses may seek only to comply with the regulations superficially appearing more akin to “marketing brochures” than a detailed account of strategy, risks and opportunities. While most stakeholders found it difficult to identify specific information that is not currently reported but should be (which is understandable, given the variation in reports), some did suggest that more clarity around the impacts of climate change, supply chains and the workforce would be useful.

Overall, respondents thought that the benefits of the regulations would be more apparent over time, but welcomed the increased transparency. There was a sense that investors are beginning to engage more around specific issues such as diversity and climate change and that this would only increase. Several cited the example of Larry Fink of BlackRock who sent a letter in January 2019 to all the CEOs of companies in which he invests to outline his commitment to only invest in sustainable companies. They also thought non-financial reporting could help business and investor decision-making through the articulation of the company strategy. Other potential benefits included cheaper long-term finance as investors become

more confident about how companies are responding to risks, workforce recruitment and retention and a focus on reputation and brand.

There were mixed views amongst stakeholders about the costs of compliance on companies with some suggesting the information should be collected by companies anyway as part of their day-to-day operations and others stating that the costs are likely to be substantial, with one business organisation stating that this was particularly the case for smaller companies that just fall over the threshold. There were also mixed views on whether non-financial information should be audited or not, with some stating that assurance would give investors and others more confidence and others suggesting that it would lead to more boiler-plate report templates.

There was a general consensus that the regulations were not enforced and a lack of awareness of any penalties incurred for non-compliance by companies on the part of all respondents. Several respondents stated that the FRC may well not have the mandate and/or the resources to enforce compliance.

Nearly all stakeholders were positive about the Guidance published by the FRC. They were keen however to see good practice examples and to have some alignment with other reporting frameworks such as the SDGs and the TCFD recommendations.

Finally, several stakeholders noted the need for companies to truly embrace technology to engage with investors and wider stakeholders by producing digital reports or using technology to engage with wider audiences at AGMs.

Company perceptions of non-financial reporting

In total, 129 respondents completed the company survey. Nearly four in ten (39%) stated that they worked in companies with revenues of over £1 billion and a third work in multinational companies. It appears that companies do not routinely measure the costs of complying with the legislation and it is difficult to attribute a value to this, particularly given the broad reporting headlines and the freedom that businesses have to choose what they wish to publish. Costs will also be driven by a range of factors including the size of the business, the sector in which it operates, the use of external advisors, and the extent to which it published non-financial information prior to 2013. The length of time elapsed since the 2013 regulations and the limited changes introduced by the 2016 regulations are also likely to have had an impact on respondents' recollection of costs.

The regulations do seem to have had a positive impact however, given that only four in ten companies reported publishing non-financial information prior to their introduction. Just over half (51%) reported on their treatment of employees and 43% reported on their social responsibility.

Understanding the regulatory requirements is a key cost to a third of companies (33%) as is data collection (29%) in the first year of compliance.

The 2016 regulations do not appear to have been a major burden to companies with several respondents saying that they already collected this information. This finding is also in line with the stakeholder view that these regulations were evolutionary rather than revolutionary.

In relation to non-financial reporting overall, 38% of company respondents stated that the regulations were easy to implement and a further 29% had no strong opinion. Publicly listed companies were more likely to say that it was easy than private companies (49% versus 25%).

A substantial minority of respondents reported that their organisation used the data internally in their organisation, mainly to manage risk (47%) and set strategy (44%). Just under a fifth suggest that their organisation does not use the information.

Overall, company respondents' views on the impacts and benefits of the regulations were mixed. Some seemed to embrace the regulations while others viewed non-financial reporting as just another administrative burden with which they had to comply. This variation in practice was also apparent in PwC's review of 30 early reports in 2017[2], where it was evident that, in the majority of cases, there was no specific mention of the non-financial reporting regulations and little discussion of impacts.

However, a majority do see benefits to their organisation overall, with six in ten (60%) stating that the regulations have benefited their company and two thirds of respondents in publicly listed companies suggesting that non-financial reporting has made their company more attractive to investors. Respondents from larger companies (those with more than 500 employees) were more likely to say the publication of non-financial information had benefited their company. Overall, publicly listed companies tended to be more positive about non-financial reporting than private companies.

There was also some ambiguity on the part of companies about the extent to which the information is used by different stakeholder groups. Between a fifth and a quarter did not believe that current and prospective investors, trading partners, civil society organisations, competitors, regulators and the general public use the reports.

A third of respondents did state that the requirement to collect non-financial information has changed the way their organisation operates and a further fifth could identify other impacts. Again, this is more likely to be the case of publicly listed companies than private companies: 42% of publicly listed companies stated that the requirement had changed the way their company operates compared to 27% of private companies. Similarly, respondents from larger companies were more likely to say this (38% compared to 19% of respondents from smaller companies).

Some respondents viewed compliance with the legislation as an administrative burden, while others viewed the impacts more positively in terms of organisational proactivity, employee engagement, and a greater focus on diversity

Conclusions

All the stakeholders we spoke to in the course of this research were in favour of non-financial reporting, as were many of the businesses that responded to our survey. Both groups found it difficult to comment on the specific impacts of the 2013 and 2016 regulations, given that the former were quite high level, and the latter was reflected in only one cycle of reporting but stakeholders agreed that non-financial reporting had improved since 2013. In general, stakeholders were very positive about the strength of the corporate governance regime in the UK.

There was a general consensus amongst stakeholders that the importance of non-financial reporting would only increase as influential investors such as Larry Fink really push for greater transparency, the focus on the SDGs increases and the recommendations of the TCFD

[2] Responding to the Non-financial Reporting Regulations (PwC, 2018)

become embedded. Several stakeholders also identified a growing interest from wider society (including employees and future employees) in non-financial reporting. A recurring theme was also that non-financial information is a slight misnomer as all information relating to a company has a financial impact, with several citing recent environmental scandals that have impacted company share prices quite severely.

Introduction

Companies' annual reports include their accounts and a narrative report on the organisation's performance during the financial year. The non-financial reporting section of these reports includes: a fair review of the company's business and the principal risks and uncertainties it faces; the company's corporate governance (e.g. diversity on boards); their environmental behaviours; and corporate social responsibility.

The legislative framework for annual reporting has evolved since the introduction of the Companies Act in 2006. In 2013, the UK introduced the requirement for all companies, except those subject to the small companies exemption, to produce focused strategic reports. This introduced additional simplified requirements, as set out in section 414(c) of the Companies Act 2006, and was implemented by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Quoted companies, that have listed equity on an EU regulated exchange, are required to disclose human rights issues, within their strategic reports, and greenhouse gas emissions, within their directors' report.

In 2016, the EU Non-Financial Reporting Directive was introduced which requires all large (those with greater than 500 employees) public interest entities (quoted companies, banks, insurance companies) to disclose information on environmental, social and community matters to the extent necessary for an understanding of the company's development, performance and position, and the impact of their activities. These requirements applied to financial years beginning on or after 1 January 2017. Many of the requirements were already in UK legislation for UK quoted companies when the Directive was adopted, except that quoted companies were not required to disclose information on anti-bribery and corruption policies and diversity policies. Also, where information was not provided on a specified non-financial matter, UK legislation only required companies to state that it had not been provided: under the Directive they are required to provide a reasoned explanation.

The Department for Business, Energy and Industrial Strategy (BEIS) is the UK Government Department responsible for the legislation. In 2018, BEIS initiated a Post-Implementation Review to assess the impact of the Regulations, and in particular, whether:

- The regulation is meeting its objectives
- The objectives and rationale are still relevant
- Regulation is still the best option for achieving those objectives
- The regulation can be improved to reduce the burden on business and/or society

As part of this Review, BEIS commissioned PwC to undertake research with businesses and wider stakeholders to explore the impact of the regulations on them. This document presents the findings from the research. It is structured as follows:

- Executive summary
- Introduction
- Methodology
- Stakeholder perspectives on non-financial reporting
- Company perspectives on non-financial reporting
- Conclusions.

Methodology

This section of the report presents our methodology for the research. The study is based on qualitative interviews with stakeholder organisations and a survey of companies that are subject to the 2013 regulations (and a subset of interviews with companies (PIEs)) that must comply with the 2016 interviews. Each strand of the research is considered in turn below.

In-depth interviews with stakeholders

We undertook 30 face-to-face or telephone interviews with a range of stakeholders (including a range of investor, not-for-profit organisations and professional bodies) to explore whether the objectives of the regulations have been met and to gather their views on the impact of non-financial reporting. The topic guide was structured around the logic model developed by BEIS for the Post Implementation Review:

- **Context**: Prior to the regulation businesses and investors did not take into account non-financial reporting information in their business and investment decisions, potentially leading to worse decisions from the point of view of society.
- **Input**: The regulation requires companies and investors to consider and account for any non-financial externalities they impose on society, and to factor these into their future decision-making.
- **Output**: Companies report non-financial information.
- **Outcomes**: Companies and investors more frequently consider the wider implications of their decisions; some decisions are changed, in scope, timing or scale, as a result of this consideration.
- **Impacts**: investment and business decisions that lead to better social outcomes.

Interviews were conducted in late 2018 and early 2019. All attributed quotes have been reviewed by participants and their permission has been obtained for publication. The list of respondents, by type, is provided in the table opposite.

Type of stakeholder	Organisation
Professional bodies	• Association of Accounting Technicians • Association of Chartered Certified Accountants • Chartered Institute of Management Accountants • Institute of Chartered Accountants of Scotland • Institute of Chartered Accountants in England and Wales
Not-for-profit organisations	• Carbon Disclosure Project • Client Earth • Climate Disclosures Standards Board • CORE Coalition • Institute of Business Ethics • Maturity Institute
Investor association	• Investment Association • Investor Relations Society • UK Shareholders' Association
Trade Union	• Trades Union Congress
Business organisations	• Company Matters, part of the Link Group • Quoted Companies Alliance • Financial services representative body
Reporting standards organisations	• Global Reporting Initiative • International Integrated Reporting Council
Sustainable Development organisation	• Cynnal Cymru • Social Value Portal • Social Value UK
Corporate Sustainability organisation	• International Corporate Governance Network • Network UK • Institute of Corporate Responsibility and Sustainability
Sustainable investment organisation	• Principles for Responsible Investment • Share Action • UK Sustainable Investment and Finance Association • Big Innovation Centre

Survey of companies

Working in collaboration with BEIS, we designed a questionnaire to gather company views on both sets of regulations, issues, if any, around implementation, and impacts on their business. The sample was provided by BEIS from the FAME database. There were some challenges with the sample as there were no individual contact names and the telephone numbers available were generic rather than specific to one person. The questionnaire was piloted with a small sample of companies prior to full launch. No real problems in relation to length, clarity or content were identified by our pilot respondents. This survey initially began as a telephone survey but was converted into an online survey to maximise response (please see methodological considerations below). The survey was conducted from November 2018 to February 2019.

Methodological considerations

There were a number of methodological challenges encountered in the qualitative research. Firstly, due to the nature of the regulations covered by this study, the stakeholder base is very wide (as can be seen from the table above) and opinion as a result diverse. Secondly, depending on their level of involvement with non-financial reporting, stakeholders had varying levels of ability to distinguish between the impacts of the 2013 regulations and the 2016 Directive. Linked to this, some of the stakeholders were not in their current role when the regulations were introduced so were unable to comment on the situation pre- and post- 2013. Finally, as many stakeholders noted, there has only been one reporting cycle since the transposition of the 2016 EU Directive into UK regulations, making it more difficult to assess the impact.
There were also a number of methodological challenges on the quantitative side, particularly around engaging companies to participate. This had been anticipated at the outset given that the regulations do not specify exact reporting requirements or indicators and that the intention is to let companies “tell their story” and that compliance is not monitored. Further, it is difficult to identify a single “job title” within an organisation for contact. It has also been over five years since the introduction of the 2013 regulations, which is likely to impact on businesses’ ability to recall the impacts. There was also some anecdotal evidence from the stakeholder interviews that non-financial reporting is more important to some companies than others. Indeed, some business representative organisations did not respond to requests to participate in this research, which may be indicative of the current level of interest by business in this topic.

Further, for PIEs, the 2016 changes were relatively minimal in comparison with their obligations under the 2013 interviews. External developments such as the introduction of GDPR and the uncertainty around the UK leaving the EU may also have impacted the fieldwork.

We therefore employed a number of means to encourage response, including: matching the sample with internal databases to help identify named contacts; moving the survey online; offering a donation to charity for each complete survey; and engaging with an online panel provider to target respondents with specific job titles. These included senior staff in the finance, legal, compliance and sustainability functions. Overall, responses from 129 businesses were obtained.

The methodological limitations for the quantitative component of the study inevitably impede the reliability and generalisability of the findings. They should be taken, therefore, as indicative assessments of business views on the non-financial reporting regime, rather than representative of all views.

Stakeholder perspectives on non-financial reporting

Introduction

This section of our report presents the findings from the qualitative phase of this research. It is based on 30 stakeholder interviews with investor representatives and professional bodies, environment groups, unions, and corporate reporting initiatives. It is structured as follows:

- Awareness, perceptions and understanding of the regulations
- Usage of the reports
- Content of the reports
- Impact of the regulations
- Compliance with the regulations
- Guidance and support
- The future of reporting

Awareness, perceptions and understanding of the regulations

While almost all stakeholders were aware of both the 2013 UK regulations and the 2016 EU Directive (a minority were unaware of the latter) and were positive about their introduction, there was a commonly held view that 2016 regulations have had a lesser impact in comparison and that the extent of their impact is yet to be fully realised. There was also a perception that the transposition of the 2016 EU Directive was more evolutionary than revolutionary. This in turn presents another challenge in isolating and assessing their impact accurately.

"We are aware of the regulations and understand the requirements, but they still seem relatively new. Some of our clients have only just fallen into scope this year, but also the regulations' nuances and their interaction with the previous requirements have not been easy to follow." Company Matters, part of Link Group

"There's only been one cycle of reporting under this Directive so it's quite early to say whether there's been much impact from that so far." Institute of Chartered Accountants of Scotland

"The bigger change came with the move to strategic reporting rather than the Non-Financial Reporting Directive. The Directive complements that and takes it a tiny bit further but probably wasn't as revolutionary as the move from the old regime to the strategic report." Investment Association

"I think it's quite early and, on top of that, as companies are quite likely with the new Non-Financial Reporting Directive requirements in place and other pressures to report more like on climate change and so on, we're very likely to see over the next year or two from companies at least taking the opportunity to re-evaluate the relevance and quality of their non-financial reporting." Institute of Chartered Accountants in England and Wales

There was, however, widespread appreciation of the regulations and the strength of the corporate governance regime more generally within the UK, and the intent behind the non-financial regulations was welcomed:

"A business can't, and shouldn't, solely focus on finance and money-making right at the top. You've got to balance how it makes its financial decisions looking at the broader social, environmental impact and non-direct economic impact it's having. It's got to think carefully about the stakeholders, and I think that this issue is central of the whole discussion we are having at the moment around capitalism and trust". Social Value Portal

Some however thought that the non-financial reporting regulations, alongside newer initiatives such as the SDGs and the TCFD, have led to perceptions of an 'ever changing regulatory landscape', making it hard for business to keep up to date with the developments, differences and specific compliance requirements that they face.

Many took the view that while, the legislation is, in essence, of value (or at least of potential value), there is a degree of complexity associated with non-financial reporting regulations and that companies complied with them in an inconsistent way. In particular, as discussed in more depth later in this section, there was a sense in some quarters that businesses need more specific guidance on the regulations and that this perceived lack of guidance results in significant levels of variance in the quality and depth of non-financial reporting, as well as the perceived value that stakeholders place upon it.

"I would say that what's going in these regulations is actually probably slightly contradicting what we're hearing from the investment community in that they want to see things that are shorter, sharper, more concise, and this is another layer of complexity and similar, but slightly different, information. So we're struggling a little bit with what we do with things like this, because we are trying very much to streamline our reporting as much as you can but I think the subject matter isn't contradictory, the level of information and the breadth of it certainly is. None of it is very clear, neither is the guidance." Institute for Corporate Responsibility and Sustainability

Stakeholders spoke of a lack of clarity and understanding surrounding the organisations that are or are not required to comply with non-financial reporting regulations as well as of the specific content that is or is not expected to be included. Six respondents specifically mentioned the need for clearer definitions unprompted.

"We often find ourselves having to bridge the gap between disclosure requirements or guidance for people within the company that have the relevant information but aren't necessarily that familiar with the detail of what should be included in the annual report." Company Matters (part of the Link Group)

"…using different definitions, like the PIE definition which doesn't exactly tie up with the quoted company definition, it's been a bit confusing in terms of who has to follow exactly what requirements." Institute of Chartered Accountants of Scotland

Usage of the reports

Stakeholders recognised the increasing importance and relevance of non-financial reporting information but there were different views around the level of engagement and perceptions of value amongst some users of the information.

Most believed that while non-financial reporting has the potential to drive and influence, for example, investor or board level decision-making, there is a question over the extent to which this currently happens in practice. This current perceived lack of engagement amongst some investors was attributed to a number of factors including:

- (A lack of) materiality
- A lack of trust in the rigour and/or accuracy of non-financial content driven by a lack of assurance
- A lack of familiarity, knowledge or expertise in effectively analysing and using non-financial information
- A lack of a clear and cohesive correlation with financial reporting content
- The inconsistency and/or incomparability of non-financial content between companies and between years

"Reporting so far is very inconsistent. Feedback we hear from investors is that narrative information about climate change-related factors is very incomplete, inconsistent and difficult to compare. It makes it very difficult for investors to do robust analysis based on the information that's been disclosed." ClientEarth

However, there was widespread recognition that non-financial reporting has become more prevalent and is continuing to gain traction with investors and other stakeholders. This was illustrated by the breadth of audiences perceived to be engaging with content: not just investors but also employees and members of public and civil society who are increasingly taking a deeper interest in the moral and ethical behaviours of the organisations with whom they interact.

"We're definitely seeing a growing movement or a growing increase in the importance of that wider role of non-financial information. I think in part, in the UK that is being driven by some of the corporate failures, and also by the wider stakeholder demands for it. So, I think we have to recognise that, yes, the financial statements are produced for investors fundamentally at their core, but there are other stakeholders who are ultimately investors (e.g. pension policyholders) who are really interested in the corporate track record." Association of Chartered Certified Accountants

"I think non-financial reporting is quite a good predictor of financial performance so that's what the investors are really looking for - tomorrow's reasons for why they should invest in the company today." International Integrated Reporting Council

"I think for those of us who are interested in sustainability, it's a major benefit that you can see what a company is up to. Even if you are not concerned with environmental and social responsibility and are only concerned with financial performance, you could at least look and say, 'I can see in this companies report, there's either a lack of something or a flagging up of something that would actually make my investment unsafe, three years from now'. So, that's of a major benefit in my view." Cynnal Cymru

It was apparent that non-financial reporting content is being utilised in a number of ways: not only to inform and guide investment decisions but to assess organisations' ethical, moral and social standing and to make judgements on any reputational factors likely to impact upon an organisation's financial performance (and, in turn, its attractiveness for longer term investment). In summary, and as we have noted above, there was a general consensus that non-financial reporting is becoming increasingly important to investors and others since the introduction of the 2013 regulations, and will continue to be so. However, greater consistency

in terms of metrics would provide a more effective basis for company comparison, as we discuss in more detail below.

Content of the strategic reports

There was a general consensus that, due to the non-prescriptive nature of the regulations, the content of the reports varied greatly in terms of content and quality. When reflecting on the content currently included within non-financial reporting, stakeholders made a number of observations relating to:

- Materiality
- Inconsistency and lack of comparability
- Quality and completeness

Each of these issues is considered in more detail below.

Materiality

Overall, materiality was a key issue for many stakeholders, with over half mentioning it specifically and around a quarter being particularly negative about the issue. It appears that while investors are generally seeking out non-financial information, and the intentions behind non-financial reporting are welcomed, the reports do not always meet investor needs, thus limiting their usefulness. Some respondents (who commented from an investor perspective) suggested that any investor frustrations with the reports and the value they are able to derive from them tend to centre on the length of the reports produced as well as the sometimes vague and wordy nature of the information contained within them. Respondents voiced concerns over potential green-washing, with one providing the example of companies reporting on collecting rain water in the UK without commenting on the impacts of their supply chain on rainforests which was likely to be much more severe. One stakeholder commented for example:

"I can understand that it's being done with good intentions, but these things are so easily subverted they just become compliance boiler-plate." UK Shareholders' Association

Several respondents highlighted the different ways in which companies determine what is material and what is not, which in turn leads to a lack of comparability between company reports.

"Because there isn't a formal materiality test or risk identification process, I think things can easily get lost or misrepresented or the real issues are not the ones that are focussed on." Institute of Corporate Responsibility and Sustainability

"When materiality of non-financial information is determined in the context of an annual report, it's not usually done so using the same materiality principles as for financial information. There are various approaches to this. For example, many companies report that they use stakeholder groups, both internal and external, to set up a materiality matrix or various surveys that they've then used to prioritise issues." Climate Disclosure Standards Board

Some stakeholders commented on the sheer volume of non-financial reporting content, stating that sometimes there is too much information which makes the reports inaccessible to investors, who, as a consequence, find it difficult to quickly identify information which is of

relevance, interest and or material to their decision-making. All three investor associations that participated in this research thought that there was too much information in the reports.

One stakeholder noted that:

"You get into this thing where this has got to be included and that's got to be included and there is no rationale or purpose behind it - you lose the will to live." Investor Relations Society

Another cited an example of a company that, after reducing its annual report from around 450 pages to 80, noticed a marked increase in interest in and engagement with the report amongst its employees. One respondent likened 400 or 500 page reports to a novel and questioned who had time to read reports of this length.

"I haven't met an investor who reads an annual report from cover to cover. If you say, 'Do you read annual reports?' By and large, investors will say, 'No.' If you say, 'How do you read annual reports?' They will say, 'Well I look at the review ratio, I look at this, I look at that.' So, the people actually making decisions about buying and selling shares are not looking at annual reports." Quoted Companies Alliance

Many also commented on the inclusion of 'generic marketing and PR' type content that lacked substance, whilst key strategic risks are not addressed. There was a view that the length of reports could be driven, in some instances, by a desire to appease topical single-issue lobby groups.

"I think while the principle of the requirement is the right one, there is an issue around what most companies are reporting, which is fairly vague information. It's not particularly detailed and I think for the reporting requirement to be as effective as it could, there needs to be greater detail, there needs to be more guidance for business. We do see quite a lot of generic information." Core Coalition

"On climate change-related issues, increasingly some companies have started to provide better quality information, at least on a surface level. However, there is still a big problem with 'bright-siding' through the selective use of favourable assumptions and estimates – particularly for scenario analysis. There is also a glaring disconnect between trends and risks discussed in the strategic report and key accounting assumptions and estimates used in the accounts themselves." ClientEarth

Another respondent also highlighted the number of reports required, from a strategic report through to a directors' report which means that reporting can get quite silo-ed.

"There are lots of different pieces which, either through tradition, legislation or regulation have to be disclosed somewhere. However, It doesn't lead to a document which has a natural start, middle and end, which people can see and be told the story. It becomes quite broken up and I think that the legislation has made this worse rather than made it better." Quoted Companies Alliance

Several respondents highlighted the need for more specific examples of impacts, while recognising that some of these may be hard to quantify.

"*So that I think is really the key thing that's lacking, it's providing evidence, whether it's simply… who's committed to ensuring a fair way to say to our supply chain, this is how we're doing it and we've got this many of our suppliers to sign up to our code and done training… like*

giving more substantial evidence that we didn't just make a Code of Conduct and expect people to find it on our website and possibly go along with it." Network UK

Inconsistency and lack of comparability

Over half of respondents mentioned the variations in reporting between companies and the consequent difficulties in comparing reports. Several mentions were made of the challenge in not only comparing organisations with one another but in monitoring and tracking year on year performance within individual organisations as approaches to non-financial reporting can vary significantly from one year to the next. However, other respondents thought it is important not to be too specific to allow companies to tell their story.

"The market is so different, you get some [organisations] that are doing a lot, some that are not doing anywhere near enough and lots of organisations in between. If I was going to make a general criticism, it's that there's not enough linkage between what's being measured and reported and the actual business strategy and how it's informing the strategy." Social Value Portal

"Clearly there needs to be some flexibility in allowing companies to be able to tell their stories in a way that is appropriate to their circumstances. But annual reports cannot just be glossy marketing documents. The information must be fair, balanced and comprehensive, and accurately reflect downside risks, as well as tell the upside story. Numbers and narrative must match up and there should be greater consistency about basic structure and contents." ClientEarth

"To move towards some common metrics and some common reporting frameworks so that there's an easier time comparing performance across companies I think would be tremendously valuable." Network UK

Some suggested that the metrics should be more fit for purpose, for example, in relation to part-time working.

"If you're a progressive employer, you're going to encourage people to come back to work on a part time basis, if that's what they would like, and yet within the body of the legislation, if I employ somebody three days a week, that counts as a full-time salary. I think that's a really good example of, you know, if you're going to put legislation in place in this area, at least make sure it does what it's meant to do." Financial services representative body

This example also highlights that there is some confusion over the reporting requirements as salary levels are not actually covered by these specific regulations.

Some also spoke of a number of different individuals contributing to reports and the way in which different business areas within the same organisation can adopt different approaches to reporting, again creating a lack of consistency within reports.

Several respondents highlighted a lack of clarity in content in two specific areas, employment disclosures and climate and environment-related disclosures.

"The requirements on employment reporting [for example] are just very, very weak, there's very little to them. It's something that companies are meant to report on but that's a very general concept. There's no detail underneath the requirement which means that there's no information that is comparable across companies, or even comparable over different years

from the same company. They report different things and in different ways." Trades Union Congress

"For example, it's things like 'environment' and 'climate,' and how that's defined by the Directive is not always clear. So, then it's not always clear for companies when they're reporting, where they should be talking about either one. So, you know, for some, climate will be part of their environment strategy, for others it will be a whole separate ball game. So, it's just, clarifying where that sits and having that really clear information and the guidance as to what the Directive is looking for companies to report and where." Carbon Disclosure Project

Quality and completeness

Questions were raised over the extent to which organisations give a fair and accurate reflection of both the positive and the negative with non-financial reporting. There were mixed opinions on the quality of the reports produced since the 2013 regulations and although many respondents agree with the rationale for the regulations, in some instances it was felt that the impact of mandatory reporting has been to reduce non-financial reporting to a compliance and 'box ticking' exercise for some companies. To this end, some businesses may seek only to comply with the regulations and produce reports that are more akin to "marketing brochures" than a detailed account of strategy, risks and opportunities.

In addition, some raised concerns that terminology within the legislation was not as up to date as it could be, meaning that information is not always taken as a fair and accurate reflection of an organisation's non-financial activity. For instance, an example was given in relation to employment information which currently uses terminology around 'employees'. By definition, this excludes those employed through agencies and those on zero hour contracts which for industries such as the hospitality trade, can make up a significant proportion of the workforce that are not currently being included in non-financial reporting.

"There are some very specific and quite significant problems with the requirements on employment reporting. Companies are legally required to report information on their employees, not their workforce. People are increasingly employed through intermediaries, or on precarious contracts of different kinds and so they're not then included in the requirement on reporting on employment issues because legally they are not 'employees'. Companies can and do use that to just not include them in their reports." Trades Union Congress

Several respondents, however, also highlighted the difficulty of developing performance indicators and measuring impacts.

"For me, as a non-investor, the areas we're particularly interested in are human rights impacts and that's incredibly difficult to quantify in a meaningful way so it comes down to; is it a convincing narrative? Is there evidence of activity inputs, outputs, outcomes and impacts? We recognise that these are tough to quantify." Network UK

"The more specific, data-driven reporting criteria that I believe we need in this framework should sit at a legislative level, not within guidance". Network UK

In terms of what else should be included in the reports, respondents found it hard to comment given the narrative and non-prescriptive nature of the regulations. More detail on supply chains and more detail on the workforce was cited on several occasions however.

Impact of the regulations

The perceived impact of non-financial reporting regulations varied, as did stakeholder views on the benefits of the reports, and their views on the value and usefulness they are able to derive from the reports. While stakeholders understood and agreed with the rationale behind the regulations, namely to make businesses more transparent and encourage better decision-making, most believed that, because mandatory non-financial reporting remains in its infancy, the immediate impacts are hard to quantify. Most were of the view that the positive impacts and benefits will take time to materialise as non-financial reporting becomes more embedded. Many stakeholders were also optimistic that over time and with continuing improvement in the quality of companies' reports, non-financial reporting will add another dimension to their ability to analyse and assess companies beyond simply looking at their market characteristics and financial operations.

A particular challenge in gathering stakeholder opinion on the impact of the regulations is, as we noted above, the general lack of distinction that was made between the 2013 UK regulations and the 2016 EU Directive. An important impact, however, of the 2016 Directive is the increased availability of information concerning social and human rights: this was identified as the biggest improvement in company reporting since the Directive. One respondent did highlight though that the transposition of the 2016 Directive should apply to public and private companies so that the reporting burden fell equally on both. He also queried the 500 employee threshold:

"Personally, I still think that legislation that says companies with more than 500 employees is still way too low. These are companies which have relatively small resources to produce this information and it wouldn't be of huge interest with investors". Quoted Companies Alliance

Notwithstanding these limitations, respondents were able to comment on the following issues:

- The evolution of non-financial reporting
- Views on investor perspectives on the impact of non-financial reporting
- Views on investor behaviours
- Impact of non-financial reporting on organisations

Each of these areas is discussed in more detail below.

The evolution of non-financial reporting

The first and most obvious positive impact of the regulations is simply the requirement for companies to report on non-financial information in the first place. Prior to the introduction of the 2013 regulations, the common consensus among stakeholders was that the availability of non-financial information was essentially limited to reports produced by a select group of companies, usually constituents of the FTSE 100.

"In 2005 probably only 40 or 50% of the FTSE 100 were doing sustainability reporting, now I would expect it's over 90%." Network UK

"I think we've seen a lot of improvement since 2013, that's a long way to think back really. Since the introduction of the strategic report in the UK, I think we've seen a significant increase in the quality and quantity of non-financial information. It's variable but… in the UK we've been quite a leader in the gradual evolution of good quality non-financial information

through the annual report and that was much enhanced by the strategic report regime being introduced." Financial services representative body

The quality and usefulness of non-financial reports before the introduction of the regulations was also questioned by some stakeholders. For some, the reports lacked consistency as well as lacking in overall quality, meaning that acquiring a full view of a company on environmental or social matters, for example, was challenging prior to 2013.

Some stakeholders acknowledged the effects of reporting being undertaken by some firms voluntarily prior to 2013. One investor stakeholder, for example, was of the opinion that before 2013 the information available from large companies was "*generally speaking, pretty good*", and this good reporting was driven by an increasing demand from investors for non-financial information. As a result, those companies that did not produce reports at all, or produced reports below the standard of their competitors, ran the risk of a decline in value as investors may, potentially, have been cautious to invest in them:

"You were tending to get a valuation decline if you weren't doing what others in your sector and what other companies your size were doing, so that became a self-governing factor, I think." Investor Relations Society

Many stakeholders, however, believed that, to further build on the good platform established by the regulations, there is an increasing need for greater standardisation in reporting. Despite this, there was a general view that non-financial reporting has improved greatly since 2013.

"You begin to see, certainly within financial services which is what I was looking at, particularly when it comes to larger UK organisations, more of the telling the story." Financial services representative body

Views on investor perspectives on the impact of non-financial reporting

It appears that, among some investors, there is increasing engagement with companies' non-financial reports and an increasing demand for information concerning non-financial elements of companies' operations:

"There's the social impact side and how you treat employees and colleagues generally… that emphasis has grown enormously recently. Two, three years ago I probably would have said to you it doesn't have a huge impact on valuation and that would be different now." Investor Relations Society

For others, there was little perceived demand for the information at present, indicating that there are contradictory perspectives:

"Let's be honest, because most organisations are more worried about money they'll focus more on financial performance in their strategic decision making rather than social or environmental performance and that's because markets are not demanding anything different yet. And because markets aren't yet demanding environmental or social impact, management doesn't yet have the necessary the skill sets and it's not forced to do so either." Social Value Portal

Investors were thought to be becoming increasingly more engaged with specific issues, particularly around diversity and climate change, though this varied by type of investor. Pension funds, for example, were cited as organisations that were beginning to become more engaged with non-financial information whereas entities such as hedge funds were felt to be paying little, if any, attention to non-financial matters.

"I think investors are beginning to take an interest in diversity and inclusion within their boards and companies. I think the other piece where I can genuinely see that investors will begin to take more of an interest in the climate-related piece and environmental liability. I think that will come from pension funds in the first instance." Financial services representative body

Non-financial information is viewed by some as important to them as financial information. As such, some view it as really being financial information or "*pre-financial*" information in that it can directly influence investor decision-making and have a significant impact if something goes wrong.

There was a general view that non-financial reporting enables investors to determine which companies perform well in specific areas, such as in employment or human rights or in environmental matters and those that do not, allowing investors to determine which companies are leaders and which are laggards in each sector. They can then decide whether to invest specifically in those companies that perform well in each of these areas, while also allowing them to engage with those laggards and encourage them to improve their performance. There was little evidence from respondents, however, that this challenge was happening in practice. Despite this, stakeholders perceived a clear link between non-financial reporting and business reputation.

There was a view that as more of this key information becomes available to investors, they will be able to construct data sets for companies to monitor their performance in these areas, helping inform better investor decision-making and also aiding the identification of risks and opportunities to investors. While this was perceived by many stakeholders to be a positive impact of the regulations, it was widely believed that it will take time for investors to place significant emphasis on non-financial information and for the application of non-financial information to become common practice.

While there is increasing engagement with, and demand for, non-financial information among investors, there are mixed views as to the value they are able to derive from companies' non-financial reports as they currently exist. The materiality of the content and the length of the reports have, as we have seen above, an effect on the extent to which they have an impact and how the reports are used. Compliance often seems to be more important than value. One stakeholder commented that (after quoting a report):

"It's just verbiage, really… "it's not telling me anything. It's just words on the page which are there…for compliance. It's all, frankly, useless." UK Shareholders' Association

It is clear, therefore, that the extent to which investors are able to use the reports to inform their decision-making is greatly impacted by the quality of the content within the reports. As such, for a number of stakeholders, while they welcome obtaining more non-financial information from companies, the full benefit of the regulations to investors has not yet been realised.

Another reason suggested for the perceived limited impact that non-financial information has had on investor decision-making was, in the eyes of some stakeholders, a lack of skills amongst investors to make effective use of non-financial information. In spite of this, most stakeholders believed that reading non-financial reports is an emerging discipline in investor

circles meaning that it will take a little more time for investors to realise significant value from non-financial reporting.

Views on investor behaviours

Another potentially beneficial impact of non-financial reporting that was identified in the research is the potential for it to help encourage a culture shift in investment behaviours in the UK. Non-financial reporting requirements can facilitate investors to determine the ability of a company to create value over time, potentially helping to alleviate short-termism in UK equity markets. Adopting a long term outlook and promoting the concept of '*patient capital'* in equity markets is supported by companies' reporting on their ability to create value over time. Some stakeholders highlighted an increasing focus on long term investment from within some sections of the investment community. This meant, in their view, that investors are increasingly demanding greater articulation from companies as to how capital allocation decisions are linked to strategy, in particular around ESG risks and opportunities and also around human capital and culture.

The consensus among stakeholders is that a move away from short-termism in business and investment behaviours can only be realised when the information provided by companies, both financial and non-financial, is material, detailed and sufficiently reliable and comparable to influence decision-making. For most stakeholders, the prevailing opinion was that it will take time for these impacts to be seen, with non-financial reporting being viewed as being a journey on which business has only just embarked.

Impact of non-financial reporting on business

The main benefits (actual or potential) to companies that stakeholder respondents in the qualitative research identified were:

- The articulation of the organisational strategy and purpose and more effective decision-making
- Financial impacts on business
- Impacts on their current and future workforce
- Impact on their reputation and brand

The articulation of the organisational strategy and purpose

Many stakeholders agreed that one of the main benefits of the regulations is to require companies to focus on, and articulate their purpose. As increasing attention is paid to non-financial reporting, this could have the impact of encouraging companies to ensure their strategy and purpose is communicated effectively across the whole company, not merely at board level, to encourage good practice at all levels and reduce silos.

"…being able to articulate a strategy in one page has clarified the board's mind about actually, 'What is our strategy? How do we make money? How do we hold the management to account for that strategy?' So, I think that having to articulate your strategy on one page, or a couple of pages, has made the board think differently which probably linked to that would be helping some of their decision making or certainly help the board holding the management to account". Investment Association

"Integrated reporting for the benefit of investors or as an act of compliance, compels companies to become more self-reflective and look at their environmental and social practices. So while moral responsibility and ethics may not be the driver of the practice, it does compel

the executive to consider the company's role in society and its impact on the environment.” Cynnal Cymru

However, some respondents questioned whether the regulations required companies to be specific enough in terms of the risks and opportunities that they are facing.

“I don’t think they’ve had a particular ripple, I think they’re just too easy to comply with, or just say they’ve been complied with so I don’t think they’ve moved the needle and I think that they need to be more specific”. Network UK

For another, the requirements were just one more administrative burden on business. This respondent also believed that investors and others could provide companies with more insight into how the information is actually used to encourage them towards more practical disclosures.

“Anecdotally, hearing from people when they’re talking about the change in reporting and the requirements… there is to some extent, an overload. For some of the smaller companies at the bottom end of the above 500 employees spectrum this is yet another set of disclosures that they have to bear in mind. So, I suppose they find it as yet more stuff to do.” Quoted Companies Alliance

Financial impacts on business

As we have seen in the section on shifts in investor behaviours, another perceived long term benefit for companies is the potential for their long term capital costs to be reduced. Clear communication of a company’s long term strategy may also help a company to access long term funding at a lower rate. If companies are able to communicate this long term strategy effectively to investors, they may find investors more willing to support them in long term ventures.

Stakeholder respondents have, in the main, no sense of the costs incurred by companies in complying with the regulations, though some did suggest these must be substantial, while others suggested that companies should be collecting the relevant data as part of its internal operations as a matter of course so there should be no real cost associated with compliance. One respondent suggested that it was unlikely that companies actually monitor or, indeed, have a sense of the costs involved in compliance. Another thought the costs could potentially be substantial:

“If there’s non-financial information that now needs to be included, then somebody has got to pull that all together, and if the company isn’t doing any of that already, then they’re setting up systems, they’re paying consultants, advisors to help them to do it in the right way. There is a lot of opportunity cost that’s involved.” Quoted Companies Alliance

Impacts on the current and future workforce

Stakeholders’ views on the impacts of the regulations on companies themselves centred on them being able to create greater employee engagement and loyalty, as well as supporting recruitment and retention. One stakeholder referred to a study that had shown that a significant percentage of employees expressed increased loyalty towards their employer as a consequence of the disclosure of non-financial information. Non-financial disclosures allow for employees and wider stakeholders to gauge a company’s strategy and purpose in relation to their own principles and values. This was highlighted as a particular potential impact of the regulations as disclosure of this information could empower employees to, for example, challenge their employer if they discovered their pension was being invested in a way that contradicted their own principles.

Impact on reputation and brand
Stakeholders also drew attention to how intangible concepts such as brand value and reputation can impact a company's value, and the importance and impact that reporting on these areas can have for both investors and companies. As concepts such as brand value can be used to explain a significant proportion of the difference between a company's book and market value, this heightens the need for reporting on such intangibles. Some stakeholders suggested that as these are areas over which management can exert an influence then information relating to intangibles that may cause a company's value to increase or decrease is information that management should report on to shareholders.

In addition, as companies come to focus more broadly on their reputation and the impact it may have on their value, this can lead to improved performance and can precipitate better practice. As companies more clearly identify and understand the impact their reputation can have on their value, they may become increasingly aware of operational risk and risks to their customers, for example the extent to which customer data is held securely. Consequently, this can encourage companies to shift their attention away from concentrating exclusively on a narrow set of financial metrics to measure performance and become more customer orientated in their operations.

Overall, there was a consensus that the impact of the non-financial reporting regulations is difficult to state definitively as non-financial reporting is still relatively new. As we have already noted, it was commonly believed by most stakeholders that realising the desired impacts and benefits of non-financial reporting will take time and is dependent upon good practice being embedded throughout companies that are required to report.

For investors, there is an increasing demand for, and level of attention paid to, information contained within company strategic reports and as such the reporting requirements can help inform investors about the companies' strategies, and the risks and opportunities that may present themselves thus enabling them to form a long term view on companies' and potentially help facilitate a transition towards long term, sustainable investment.

For companies themselves, stakeholders viewed the impacts concentrating businesses on their strategy and purpose in order to present themselves as attractive and safe long term investments as well as ensuring employee engagement and loyalty.

In general, the concept of narrative reporting was thought to be reflective of changing social and economic trends by the respondents in this research.

"Johnson & Johnson, in their charter, say that shareholders should realise a fair return. That is not necessarily the maximum return possible and I think that that's a very interesting concept and I think that means that the balance that says money is everything, that greed is good and all that sort of stuff that we grew up with through the '80s, '90s and the '00s perhaps - I think that's changing. It's saying, actually, greed is not good and our businesses should be much, much more linked with the society in which they're situated". Quoted Companies Alliance

Another respondent highlighted the example of a bank that was attempting to bring customer satisfaction and other metrics into its investor dialogues, as evidence of how the corporate world is evolving.

Compliance with the regulations

The main themes that emerged around compliance with the regulations related to:

- Responsibility for monitoring and enforcing compliance
- Levels of compliance and accountability
- Assurance of non-financial reporting

Responsibility for monitoring and enforcing compliance

There was a general view that little monitoring of the quality or content of non-financial reporting is conducted in practice, at least from a regulatory perspective. Complete non-compliance does not appear to be an issue in the eyes of respondents. More common was the view that reporting was undertaken in line with the letter and not the spirit of the law:

"We're in a world in corporate reporting which is very much a compliance world. You know, companies don't exist to do reporting, they exist to make products and sell services and do all of that, and, you know, when you speak to companies, quite often, the first thing that they'll ask is, 'What is required by the law and by regulations, and why should we do anything more than that?' International Integrated Reporting Council

Some respondents commented that poor quality reporting provides useful insight into the company in question.

"I think there is some trade-off there between actually requiring companies to meet the letter of every bit of law because I think we need companies to meet a minimum standard but actually, some variation in reporting tells you quite a lot about that company and how they see their investors and how well they're able to tell their story. I think the difficulty is how do you implement it, but you do need to maintain that minimum standard." Investment Association

There was a view that the FRC has adopted a light touch to enforcement. For some respondents this was thought to be a capacity issue, for others it was a balance between being prescriptive to support comparability and allowing companies the freedom to tell their story. Others suggested that monitoring compliance was not within the FRC's mandate.

"The biggest barrier to these requirements being implemented properly and consistently is the accountability gap between what it says on the face of the law and the lack of consequences for non-compliance for companies, directors and auditors. Currently there's very limited capacity for investors to hold companies accountable for failing to provide useful and balanced information and the FRC has been completely missing in action when it comes to enforcing requirements around company reporting, particularly in relation to the strategic report." ClientEarth

In the main, stakeholders were largely unaware of any enforcement or penalties. Some suggested that the FRC preferred to use softer powers to achieve compliance.

One stakeholder commented on the dichotomy of mandated versus voluntary reporting:

"When you get a compliance approach at one level and then a voluntary approach on the other, then obviously the focus at least in the short-term is going to be on the compliance side." Association of Chartered Certified Accountants

There was also a view from some stakeholders that responsibility for monitoring compliance had been left to, variously, the investor community or civil society organisations. Several respondents noted that, given the qualitative nature of the reporting, it is hard to state whether companies are compliant or not:

"These things aren't, sort of, reducible to a, sort of, one sentence which is compliant or not compliant. I think this is the sort of thing where we need to learn by doing by peer pressure, by setting of examples, and by critique coming from the readers of the report. That critique has to be very carefully weighted not to give too much attention to single issue people who, actually, have nothing really to do with the business and have a policy objective." Institute of Business Ethics

They were also, in the main, unable to provide examples of where companies had been held to account on their non-financial reporting by shareholders or wider society.

Levels of compliance and accountability

There were mixed views amongst interviewees about the levels of accountability amongst companies, linked to the variations in the quality of the reporting highlighted earlier. For one respondent, the facts that the reports are signed off by the directors has helped emphasise the importance of NFR:

"I think the other difference that [the regulations] made was actually getting directors to sign off the report. It focussed a lot of boards' minds that actually my name is going on this, I need to make sure that everything in it is right and it is less of a sales pitch and more of that balance to accountability of what is going on in the business." Investment Association

For others, there was a sense that many businesses, and in particular those that did not detail the specific impacts and outcomes of their policies, viewed the regulations as just another piece of legislation with which they had to comply. The role of the chairperson was thought to be key in changing mindsets on disclosures and effecting the cultural change required.

Several stakeholders differentiated between the spirit and the letter of the law, noting that compliance in itself was not of value if the information provided was not useful and highlighting the importance of materiality.

"I'm sure that what goes in there is compliant with the regulations, but the thing is, it's like all these things, it's easy to manipulate the system so that you're compliant but you're still not providing anything that's of use". UK Shareholders' Association

There was a view, however, that the more prescriptive legislation becomes, the higher the risk that companies adopt a boiler-plate approach.

Some respondents highlighted that increasingly, companies' wider stakeholders expected non-financial information to be presented and that, therefore, non-compliance constitutes, in reality, a reputational risk.

Assurance of non-financial reporting

There were mixed views on third-party assurance of non-financial reporting. Four stakeholders thought that the investor community and wider stakeholders could only be confident in the information presented if it had been audited. Five thought that mandatory third-party assurance would make the reporting overly complex and uniform. Some highlighted that, without clear key indicators and metrics, assurance is very difficult as many of the risks and opportunities are qualitative in nature.

"If this is really going to become mainstream, there's the challenge of independent assurance. Just like you have an independent auditor of accounts, its broad acceptance may require the rigour in

process and reporting that assurance can bring. But for non-financial information, what does that look like?" International Corporate Governance Network

"The issue is that, in the absence of any independent assurance, the analyst or the user will not be able to form a view as to whether the information is materially complete. They might be able to form a view as to whether what's there is reasonably accurate but they won't know if the information they need has been included. Unless there is an assurance process designed with that in mind, this significantly undermines the usefulness of that information." Former CEO of Social Value UK

Linked to the points made above around the view that there was no real distinction in the long-term between financial and non-financial reporting given that risks are risks, one respondent suggested that clearer sight of the drivers of value creation is required:

"We're at the early stages of evolution in the regulations, but there is a paradigm shift to see change needed in, you know, pulling back the covers and recognising the true drivers of value creation…why do organisations that appear to have acceptable audit reports subsequently fail? Well, they fail because things that aren't being audited are the things that are failing." Maturity Institute

Guidance and support

The then Department of Business, Innovation and Skills asked the FRC to develop non-mandatory guidance on the application of the strategic report requirements introduced into the Act by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the Regulations). The Guidance on the Strategic Report was first published in August 2014. In July 2018, the Guidance was updated to reflect the new requirements introduced into the Act by the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 (the NFR Regulations) and The Companies (Miscellaneous Reporting) Regulations 2018.

As part of this research, we asked respondents to provide feedback on the current guidance and available information on non-financial reporting. Historically, the guidance has been viewed positively and there was a general view, in the main, amongst those who were aware of the FRC document Guidance on the Strategic Report (July 2018) that it was very comprehensive and quite lengthy. Nearly a quarter of respondents thought that the guidance could be improved in some way however. Several respondents noted that, given the recency of the latest Guidance, it will take a little time to create greater consistency across reports:

"Actually, as guidance, it's only really become available to some companies quite recently, you know, thinking of the strategic report guidance from the FRC, which cleared in July 2018 and we'll see common practice established and we'll see companies looking across to that and things evolve." Institute of Chartered Accountants in England and Wales

Some stakeholders suggested that the FRC should provide examples of good practice to help guide companies in their reporting, with one noting that companies require guidance and support in conceptualising risk as a risk to people and the environment and not just the business. Several respondents suggested that case studies should be developed to help showcase good practice reporting on a sectoral basis. There was one recommendation that all guidance should be consolidated in one place and that any new legislation should seek to minimise the "nuances" which apply to different types of company in order to reduce confusion.

One membership organisation with an ESG mission reported that their members had not tended to seek support with non-financial reporting regulations:

"We've not had a lot of demand from members for support in that area, so it could be that they're getting that elsewhere. But normally you get a pretty good sense of where companies and members need help. We do organise about three events a year so I get a lot of opportunity to speak to companies and nobody's yet said, 'give us something on the EU reporting Directive." Network UK

Another suggested that investors also needed support in interpreting non-financial information.

"I think that our investor market is particularly unsophisticated. So, at the moment, most investors, do a tick-box exercise, you know, they'll ask a question, ''does an organisation do ESG reporting? Yes, no, good, bad, indifferent''. They don't really look at the numbers, in all honesty". Social Value Portal

Four respondents specifically mentioned that, given the range of reporting requirements, the Guidance should be widened to include, for example, guidance on reporting on the SDGs and on the recommendations of the TCFD. Others highlighted the need for horizon-scanning and consistency:

"There's a clear issue, which is that there are all sorts of different legal, quasi-legal and voluntary reporting standards or regimes that companies need to worry about. What's absolutely crucial is that when these sorts of regulations are put into place there's a scan of the horizon, of what else is out there, what else is coming, to ensure that the regimes are aligned". Company Matters, part of the Link Group

"Because actually, there is a course being set here, and another thing that really hacks off people is if they think that they've genuinely started to head in that particular direction, you know, bringing elements into governance as they challenge those frameworks, only to find that constantly being redefined." Financial services representative body

"The 2013 amendment [of the Companies Act] was quite good, it was ahead of its time and it was regarded internationally as ahead of its time as well. With the 2016-2017 amendments to the Companies Act, new developments and understanding of the risks of, for example, climate change… hasn't moved on much further. So, it does provide some good definitions, some good basis for some elements, but it doesn't for others. For example, the TCFD, which really is reflecting conventional requirements on disclosing risk of any kind, hasn't really been integrated." Climate Disclosure Standards Board

Some respondents did think however that the guidance could be simplified and that there were apparent contradictions in advice from the FRC in terms of how non-financial information should be reported:

"I think it's not been a straightforward set of regulations to adopt, partly because of the similarities to previous requirements, and less than clear guidance at times. The new guidance on the strategic report I think will help, but it's quite a challenge to actually follow that in itself. So, people sort of still find it all a bit overwhelming." Company Matters, part of the Link Group

The complexity of the regulatory framework was also highlighted. One respondent suggested this was reflected in the complexity of the guidance and that it was not always clear to which group a company should belong.

The Financial Reporting Lab was highlighted as a valuable initiative by one respondent:

"One of the things that I found very powerful recently was the work that the Financial Reporting Lab does on specific topics. I think maybe based on two years of non-financial information reporting, there's merit in them doing something that illustrates what good practice and weaker disclosures look like, because there's nothing like having some actual examples put in front of you to help you understand and show directors and drafters of the annual report the sort of information and disclosures that they need to be making." Company Matters, part of the Link Group

The future of reporting

As we have highlighted above, the majority of respondents believed that non-financial reporting will become increasingly important over time. Several mentioned the strong messages from Larry Fink in his 2019 letter to the CEOs of the companies in which BlackStone invests and the likely impact on corporate behaviour.

"Almost every event I go to this year, somebody has brought up the quote from Larry Fink… talking about how BlackRock is only going to invest in sustainable companies going forward and they care about this stuff, so statements like that are really going to accelerate this movement." Network UK

Others asked for more structure, more evidence and more consistency in reporting.

While not directly linked to the impact of the regulations, several respondents commented on the future of reporting in a wider sense, for example there were also concerns about the quality of companies' engagement with investors around reporting in general in the context of the advent of digital reporting and the concentration of AGMs in London, for example. Some suggested that companies should use technology to engage investors across the regions and in real-time, perhaps exploiting virtual reality for corporate reporting in the future. One respondent stressed that company information should be much more accessible to the general public than just sophisticated investors.

"The way the annual reporting and AGM season is set up means that investors and their advisers don't necessarily have a chance to read a company's whole story before they finalise their assessment. But the calls for more authentic disclosure, less boiler-plate and clear and concise reporting can be counterproductive for a company if annual report users are just word-searching for boiler-plate terms and don't follow signposts." Company Matters, part of the Link Group

"The other thing for the future, as I said, is that we will start seeing an increased use of digital technology enabling easier access to this data, share this data and analyse this data. You'll start seeing more rankings. You'll start seeing more benchmarking activities and so on. This is a development which we as the global ESG standard setter applaud because it makes it easier for people to use the reported information to inform their decisions and that's what we're trying to stimulate." Network UK

Summary

While the stakeholder base for the qualitative research was very varied, there are a number of consistent themes emerging from the depth interviews. There was a general agreement that corporate reporting has improved since the introduction of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Not all stakeholders could recall whether there was widespread reporting of non-financial information prior to 2013, but there was a sense that this was only undertaken by a minority of committed companies in the FTSE 100. There was also a consensus that non-financial reporting is becoming and will be increasingly important in the future as investors become more engaged with non-financial risks. Several stakeholders also observed that the terminology of non-financial reporting is a misnomer as all risks could eventually have a financial impact on the company. In general, stakeholders appreciated the robustness of the corporate reporting regime in the UK.

While many respondents in the qualitative research welcomed the emergence of non-financial reporting as a way of focusing business attention on their company's strategic purpose, there was a strong view that the quality of reporting varies greatly between companies. It was also thought that for many businesses, the provision of this information is merely an exercise in compliance rather than a meaningful assessment of the risks to their organisation. However, in the main, stakeholders were able to identify examples of good practice. Nearly all stakeholders were unable to distinguish between the impacts of the 2013 regulations and the non-financial reporting regulations introduced following the 2016 EU Directive. There was also a clear view that non-financial reporting is constantly evolving and that further integration between new initiatives and requirements such as the SDGs and the recommendations of the TCFD is required.

Views differed however on the usefulness of the reports and the extent to which companies should have complete autonomy to decide the content of the reports. On one hand, it was thought that one of the key benefits of the 2013 regulations was that it focussed attention on the strategic purpose of the business at board level and enabled it to tell its "story". On the other, however, a lack of common metrics makes it difficult for investors to compare across reports. Indeed, there was also a recognition that it is difficult to quantify many of the impacts reported.

Materiality was also a key concern for respondents, particularly in terms of how significant and specific the risks identified are, particularly in relation to their potential impact. Several respondents made the point that companies may in some cases include topical or popular issues to be seen to be responding to special interest groups, even though there may be little long-term impact on the company or its wider stakeholders. Linked to the materiality point are concerns about the length of annual reports and the vagueness of some of the content. For some, however, the quality of the report was an important indication of the standing of the business, so they welcomed the variations in quality. All three representatives of investor associations that participated in this research thought that there was too much information in the reports.

Overall, respondents thought that the benefits of the regulations would be more apparent over time, but welcomed the increased transparency. They also thought non-financial reporting could help business and investor decision-making. Other potential benefits included workforce recruitment and retention and a focus on reputation and brand.

In terms of compliance, it was agreed that while compliance is not really an issue, there was no overall monitoring of it. There was widespread agreement that the FRC would not have the

capacity to do so, and indeed, some queried whether it had a mandate to do so. There was a sense in which for many companies, non-financial disclosures are just another task they need to complete. There were mixed views on third-party assurance of non-financial reporting, with some suggesting that it would be difficult to have confidence in the data without some assurance and others stating that if there was, the reporting would become more complex and at the same time, more of a boiler plate exercise.

Nearly all respondents were positive about the Guidance published by the FRC. They were keen however to see good practice examples and to have some alignment with other reporting frameworks such as the SDGs and the TCFD recommendations.

Finally, several respondents noted the need for companies to truly embrace technology to engage with investors and wider stakeholders, whether by producing digital reports or using technology to engage with wider audiences at AGMs.

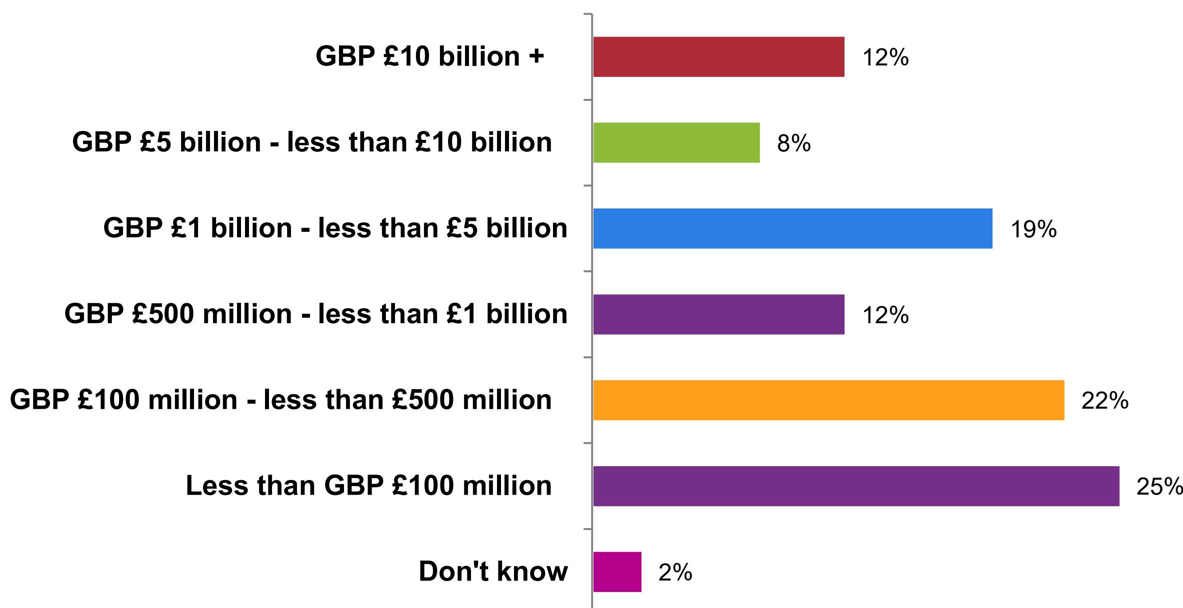
Company perceptions of non-financial reporting regulations

This section of our report presents the company perceptions of the non-financial reporting regulations. It is structured as follows:

- Costs of compliance
- Implementation of non-financial reporting
- Impact of the regulations
- Summary

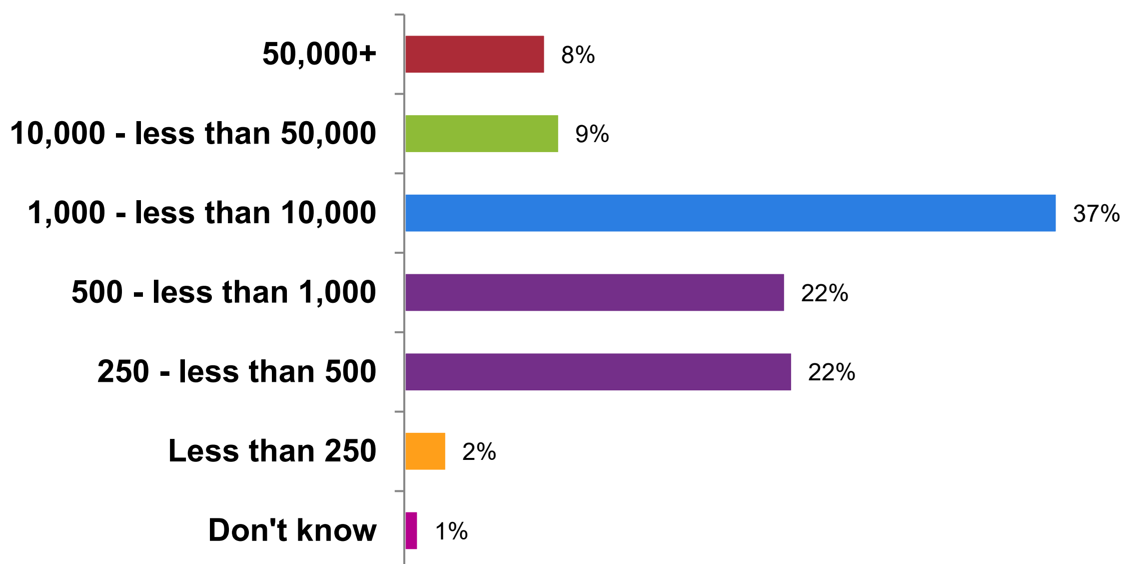
Profile of participating companies

In total, 129 company respondents participated in this research. The profile of these companies is provided below. Nearly four in ten respondents stated that they worked in a company with revenues of more than £1 billion.



Q1.2a What is the approximate revenue of your company for the financial year covered by your most recently published annual report? UK [BASE 129]

A third of respondents said they were a multinational business. Of these, a third said they had revenues of more than £10 billion. Four fifths stated that their business had 10,000 employees or fewer in the UK. A small proportion stated that their business had less than 250 employees in the UK. It was agreed with the Department for Business, Energy and Industrial Strategy that these respondents were valid as their companies had more than 250 employees globally.



Q1.2b.1 Overall, what is the approximate number of employees in your company for the financial year covered by your most recently published annual report? UK [BASE 129]

The tables below summarise the profile of companies that participated in this research in raw numbers.

Is your company based solely in the UK?	
Yes	85
No	44

Is your company publically listed in a regulated market?	
Yes	69
No	56
Don't know	4

Is your company a standalone company, a parent company or a subsidiary?	
Standalone	82
Parent	32
Subsidiary	15

Just under half stated that their company is subject to the 2016 NFR regulations.

Is your company subject to the Non-Financial Reporting Regulations that were introduced in 2016?	
Yes	58
No	52
Don't know	19

Given the achieved sample size, it was agreed that the data would not be weighted against the FAME database overall demographics as weighting would distort the data to an unacceptable extent. In our view, it is good practice not to use weights less than 0.5 or larger than 2. As a consequence the results are not representative of the wider business population eligible for the regulations, and the results should be viewed as indicative only.

Costs of compliance

At the outset of the study we anticipated that obtaining robust cost data would be problematic given that:

- A substantial amount of time has elapsed since the 2013 regulations which will impact on respondents' recollection of costs. Staff turnover may also have an impact
- The 2016 regulations apply only to a small subset (estimated to be 500 in the UK) of companies and are viewed by some to be evolutionary rather than revolutionary
- Data collection and reporting may well be absorbed into day-to-day work and not identified as a specific cost
- Costs will be dependent on the actual amount and type of information provided

The concerns proved to be the case, indicated by too few companies being able to provide reasonable quantitative cost data in relation to cost of compliance with both the 2013 and 2016 regulations.

Respondents did, however, report a range of new processes that had been introduced to support non-financial reporting. For some, this amounted to tweaks to existing processes,

while for others, new systems had been introduced. These related to: local data extraction (63%); internal reporting of information to the centre (54%) and consolidation of information into the final report (59%).

Just over four in 10 respondents stated that their organisation reported on non-financial matters prior to the introduction of the 2013 regulations. For those that did, the main type of information provided related to workforce matters, social responsibility and environmental issues as Chart 1 below illustrates.

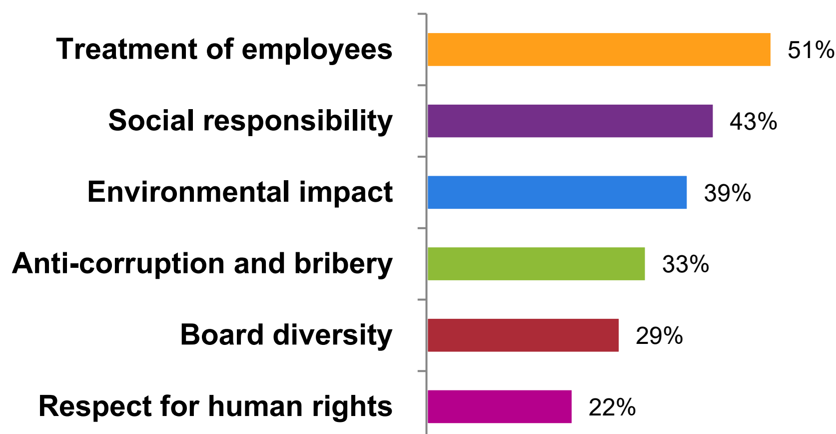


Chart 1: Q2.8 What types of information did you provide prior to 2013? [BASE 129]

The factors that are thought to have had the most impact on costs incurred with complying with the 2013 regulations are thought to be: understanding the requirements; external costs; and senior management review.

- *"Gaining the legal advice and the sheer amount of extra hours from directors overseeing more work for compliance".* (UK PIE, 10,000 – less than 50,000 employees, latest revenue £1 billion - less than £5 billion)
- *"Training the staff has had the most impact on cost".* (UK PIE, 1,000 – less than 10,000, latest £5 billion - less than £10 billion)

When respondents ranked the top three activities associated with reporting, the costliest elements of the reporting requirements were thought to be understanding the regulatory requirements (in the first year of reporting) and data collection across the organisation.

Element	Year one	Year 2+
Understanding the regulatory requirements	33%	18%
Preparing instructions and guidance for local teams	19%	17%

Element	Year one	Year 2+
Data extraction by local teams	29%	33%
Internal reporting to the centre	17%	21%
Preparation of the consolidated report	22%	22%

Table 2: Q2.4 What have been the costliest elements to your company of the reporting requirements under the 2013 regulations? [BASE 129]

Just over half of respondents (52% or 58 respondents) stated that their organisation was subject to the new reporting requirements under the 2016 EU Directive, although, again, a relatively large proportion were unaware if their organisation was or not (14%). Of this 52% of respondents, the majority (57%) said that the Directive had a moderate impact on reporting costs and a quarter (24%) stated that the requirements had a significant impact on costs. Reasons provided included a mix of negative and neutral comments, for some there was little impact and for others there was substantial effort required:

- *"It took a lot of extra time from our staff when they were meant to be dealing with their everyday work".* (Global PIE, 1,000 – less than 10,000 UK employees, latest UK revenue £5 billion - less than £10 billion)
- *"We have had to dedicate considerable resource and money to it. Additional process complexity".* (Global PIE, 50,000+ UK employees, latest UK revenue £10 billion +)
- *"With new laws in place and new social policies that companies now have to cover, it sometimes has been difficult".* (UK PIE, 500 - less than 1,000 employees, latest revenue £100 million - less than £500 million)
- *"Most processes were in place and only needed tweaking".* (Global PIE, 10,000 – less than 50,000 UK employees, latest UK revenue £1 billion - less than £5 billion)
- *"There was little or no impact."* (UK PIE, 1,000 – less than 10,000 employees, latest revenue less than £100 million)
- *"We were already collecting this data".* (UK private company, 500 - less than 1,000 employees, latest revenue £100 million - less than £500 million)

Implementation of non-financial reporting

There were mixed views on the ease of implementing non-financial reporting with 38% stating that it was quite or very easy to introduce and a further 29% were non-committal. As might be expected, respondents from publicly listed companies were more likely to say that it was easy to implement non-financial reporting (49% versus 25%).

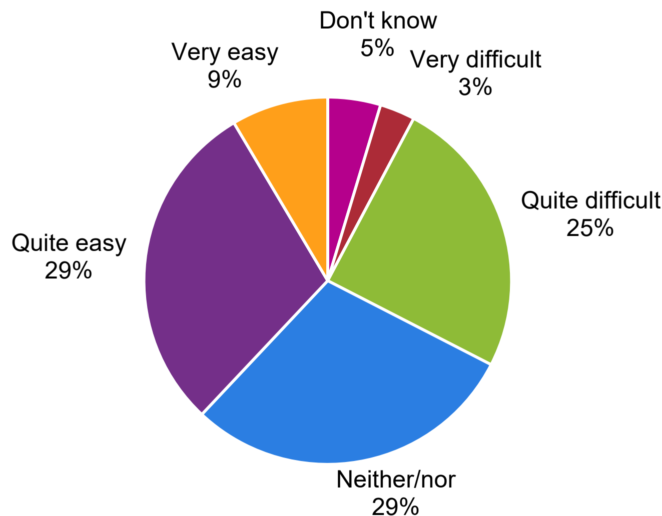


Chart 2: Q3.1 'In your experience, how easy or difficult was it for your organisation to implement non-financial reporting?' [BASE 129]

Businesses were asked in more detail about the main implementation challenges around collating the information required and understanding the requirements of the legislation. Private businesses were more likely to say that collating the information required is a challenge (68% compared to 55%). The main challenge for publicly listed businesses was understanding the requirements of the legislation. Overall, almost a quarter stated that getting buy-in across the business was an issue. Other comments on implementation challenges related to the administrative burden:

- *"We are a family owned business, like many in the UK, where the shareholders have a very close connection to the business and the directors. The requirement of non-financial reporting is seen as an unnecessary burden which adds little to no value to the business and the understanding of its performance and governance for the shareholders."* (UK PIE, 500 - less than 1,000 employees, latest revenue less than £100 million)
- *"[The] regulatory burden harms UK plc."* (UK PIE, 1,000 – less than 10,000 employees, latest revenue £100 million - less than £500 million)
- *"Not really. For a business like us there's things you'd like to get synergy with: Environment and Health and Safety, etc. In the outside world you look at corruption and bribery. We look at our suppliers from that standpoint. Also with our customers we want to fit [with] their view."* (Global non-PIE, 500 - less than 1,000 UK employees, latest UK revenue less than £100 million)
- *"Cut the rubbish out of the annual report! Companies do not go bust because of gender etc. reporting not being up to scratch – I'm sure Carillion et al all had good non-financial reporting but run out of cash. Sometimes, less data is more information!"* (Parent company, 500 - less than 1,000 UK employees, latest UK revenue less than £100 million)

Half of the respondents were aware of the FRC guidance, and of these, 68% found it useful. The main reasons given were:

- *"It's informative and easy to understand".* (Global PIE, 250-less than 500 UK employees, latest UK revenue less than £100 million)

- *"It helped to understand the requirements."* (UK PIE, 50,000+ employees, latest revenue £1 billion - less than £5 billion)
- *"It aided in the understanding of what was required and the kind of detail expected."* (UK Private Limited company, 500 - less than 1,000 employees, latest revenue £100 million - less than £500 million)

Nearly three quarters (74%) of respondents were aware that there were penalties for non-compliance and of these, 47% were aware of the potential levels of the penalties. Of those that were aware, 18% thought that the penalties were too high.

Use of non-financial information

A substantial proportion of respondents stated that their company did use the non-financial information gathered, with only a fifth suggesting that it did not. Almost half say that their company used the information to manage risk and a similar proportion that it was used to help set strategy as Chart 3 illustrates. There is some suggestion, however, from the responses to the "Other" option that some companies view non-financial reporting as simply a compliance issue.

Chart 3: Q3.6_1 'How does your organisation use the non-financial reporting information, if at all?' [BASE 129]

Again, there were differences amongst the levels of use of non-financial information, with private companies (27%) more likely to state that they don't use the information they report. The top uses for publicly listed companies are managing risk (59%) and setting strategy (57%) while for non listed companies, the top responses were engaging the workforce (34%) and then managing risk and setting strategy (30%). Those companies with more than 500 employees in the UK were more likely to use the data i.e. for managing risk (51% v 32% of companies with less than 500 employees) and setting strategy risk (51% v 23% of companies with less than 500 employees in the UK). Smaller companies were also more likely to state that they don't use the information (26% v 15%).

Impact of the regulations

Overall, six in ten respondents believe that the publication of non-financial reporting has benefited their organisation to at least some extent, however three in 10 disagree as Chart 4 below illustrates.

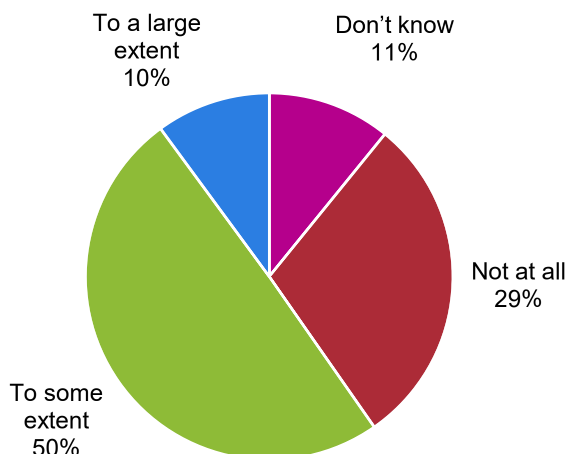


Chart 4: Q4.1 'To what extent do you believe that the publication of non-financial information has benefited your organisation overall?' [BASE 129]

Respondents from publicly listed companies were more likely to be positive about the impacts of the regulations with around seven in ten (67%) believing that the publication of this information has had a positive impact on their organisation compared to half (50%) of private companies. Over four in ten respondents from private companies thought that there had been no impact at all on their organisation. Larger companies (with more than 500 employees in the UK) were more likely to believe that the publication had some benefit to their business (63% v 52%).

Nearly four in ten respondents believe however that these benefits will increase over time, while a third think that the benefits will remain the same. One in eight do not see any benefits to their organisation at all over the next three to five years.

Half (49%) of publicly listed companies and a quarter (23%) of private company respondents state that the benefits will increase over the next three to five years. Again, larger companies were also more positive about the longer term (41% compared to 29% of respondents from companies with less than 500 employees in the UK).

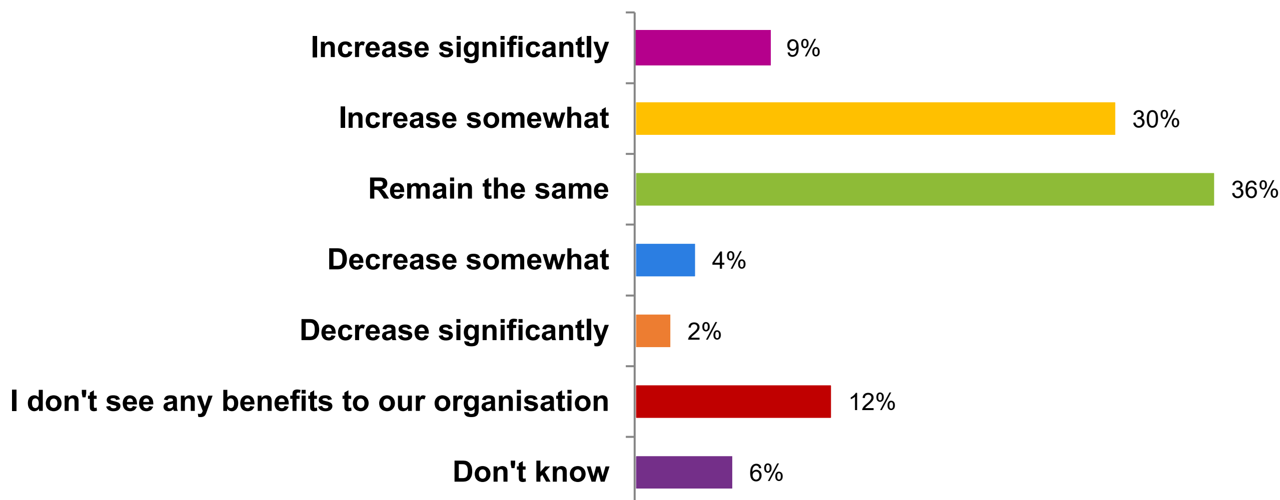


Chart 5: Q4.2 'Do you think that the benefits to your organisation will increase over the next three to five years?' [BASE 129]

There were also mixed views on whether non-financial reporting would have an impact on companies' competitive position over the next three to five years. Overall, a quarter thought the regulations would have a positive impact, a fifth thought they would have a negative impact and four in ten thought that there would be no impact at all. Respondents from publicly listed companies were more likely to say that the regulations would have an impact on their competitive position over the same time frame although their views were mixed: 35% thought that the regulations would have a positive impact and 25% a negative impact. This is in contrast with private company respondents, 55% of whom thought there would be no impact.

As in the stakeholder interviews where there was a presumption towards the view that investors are increasingly interested in non-financial information, a substantial proportion (41%) of respondents believe that the disclosures have made their company more attractive to investors. In more specific terms, when asked about improvements to their company's reputation amongst current and prospective investors, trading partners, wider civil society and the general public, respondents tended to report some improvements, particularly around current and prospective investors. Nearly two thirds of publicly listed companies thought that the regulations made their company more attractive to investors and a similar proportion thought that it had improved their reputation amongst current and prospective investors. Around 60% (62%) of publicly listed companies reported an improvement in reputation amongst trading partners (compared to 30% of non listed companies) and around half of publicly listed company respondents reported improvements in their reputation amongst wider civil society and the general public.

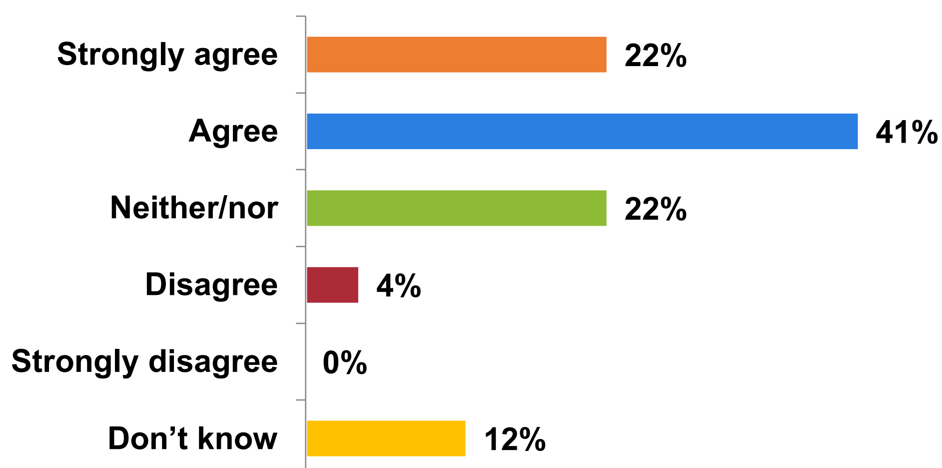


Chart 6: Q4.4 To what extent does your company agree or disagree that non-financial reporting has made your company more attractive to investors? [Base 69 – those who are Publicly Listed at Q1.4]

Again, there were mixed views around the extent to which various audiences use the reports. In the main, between a fifth and a quarter did not believe that current and prospective investors, trading partners, civil society organisations, competitors, regulators and the general public use the reports. Two thirds did think however that the reports were used by their regulators and 59% thought the reports were used by their competitors.

Stakeholders' use of information	Not at all	To some extent	To a large extent	Don't know
Current investors	23%	43%	19%	16%
Prospective investors	19%	43%	18%	20%
Trading partners	19%	50%	16%	16%
Civil society	24%	40%	17%	19%
Competitors	26%	42%	17%	16%
Regulators	19%	47%	19%	16%
General public	29%	38%	14%	19%

Table 3: Q4.6 'To what extent do you think the following stakeholders use the information contained in these reports? [BASE 129]

This also varied according to whether the company was publicly listed or not. For public companies, three quarters believed that both current and prospective investors use the non-financial information to at least some extent. Publicly listed companies were also more likely to

state that they thought that their non-financial reporting was used to a large extent by trading partners, civil society organisations, competitors, regulators and the general public compared to companies that are not listed.

A third of respondents did state that the requirement to collect non-financial information has changed the way their organisation operates and a further fifth could identify other impacts. Again, this is more likely to be the case of publicly listed companies than private companies: 42% of publicly listed companies stated that the requirement had changed the way their company operates compared to 27% of private companies. Similarly, respondents from larger companies were more likely to say this (38% compared to 19% of respondents from smaller companies). Some viewed compliance with the legislation as an administrative burden, while others viewed the impacts more positively in terms of organisational proactivity, employee engagement, and a greater focus on diversity.

- *"Staff ask more questions about company approach to responding to data - its empowering people to speak and influence."* (Global PIE, 1,000 – less than 10,000 UK employees, latest UK revenue £100 million - less than £500 million)
- *"Satisfied customers."* (UK non-PIE, 500 - less than 1,000 employees, latest revenue £5 billion - less than £10 billion)
- *"More improved reputation and image in market."* (UK non-PIE, 1,000 – less than 10,000 employees, latest revenue £1 billion - less than £5 billion)
- "More aware of performance."(UK PIE, 1,000 – less than 10,000 employees, latest revenue £100 million - less than £500 million)
- *"Greater diversity and more gender neutral."* (UK PIE, 1,000 – less than 10,000 employees, latest revenue £1 billion - less than £5 billion)
- *"Better reporting environment."* (Global non-PIE, 50,000+ UK employees, latest UK revenue £10 billion +)
- *"Better impact reporting."* (Global PIE, less than 250 UK employees, 250-less than 500 global employees, latest UK revenue less than £100 million)

However, for some the impacts have been negative:

- *"Additional time on compliance means less time on operations."* (UK, 250-less than 500 employees, latest revenue less than £100 million)
- "Jobs that used to take 20 mins now take an hour." (Global PIE, 1,000 – less than 10,000 UK employees, latest UK revenue £5 billion - less than £10 billion)
- *"More work for my company."* (Global PIE, 250-less than 500 UK employees, latest UK revenue £500 million - less than £1 billion)

A quarter of respondents said that their organisation had taken action as a result of feedback from stakeholders. This tended to be around improving the reports themselves and wider communications. Again, this was more so the case for larger companies than smaller companies (27% versus 14%).

Overall, nearly four in 10 thought that the regulations had had a positive impact on their company. A substantial proportion (23%) were undecided, stating that they didn't know. Larger

companies were much more positive with 42% agreeing compared to 23% of respondents from companies with less than 500 employees in the UK.

Summary

The sample of companies included in the research do not routinely measure the costs of complying with the legislation and it proved difficult to attribute values to these, particularly given the broad reporting headlines and the freedom that businesses have to choose what they wish to publish. Costs are likely to be driven by a range of factors including the size of the business, the sector in which it operates, the use of external advisors, and the extent to which it published non-financial information prior to 2013. The regulations do seem to have a positive impact however, given that only four in ten reported publishing non-financial information prior to their introduction. Understanding the regulatory requirements is a key cost to companies – especially in Year 1.

The 2016 regulations do not appear to have been a major burden to sampled companies with many saying that they already collected this information. This is also in line with the stakeholder view that these regulations were evolutionary rather than revolutionary.

A substantial minority of respondents reported that their organisation used the data internally in their organisation, mainly to manage risk and set strategy. Just under a fifth suggest that their organisation does not use the information.

Overall, company respondents' views on the impacts and benefits of the regulations were mixed. Some seemed to embrace the regulations while others viewed non-financial reporting as just another administrative burden with which they had to comply. This variation in practice was also apparent in PwC's review of 30 early reports in 2017[3], where it was evident that, in the majority of cases, there was no specific mention of the non-financial reporting regulations and little discussion of impacts.

However, a majority do see benefits to their organisation overall, with two thirds of respondents in publicly listed companies suggesting that non-financial reporting has made their company more attractive to investors. There was also some ambiguity about the extent to which the information is used by different stakeholder groups.

[3] www.pwc.co.uk/audit-assurance/assets/pdf/responding-to-non-financial-reporting-regulations.pdf

Conclusions

All the stakeholders we spoke to in the course of this research were in favour of non-financial reporting, as were many of the businesses that responded to our survey. Both groups found it difficult to comment on the specific impacts of the 2013 and 2016 regulations, given that the former were quite high level, and the latter reflected in only one cycle of reporting but stakeholders agreed that non-financial reporting has improved greatly since 2013. In general, stakeholders were very positive about the strength of the corporate governance regime in the UK.

There was a general consensus amongst stakeholders that the importance of non-financial reporting would only increase as influential investors such as Larry Fink really push for greater transparency and as the focus on the Sustainable Development Goals increases and the recommendations of the Taskforce for Climate-related Disclosures become embedded. Several stakeholders also identified a growing interest from wider society (including employees and future employees) in non-financial reporting. A recurring theme was also that non-financial information is a slight misnomer as all information relating to a company has a financial impact, with several citing recent environmental scandals that have impacted share prices severely.

While several stakeholders were able to identify examples of good practice in non-financial reporting, it was clear that there is wide variation in the quality of the reports. For some, this variation is a positive as it reflects well (or indeed badly) on the company, thus giving greater insight. For others, the variation makes it hard to compare companies.

Most welcomed the opportunity for companies to “tell their story” with some latitude but specific metrics would also be welcomed. This variation in approach was also evident in responses to the company survey, with some seeing compliance as an administrative burden – and indeed the challenges of engaging with businesses that we encountered in this research could be indicative of the importance of non-financial reporting on the corporate agenda at the current moment in time.

The (non-statutory) guidance published by the FCA in July 2018 clearly sets out the purpose of the strategic report:

“The communication principles suggest that the strategic report should have the following characteristics: be fair, balanced and understandable; be concise; have forward-looking orientation; include entity-specific information; and link related information in different parts of the annual report… The communication principles are intended to emphasise that the strategic report is a medium of communication between a company’s board and its shareholders.”

The stakeholders that participated in this research suggested that not all reports met these characteristics. They also identified a number of other issues. Overall, there was a debate around:

- Definitions and the potential for confusion over which regulations should apply to which company (i.e. Public Interest Entities versus quoted companies)
- Materiality and length of the reports
- Inconsistency and lack of comparability between different reports

The materiality of the reporting was of particular concern with some stakeholders suggesting that some companies reported on the latest 'hot topic' or were influenced by specific lobbying groups without regard to their wider impacts. This was particularly the case in relation to the impacts of companies' supply chains, with several respondents seeking greater transparency in this regard.

This perceived lack of materiality was also linked to the length of the reports, which can run to 500 pages. There was a suggestion that the investor community was looking for reporting that was sharper, more concise and less generic. There were mixed views however on whether specific and common metrics and reporting frameworks would be of value. In general, stakeholders would value more information on supply chains, workforce composition and clarity around environmental impacts and their definition. All three investor association representatives that participated in this research suggested there was too much information in the reports.

For companies, it appears that they do not routinely measure the costs of complying with the legislation. In the main, it is difficult to attribute a value to these, particularly given the broad reporting headlines and the freedom that businesses have to choose what they wish to publish. It was also unclear whether respondents were fully aware of their company status as a public interest entity and thus whether the 2016 regulations apply to them. The company results should however be treated as indicative rather than representative given the methodological limitations identified above.

Costs are likely to be driven by a range of factors including the size of the business, the sector in which it operates, the use of external advisors, and the extent to which it published non-financial information prior to 2013. The regulations do seem to have a positive impact however, given that only four in ten reported publishing non-financial information prior to their introduction. A substantial minority also used the information internally, to help manage risk and set strategy. There were mixed views amongst companies about the benefits of the regulations to them, with a substantial proportion stating that the benefits are likely to increase over time and others describing compliance as a pure administrative burden.

Respondents were also keen that any changes to the regulations were future-proofed and that new developments such as the Sustainable Development Goals and the recommendations of the Taskforce for Climate-related Disclosures were incorporated into any new guidance or regulations to streamline the regulatory landscape and help companies respond to change.

This publication is available from: www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions

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