Case study for EEB Semi-final competition

Standardization of non-financial reporting

The twenty-first century is marked by an increased demand for more sustainable and measurable corporate practices. In their study, the authors Lucy Pérez et al., (2022) note that the need for companies to earn their social, environmental, and regulatory "license" is on the rise. More than 90% of companies in the S&P-500 Index[1] regularly publish some form of ESG reports[2], and almost 70% of companies in Russell 1000 Index[3], according to the Governance & Accountability Institute´s report (Deckelbaum, 2021). Awareness of socially responsible investing will most likely increase in the future as the Millennial generation chooses sustainable solution over 90% of the time and pays much more attention to this issue than older generations (Chong, 2017). Bloomberg Intelligence (2021) estimates that assets invested in ESG will grow to $50 trillion by 2025.

At the same time, there is growing pressure from international investors, stakeholders, and society at large for more and more disclosure, reporting, and ultimately transparency in financial and, in recent decades, non-financial reporting (Pérez et al., 2022). Non-financial reporting (NFR) should disclose information on how companies manage environmental issues, human resources, anti-corruption, community relations and industry-specific risks. However, there are different standards and definitions used by reporters and policymakers. Choosing the right reporting standards and frameworks is a challenge that companies must address. According to EU policy (Non-Financial Reporting Directive (NFRD), 2014), companies can choose one or more national or international reporting standards to prepare their reports as they wish.

Please, tackle these dilemmas:

Should companies have the freedom of choice in selecting non-financial reporting framework?

Who is to set the harmonisation and comparability between Non-financial Reporting standards?

Does environmental, social and corporate governance matter in times of crisis? Or should the companies be more flexible in complying with ESG?

Sources:

- Bloomberg Intelligence. (2021, July 20). ESG 2021 Midyear Outlook. Https://Www.Bloomberg.Com/Company/Press/Esg-Assets-Rising-to-50-Trillion-Will-Reshape-140-5-Trillion-of-Global-Aum-by-2025-Finds-Bloomberg-Intelligence/
- Chong, K. (2017). Millennials and the rising demand for corporate social responsibility. California Management Review.
- Deckelbaum Ariel, Karp Brad, Curran David, Jeh Charles Johnson, Lynch Loretta, Bergman Mark, & Weiss Paul. (2020, August 1). Introduction to ESG. Https://Corpgov.Law.Harvard.Edu/2020/08/01/Introduction-to-Esg.
- Lucy Pérez, Dame Vivian Hunt, Hamid Samandari, Robin Nuttall, & Krysta Biniek. (2022, August 10). Does ESG really matter—and why? McKinsey Quarterly.
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[1] The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

[2] An ESG report or Sustainability report is a report published by a company or organization about environmental, social and corporate governance (ESG) impacts.

[3] The term Russell 1000 Index refers to a stock market index that is used as a benchmark by investors. It is a subset of the larger Russell 3000 Index and represents the 1000 top companies by market capitalization in the United States