

DOKUZ EYLÜL UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF BUSINESS ADMINISTRATION
BUSINESS ADMINISTRATION DOCTORATE PROGRAM
DOCTORAL THESIS
Doctor of Philosophy (PhD)

**THE EVOLUTION OF CORPORATE SOCIAL
RESPONSIBILITY AND AN EMPIRICAL ANALYSIS OF THE
IMPLEMENTATION OF THE EUROPEAN UNION
ACCOUNTING DIRECTIVE**

Melissa Nihal CAGLE

Supervisor
Prof. Dr. Çağnur KAYTMAZ BALSARI

İZMİR – 2017

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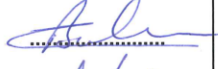
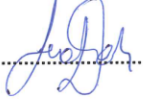
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DECLARATION

I hereby declare that this doctoral thesis titled as “The Evolution of Corporate Social Responsibility and an Empirical Analysis of the Implementation of the European Union Accounting Directive” has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resources in the reference list. I verify all these with my honor.

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ABSTRACT

Doctoral Thesis

Doctor of Philosophy (PhD)

**The Evolution of Corporate Social Responsibility and an Empirical Analysis of
the Implementation of the European Union Accounting Directive**

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Dokuz Eylül University

Graduate School of Social Sciences

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This study analyzes the harmonizing effect of the Accounting Directive amendment on the CSR (Corporate Social Responsibility) reporting practices of EU (European Union) Member States and EU Candidate Countries. In light of the continuing lack of consensus under the CSR literature/practice and the serious restrictions on achieving “relevant, consistent and comparable” CSR information across the Member States, the EU published the principle based Accounting Directive and its amendment [2013\34\European Union and 2014\95\ European Union]. However, while uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices, the Directive transposition efforts of the EU Member States and Candidate Countries are still ongoing. Thus, this creates a motivation to analyze and explore current harmonization level for CSR practices within the EU because, unless national provisions are not aligned with European Union rules, the shared goal of achieving a united Europe cannot be realized.

The analysis was conducted on electronic data derived from the full sample of the sustainability reports listed under the GRI (Global Reporting Initiative) Database between the years of 2014-2015. The GRI report information was hand-collected from the reports listed under the GRI Database and the final sample size for the recorded reports was 3379.

I conducted multiple 3 way chi-square tests of independence in order to statistically test for my hypothesis and determine that undertaking regulation levels under the market can have a positive effect on harmonizing and improving financial report comparability.

Keywords: Corporate Social Responsibility, Harmonization, Regulation, Accounting Directive, Compliance



ÖZET

Doktora Tezi

Kurumsal Sosyal Sorumluluğun Evrimi ve Avrupa Birliği Muhasebe

Direktifinin Uygulanmasına Yönelik Ampirik Bir Analiz

Melissa Nihal CAGLE

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Bu çalışma, Muhasebe Direktifinin [2013/34/AB ve 2014/95/AB] AB üyesi ve aday ülkelerinin Kurumsal Sosyal Sorumluluk (KSS) raporlama uygulamaları üzerindeki uyumlulaştırma etkisini analiz etmektedir.

Avrupa Birliği bu ilke bazlı Direktifi KSS literatürü/pratiği altındaki mevcut uzlaşma eksikliği ve üye devletler arasında "ilgili, tutarlı ve karşılaştırılabilir" ["D.2014/95/AB" madde 21] bilgiye ulaşma kısıtları doğrultusunda yayınlamıştır.

KSS uygulamalarının yaygın ve uyumlu hale getirilmesi için benzersiz bir konuma sahip olmakla birlikte, Muhasebe Direktifini ulusal muhasebe sistemleri altına entegre etme çalışmaları hale devam etmektedir. Bu durum AB'nin KSS uygulamaları için mevcut uyum seviyesini analiz etmek ve araştırmak için bir motivasyon yaratmaktadır.

Analiz 2014-2015 yılları arasında GRI (Global Raporlama Girişimi) Veritabanı altında listelenen sürdürülebilirlik raporlarını kapsamakta olup, elektronik veriler üzerine yürütülmüştür. GRI raporu bilgileri, GRI Veritabanı altında listelenen raporlardan elle toplanmıştır ve kaydedilen rapor sayısı 3379'dir.

Hipotezi test etmek için 3 yönlü ki-kare testi uygulanmıştır ve Direktifin KSS raporları altında rapor karşılaştırılabilirliğini artırmak üzerinde pozitif bir etki yarattığı tespit edilmiştir.

Anahtar Kelimeler: Kurumsal Sosyal Sorumluluk, Uyumlaştırma, Düzenleme, Muhasebe Direktifi, Uyum



**THE EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY AND AN
EMPIRICAL ANALYSIS OF THE IMPLEMENTATION OF THE
EUROPEAN UNION ACCOUNTING DIRECTIVE**

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ABBREVIATIONS

C	Compliant
CERES	Coalition For Environmentally Responsible Economies
CSR	Corporate Social Responsibility
CF	Compliance with Failures
EC	European Commission
EU	European Union
FC	Fully Compliant
GRI	Global Reporting Initiative
KKS	Kurumsal Sosyal Sorumluluk
LE	Large Enterprises
MNE	Multinational Enterprises
NC	Non Compliant
OJEU	Official Journal of the European Union
PIE	Public-interest Entities
SME	Small and Medium Sized Entities
USA	United States of America

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INTRODUCTION

Even though the popularization of CSR has increased within the last few decades the topic is, in fact, longstanding and constitutes an important part of the relationship between businesses and society. Since the 1930s, the topic has been in debate and has evolved continuously, facing an influx of activity and gathering the attention of various international organizations and events. Not only have these events been instrumental in facilitating effective discussions on CSR, but have created an inclusive environment where national and international agencies alike may make their opinions known and have also had significant bearing on how regulators choose to influence business conduct for CSR concerns.

The European Union strategies has especially benefited from these discussion and the stage has been set for the development of the CSR agenda. The proposals put forth by the Commission are complementary to achieving growth, increasing prosperity and creating quality jobs (OJEU, 2012a: 2). By embedding these actions under their core business activities, firms can better manage practices and engage with the business community. These practices can also aid in minimizing the negative impact on society (such as damaged trust levels in the market) while abiding legal obligations. Additionally, incorporating CSR under the business practice can result in numerous positive benefits and these can be found in various formats of financial performance, such as; earnings quality (Hong and Anderson, 2011), capital market benefits (Dhaliwal, et al. 2011), but also under internal capacity building (Skouloudis et al. 2010; Hedberg and Malmberg, 2003), increases in corporate virtue (Orlitzky et al., 2003) and legitimacy building (Hedberg and Malmberg, 2003). Furthermore, Malik (2015) argues that firms align their corporate goals and employ CSR as a strategic tool to maximize value, and that firms with strong CSR performance have greater potential to increase shareholder value as well as the value of other stakeholders.

This study analyzes the harmonizing effect of the Accounting Directive amendment on the CSR reporting practices of EU Member States and EU Candidate Countries. In light of the continuing lack of consensus under the CSR literature/practice and the serious restrictions on achieving “relevant, consistent and

comparable” [“D.2014/95/EU” item 21] CSR information across the Member States, the EU published the principle based Accounting Directive and its amendment [Directive (2013/34/European Union and (2014/95/European Union)]. However, while uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices, the Directive transposition efforts of the EU Member States and Candidate Countries are still ongoing. Thus, this creates a motivation to analyze and explore current harmonization level for CSR practices within the EU because, unless national provisions are not aligned with European Union rules, the shared goal of achieving a united Europe cannot be realized.

Exploring the views presented under the Public Interest Theory of Regulation and the literature regarding the effect of imposing regulation, I test for a positive effect on harmonizing and improving financial report comparability and look for a significant increase in the GRI Related reports (distributed as Level B and Level A) for Directive Implementing countries after the publication of the amendment.

The study aimed to offer a unique look at the current harmonization trend for non-financial disclosures under the EU. It also aimed to provide policy recommendations useful in designing effective social and environmental accountability process and facilitate accountability for organizations across the EU.

The study was separated into five sections. Under the first chapter I analyzed the topic of Corporate Social Responsibility in detail. Before responding to the call for harmonization of CSR information, it is imperative to first break down the development of the concept. Throughout the first section, I trace the theoretical roots and foundations of the concept as far back to the 1930s and highlight the movements success in facilitating CSR development under modern literature. I next analyzed the involvement of the European Union/European Unions organizations and their view on a new unified definition for CSR under chapter two.

Under chapter three, I analyze the culmination of the European Union cooperation efforts surrounding the debate of CSR, is the Accounting Directive and its amendment [Directive (2013/34/European Union and (2014/95/European Union)]. Under chapter four, I continue my analysis of the Accounting Directive and amendment and test its success in ensuring comparable CSR reports under 28 EU Member States and 5 Candidate countries. The analysis was conducted on electronic

data derived from the full sample of the sustainability reports listed under the GRI Database between the years of 2014-2015. The GRI report information was hand-collected from the reports listed under the GRI Database and the final sample size for the recorded reports was 3379.

As the transition period granted by the EC to EU Member States in order to assimilate the requirements within national law/regulation/provisions affords an opportunity to test the CSR harmonization efforts of early adopting countries, I conducted multiple 3 way chi-square tests of independence in order to statistically test for my hypothesis: “the implementation of the Accounting Directive amendment has increased the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries”.

Under chapter five, I determine that, undertaking regulation levels under the market can have a positive effect on harmonizing and improving financial report comparability. I determined that, when re-evaluating the sample to consider Accounting Directive recognized criteria, the harmonizing effect of the amendment is apparent. Study provided insight the reporting practices of first time, consecutive reporters and established that first-time reporters have benefited from the harmonizing affect of the document. On the other hand, the consecutively reporting firms have continued to adamantly follow their previous reporting practices and have, as of yet, failed to adapt to changes in CSR reporting requirements. Following this, the GRI related publications are further divided to reflect Level A and Level B reports and it is determined that the production under Non-GRI reports has, in turn, resulted an increase under Level B reports. Thus, it can be argued that listed first time reporting firms are shifting away from Non-GRI reports and are focusing their efforts on producing Level B reports. Additionally, I determine that an access to the IFRS by MNEs and Large Enterprises shifts these firms reporting practices away from the Accounting Directive, while contrarily-a lack of reporting guidelines specifically targeting SMEs motivates these firms to successfully incorporate the document under the financial reports. Finally, I determine that, ultimately, industry dominance level at country level is not significantly correlated with CSR levels-except for under some industries open to strong external pressure.

The implications of the study are as follows. The results draw attention to the need for further policy recommendations in order to generate awareness of the Accounting Directive amendment and the subsequent reporting requirements. The current trend under these disclosures indicates a failure on part of the harmonization efforts of the EU and unless these issues are resolved, the goal of achieving comparable social and environmental reporting and increasing accountability levels shall remain incomplete. Finally, the last section concludes.



CHAPTER ONE

THE EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY

1.1. DEVELOPMENTAL MILESTONES FOR CSR

Even though there is an increasing pressure on organizations to do something regarding CSR under their activities and reports, there is a lack of consensus that still continues under the CSR literature and practice on the content of such processes. Especially, within the last two decades, CSR legislation and requirements have been the topic of extensive discussion. Coupled with the support of various international events and organizations, the issues of CSR and sustainability have become a major development for global corporations (Dilling, 2010: 19). Additionally, it is even becoming an increasingly important element on national and transnational policy agendas (European Commission, 2014: 7). However, even though the popularization of CSR has increased within the last few decades-when the literature on the subject is analyzed- it is determined that the topic is longstanding and constitutes an important part of the relationship between businesses and society. I trace the theoretical roots and foundations of the concept as far back to the 1930s and determine that: efforts to develop corporate law to deal constructively with regulatory issues were instrumental in facilitating CSR development under modern literature (Mullerat and Brennan, 2005: 98). As stated by Wood and Jones (1995: 132), early definitions of CSR were tied more to society's interests than to those of the firm. The central issue was the role of business.

In the beginning of the 1930s, professors Adolf Berle and Merrick Dodd strongly debated the separation of investor ownership and management control (Sage Publications, 2011: 146) and other groups that are influenced by the corporation-underlining the future debates for CSR (Mullerat and Brennan, 2005: 98). The issue stretched over several articles/books and are believed to have provided the philosophy on which the US securities legislation was based.

According to Berle and Means, (1932: 2), in 1929 the 200 largest business corporations owned 49% of all corporate wealth, and cases of excessive use of power were common. In fact, Macintosh (1999: 140) states that it was often necessary for

shareholders to look to the courts to redress their grievances. This lack of corporate accountability was worrisome as the market was also simultaneously dealing with unprecedented economic growth (Macintosh, 1999: 145). Faced with such disregard, Berle published articles on the responsibility of the corporate manager. He argued that as statutes and charters (Mullerat and Brennan, 2005: 98) provided managers with broad powers to act according to their discretion, the courts new willingness to impose stiffer policy could be employed in defining the fiduciary duty for management (Sage Publications, 2011: 146) to ensure the managers employed said powers for “the benefit of all the shareholders as their interests appears” (Berle, 1931: 1049). Following Berle’s argument, Dodd (1932) entered the debate and published “For whom are corporate managers trustees?”. Under his article, Dodd primarily argued that corporations had another vital function (Sage Publications, 2011: 146) and that they were accountable to both the society in which they operated and their shareholders (Macintosh, 1999: 147). Unlike Berle, Dodd saw managers as trustees for both shareholders and the society. They suggested that, “there is in fact a growing feeling not only that business has responsibilities to the community but that our corporate managers who control business should voluntarily and without waiting for legal compulsion manage it in such a way as to fulfill those responsibilities” (Dodd: 1932;1153). Under his study, Dodd (1932) argued that managers had also come to recognize they needed to consider social responsibility when running their companies and that when managers paid more attention to the needs of their employees and consumers, this would benefit shareholders. With that said, Dodd (1935) also questioned the effectiveness of the law in ensuring that directors would act in the interests of shareholders.

Ultimately, it was these views of Dodd which allowed for a broader recognition of reporting responsibilities of corporate management, allowing them to be considered as the forerunner (Sage Publications, 2011: 98) of CSR. The Berle-Dodd debate was finally resolved when in Berle published his book titled “The 20th Century Capitalist Revolution” in 1954. Under his study, Berle readdressed his discussions with Dodd and stated that “the argument has been settled...for the time being...squarely in favor of Dodd’s contention” (Berle, 1954: 169), conceding the argument as judicial decisions and social fact had supported Dodd’s view of not

allowing the development of strict fiduciary duty. Berle is, of course, referring to the 1953 “Smith Manufacturing Company v. Barlow” case resulting in the definitive establishment of a corporation's ability to make philanthropic donations. The law now offered managers discretion to consider stakeholders other than a corporation's shareholders, further supporting Dodd's arguments.

The Berle-Dodd debate also had an effect in the development of securities legislation. According to (Sage Publications, 2011: 147) both Berle's and Dodd's views regarding corporate power and responsibility were instrumental in the preparation of the 1933-1934 acts. They state that as stakeholders did not control management, the full disclosure of information and transparency were the fundamental philosophies on which control was based. They argued that disclosure either flows from Berle's separation of ownership argument or Dodd's view on CSR.

During the period of Berle's and Dodd's debate, another academic (Barnard, 1938: 1948) arose to the forefront of the discussions on CSR. Barnard is (Schwartz, 2007: 48) also one of the first academics to recognize the importance of external stakeholders to the firm. In 1938, under “The Functions of the Executive”, he focused on moral status and responsibility of executives (Mahoney, 2009: 1) and highlighted the role of external stakeholders. Moreover, he supported that society as a whole, played an important role in the happenings of an organization. According to Barnard, the firm was a series of complex social systems (Barnard, 1945: 178) and cooperation among the different stakeholders within this social system was imperative for achieving organizational goals (Gabor and Mahoney, 2013: 1).

Thus, in light of the growing concern for society overtaking the literature, the increasing complexity of the industry and the power now afforded to large-scale organization, he argued that good governance was the means of thriving within the business domain, while simultaneously achieving public good (Gabor and Mahoney, 2013: 2). He also highlighted the importance of non-economic motives (Barnard, 1948: 15), such as: "prestige, competitive reputation, social philosophy, social standing, philanthropic interests, combativeness, dislike of friction, technical interest, desire for regard of employees, love of publicity, fear of publicity" all of which were stated to be motives that conditioned the manager (Barnard, 1948: 15). Barnard also argued that at present, it was the balance sheet that kept these non-economic motives

from running wild (Mahoney, 2009: 4), however that it was the managers “moral obligation” to do so. Additionally, he supported that the survival of the firm was so intertwined with moral commitment that the organization as going concerns depend on it (Mahoney, 2009: 6).

Another of Barnard’s contribution to the literature was his attempt to bridge the requirements of the formal organization with the needs of the social system (Schwartz, 2007: 46). As individuals possessed their own desires and motives, he argued that these could be modified through the executive function to match the goals of the organization via use of incentives. However, these shared goals could only be achieved if commonly known- through the “effective communication (oral and written)” (Barnard, 1938: 89).

Following the Berle-Dodd debate on the corporations rising power in society and its consequences, Drucker (1946) put forth that organizations were representative institutions of modern society and that its power over its workers and consumers gave it political, economic and social dimension (Mullerat and Brennan, 2005: 99). From a careful examination of the two written text: “Concept of the Corporation” and “The Practice of Management”, it is determined that Drucker (1946; 1954) has provided a major contribution to the CSR literature. Drucker (1954), argued that “profit was not the purpose of business... but a limiting factor of it” (Drucker, 1954: 34). Instead, Drucker suggested that as a business enterprise is an organ of society, the purpose of business must be society itself (Schwartz, 2007: 48).

Contrarily, however, Drucker also supported that a valid purpose of business is to create a customer and that the most important functions of business were marketing and innovation (Schwartz, 2007: 49). Drucker further adds to the Berle and Dodd debate and not unlike the two academics, argues that “manager decisions have great impact upon society, and they have to make decisions that shape the economy, the society, and the lives of individuals within it” (Drucker, 1954: 382). According to Drucker, the element of “social power” (Schwartz, 2007: 49) is the main justification for incorporating social responsibilities under the organizations activities. Drucker (1954: 381) states that “...society is not just the environment of the enterprise...even the most private of private enterprises is an organ of society and serves a social function...”. Thus, it can be argued that because of the power

conferred upon the organization and its managers, they must assume responsibility for the public good (Schwartz, 2007: 50). Also according to Schwartz (2007) corporations must act responsibly due to the significant potential consequences that can result from corporate behavior. This argument ultimately paves the way for justifying CSR activities under organizations. With that said however, Drucker (1954) argues that there should be a limit to these CSR activities. He states that if firms try to assert responsibilities for a group they do not have (such as education, culture and the arts, the press, or foreign affairs), then this could result in society finding the behavior intolerable.

According to Carroll (1999: 270) the period after the end of the 1940s and Howard Bowen 's (1953) book titled "Social Responsibilities of the Businessman", marks the beginnings of the modern period of literature on CSR. Synthesizing the intellectual debates surrounding the doctrine on CSR in the first half of the century (Bowen, 2013: xi) and building on the arguments stressed under Berle, Dodd, Barnard and Drucker- Bowen (1953) proceeded from the belief that the large business corporations that owned a great percentage of all corporate wealth and had cases of excessive use of power (Berle and Means, 1932: 2), were vital centers for decision making and that they affected the daily lives of citizens (Carroll, 1999: 269). Cited regularly and increasingly (Bowen, 2013: vii) in CSR based studies and translated into several languages (Chinese and French), Bowen (1953)'s contribution to the literature and his role in starting seminal discussions of the topic is quite apparent.

Even though the underlying CSR motivations of organizations have evolved continuously over the years, it can be argued that the true modern view of CSR began with Bowen (1953). Under his study, Bowen (1953), an economics professor, offered a careful analysis of the economic and legal arguments regarding social responsibility and set forth the widely accepted form of CSR definition. 60 years after Bowen (1953) was initially published, this definition is still relevant today.

The book titled "Social Responsibilities of the Businessman", was revised by Howard Bowen's son, Peter Bowen, to underscore the intellectual roots on CSR. Under the introduction written by Jean Pascal Gond, the professor's son argues (Bowen, 2013: x) that in fact, little has changed since the assertions of Howard

Bowen in regards to conceptual and analytically progress in CSR- highlighting that Bowen (1953) was an academic that was ahead of his time.

To Bowen (2013: xiii), CSR is a innovation worth exploring as it can potentially address the failures of the free market. Thus, aware of the potential problems that emerged with the professionalization of management and the unprecedented growth of businesses, Bowen (2013), not unlike Berle, Dodd, Barnard and Drucker, concentrated on the separation between ownership and control. He argued that (2013: xiv) it is a desire for power that guides social responsibility and that businesses must be controlled through “counter-powers” (eg. Labor unions) to avoid paternalistic approaches to CSR. According to Bowen (2013: 3), the businessman occupies a strategic role and is a central figure in society. Decisions of social welfare are assigned to them and although they do not act upon these decisions on their own and divide it among “consumers, workers, farmers and the government”, nevertheless they attend to an important position of great influence (over stockholders, workers, customers, a broader-sweep of economic affairs and all) and leadership (Bowen, 2013: 3).

Bowen (2013: 8) argued that the literature on social responsibility rests upon the idea that businesses should be concerned with their effect on valued social goals. Bowen goes on to list these goals as summarized from the literature. They state that although may could accept this list in principle, the goals are not a definitive list by which social responsibilities of businesses must be defined. The offered tentative list (Bowen, 2013: 8-12) of these social goals are as follows; high standards of living, economic progress, economic stability, personal security, order, justice, freedom, development of individual person, community improvement, national security, and finally, personal integrity.

These goals are the standards by which the social performance of businesses are judged. Alongside their own personal interests, managers are expected keep these valued social goals in mind when making decisions on “production, prices, personnel, inventories and investment” (Bowen, 2013: 12). Overall, even small sized business have large economic outcomes (Bowen, 2013: 4) on important national matters: such as, the amount of employment and prosperity, the rate of economic progress, the distribution of income among various groups, the organization of industry and trade.

Whether it's through the production decision of a new product or service; the level of employment/prices and the rate of the economic process through the purchase of a new plants and equipment; the inflation/acceleration of recession through the increased or decreased levels of investments; the level of employment and the efficient allocation of income through an influence on wage policy or dividend policy; the influence of moral and cultural standards through advertisement or public relations; the contribution to tension between labor and management or the international platform- even small businesses can, when taken collectively, contribute to the economic system (Bowen, 2013: 4). Thus, it is imperative that managers abide to a common set of social goals (Bowen, 2013: 13)- least organized society ceases to exist, and chaos prevails.

However, these goals do not impose a new burden for managers. Back in the 1950s when Bowen's (1953) "Social Responsibilities of the Businessman" was initially published, Bowen (2013: 13) argued that businessmen have always been expected to follow these rules of conduct and guide their behavior accordingly. Moreover, Bowen (2013: 44) stated that businesses are now (in the 1950s) faced with a rising awareness of their role in society and that conducting business in the sole interest of stockholders is not their only duty. Instead, Bowen (2013: 48) conveys that a considerable number of businessmen have expressed views that the directors of a firm are trustees and do not only work for the stockholder or the owners. They instead work for groups of "workers, suppliers, consumers, immediate community and the general public" (Bowen, 2013: 48). The days of profit maximization (Bowen, 2013: 52) is rapidly fading. The responsibility of businessmen now [as published back in the 1950s] also include certain social value goals towards interest groups other than shareholders.

Bowen also state that "...it is becoming increasingly obvious is that the freedom of choice and delegation of power... businessmen exercise would hardly be permitted to continue without some assumption of social responsibility" (Bowen, 2013: 5). They go on to argue that "... (when) the powers exercised and the choices made by businessmen do not contribute to the general welfare... (they) have to revise their behavior voluntarily or... be subjected to controls" (Bowen, 2013: 6). Overall, the freedom afforded to businessmen depends on their individual actions. If these

actions do not hold up to valued social objectives, eventually steps will be taken in order to restrict their power.

Synonyms for “public responsibility”, “social obligations” and “business morality”, social responsibility is defined by Bowen (2013: 6) as “the obligation of businessman to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society”. While social responsibility business focuses on (Bowen, 2013: xiv) “whether or not CSR can help business reach the goals of social justice and economic prosperous by creating welfare for a broad range of social groups, beyond the corporations and their shareholder”.

Bowen (2013) also offers several insights on the limitation of social responsibility. They argue that social responsibility is in no way the final solution to most or many of the problems plaguing the economic life (Bowen, 2013: 7). To consider it otherwise saddles businessmen and society with responsibilities they cannot hope to discharge effectively. The incorporation of social responsibility activities under the operations of the firm is not a “cure-all” (Bowen, 2013: 7), however it does contain an important truth: “it may not be brushed aside as mere wishful thinking on the part of idealistic reformers or as business propaganda” (Bowen, 2013:8).

Secondly, businessman might be unable to assume social responsibility obligations beyond the production of a product at minimum cost (Bowen, 2013: 107). This means that in the long run, the competitive disadvantage afforded to managers as a result of their socially responsible actions might end up “driving the good out”. The good intentions of managers could eventually drive the cost of production and cause the business “to lose in the competitive race unless their competitors are equally concerned about social welfare” (Bowen, 2013: 107).

Thirdly, even if manager continue their socially responsible actions under the operations of the firm, they might do so via funds extracted from the public “in the form of monopoly profits” (Bowen, 2013: 107) or lower wages (Bowen, 2013: 112) for employees. Of course, it does not stand that social responsibility should be neglected in order to cut prices. Bowen (2013: 113) argued that the welfare of society is not only related to the quantity of the final product or service, but also the

conditions in which these products or services are produced. This brings us to another limitation under social responsibility.

Fourthly, the assumption that businessmen may rise above their profit motive and narrow interest in their companies in order to full-fill their social obligations (Bowen, 2013: 115). Bowen (2013: 115) states that businessmen are strongly oriented in the “spirit of profit making”, which in turn blinds them to the social implications of their tasks. Bowen agrees with the assessment and states that (Bowen, 2013: 115) this is a result of the businessman associating the welfare of the business, with the welfare of society.

The final argument against the doctrine of social responsibility addressed under Bowen’s book is that CSR might be used as a device to retain power and as a justification of power (Bowen, 2013: 118). This is ironic as Bowen contributes to the belief that CSR evolved out of a desire to control the business through “counter-powers”. For example, through their control over the media, businessmen can influence consumer choice and public opinion and through their financial power, they may influence the government (directly or indirectly) (Bowen, 2013: 118).

Bowen argued businessmen might try to protect their “favored position” (Bowen, 2013: 118) by propagating the illusion that “they have received their power because of their exceptional qualifications” and therefore, may employ this power as “benevolent trustees” in the interest of society. Following this line of thought, Bowen states that businesses can also argue that it is they who should define public interest and designate the responsibilities of business (Bowen, 2013: 119).

Another distinguished scholar under this field is Keith Davis (1960). According to Davis (1960: 70), social responsibility can be defined in various ways. They use the term within a management context and refer to “a business decision and actions taken for reasons at least partially be on the firm's direct economic/technical interests”. They divide social responsibility into two categories; the businessman's obligation to the community in regards to the firm's economic development affecting public welfare (employment, inflation and competition) and, the businessman's obligation to nurture/develop human values (morale, cooperation, motivation and self realization).

According to Davis (1960: 73), while a great number of people accept the

concept of social responsibility, there are still groups arguing that the business is solely an economic institution with its responsibilities limited to the "economic aspect of public welfare". For example, businessmen are concerned about the economic cost of unemployment and increasing the productivity of work, but not with preserving human dignity, producing social disorganization and providing work fulfillment. Davis (1960: 75) agrees that the primary function of an organization should be an economic aspect and the non-economic should be secondary. Nevertheless, they argue that these non-economic functions of business exist and that the general public does not wish for them to be overlooked. Social responsibility emerges when these categories are taken together ("socio-economic" and "socio-human") (Davis, 1960: 71) and the continued vitality of the business depends upon its vigorous acceptance (Davis, 1960: 74).

Not unlike Berle and Dodd, Davis (1960: 72) also argued that- as the government or community seek counsel from businesses and these businesses speak for important institutions/the free-enterprise or speak against unsound policies- managers are faced with considerable social power. However, ignoring this power- in favor of focusing on the socio-economic aspect of business- could potentially invite further loss of power. Thus, they argue that equating economic public welfare with social responsibility is naive (Davis, 1960: 75).

Following the publication of Bowen (1953), the body of research for CSR has seen a gradual shift for profit maximization (Bowen, 2013: xiii). Disagreeing with the notion that businesses are not merely concerned with profit but also concerned with promoting a social agenda, Milton Friedman- the 1976 Nobel prize winner in economics- states that businesses talking about their responsibility for providing employment, eliminating discrimination and avoiding pollution are preaching "pure and unadulterated socialism" (Friedman, 1970: 1). They argue that businessmen supporting the "social responsibilities of businesses in the free enterprise system" are in fact "puppets" of intellectual forces and are unwittingly undermining the basis of a free society (Friedman, 1970: 1).

Friedman (1970), builds his argument by beginning to question just "whom" the business has responsibilities towards. According to Friedman, businesses are artificial persons and may only have artificial responsibilities, however the business

as a whole cannot have responsibilities- “even in the vague sense” (Friedman, 1970: 1).

Next, Friedman argued that as the corporate executive is an employee of the business owners, their responsibility lies directly with their employers. According to the parameters set out under their contract these corporate executives must conduct their actions in accordance with the desires of the owners. Unless the corporation in question is a nonprofit organization, this responsibility is to "make as much money as possible, while conforming to the basic rules of society" (laws and ethical customs) (Friedman, 1970: 1). With this in mind, Friedman (1970: 2) adds that corporate executives are, of course, free to take part in these social responsibilities- just in their own time, using their own money and outside of their status as an agent of the corporation.

Friedman next moves on to questioning what it means for corporate executives to have social responsibility. If the corporate executive is to refrain from increasing a product price to prevent inflation; higher the “hard-core” unemployed to reduce poverty; or reduce pollution beyond what is in the best interest of the corporation - then they would be contributing to social objectives at the expense of the firm. Thus, Friedman defines CSR as acting "in some way that is not in the interest of (their) employers" (Friedman, 1970: 2) and argued that by acting in a socially responsible manner managers are in fact raising the cost of their products, shifting this cost on to their customers and spending their shareholders profits in order to generate social interest.

The reason the corporate executive is appointed is to serve the interests of the “Principle”. However, when corporate executives start spending the profit of the organization for social purposes they shift away from their designated position (Friedman, 1970: 3). This argument of Friedman highlights the differences within the pre-post 1950s CSR literature.

Previously, the argument was that social responsibility should not be neglected in order to cut prices and that businessman should rise above their profits motivate in order to fulfill their social obligations. However, it is now viewed as an exploitation of shareholders for selfish/unselfish purposes (Friedman, 1970: 3).

Another landmark study is the book titled “A Moral Philosophy for

Management” by Benjamin Selekman, published in the year 1959. Contributing to the growing discussion on the social responsibilities of the corporation, Selekman (1959: ix) argued that the moral/social values and continuing business productivity is a delicate balance- one that could easily result in drastic consequences for the business should the manager overcommit to one end of the scale.

Previously, labor and the community were viewed as a commodity and something outside the business concern, however Selekman (1959: ix) now points out that with the advancement to the new century, the moral and social obligation of a business are increasingly articulated by the spokesman of industries. However, they argue that this should not take away from the fact that in order to remain competitive and solvent, limits must be placed on the social responsibility actions of corporations.

In light of the level of hostility directed against businesses and response to the Great Depression, the shifting nature of the business owner and the separation of the owner/manager- corporations are increasingly called upon to defend their actions and prove their usefulness to the community (Selekman,1959: 6). Aware of the potential negative outcome ignoring the situation may result in, businessmen are now attempting to further clarify themselves to unite the industrial system with "American democracy" (Selekman,1959: 3). In fact, Selekman (1959: 3) argued that the social responsibility of businesses is now a favorite theme, with businessmen taking an ambiguous position the corporations are, in fact, a moral community. However, it must be pointed out that the central difference in this period is only the articulation level of the social responsibility of businesses.

According to Selekman (1959: 3) this movement is not a recent development and that the religious and moral nature of businessman (at the time) has been taken for granted. Although the first half of the 20th century is professed as the ethical awakening of businesses, this statement disregards the inherent moral philosophy of corporate executives. Moreover, Selekman (1959: 5) states that this system which advocates for individual businessman to use initiative to "raise capital, builds plans, engage labor, market products/services while in competition with one another" does not support the transcendence of competitive interest to achieve a common goal. Thus, drawing further attention to the search for a appropriate moral philosophy for

businesses (Selekman, 1959: 5).

By analyzing the current literature and practices for social responsibility actions under the business, Selekman (1959: 15) determines that in their eagerness to associate themselves with social/moral goals, businessmen have turned their backs on the "economic" side of the business. By citing Adam Smith, Selekman (1959: 15) argued that the pursuit of self-interest under competitive conditions is required in order to better serve the interest of the nation. Additionally, Selekman (1959: 15) argued that businesses have neglected to think through the implications/assumptions of moral/social responsibility and its potential effect for the business.

As the business is the coordination of "capital, science, people, machinery, resources and markets", this power system can neither be moral nor immoral. It is as this power becomes involved with individuals that moral considerations must develop (Selekman, 1959: 15). These considerations (or checks under the power system) come in the form of "authority wielders", capable of challenging the dynamic of the power system (trade unions, government agencies, farm associations) (Selekman, 1959: 16).

The main goal of the business is to maintain their level of power/authority and achieve a high level of productivity (competitiveness and profitability). The author argued that regardless of the moral intentions of the organization, it is unlikely that it will be able to survive in the long term unless they are productive (Selekman, 1959: 16). The organization must be able to produce goods/services to the competitive market, cover their expenses, provide for depreciation and yield a profit.

Thus, the author states that every action of the organization is a careful balance between the moral/social values and continuing business productivity. To put it another way, "every important act of the corporation executive creates a situation of tension...the technical must versus the ethical ought" (Selekman, 1959: 17).

Selekman (1959: 81) warns that businessmen need to keep the potential dangers of over-commitment in mind, lest they devote the business to ethical standards that are impractical of realization. Not unlike employees, the management too have limitations to their capabilities and unless this is understood, management could end up as a scapegoat for the community with the next crisis/recession/unemployment (Selekman, 1959: 85). Overall, a manager must work

with other people's capital, labor and materials. Their responsibility lies in turning these contributions into profit. A manager incapable of achieving this may "lose support of these groups" and could eventually have to "shut down his shop" (Selekman, 1959: 86).

One example provided under the author's book deals with a decision the management faces when offered to move a factory from one city to another. According to the Selekmán, (1959: 103) the move is based on economic and profitability factors, however the current city's economic viability hinges on the factory remaining within borders. If the move is finalized, jobs will be destroyed and privatization will be imposed upon workers/merchants/grocers/landlords. On the other hand, if the firm does not move, then the manager will not be able to equalize the costs between the two cities. In the end, the author argued that prudence in terms of cost will determine the final action. Of course, the manager will attempt to minimize the damage to the current city by paying separation wages, moving expenses and encouraging industry to move into town- despite this, the damage will be considerable (Selekman, 1959: 103). Selekman, (1959: 104) argued that "a business is a business" and that businesses and industries "operate in amoral, technical worlds".

Moreover, as the main concern of the business is survival (Selekman, 1959: 104), "...no businessman (would) dare for long to be too far ahead of his competition in the performance of social and moral responsibilities" (Selekman, 1959: 104). The "environment the business operates in" is what sets the limits to their scope of action. However, Selekman (1959: 105) argued that these limits are not "honesty, kindness, charity and the law", but broad economic factors.

Contributing to the discussion at hand, Friedman (1962: 112) under his book titled "Capitalism and Freedom" states that social responsibility is gaining widespread acceptance that goes beyond serving the interest of stockholders. They argue that this view is a misconception of the nature of the free economy and that the "one and only" social responsibility of business is to engage in activities to increase the profits of the organization (Friedman, 1962: 112). Additionally, the criteria for social responsibility could be developed by self-selected private individuals who cannot know for certain where the social interest of the business lies (Friedman, 1962:

113). According to Friedman (1962: 113), this involvement undermines the foundations of free society and the literature on social responsibility is a fundamentally subversive the doctrine.

The literature published on CSR following these articles rejected the notion that the sole responsibility of the organization was to generate profit and aimed at “rediscovering” how businesses may create shared value under the business and society (Bowen, 2013: xiii). Under his book titled "Private Management and Public Policy: The Principle of Public Responsibility" Preston and Post (1975), examine and contrast the views concerning the relationship between managers and the social environment.

The first view, “fundamentalism”, argued that the sole criteria by which the corporations are evaluated are their market transactions, and that its main responsibility is to engage in activities that aid in successfully completing its primary tasks (Preston and Post, 1975: 29). Based on the "market contract model of management and society relationships", each firm/individual produces a contract with other firms/individuals that grants them goods/services that they might gain (if they desire) on superior conditions from elsewhere (Preston and Post, 1975: 30). This market contract model is viewed as a description of the relationship within society and as a "desirable form of social and economic coordination" (Preston and Post, 1975: 30). According to the fundamentalist case, responsibility helps to define and achieve the optimal use/distribution of resources and that, managerial involvement should lie within identifying and developing of response to signals arising from markets. Thus, allowing achievement of a desirable form of social and economic combination/performance within the system (Preston and Post, 1975: 30).

As resources are limited, individuals must perform a "useful function" within society in order to obtain a portion of these goods/services (Preston and Post, 1975: 31). The authors argue that individuals/groups could, by working in coordination, perform these functions more efficiently. This would, in turn, allow for the development/configuration of an organization. As these organizations grow and increase in complexity, the functions of the management further evolves.

The role and responsibility of the management is defined by these functions. In other words, management engages in transactions with the rest of society via the

direction/coordination received from the confines of these functions. Management is capable of modifying/changing these tasks if in the interest of the organization. However, the fundamentalist case argued that there should be a limit to the managements ability to do so. According to this theory, management should not extend the scope of their activities beyond what is necessary to successfully complete the function (Preston and Post, 1975: 31). If the management does extend itself, this is an indicator of a deteriorating organization structure and a failure of the coordination mechanism of the economy. Ultimately, the fundamentalist view supports that any and all social concern shown by the business management is outside of the scope of the management function (Preston and Post, 1975: 32).

This view is also supported by the legal authority, as well. When the specialized role of the professional manager is analyzed under the legal literature, the authors argue that the corporate manager is an employee that serves as the “Agent” and their task is to effectively pursue the interest of the shareholders who employ them. Their main responsibility is to concentrate on “the economic” and maximize the value of the organization. To do so otherwise is a mismanagement of the funds and since the market does not provide a test of validity, the introduction of any type of social concern is dangerous (Preston and Post, 1975: 38).

However, Preston and Post (1975: 38) also argue that no fundamentalist could reject the fact that businesses are constrained in the framework of legal and social forces. While keeping the economic in mind, the authors state that the managers must also remember that the firm conforms to the basic rules of society and must abide the national law/ethical customs (Preston and Post, 1975: 38). If the firms refrain from such considerations, than the firm could suffer from the authority of society in the form of retracted grants of corporate privileges. The authors also argue that notions of social reward, control and penalties are recognized by fundamentalist (Preston and Post, 1975: 38).

Next, Preston and Post (1975: 38) discuss the limitation to the fundamentalist view. They state that one of the issues with this view is the lack of consideration for changing roles in response to the needs of society. As the economic relations of firms change legal and government framework for social activity changes as well. Thus, the argument that businesses are restricted by their legal limitations for performance

social activities is flawed. Ultimately, the legitimacy of the business depends upon their ability to service the society and not the other way around (Preston and Post, 1975: 39).

This argument is also supported by the view that (Preston and Post, 1975: 41), although managers may not be skilled at functions such as "accounting, marketing and engineering" they are still required in order to conduct their business affairs. Following this line of thought, even though businessman may not be well equipped to engage in activities in order to promote public interest for various social activities, management should respond to the need like they would any other function- by developing competence in order to do so. The authors argue that neither the neglect of accounting nor the social impact of business on society is tolerable. A business either "develops the ability to handle them or goes out of business" (Preston and Post, 1975: 41).

Not unlike Preston and Post (1975), Carroll (1979: 498) also argued that the responsibility of organizations has moved beyond economic and legal considerations. They state that issues such as economic, legal, ethical and discretionary responsibilities are integral parts of businesses social performance (Carroll, 1979: 499) and each action of the business must have these the motives embodied in it. The author also argued that these four responsibilities must be addressed simultaneously by the organization.

Carroll (1979: 500) also argued that the economic responsibility of the firm is "the first and foremost social responsibility" of the business. According to the author, the business is the foundation of our society and have the responsibility to produce goods/services in order to address the needs of society and to sell these goods/services for a profit (Carroll, 1979: 500). When considering the legal responsibilities, Carroll (1979: 500) states that society has provided the necessary ground rules (laws and regulations) in which they expect the firm to work toward their economic mission.

For ethical responsibilities, the author argued that throughout their existence business must take part in activities that are expected by society but not confined under the law. As these responsibilities are not clearly defined under the law, Carroll (1979: 500) argued that they are the most difficult for businesses to deal with.

Discretionary responsibilities, on the other hand, are responsibilities society has no clear-cut definition for. These responsibilities are up to individual judgment/choice and are left to the business's discretion. Even so, there exists societal expectations for businesses to assume these responsibilities (Carroll, 1979: 501). When combined, these four types of responsibilities make up the framework that addresses the society's expectations from businesses.

Moving on, Eberstadt (1977) supports that the corporate responsibility movement is not the result of preaching self-appointed saviors nor economy nihilist but is the recreation of the social contract of power with responsibility (Eberstadt, 1977: 77). Following the argument of Berle and Dodd, the author states that the market system is controlled by a handful of corporations that owes more than 60% of the nation's manufacturing assets (Eberstadt, 1977: 81). The large corporations are capable of influencing the political and economic system and even determines the quality of life of the country. Considering the magnitude of the power afforded to these corporations, they are regarded as institutions with social obligations and must be held accountable for their actions/inactions (Eberstadt, 1977: 81). According to Eberstadt (1977: 81), the public has accepted this philosophy enthusiastically and the degree to which firms are held accountable will be the measure for industrial/postindustrial life.

Fitch (1976: 38) defines CSR as " ... a serious attempt to solve social problems caused wholly or in part by the corporation". They state corporations are the most effective problem solvers in society and if these corporations are to survive they must take on additional burdens and apply their capabilities to broader social problems in the society they exist (Fitch, 1976: 45). Fitch (1976: 40) also adds that corporations can even go beyond the minimum requirements without suffering any damages to their level of profit.

I now move on to the last paradigm shift the topic of CSR has faced under business literature. The following authors introduced the concept of stakeholder theory and over a period of 40 years the topic became highly relevant for the CSR agenda- contributing towards the development of various initiatives and European Union regulation. However, the seeds of stakeholder theory under the CSR literature can be first seen as early as the Berle-Dodd debate. Berle (1954: 169), argued that the

judicial decisions taken by the government consider stakeholders other than corporations shareholders under their social activity. Barnard argued for the importance of external stakeholders for a firm (Barnard, 1945: 178) and stated that cooperation among the difference stakeholders within this system was imperative for achieving an organization's goals (Gabor and Mahoney, 2013: 1). In addition, Bowen (2013, 48) has stated that the directors of a firm do not only work for the stockholder or the owners but for “workers, suppliers, consumers, immediate community, the general public” (Bowen, 2013: 48) and “other interest groups” (Bowen, 2013: 52). Bowen (2013: xiv) also stated that a firm must “... (create) welfare for a broad range of social groups, beyond the corporations and their shareholder”.

Adding to the contribution these early researchers made towards the latest movement, the articles published after this era indicate the resolution of a “pre-paradigm phase” (Kuhn, 1962: 61) of development. Towards the end of the 1970s, the traditional views of academics such as Friedman were being re-evaluated and set aside in favor of a more modern view that incorporated strategic management into the decision-making process to resolve business-problems (Dill, 1975: 5).

Davis (1973: 313) argued that the concept of social responsibility is slowly shifting away from the classical economic doctrine of "no responsibility except to obey the law". Davis (1973: 313) supported that by merely complying with the "minimum requirements of the law", firms are not acting in a socially responsible manner. In fact, the author argued that abiding the law is the responsibility of any good citizen. Thus, in order to be considered socially responsible, firms must take this one step further, and accept their social obligation is the “business beyond the requirements of the law”.

Davis also argued that, the concept of social responsibility is difficult to define. CSR must encompass issues beyond the "economic, technical and legal" obligations of the firm (Davis, 1973: 312). These obligations must be considered under the decision-making process and evaluated according to the their potential affect on the external social system. Ultimately, by balancing their responsibilities, the firm must accomplish the expected social/economic gains of the organization.

Recognizing the instrumental value of expanding businesses obligation to achieve the firms overall success, Davis (1973: 314)-according to the "iron law of

responsibility" stated that; "...to the extent businessmen do not accept social responsibility obligations as they arise, other groups eventually will step in to assume those responsibilities and the power that goes with them...". Furthermore, Davis (1973: 314) argued that their prediction is likely to occur if the businesses social responsibilities are not held equal with their social power and that this will, in turn, result in substantial loss of power. Additionally, the author stated that the social power currently in the possession of these businesses is unlikely to continue- unless, the managers vow to take on additional social responsibility actions.

Next, Freedman and Reed (1983) add to the developing literature on CSR and under their article titled "Stockholders and Stakeholders: A New Perspective on Corporate Governance" discuss the shifting focus of the business "from stockholders to shareholders". They state that the "stakeholder notion" is quite simple. Defined as "groups without whose support the organization was ceased to exist" and said to originally include "shareholders, employees, customers, suppliers, lenders and the society", the inclusion of Stakeholders under the fundamental institution can, according to the author, resolve many social problems (Freedman and Reed, 1983: 90). Under stakeholder theory, Freedman and Reed (1983: 90) also argued that, while considered separate under early literature, "responsibility" and "objective" are now made into "one".

The objectives of the firm can be achieved by balancing the "conflicting claims" of stakeholders (such as; managers, workers, stockholders, suppliers and vendors) (Freedman and Reed, 1983: 89). According to Freeman and Reed (1983: 91), the literature concerning stakeholders has been reluctant to admit that "outside stakeholders" might wish to take on active roles under the management/decision-making process of the organization. They argue that stakeholders should not be treated as "externalities to the strategic planning process", or as "legal/social constraints to limit the organization".

Finally, the authors offer two types of descriptions for the term "stakeholder"; a wide sense of stakeholder and its a narrow sense of stakeholder (Freeman and Reed, 1983: 92). They describe the "wide sense of stakeholder" as "... any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives..". Under this

group, they list "public interest groups, protest groups, government agencies, trade associations, competitors, unions, employees, customers, shareholders and other stakeholders ". For the "narrow sense of stakeholder " they define the concept as "...any identifiable group or individual on which the organization is dependent for its continued survival..." and include "employees, customers, certain suppliers, key government agencies, shareholders and certain financial institutions" under the listing.

Sturdivant (1979: 58) suggests that stockholders are not the only "corporate constituents" who have a vested interest in the conduct/performance of the organization. He stated that every business has their own set of stakeholder groups which evaluate/react to the firm's actions from a conflicting perspective (Sturdivant, 1979: 54). These stakeholder relations must not be ignored but managed and the most efficient/effective strategy in order to do so involves efforts that results in managing relations with multiple stakeholders simultaneously.

The author goes on to argue that the "stakeholder management process" has several steps that must be incorporated under company policy. They argue that firstly, the organization must be aware of its strategic options (Sturdivant, 1979: 54). Next, the organization must communicate with "a number of executives with ... a diverse background and knowledge of different stakeholder groups" (Sturdivant, 1979: 55). This will allow the firm to assess the motivation/behavior off the stakeholder groups and generate a solution to maximize cooperative potential without conforming to the manipulations of activists.

The main aim of "strategic management" is to "know where the opposition is coming from" and discover a win-win situation where a greater commonality of purpose can be achieved (Sturdivant, 1979: 57). Firms do not operate in a social/political vacuum (Sturdivant, 1979: 58). Thus, the author argued that managers must operate in a open/responsive mode and must understand the diverse views presented by stakeholder groups and be sensitive to those views while developing corporate policy/practices (Sturdivant, 1979: 58).

Carroll and Hoy (1984: 53) focused on the integration of corporate social policy with "strategic management". While the authors acknowledge the organizations responsibility for providing profits to their shareholders, they also

support that the organization is responsible towards “consumers, government, employees, the environment and other stakeholders”. Under their article titled "Integrating Corporate Social Policy Into Strategic Management", Carol and Hoy (1984: 48) argue that while the current literature (in the 1980s) expressed concern over misuse of terms such as "strategy and strategic management", the lack of an universally accepted definition for these concepts were just a matter of "semantics". They go on to argue that, as weights of the factors taken into account varies according to the accepted conceptualization, the issues of “social environment” and ‘social responsibility” and their role under corporate strategy- faces similar concerns (Carroll and Hoy, 1984: 48). Thus, the authors propose integrating; “strategic management with corporate strategy concepts”, and “social policies/goals within the organizational practice”. However, according to the macro-view for corporate social policy presented under their article, Carroll and Hoy (1984: 51) argue that this integration must include a commitment at the management level.

MacMillan and Jones (1984: 21), on the other hand, questions whether stakeholder impact can successfully be identified and managed under businesses. They state that the potential impact stakeholders can cause the organization should not be ignored and the extent of the impact on corporate strategy must be analyzed before execution. Major threat/opportunities that results from stakeholder actions must be considered by management and, in order to manage negative/positive stakeholder reaction, plans must be made/actions taken before stakeholders can make the first move.

One of the most highly discussed books regarding the integration of “strategic management” and “CSR” was published by Freeman in the year 1984 and is titled "Strategic Management: A Stakeholder Approach". Freeman (1984: v) stated that, with increasing external demand placed on the organization and the decrease in the internal flexibility level of corporations to respond to issues such as; “government demand, regulation, critics, media attack and increasing competition”- the criteria for efficient performance/effective management is no longer clear. The author argued that the dilemmas has pushed for the development of new concepts in order to enable managers to see their jobs realistically (Freeman, 1984: v). For example, concepts such as the further development of "stakeholders" under strategic management.

According to the author, stakeholders can be expanded to include "employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups that are capable of helping/hurting the corporation" (Freeman, 1984: vi). Stakeholders are any group/individual who can affect/is affected by the achievement of/failure to achieve the organization's purpose. Freeman (1984: vi) argued that the integration of stakeholder under strategic management provides the organization a new way of implementing their actions, and that this is the way in which managers can finally achieve corporate success.

Freeman (1984: v) also stated that one distinguishing feature of CSR is that it is viewed as applying stakeholder theory to nontraditional stakeholder groups with adversarial relationships with the organization (Freeman, 1984: 38). They argue that under this literature, more focus is put on satisfying the public/community/employee, and less on the satisfaction of the owners. The data collected from under strategic planning/management processes aid in shaping management decisions which in turn, allows managers to communicate with their stakeholders and include these groups under the decision-making process.

Moreover, Freeman (1984: 43), stated that as CSR is often viewed as an "add on" to "business as usual" and incorporated into business practice as long as "the firm can afford it". As a result, the complex interconnections between the economy and social forces that govern the operation of the business is often overlooked. According to Freeman (1984: 43), there is a split between the economy side of business and the socially responsible side of business and this split is reflected under the CSR literature. Unfortunately, as the businesses are facing turbulent times, the author argued that there is a need for an integrated conceptual framework that can account for the economy/social-political forces (Freeman, 1984: 40). According to Freeman (1984: 41), "...isolating 'social issues' as separate from the economic impact...misses the mark both managerially and intellectually...". Additionally, "...processes, techniques and theories which do not consider all of these forces will fail to describe and predict the business world as it really is..." (Freeman, 1984: 41).

Finally, Freeman (1984: 43), stated that although with the history of stakeholder theory being relatively brief (for the 1980s), the concept manages to tie together two rich bodies of literature: CSR and organizational strategy.

The external environment has organization concerned with formulating plans/systems to better manage the whole of the corporation in the social system. While doing so, firms must also, according to Freeman (1984: 44), deal with the need for integrative theories to explain the behavior of “large populations”. This is where the importance of stakeholder theory is realized. It is through the integration of these concepts in the organizational strategy that allows firms to configure themselves and to modify their actions- aligning corporate purpose to that of the external environment.

The stakeholder concept is an umbrella term for problems facing business strategy and corporate social responsiveness, and in order to become an effective strategist, managers must deal with the stakeholders while being responsive- corporate survival depends on this (Freeman, 1984: 54). Managers must consider the fact between the values of the corporation, the values of its managers and the expectations of stakeholders- the firm must also consider societal values. If corporate strategists continue to ignore these issues, according to Freeman (1984: 107), this could mean the difference between success and failure in today's business environment.

Building the "strategic management stresses the importance of values/attitudes in strategy formation" argument of Freeman (1984), Ullmann (1985: 552) stated that social performance can be viewed as the direct result of an organization strategy for addressing the expectations of stakeholders. Thus, they argue that social disclosure is actually a representation of external demand and can viewed as either a supportive strategy that is connected to social performance or an alternative strategy useful for managing stakeholder relations.

Epstein (1987: 104) defines CSR as “...achieving outcomes from organizational decisions concerning specific issues or problems which have beneficial rather than adverse effects upon pertinent corporate stakeholders...”. Additionally, state that “...the normative correctness of the products of corporate action have been the main focus of CSR...” (Epstein, 1987: 104). They argue that the movement of CSR, corporate social responsiveness and business ethics have contributed towards the assessment of financial/non-financial business performance both, and has deemed “corporate leadership” as the “management of values” (Epstein,

1987: 101). Moreover, Epstein (1987: 102) stated that inappropriate/or appropriate social performance has an effect on the development of public policy (as judicial decisions/legislation/executive orders/ administrative regulations) and that public expectations shape the content of ethical/responsible/ responsive business behavior.

Ryan (1990: 105) on the other hand, argued that the management in the USA has shifted in recent years from a “owner/stockholder emphasis” to a comprehensive “stakeholder perspective”. They state that “...(the) shareholder is no longer the sole or even the primary stakeholder in a corporation...” (Ryan, 1990: 105) and that “...the concept of shareholder and profit maximization is being replaced by the concept of the stakeholder... (and that) the shareholder/investor is only one class (of stakeholder)...” (Ryan, 1990: 106). Representing a new business ideology, shareholders were denounced from their position as the “leading stakeholder”. They argue that, when asked, corporations are now stating that they consider “customers” to be their main stakeholders whom they feel a greatest responsibility to. According to Ryan (1990: 119), respondents are embracing the concept of CSR “as a legitimate and achievable goal for business” and rank their “customers” ahead of shareholders/employees under surveys. Thus, they argue that the primacy of stockholders must be reexamined and that as such, business should make ethical conduct in dealing with customers a first priority.

Furthermore, under his article, Ryan (1990: 106) drew on the arguments of Mitroff (1983: 162-163) and debated that the evolving worldview now required confronting the “stockholder/customer/organizational model”. According to the author, the progressively increasing levels of discussion on stakeholders with “mutual influences/dependency/vested interests” merited analysis/commentary. They separate stakeholders into 2 group; internal and external, then further separate these groups into primary and secondary stakeholders.

They defined stakeholders as “...all those interest groups, parties, actors, claimants, and institutions...internal and external to the corporation...that exert a hold on it” (Ryan, 1990: 107), put another way “...stakeholders are all those parties who either affect or who are affected by a corporation's actions, behavior, and policies...” (Ryan, 1990: 107). Moreover, they define primary and secondary stakeholders as; those stakeholders with formal, official, or contractual relations with

the firm (primary) and all others (secondary) (Ryan, 1990: 118).

Wood (1991: 695) supports that the acceptance of the stakeholder approach within strategic management requires the rejection of the predominance of “shareholder value-maximization” within the organization. They introduce the term “specific stakeholder groups” and define it as “...those who can affect or are affected by the corporate activities...”. According to Wood (1991: 695), when “defining” the purpose of the organization, the interest of specific stakeholder groups must also be incorporated under the decision making process.

The basic idea under CSR is that, business/society are interlinking and thus, society bestows certain demands on businesses, shaping appropriate business behavior/outcomes (Wood, 1991: 695). However, Wood (1991: 696) argued that these demands must consider three phenomena in order to be successful; (1) the expectations placed on “all organizations” [economic roles], (2) the expectations placed on “a particular organization”, and (3) expectations placed on managers [moral roles]. By distinguishing between these three phenomena, Wood (1991: 696) supports that competing concepts under stakeholder theory and CSR can be combined together to explain the principles of CSR.

Furthermore, Wood (1991: 696) subscribes to the idea that “stakeholder analysis” provided organizations/academics with a starting point for contemplating how society grants/takes away from corporate-legitimacy. They argue that upon losing confidence in the organizations performance, “legitimacy may be withdrawn “ and the firm could eventually “die”. For example, customers could stop purchasing goods/services from the organization, “employee loyalty” could be reduced, the amount of fines levied against the firm could be increased by government and finally, environmentalist could end up suing the organization (Wood, 1991: 696). In order to avoid this, Wood (1991: 709) argued that firms must not only consider the “economic” under their decision making processes, but also focus on issues such as “social/cultural duties and other individual/firm-level non-economic domains”.

Carroll (1991: 36) supports that stakeholder theory has aided the betterment and operationalization of the concept of CSR. Under his article, they argue that CSR or the “stakeholder perspective” is capable of recognizing the tension between the components of “economic/legal”, the “economic/ethical”, and the

“economic/philanthropic” and focusing on these aspects as a unified-whole. With this view-point, they state that firms could pursue their decisions/actions/programs and at the same time, fulfill the above mentioned component parts.

Moreover, Carroll takes the integration of CSR and stakeholder theory one step further and argued that the CSR model is, in reality, a stakeholder model. The four-part model for CSR they present under the article (economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities), corresponds with the “varied priorities in the organization with which the stakeholders are affected” (Carroll, 1991: 39). These components can be listed as follows (Carroll, 1991: 39); economic responsibilities: strongly affect owners/employees, as the lack of economic viability under the organization directly affects the workforce; legal responsibilities: critical for owners, however can also largely affect employee/ consumer stakeholders, as well; ethical responsibilities: capable of affecting all stakeholder groups, but most of all customers/employees; philanthropic responsibilities: affect the community at large. However, it is also argued that the philanthropic performance of the organization can impact employees morale, as well.

According to Carroll (1991: 48), there is a “natural fit” between CSR and stakeholders of the corporation. The term “social”, which the author claims is “vague”, is personalized under stakeholder theory (as social/societal responsibilities). They support that CSR can be employed in the classification of groups/individuals that businesses must consider under their CSR positioning.

Carroll (1991: 48) argued that the stakeholder viewpoint is instrumental in furthering the CSR agenda and claims that it puts a “name/face” to urgent societal members. They also state that the perspective is also deeply compatible with the “pluralistic environment faced by business today” (Carroll, 1991: 49) and provides firms/managers with an important tool for the “appraisal of financial, social and economic concerns” (Carroll, 1991: 48). Finally, Carroll (1991) supports that the stakeholder/responsibility perspective is an “invaluable foundation” for managing the stakeholder groups and should be further pursued to ensure a clear response to various business facets.

Wood and Jones (1995: 231) too support that stakeholder theory is an

important theoretical framework for assessing corporate social performance, and that it can allow for a complex analysis/understanding of company/society relations. They argue that corporate social performance is now shifting towards a “stakeholder-based theoretical perspective” and further away from a “set of self-interested strategic acts”, providing firms with a framework to engage more fully with societal relationships, duties and stakeholders. The author also supports that stakeholders, not unlike stockholders/bondholders have implicit/explicit claims on the firm such as; quality service, social responsibility and wage contracts. If firms neglects to act in socially responsible manner, Wood and Jones (1995: 242) argue that parties concerning these implicit contracts may attempt to transform them into explicit agreements, which would, in turn, result in additional costs for the organization. For example, failing to meet the requirements of the government on the environment or taking part in irresponsible management behavior could result in the implementation of more stringent and costly regulations (Wood and Jones, 1995: 242).

Carroll and Buchholtz (2003: 86) on the other hand, argue that although there are several criticisms concerning the implementation of the stakeholder approach [such as; the complexity of identifying, ranking and responding to stakeholder claims and increasing complexity under the decision making process], the CSR/Stakeholder view is deeply consistent with the environment that business faces today. The adaptations this integration shall require are essential for the prosperity and continuance of the organization (Carroll and Buchholtz, 2003: 860) and offers a tool for conducting a detailed examination of the organizations actions/practices/policies/ethics.

Prado-Lorenzo et al. (2009: 96) state there is an increasing acknowledgment for the importance of key stakeholders within the business and various social/environmental/ethical responsible behavior by corporations. The authors argue that managers grow aware of stakeholders expectations and the potential affect these may cause to the firm, CSR has taken on another mechanism for overseeing duties of accountability practices. Sustainability reporting plays an important role in the evaluation and communication (Prado-Lorenzo et al., 2009: 94) of these practices. Tanimoto and Suzuki (2005: 3) adds that CSR is a construct that allows firms to become/remain accountable towards their stakeholders by incorporating

social/environmental interests in operations.

Finally, under their study, Dilling (2010) addresses the common European understanding for CSR that has emerged as a result of the efforts of the European Commission. Further addressed under the following subsection (section 1.1), Dilling (2010: 19) argued that sustainability reporting is growing in a fast manner and has allowed the firms to focus on the “responsibilities of companies towards all of its stakeholders, the environment and the society in which it operates” (Dilling, 2010: 20). Dilling (2010: 20) stated that one reason for this is the fact that numbers of multinational corporations in society are increasing and simultaneously, trust levels towards these organizations are decreasing. The author argued that this is a call for “better corporate governance, transparency and accountability” and that CSR/sustainability reporting can play an important role in achieving this.

1.2 CSR TODAY

Under this subsection, I first continue analyzing the contribution the “stakeholder perspective” has made towards the CSR agenda at a global scale, then analyze the involvement of the European Unions organizations and their view on the new definition for CSR.

As it can be seen from the review presented above, the business literature has been confronted by the continuous integration of stakeholder theory under CSR over the last forty years. Organizations are now faced with the growing influence and awareness of a wide range of groups [shareholders and legislators (Vasi and King, 2012); environmental organizations (Lenox and Eesley, 2009); employees, local residents, suppliers and customers (O’Connell et al., 2005)..etc.] and unless they address and balance the claims of these multiple stakeholders (Freeman and Evan, 1990), this can quickly result in losing confidence in the firm's’ performance and stakeholder withdrawal (Wood, 1991; Wood and Jones, 1995) which would in turn, threaten the business. While most managers might see stakeholder requests as “mosquitoes buzzing in the ears of managers” (Mitchell et al., 1997: 875), stakeholders are now capable of coercing the business to act in particular ways that may ultimately impact the firm's financial well-being, reputation and legitimacy (Vasi

and King, 2012: 578).

1.2.1. CSR Reporting

CSR efforts play an important role in the conveyance of information to stakeholders on “the economic, environmental and social” impacts caused by organizations everyday activities (GRI, 2017a: 1). In fact, the main motivation for the conception of the Global Reporting Initiative (GRI) can be tied into it being an important instrument in enabling companies to communicate with their stakeholders (GRI, 2017a: 1; Hedberg and Malmberg, 2003: 156) about their performance and accountability just beyond the financial bottom line (Wills, 2003: 233). In addition to this, it is argued that the GRI owes this growing usage partially to its ability to; increase the credibility of the organizations report (Hedberg and Malmberg, 2003: 153), enable usage of reports as educational material within the firm (Skouloudis et al. 2010: 432), serve as a template for how to design a report (Hedberg and Malmberg, 2003: 153) and to allow for the comparability of reporting. (Kolk, 2004: 60).

Since its conception in the year 1997, the program has become a benchmark around the world for “measuring, monitoring, and reporting corporate sustainability efforts”, and globally increasing numbers of highly visible multinational companies (Marimon et al., 2012: 132; Tanimoto and Suzuki, 2005: 3) have been participating in the GRI.

The GRI is an independent organization that has transformed sustainability reporting from a niche practice to a growing practice (GRI, 2017b:1) and is active under the international arena. Its aim is to help various “businesses, governments and organizations” in understanding/communicating their impact on society by addressing “critical sustainability issues” (GRI, 2017b: 1). These critical sustainability issues are as follows; climate change, corruption, gender, community and human rights- related performance (GRI, 2017b: 2). Currently, the organization has over 90 member countries (and reporters in the thousands) and this number is growing every day (GRI, 2017a: 2).

According to the GRI, sustainability reports are defined as “a report published

by a company or organization about the economic, environmental and social impacts caused by its everyday activities” (GRI, 2017c: 1). Additionally, they state that “sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy” (GRI, 2017c: 1). The initiative states that, by prescribing the publication of sustainability reports, they are pushing organizations to evaluate their impact considering a broad area of sustainability issues (positive or negative). This also has the benefit of producing transparent business operations and forcing firms to consider the risk/opportunities they are privy to. Moreover, the reports are instrumental in building trust in businesses/governments and since, as supported by the GRI, the daily decision taken under the firm has a strong impact on stakeholders- this information can aid in increasing the efficiency of the market function (GRI, 2017d: 2).

The standards provided by the GRI, referred to as the Sustainability Reporting Standards, is argued to be the most widely employed disclosure standards in the field (GRI, 2017b: 2). These standards allow for different types of organizations to report/disclose their sustainability actions and even provides these varied organizations with a tool for better decision-making. With 92% of the 250 corporations reporting according to the GRI sustainability standards (GRI, 2017b: 1), the independent international organization is close to achieving its goal of sustainability becoming an integral part of the organizations daily decision-making process. By employing the use of the sustainability standards and multi-stakeholder/inclusive network developed, the organization is working towards achieving a "sustainable economy and world" (GRI, 2017b: 1). Overall, the organization supports that; a driver for daily decision-making of corporations should be public interest and that ultimately, it is transparency that can act as a catalyst for achieving this change under the market (GRI, 2017b: 1).

As mentioned above, the GRI was initially founded in the year 1997. This independent and international organization was developed with the assistance of the "Coalition For Environmentally Responsible Economies" (CERES), the "Tellus Institute" and the "United Nations Environment Program" (GRI, 2017b: 1).

Under the direction of Robert Massie, the CERES developed a framework for

sustainability/environmental reporting, which led to the creation of the "GRI project department" (GRI, 2017b: 4). The aim was to target "investors" and develop an accountability mechanism for abiding to the CERES responsibility principles. However, in 2001 the GRI was quickly separated from the CERES and formed as a "independent non-profit institution" (GRI, 2017b: 3). In the previous year, the GRI had launched their own version of the comprehensive sustainability reporting framework which (GRI, 2017b: 3), unlike the CERES principles, no longer solely focused on environmental issues, but instead encompassed social, economic and governance issues as well (GRI, 2017b: 4).

The GRI slowly began gaining recognition and in 2002 at the World Summit on Sustainable Development (Johannesburg), launched the second version of the standards and was credited under the "World Summit's Plan of Implementation" (GRI, 2017b: 2).

Soon there after, practitioners from the business, civil society and the labor initiative were contacted and the third version of the guidelines were published in the year 2006. The first global conference on Sustainability/Transparency of the GRI was also first organized in the year 2006 as well. Titled "Reporting: A Measure of Sustainability", the conference targeted representatives from the "business, financial markets, civil society, labor, government, assurance providers and municipalities".

Allowing the GRI the public exposure it needed, the organization quickly formed alliances with the United Nations Global Compact, the Organization for Economic Co-operation and Development (GRI, 2017b: 3). In the year 2008, the outreach of the organization further expanded when it allied itself to the "Earth Charter" and declared their intention of "building a just, sustainable and peaceful global society" (GRI, 2017b: 2)

Continuing to rapidly expand its region, the GRI signed a memorandum with the United Nations Global Compact in 2010 and agreed to integrate the Global Compact principles in the following version of the sustainability reports. Additionally, they agreed to adopt the GRI Guidelines as the recommended reporting framework for companies (GRI, 2017b: 2).

The following year, the GRI Database was launched and encompassed the GRI-based/non- GRI-based sustainability reports under the awareness of the

Database (GRI, 2017b: 2). Today, the Disclosure Database has over 38,925 reports loaded onto the website. Additionally, the GRI guidelines were updated and now cover issues such as; gender, community and human rights-related performance (GRI, 2017b: 3). In the year 2012, the GRI held events during the "Rio+20 United Nations Conference on Sustainable Development" and was an instrumental part of the two "Green Economy" and "Corporate Sustainability Reporting" coalitions. The GRI also called for the support of the United Nations Environment Program in order to advance corporate sustainability reporting.

The 2012 Rio+20 was a joint endeavor of the entire United Nations and is considered to be a major success in raising public awareness on the need to integrate environment and sustainable development efforts into the business. The event highlighted the need for a balanced consideration of social, economic and environmental goals and objectives in both public and private decision-making. Additionally, the need to enhance the integration of sustainable development under the mandates and activities of all relevant United Nations agencies, programs and funds, and the international financial institutions was addressed.

In the year 2013, the GRI published the final version of the guidelines and offered a reporting principles, standard disclosures and a manual for implementation that covers the presentation of reports for organizations of any size/sector. Next the GRI, in conjunction with the "United Nations Global Compact" and the "World Business Council for Sustainable Development", created a sector guide (GRI, 2017b: 1) in order to coordinate companies sustainability management reporting practices with global targets.

Finally, in the year 2015, the GRI launched the "Reporting 2025" and it is hoped that this initiative will be instrumental for discovering the main issues that affect companies public reports and their agendas.

The GRI has also gathered the backing of various organizations under the European Union, one of which is the "Committee on Employment and Social Affairs". Under the 2012/2098(INI) resolution, the Committee encourages the European Commission to promote the use of internationally accepted frameworks, such as those of the GRI and the Integrated Reporting Council. (European Parliament, 2013b: 5) The Committee argues that the GRI, which is a popular international framework

for CSR reporting, provides the most widely accepted methodology for transparency (OJEU, 2016: 5). Not only that, but the Committee calls for research to be conducted on the public policy measures relating to CSR at the European level and asks the European Commission to lead by example and publish its own CSR report prepared in accordance with the GRI Public Sector Supplement (OJEU, 2016: 13).

This view is also reflected under the Accounting Directive (D.2014/95/European Union and D.2013/34/European Union) which is published by the European Commission. The Accounting Directive covers the mandatory disclosure of non-financial information on the measuring, monitoring and managing of undertakings' performance and their impact on society. At a minimum the Accounting Directive addresses the following topics; environmental matters, social and employee aspects, human rights, anti-corruption and bribery issues, and diversity in their board of directors, and makes reference to recognized international guidelines.

One of these international guidelines (D.2014/95/European Union Article#19(a) and D.2014/95/European Union item 9) is the GRI, and it is considered to reflect the requirements of this Accounting Directive. This highlights the importance the Committee on Employment and Social Affairs and the European Commission places on international frameworks such as the GRI.

According to the European Committee on Employment and Social Affairs, the road to achieving success for the CSR agenda requires the union CSR policies to be modeled according to international standards, which has the added benefit of reducing disparate national interpretations (European Parliament, 2013b: 13).

The Committee supports that these guidelines on multinational enterprises are credible CSR standards that foster open, fair and responsible business practices worldwide (European Parliament, 2013b: 8), can potentially aid in achieving unity between “international human rights, social and environmental standards” for “public procurement, export credit, good governance, competition, development, trade, investment” policies (OJEU, 2016: 10) and that it is a useful tool to advance the implementation of the agenda (European Parliament, 2013b: 8). Additionally, it is argued that the standards may aid in clearing divergent policies and lessen the impact of competitive advantages/disadvantages emerging at national/international level

(European Parliament, 2013b: 13).

The European Commission argues that authoritative guidance provided by these internationally recognized principles and guidelines aid in the creation of shared value (European Commission, 2011b: 6). Additionally, the Commission urges all types of organizations, including civil society organizations and public authorities to take steps to improve disclosure of their own social and environmental performance (European Commission, 2011b: 12) and charges Member States to develop or update their actions, while referencing internationally recognized CSR principles and guidelines, to promote CSR in support of the Europe 2020 strategy (European Commission, 2011b: 12). According to this organization, the integration of financial and non-financial reporting represents an important medium and long term goal of the Commission. Furthermore, the frameworks and thus, the CSR agenda is featured as a prominent aspect of the accession process. The Commission also calls on European Union enterprises to renew their efforts to respect such principles and guidelines with the aim of fostering consistency between them (European Commission, 2011b: 14). The international frameworks developed for the disclosure of social and environmental information plays an important role in order to achieve this and the Commission is expected to step up its cooperation with Member States and all countries wishing to join the European Union.

Moreover, the efforts of the GRI, which have been ongoing for the last 20 years, has also sparked the interest of a number of governments and market regulators (GRI, 2017d: 1). Public interest towards the sustainability movement is at an all time high and this has generated backing for the coordination of important international events. The 2015 Antalya G20 Summit, which was held in Turkey, saw the presentation of a comprehensive framework for the support and expand inclusive business goals and engagement with all stakeholders. The framework addressed ways in which organizations/ international financial institutions may further enhance the growth of businesses; enhancing financial resources and providing financial incentives, information and raising awareness at all market levels; and enhancing the capacity of both inclusive businesses and establishing an enabling environment. The 2015 Paris Sustainable Innovation Forum (COP 21), on the other hand, took steps in order to establish a partnerships between business and the government and increase

levels of international sustainable development by generating a platform where stakeholders can share knowledge. Additionally, an agreement was reached between the G20 countries that required the review of their emission reduction commitments.

The Sustainable Stock Exchanges is a platform for regular collaboration with various investors, regulators, and companies. Officially initiated in the year 2012, the platform gathered the commitment of 5 stock exchanges; Nasdaq, BM&FBOVESPA, the Johannesburg Stock Exchange, Borsa Istanbul and The Egyptian Exchange to enhance sustainability within their markets. Since then, the number of partner exchanges has risen to 28 and together, the initiative has striven to enhance corporate transparency and environmental, social and corporate governance performance under the exchanges while encouraging sustainable investment. As stock exchanges play an important and strategic role in global efforts towards sustainable development, the SSE initiative efforts to improve disclosure and performance among listed companies and promote sustainable and transparent capital markets worldwide has been instrumental.

Highlighting the level of awareness/credibility the sustainability movement has generated, these examples reflect only a small percent of the interest generated toward CSR reporting on a global scale. I now move on to analyze the involvement of the European Union/European Unions organizations and their view on the new definition for CSR.

With the involvement of the European Union under the CSR agenda, the definition for CSR has faced another shift. The European Union strategy for 2011-2014 (COM-2011-681 final) defines CSR as "the responsibility of enterprises for their impact on society", updating the previous definition (COM-2001-366) where social environmental issues and interactions with stakeholders were solely conducted on a voluntary basis (OJEU, 2012a: 2). The Commission defines the aim of CSR activities as "creating shared value for owners, shareholders and society" and "the identification and prevention of adverse impact of business practices" (European Commission, 2011b: 6).

The new definition constitutes as a paradigm shift as the voluntary aspect of the CSR agenda is removed as a key feature (Eurocommerce, 2012: 2). This definition has also modernized the CSR concept; it adds towards providing greater

clarity for firms and contributes towards achieving global consistency on the expectations for businesses. Although there cannot be a "one-size-fits-all approach" (OJEU, 2012a: 1) to CSR, the communication addresses the basic requirements for a firm to meet its societal obligations. However, the complexity level of these actions shall depend on factors such as the size and nature of its operations. For most small and medium-sized and micro- enterprises, the CSR process shall remain informal (European Commission, 2011b: 6). The Commission also states that the "CSR offers a set of values on which to build a more cohesive society and on which to base the transition to a sustainable economic system" (European Commission, 2011b: 3).

In order to achieve a renewed CSR policy, the European Union strategy for 2011-2014 aims to add to the definition for CSR, increase trust in businesses, address the benefits of CSR, increase social dialogue and transparency, develop a regulatory framework, integrate CSR into education, training, research and align the European and global approaches to CSR (OJEU, 2012a: 2).

In addition to this, the Committee on Employment and Social Affairs argue that CSR must be integrated into the business strategy in order to be transferred over to the day-to-day operations and financial strategy of the organization. Furthermore, the European Commission addresses the "stakeholder perspective" and states that information should sufficiently meet the needs of stakeholder groups in a cost effective manner and should be material in order to build trust in businesses, the market and increase accountability levels. Not only that, but this information should also aid in facilitating engagement with stakeholders (European Commission, 2011b: 11). Moreover, the Committee emphasizes the European Union support for global CSR initiatives and offers support for the multistakeholder approach (2012/2097 INI).

Good corporate governance is also specified as a tool for achieving a strong link between environmental, social and human rights performance and financial results (European Parliament, 2013a: 5). The Commission states that, the definition of CSR must be viewed in combination with concepts such as, responsibility, ethics, environment, social, governance, sustainable development and accountability (European Parliament, 2013b: 4). However, the Commission argues that this is not the case and that in spite of the progress made in the acceptance of CSR under

businesses, issues regarding the acceptance of social and environmental concerns into their operations and core strategy still remain (European Commission, 2011b: 5). In addition, Moon (2004: 6) argues that the SR overlap with other concepts such as corporate citizenship, sustainable business, environmental responsibility, which makes it a difficult construct pin down. This is a dismaying situation that is compounded as investors are increasingly focusing attention on firm CSR activities (European Parliament, 2013b: 11). The European Union's contribution towards the sustainability movement shall be analyzed in further detail under the following chapter.

Overall, this movement evolved from under the Single Markets initiative and has striven towards achieving fair and environmentally sustainable growth for the economy. With the formation of the Single Markets, the harmonization of issues such as; monetary policy, common commercial policy, economic, social, environment, energy supply concerns were addressed and through these actions, the market has spearheaded the publication of various communications, directives and legislation.

These actions have referenced the CSR agenda in order to ensure that a more responsible and transparent financial system (European Commission, 2011b: 11) can be achieved. These can be listed as follows; the Social Business Initiative, the European Union Strategy 2011-2014, the CSR Resolutions of the European Union: "CSR: accountable, transparent and responsible business behavior and sustainable growth" and "CSR: promoting society's interests and a route to sustainable and inclusive recovery". These communications, resolutions and documents are analyzed in detail under the following chapter. Finally, the Accounting Directive and its amendment [Directive (2013/34/European Union and (2014/95/European Union)], which can be classified as the culmination of the European Union cooperation efforts surrounding the debate of CSR, is analyzed in detail under Chapter 3.

CHAPTER TWO

CORPORATE SOCIAL RESPONSIBILITY UNDER EUROPEAN UNION REGULATION

Launched in 1992, the Single Market was an important legal construct to help realize unification of Europe. Understanding the importance of coming together to work, trade, and build a strong society, the European Union agreed to consolidate the shared wisdom of the Member States to form a common economy and social medium. Thus, formed with the intention of harmonizing competition rules necessary for the function of monetary policy, and common commercial policy, economic, social, environment, energy supply concerns- the actions proposed for the market spearheaded the publican of various communications, Directives and legislation. Member States have been active participants in the development of transposition measures and the formation of the legal framework for the functioning of the Single Market (Borchardt, 2010: 33). It is hoped that the shared market can potentially aid in the betterment of the lives of the European Union citizens and businesses, while simultaneously improving the competition level across the globe. Under this section, we shall first review in detail the development and outcomes of the Single Market and then move on to analyzing the communications, Directives and legislation's that have evolved out of the Single Markets harmonization efforts. These can be listed as follows; the Social Business Initiative, the European Union strategy 2011-2014, the Corporate Social Responsibility Resolutions of the European Union: "corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" and "corporate social responsibility: promoting society's interests and a route to sustainable and inclusive recovery".

2.1. THE SINGLE MARKET

Developed with the intention of strengthening the ties between the citizens of the European Union and the Member States, the Single Market was launched in January 1st, 1993 under the guidance of Jacques Delors. Published by the European Commission- it addressed the European Parliament, Council, and to the Economic and Social Committee and the Committee of Regions. Since its issuance, the latest financial crisis, scandals, failure of large firms and drawbacks of globalization has forced the European Commission to reevaluate their actions. Confidence in the regulation of the market has been severely shaken and these ongoing occurrence highlights the need for adjustments to help strengthen the confidence in the market. As a result, European Commission has had to rethink the integration of the market. It is argued that (European Commission, 2010a: 1) the method to achieving competitive and efficient markets and increasing investment levels, passes through modernizing the infrastructure through policy reforms. Additionally, as the market is not just about the free circulation of products and investments, issues such as the safety and environmental requirements benefiting European citizens and businesses must also be addressed. (European Commission, 2017: 1).

One way to ensure that the shortcomings of the market are reduced is to dissolve market fragmentation, eliminate barriers and disestablish obstacles for movement of services (European Commission, 2011a: 3). Another method in which this can be achieved is the collective commitment of national, regional, public, private, economic and social organizations to attain sustainable growth within the European Union. The Single Market possesses the characteristics to realize this goal.

On the 27th of October, 2010 the European Commission published a communication addressing 50 measures that could potentially initiate the relaunch of the Single Market. It was hoped that the 50 measures could restart the debate and aid in the development of the Single Market policy. Various types of organizations were included under the due process, such as: national, regional, local bodies, trade unions, business federations and representatives of stakeholder groups. Under the focus group that was conducted, participants were asked to evaluate the proposed 50 measures and provide recommendations on future priorities of the Single Market. A

total of 800 contributions were received from respondents and these responses were carefully appraised and compiled to form the 12 key measures published under the first Single Market act. The final version of the key measures were shaped with the combined contribution of European Parliament, Council, European Economy and Social Committee, Committee of Regions and the 800 responses of public opinion (European Commission, 2011c: 2).

Overall, the debates put forth by the Commission for the development of the proposals revealed high expectations in regards to the development of growth, employment and most importantly, the social dimension of the internal market and protection of services. Additionally the issues brought up by the respondents supported the development of a highly competitive social market economy (European Commission, 2011a: 4). Finally, the responses to these issues and the measures developed in order to fill the gaps in the Single Market will be instrumental in the formation of the Europe 2020 strategy framework (European Commission, 2011a: 5).

The construction of a Single Market is a leading project of the European Union, one that has contributed greatly in creating new opportunities for European businesses. Essentially, the Single Market of the European Union is an area in which Member States can fairly transfer goods, services, capital and workforce. The Single Market also covers issues such as work, education, residence and businesses in the European Union. The main aim of the market is to ensure that industrial and commercial expansion and the unification of European economy is achieved. (European Commission, 2011c: 1).

At the time, intraeuropean trade accounted for 17% of world trade in goods and 28% of services (European Commission, 2010b: 1) and these levels have been increasing by each period. In order to realize Europe's growth potential, the Commission identified areas of problem within the Single Market and published proposals addressing the issues standing in the way of integrating Europe. The Commission lists the goal of these proposals as: achieving sustainable growth, ensuring citizens are included in the Single Market and to facilitate dialogue and improve governance of the market.

Financial markets play an important role in the furtherance of these reforms.

Not only are steps undertaken in financial services regulation but also an integrated strategy is employed to help further economic recovery of Europe. Additional action has also been taken in order to establish protective barriers safeguarding the social rights of the Europeans, ensuring that these are not sacrificed in the efforts to integrate the markets. The Commission is committed to overseeing the impact the legislative proposals implemented for the internal market have on the social dimensions. Additionally, these reforms shall contribute on sustaining the development of a highly competitive market economy. Issues such as improving the environment, fighting climate change, strengthening the dimensions of the internal market and providing tangible benefits for citizens are a few of its intentions (European Commission, 2011a: 5).

Along with the 1st of the Single Market Act, the proposals were published by the European Commission, on 13 April 2011 (COM-2011-206). With this publication, the Single Market act was adopted and the 12 levers of actions to increase growth and confidence in the Single Market was incorporated. The Commission committed to implementing these 12 acts by the end of 2011 and presented proposals for two additional acts to be completed in the first half of 2012. The Single Market act also includes a chapter on the governance of the market. This chapter specifies how to inform businesses of Single Market opportunities, the applications rules by authorities in the Member States and procedures on how to ensure the effectiveness of its enforcement.

The actions covered a wide range of the issues, such as: access to finance, mobility, patent protection, consumers, services, networks, digitization of the Single Market, social entrepreneurship, taxation, social cohesion, business entrepreneurship and procurement. These actions can be summarized as follows.

- In response to the current financial crisis and remaining risk in the market, the European Council adopted a comprehensive package of measures allowing the Union to bring about economic recovery and sustainable growth. The comprehensive package was published on the 20th of April 2011 and further addressed under the revised version of the 24/25 March conclusions (European Union 10/1/11 REV 1). The package was published in order to achieve lasting stability in the Union and

strengthen the economic government. These measures also proposed implementing actions in order to strengthen the functioning of the Single Market and to reduce the regulatory burden on firms. One method in which the European Commission attempted to achieve this is by pushing forward a key action simplifying the financial reporting requirements of firms. This act encompassed firms of all sizes and aims to reduce the obligations and administrative burden of firms. All Member States are obligated to transpose and introduce these measures in their national programs. Additionally, the Commission agreed to publish country specific recommendations in order to aid in this adoption before the deadline. The “ease with which persons, goods, services and capital can circulate freely from one Member State to another” (European Council, 2011: 1) represents one of the benefits of the Single Market. However, in order to achieve “clarity and comparability” of financial statements of small to large sized companies across the European Union, the Council supports that a simplified “Accounting Directive” must be adopted. Under the act of business environment, the Council sets the foundations in order to achieve this and addresses the improved accounting provisions European Union Member States are obligated to follow. These accounting provisions replaces the set of national rules for each European Union Member State (European Commission, 2007: 1). Additionally, in order to achieve a financially stable European Union, the Council advocates the need for a strong financial sector and has undertaken the Euro Plus Act to reform the European Union framework for the regulation and monitoring of this field. The implemented changes cover not only the national legislation for banking resolutions but also reporting requirements for firms of households and non-financial firms. It is hoped that the select changes will contribute towards the reinforcement of the financial stability. The simplification to the Accounting Directive is expected to generate savings of €1.5 billion and €5.2 billion annually for small and micro sized enterprises. The Directive also supports the reduction of certain provisions of accounting for micro sized enterprises.

Ultimately, this act is an important step taken towards the harmonization of the European Union rules and can benefit Member State citizens and businesses. The act also respects the integrity of the Single Market and ensures the renewal of commitment by Member States to the Europe 2020 Strategy. Member States especially are placed in a unique situation where they can apply their intimate knowledge of their national governance system and policy mix when implementing the specific changes. In sum, these changes will help foster the convergence and competitiveness under European Union rules and aid in the preservation of the social models.

- On December 17, 2011 the European Commission presented a proposal on the regulation of the European social entrepreneurship funds. The aim of this proposal was to establish a social brand that would allow investors to easily identify and target investment opportunities. The fund was charged with the responsibility of informing investors about actions that would have social impact. This obligation ensures that the transparency level of the market is increased. The proposal would also allow for fund raising across Europe and provide new opportunities for social businesses. This proposal was presented by the Commission in the second half of 2011 and two additional communications were adopted on 25 October 2011. These communications concerned “the launch of a Social Business Initiative” and “corporate social responsibility”. Following this, the Commission prepared an additional proposal on non-financial reporting by companies. Reflecting the current movement towards fair and environmentally sustainable growth. The Single Market has overseen the development of the modern business model where the social burden of the organization takes priority over achieving high levels of financial profit. The proposals presented in order to increase the efficiency of the Single Markets also reflect this initiative. Issues such as reducing social exclusion, increasing the stability of the economy, pursuing social, ethical and environmental development and increasing the transparency level of social and environmental information provided

under the reports of organization of all sectors is further addressed under this act. Additionally, the legal provisions introduced under this act assures that firms of all sizes view the Single Markets as a platform for outstripping national boundaries and achieving high levels of growth.

- The lack of access to funds is one of the main obstacles SMEs face when attempting to establish new projects, push forward new products and expand its workforce. The key act address the financing opportunities for SMEs of various sizes within the European Union Member States. The aim is to reduce barriers to investment. With the implementation of the planned legislation, SMEs can easily raise funds and this provides firms with a major asset for achieving sustainable growth. The small business act, which was revised in February 2011, contributes towards the regulation of financial services for SMEs. This is particularly important as SMEs are imperative for achieving sustainable economy. As small sized firms are faced with significant obstacles in raising capital, the published act will address different sources of financing opportunities and aid in the creation of growth for SMEs. This act also revises the Transparency Directive, in the regulation implementing the prospectus Directive, the market abuse Directive and reduces the requirements listed for SMEs. The modification to these Directives not only reduce the burden on SMEs but also affords the same level of investor protection, commensurating the provisions for firms of all sizes.
- Consumer empowerment aims to increase the attainment of affordable out of court settlements for customers and businesses. Addressing the many obstacles to businesses and their relations face and providing the necessary infrastructure to prevent sizable losses are important aspirations of this action. Additionally, issues such as the transparency of bank fees and increased protection for borrowers in the mortgage market are also addressed.
- The review of the Directive for energy tax is also an important step taken by the key action published by the Commission. This act ensures that different sources of energy are treated consistently across products and

their emission levels. By transferring consumption of energy resources towards a better use, the Commission ensures that current levels are efficiently employed under clean energy sources.

- The act on social cohesion means to advance the freedom of establishment, the freedom to provide services and to achieve both while preserving fundamental social rights. Ultimately, businesses should be able to provide services without facing any difficulties within the European Union. This should be achieved while maintaining the quality of jobs and sustaining the legal protection of workers and their social right. The acts attempt to achieve this by strengthening the flow of information between firms and Member State professional bodies. Furthermore, addressing the inadequacy of market forces in sustaining these levels, the implementation measures shall integrate social and territorial cohesion, addressing the need of the European Union.
- Modernizing the legislation on the mobility of its citizens aims to increase levels of trust and cooperation between European Union states, to ensure workers are mutually recognized across each country and generate an environment where communication and coordination between national authorities are executed with tenacity.
- The key act on establishing intellectual property rights aims to unite patent protection across each Member State, encourage investment in innovative services, products and secure effective protection for these rights.
- The digital Single Market act concerns the incorporation of legislation ensuring the realization of electronic identification and authentication procedures across Member States. The businesses are to benefit largely from the publication of the Directive on the electronic signatures, increasing the effectiveness of services provided under the organization. The Directive also has the benefit of straightening the level of confidence towards the Single Market, providing legal certainty for citizens, businesses and public authorities.
- The acts also attempts to revise and modernize the public procurement

policies under the European Union. The policy changes proposed for this key action were based on a policy with the aim of ensuring the development of environmentally sustainable, socially responsible services and works. The act simplifies the procurement procedures and smooths the relation between authorities and companies of various sizes. The act itself aims to offer European foreign businesses an equal opportunity and fair competition, generating benefit at the European and global level. Additionally, the act urges European legislation to introduce procedures allowing access to third-country businesses under European public procurement activities. This can have the added benefit of stabilizing commitment levels between Member States themselves and candidate European Union countries (European Commission, 2010a: 1) .

- Legislation has also been published addressing the revision on the European standardization system. The aim of this key action is to increase the efficiency level of the standardization procedures. These procedures are imperative in guaranteeing the safety and quality of the product, and ensuring the free movement of goods. Unfortunately this act, while increasingly emphasized in the service sector, addresses the issue at a national level. This can potentially reduce the integration level within the market and lead to increasing barriers for business-to-business services. This act also enables the swift adoption of standards and boasts the involvement level of SMEs and other types of organizations. Furthermore, an initiative was also launched under the act in order to combat unfair business commercial practices. With the integration of the initiative, practices that jeopardized the competitiveness and viability of operations within the Single Market shall be reduced and the growth of the retail and wholesale sectors shall be stimulated.
- In order to ensure efficient infrastructures are developed for improving the free movement of goods, energy, data and individuals at low cost, the policy for energy infrastructures shall aid in the development of smarter networks, improve energy transmission and unify networks between Member States. It also addresses; security for supply, market integration

and renewable energy consumption. The actions proposed under the act ultimately aim to remove obstacles in the advancement of the Single Market.

As mentioned above, Member States are placed in a unique situation where they can apply their intimate knowledge of their national governance system and policy mix when implementing these key changes. Taking this one step further, the 1st Single Act also urges Member States to deepen partnerships between the Single Market participants; the Commission, European Union States and most importantly, the national authorities. The involvement of national authorities under the decision making process is imperative for encouraging and facilitating cooperation within territories. As the success of the initiative, the Single Market and European businesses rests heavily on consistent and complementary internal/external policies, the European Commission has committed to overseeing the promotion of regulatory convergence and has taken steps to actively promote the adoption of international standards. The European Commission also argues that candidate countries for the European Union that are working through the requirements underlined under the Acquis must also be included under this process. The Acquis chapters are provided under Table 1, below.

Table 1: The Acquis

Chapter Titles	
1	Free movement of goods
2	Freedom of movement for workers
3	Right of establishment and freedom to provide services
4	Free movement of capital
5	Public procurement
6	Company law
7	Intellectual property law
8	Competition policy
9	Financial services
10	Information society and media
11	Agriculture and rural development
12	Food safety, veterinary and phytosanitary policy
13	Fisheries
14	Transport policy
15	Energy
16	Taxation
17	Economic and monetary policy
18	Statistics
19	Social policy and employment
20	Enterprise and industrial policy
21	Trans-European networks
22	Regional policy and coordination of structural instruments
23	Judiciary and fundamental rights
24	Justice, freedom and security
25	Science and research
26	Education and culture
27	Environment
28	Consumer and health protection
29	Customs union
30	External relations
31	Foreign, security and defense policy
32	Financial control
33	Financial and budgetary provisions
34	Institutions
35	Other issues

Source: European Commission, 2013c: 1

The first act of the Single Market was issued by the Commission in April 2011, however even though the act was issued with the objective of achieving free movement of goods, services, capital and people, there have been areas in which the operation has faced problems (European Commission, 2016a: 1). It is been argued that as the European Union consists of differing legislation, regulation and enforcement levels, the full potential of the Single Market has not been realized. Thus, in order to ensure that the Single Market reaches the objective of stimulating economy growth and social progress for “all types/sizes of enterprises, workers and consumers” the 2nd act of the Single Market was published by the European Commission on the 3rd of October 2012 (COM-2012-573).

As confidence in the market has been severely shaken in response to the current financial crisis, scandals and failure of large firms, this highlights the need for adjustments to help strengthen the operation of the market. Furthermore, examples (European Commission, 2011a: 1) underscoring the long lasting affects the crisis, emphasizes the gravity of the situation. In order to ensure that the Single Market swiftly responds to and resolves arising national, European Union level or international issues and aids in the maintenance of confidence in the initiative, the market has adopted a "adopt, monitor, inform, enable, connect, solve and evaluate" cycle supporting the continuous developments of the Single Market. This structure of the Single Market has been crucial in guiding growth levels within the European Union. Issues that have been featured prominently under the adjusted policy changes cover issues such as, changing social and demographic structures, advancing technology, decreasing levels of natural resources and climate change. These topics have marked the advancement for later regulations on the disclosures, and under the continuous support of all actors, illuminated the removal of bureaucratic hurdles.

The main concerns of the 2nd Single Market Act, features European Union citizens and businesses. Delivered within the mandate of the Commission and differing in regards to the authoritative background, the actions are expected to deliver real impact within the market.

The 2nd Single Market Act builds on the key actions published under the 1st Act, addressing the problem areas proposed under the initial document. A summary of the issues regarding the economic, social and environmental propositions are

presented below.

Even though financial services are imperative for the effortless progress of everyday operations of business and its citizens, this area has faced many issues under its actualization. Unjustified restrictions between Member States rule and regulations and the financial crisis has tightened financial conditions for firms of various sizes- limiting the funding available for investment. Thus, the Commission plans implementing activities in order to boost investment levels under the economy and increase access to long-term investment funds. The goal of achieving sustainable growth, ensuring citizens are included in the Single Market and to facilitate dialogue and improve governance of the market depends heavily on the availability of finance. The European Commission has proposed regulation and action plans such as the implementation of Europe 2020 and the simplification of the Accounting Directive to facilitate the raising of capital and cross-country investment- also encompassing measures to achieve this. Additionally, the 2nd Single Market Act, further addresses the need for highly responsible and innovative companies with positive social impact on society and the environment in order for investors to feel safe enough to invest in domestic/other Member States. The proposed key action supports increasing confidence in the Market by providing transparent and comparable information for intelligent decision making. An important key action instigated in this proposal is the concession for the calculation of environmental impact of products and the presentation method in which this could be conferred to related parties. In light of this, the Commission also started and completed a package of legislative and non-legislative measures that will help provide a more homogeneous Single Market. These measures will also be addressed in the following section and can be listed as follows:

- The simplification of the Accounting Directive (2012/6/European Union which was eventually repealed by 2013/34/European Union and contains the same measures) (European Commission, 2007: 1) was published in order to harmonize legal requirements, facilitate cross-border investment, improve financial report comparability, increase public confidence in financial and management reports by use of enhanced and consistent specific disclosures.

- The 2014/95/European Union Directive (amendment to 2013/34/European Union), which was initially published as a draft Directive on disclosure of non-financial and diversity information by large companies and groups (draft adopted on 15 April 2014) concerning information on policies, risks and outcomes of the environment, society, employees, human rights, anti-corruption, bribery and diversity on boards of directors. This Directive was published under the official journal on the 15th of November 2014 and aimed to increase the relevance of the information published by organizations across the European Union.
- The Social Business Initiative (launched on 25 October 2011) which aimed to address the financial, administrative and legal issues of firms of all sizes and create a platform where they could conduct their operations in a homologous way.
- The European Union strategy 2011-14 for Corporate social Responsibility (adopted on 25 October 2011) which addressed the disclosure of social and environmental information.
- The resolution on “corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth” (28 January 2013) supports the development of regulatory measures under a robust legal framework that is in line with international standards. Additionally, the resolution addresses the continued efforts of the European Union to promote CSR in relations around the world.
- The resolution on “corporate social responsibility: promoting society's interests and a route to sustainable and inclusive recovery” (29 January 2013) which puts emphasis on European Union support for global CSR initiatives, support for the multistakeholder approach and CSR definition reflecting the consensus.

The Single Market governance cycle has predominantly changed the way the market works. Previously legislation and infringement procedures were how problems were solved, however the “adopt, monitor, inform, enable, connect, solve and evaluate” cycle ensures that the legal approach is supported by a more practical one. This ensures that the Single Market is not only a legal construct and is founded

on the principle of the European Commission ends in Member States working together at all stages of the cycle (European Commission, 2012: 45).

The Single Market also aids in the transposition of Directives into Member States national law. In the year of 1992, Directives were transposed at a rate of 21% before the transposition deadline. However, with the launch of the Single Market, this rate has now been reduced to 1%. This decrease in transposition rates is partially related to the introduction of alternative problem-solving mechanisms within the market (European Commission, 2016b: 1). Additionally, the rate of infringements regarding provisions has been decreased by 31% and this reduction can be directly linked to the implementation of a new practical approach to governance under the Single Market (European Commission, 2016c: 2).

As mentioned above the Single Market spearheaded the publication of various communications, Directives and legislation in order to form a common economy and social medium, which were instrumental in the harmonizing of competition rules necessary for the function of monetary policy, common commercial policy, economic, social, environment, energy supply concerns. We shall now go over several of these provisions were detailed arrangements for all Member States were transcribed under the European Union legislative system.

2.2 THE SOCIAL BUSINESS INITIATIVE

The European Commission defines a social enterprise as an organization that is willing to make a social impact, rather than a profit (European Commission, 2013: 4). The main objective of the organization is to conduct its business in a responsible, accountable and transparent manner, provide entrepreneurial and innovative goods and services for the market and earn profits in order to achieve its social objectives. These social objectives mainly cover the organization's employees, customers and stakeholders and refer to a combination of the common good and societal goals (European Commission, 2015: 1).

In order to ensure that these firms can conduct business in an equal setting with other types of organizations, the European Commission has set out to improve the financial, administrative and legal environment and launched the Social Business

Initiative on the 25th of October 2011 (COM-2011-682 final). Their aim was to provide a lasting impact on the society, the environment and the local community (European Commission, 2013a: 4). Additionally, the initiative was also proposed upon discovering the growth potential within the Single Market was not being fully taken advantage of (European Commission, 2011d: 1). In order to generate social, environmental and community impact/reach the European Union's Europe 2020 strategy, the Commission set to work out the weaknesses of the market, achieve recognition of their work and restructure the regulatory environment. It is argued that this initiative can assist business by establishing an organizational structure capable of delivering social benefits. Additionally, investigation conducted by the European Commission (European Commission, 2013a: 2) shows that management and administrative costs are much lower and wages more moderate in firms who take part in the social initiative. It is also argued that overall, the social businesses have a competitive advantage in the markets and are considered to be viable long-term investments in the profits made by the business are continuously reinvested in the organization. There are multiple types of social enterprises- many of which are private companies, mutual, nonprofits, associations, voluntary organizations, charities and foundations (European Commission, 2015: 1).

The Social Business Initiative published 11 priority measures arranged around three types of topics: funding, visibility and legal environment. Under the first topic the initiative implemented four measures in order to simplify the process in which enterprises obtain funding. As a consequence, the Commission published the European regulatory framework for social investment funds, supported the unfolding and improvement of the legal and institutional framework for micro-credit in Europe, formed a European Union financial instrument to provide easier funding for enterprises and finally, prioritized the funding of social enterprises under the European Regional Development Fund and the European Social Fund. (European Commission, 2015: 1). This funding is provided in support of the social enterprises under the national/regional cohesion policy. The funding aids in the creation of financial instruments that backs the initiatives and provides easy access to financing opportunities for social businesses. The European Commission (European Commission, 2011d: 1) states that, the amount allocated for the program is currently

€90 million. However, as the majority of the proposed actions of the initiative does not result in a substantial cost, this reduces the burden on the European Union and its national budgets. The first theme also covers the development of social stock exchanges. The exchanges are developed in order to further the creation of a European platform that allows the shares of social enterprises to be traded under a regulated exchange (European Commission, 2015: 2).

In order to increase the visibility of social entrepreneurship, the Social Business Initiative identified good practice examples by creating a map of social enterprises and their ecosystems in Europe, created a database of label and certifications applicable to the social enterprises, aided national and regional governments while developing measures to support, promote and finance these enterprises and developed a platform where multilingual educational information could be shared between investors and entrepreneurs (European Commission, 2015: 2). This theme also addresses the importance of assisting national authorities under the incorporation of the initiative. Because of their in-depth knowledge of the inner workings of national and local regulatory bodies, the national authorities are in a unique position to skillfully aid social enterprises. Assisting these national authorities to set up and improve schemes can potentially be the transition and impact social innovation. (European Commission, 2013a: 7). Under the final theme, the initiative published the rules regarding legal recognition for the European Cooperative Society, created legal status with European foundations and conducted an analysis on mutual societies. Additionally, the initiative addressed the importance of increasing working conditions and quality among the public procurement contracts, and simplified the public aid rules to social and local services (European Commission, 2015: 1).

According to the European Commission, the Social Business Initiative was initially implemented in order to aid the Single Market, generate inclusive growth and align ethical and social principles under investments (European Commission, 2011e: 1). The Single Market works towards achieving a highly competitive market economy. This goal of the market is supported by the Commission and the notions of "social economy" and "social innovation" has been built into the framework (European Commission, 2011f: 2).

Respecting the diverse nature (political, economic, and social) of the Member

States and sectors, the Commission refuses to provide a standard definition for its activities. Instead, the Commission has adopted descriptions based on principles shared between the involved parties (European Commission, 2011f: 4).

The public consultation initially conducted for the Single Market act provided evidence of social enterprises and the social economy being capable of addressing the current economic, social, environmental challenges faced by organizations (European Commission, 2011f: 3).

Social enterprises are at the heart of inclusive growth and social cohesion (Eurocommerce, 2012: 3). The enterprises help; to contribute towards incorporating social innovation into their businesses and take account of their environmental impact on the planet. These organizations develop their long-term vision aiming to achieve social economic transformation contravening to the objectives of the Europe 2020 strategy. The Social Business Initiative was launched in coordination with the European Union Strategy 2011-14 for Corporate Social Responsibility (adopted on 25 October 2011) which addressed the disclosure of social and environmental information. The initiative supplements this communication by asserting the social added value for businesses (European Commission, 2013a: 4), which refers to “scaling-up proven businesses and business models across the European Union, establishing European Union-wide platforms and networks of businesses, investors and ‘providers of business development services’” (European Commission, 2011d: 1).

One controversial issue that is taken up under the discussion of the Social Business Initiative (European Commission, 2011e: 1) is the potential for positive discrimination under the market. In direct violation of the Lisbon Treaty, which restricts the administration of favorable policies for certain types of businesses/services, the Social Business Initiative, in whole, could be viewed as an advocate for executing discriminatory action (European Commission, 2011d: 1). However, in response to this issue, the European Commission argues that the Single Market is an open economy and provides equal opportunity for all business models. The Commission also goes on to argue that the uniform approach does not assign characteristics to social businesses nor have a discriminatory effect on them (European Commission, 2011d: 1). Additionally, the European Parliament (on 2nd

April 2014) conducted a hearing (Social Entrepreneurship Network, 2014: 1) and commented on their dissatisfaction with the performance of the initiative. The representatives of the social economy incurred the Social Business Initiative Commission to tighten up the definition for social enterprises regarding participative governance and non-distribution of profits. The president, Alain Coheur, pushed for the development of a 2nd Social Business Initiative and addressed issues of the social economy, aging, housing, mass unemployment, governance and finance. Additionally, the President of the European Council Nonprofit Associations, Patrick du Bucquois, pointed out that the criteria under the Social Business Initiative for the distribution policy is unnecessary as all hedge funds reinvest in their profits. Finally, the Bruno Roelants, stressed that policymakers should recognize the importance of organizational structure and its capability of delivering social benefits and the importance of stakeholder involvement in determining whether or not the Social Business Initiative is working (Social Entrepreneurship Network, 2014: 1).

2.3. THE EUROPEAN UNION STRATEGY 2011-2014

The European Union strategy for 2011-2014 (COM-2011-681 final) was published on the 25th of October 2011 by the European Commission after consulting with the European Economies and Social Committee. The Treaty on the Functioning of the European Union- Article 304 (Official Journal of the European Union, 2012b: 132), requires the European Committee to -when asked- provide an opinion on its own initiative. Additionally, the European Parliament, Council and Commission may consult with the European Committee on all issues considered appropriate. The opinion of the Committee and the proceedings are later sent to the European Parliament, Council and Commission. Under this communication and in line with Article 304, the European Commission consulted with the European Economic and Social Committee (Official Journal of the European Union, 2012a: 1) and published the Renewed European Union Strategy 2011–2014 for Corporate Social Responsibility. This communication was launched as part of the plans for achieving responsible business, as an added support to the Social Business Initiative and as a proposal to revise the Transparency and Accounting Directives (Business Europe,

2012: 3). The renewed strategy aims to further the goals of the European Union of aiding firms to reach their full potential, to generate wealth, jobs and innovative solutions to issues ailing the European Union. Additionally, the strategy, through the proposed policy initiatives, attempts to facilitate responsible business practices as part of the Europe 2020 strategy (Official Journal of the European Union, 2012a: 1).

The communication comprises of commitments and suggestion from the Commission and binds each Member State, stakeholder group and enterprise. In light of their limited resources and administrative burdens, the agenda also provides alterations for SMEs, taking account of their particular characteristics (European Commission, 2011b: 8).

In order to ensure the success of the agenda the Commission, Member States, enterprises and stakeholder groups are to work together and monitor the progress of the implemented actions underlined in the communication, which calls for the “cooperation of public authorities and European business leaders to commit to the responsible business conduct”. It is only through the coordination of these agencies and regulatory bodies that the goal of attaining responsible business practices can be realized. The Commission also calls for the inclusion of the Economic and Social Committee and the Committee of Regions under the process (European Commission, 2011b: 15).

Considering the recent economic and financial crisis, the European Commission has aimed to reaffirm the European influence in the market and promote the relationship between other regions and countries (European Commission, 2011b: 6). To reduce the remaining risk, the European Committee has rethought the integration of the market and further included the public authorities to play an important role in strengthening the confidence in businesses (European Union, 2014: 2). Not unlike organizations such as Member State governments and the European Union, businesses active under the market also need to be trusted by the citizens. However, the continued variance between expected business behavior and actual practices, information and irresponsible management behavior has damaged relations between these groups (European Commission, 2011b: 14). Overall, the economic and financial crisis has drawn attention to these issues and aided in the development of measures to bring about economic recovery and sustainable growth. By including the

governments, businesses, public authorities and union bodies under the process, the market stands a chance of improving the coordination of the European Union policies (European Commission, 2011b: 14). Additionally, by use of these adjustments the Commission also attempts to generate responsible business behavior and long-term sustainable employment plans (European Commission, 2011b: 4). However, the Commission argues that, in order to achieve these goals, firms must be educated on changing societal expectations and the European Union citizens must be included under this process.

The insufficient awareness of citizens regarding the constraints business face under their practices is shown as one of the factors resulting in irresponsible behavior (European Commission, 2011b: 9). Thus, the Commission supports that addressing these issues can increase awareness and trust levels for businesses. As diverse policies can create additional costs for business and Member States, the Commission also argues for guiding and coordinating these states in order to cut costs and reduce the inherent risk of divergent approaches (European Commission, 2011b: 6). The plans cover issues such as: incorporating regulatory proposals to generate a more responsible and transparent financial system, increasing levels of social and environmental information to achieve accountable business practices, and addressing social concerns under public procurement without introducing additional administrative burdens. These shall be summarized below.

As a result of the financial crisis the efficient allocation of capital has become an important factor that could potentially affect the going concern and long term investment goals of businesses. In order to overcome this, the Commission has started encouraging enterprises to further disclose relevant information to aid in the allocation process. This information contains elements from the implementation of good tax governance standards to non-financial information. The Commission has put forth several regulatory proposals in order to ensure that a more responsible and transparent financial system can be achieved. Additionally, the Commission has supported the integration of non-financial information under investment decision making. Thus, the Commission intends to evaluate "requirements on any ethical, responsible investment criteria, standard, code for businesses" and information sharing policies for "citizens, firms and public authorities" (European Commission,

2011b: 11).

In the year 2011, the Commission published a guide addressing the social considerations of public procurement to aid public authorities in providing access to the procurement market of underrepresented businesses. This action takes into account the treaty provisions on nondiscrimination, equality and transparency and integrates social and environmental criteria into the market. However, the Commission wishes to accomplish this integration without introducing additional administrative burdens for national authorities and businesses. The plan introduced by the Commission was incorporated into the European Union legal framework as part of the 2011 review of public procurement Directives and set a target of achieving a 50% compliance rate with agreed environmental criteria (European Commission, 2011b: 10). Additionally, the Commission argues that in order to build trust in businesses and the market, and increase accountability levels, that information should sufficiently meet the needs of stakeholder groups in a cost effective manner. Additionally the information provided should be material and should facilitate engagement with stakeholders. The disclosure of this information should contain elements from climate related information, social and environmental information, employee related information, and should go beyond existing European Union legislation. The Commission argues that it is only through the publication of these elements that accountable, transparent and reliable business practices can be achieved (European Commission, 2011b: 11).

Following the plans of the Commission, the concept of Corporate Social Responsibility has gained an important role in helping firms get through the crisis while continuing to remain competitive. The principles addressed under European Union strategies and communications, such as: human rights, labor standards, employment practices, child labor, human trafficking, gender equality, health and safety, climate change, good tax governance, resource efficiency, life-cycle assessment and pollution prevention, nondiscrimination, freedom of association, collective bargaining, combating bribery and corruption, development, integration of disabled persons, and consumer interests are integral parts of the CSR agenda (European Commission, 2011b: 7). By embedding these principles under their core business activities, firms can better manage practices and engage with the business

community. These practices also aid in minimizing the negative impact on society, while abiding legal obligations.

Corporate Social Responsibility highlights the mutual dependency of businesses in the community (Official Journal of the European Union, 2012a: 4) and the proposals put forth by the Commission are complementary to achieving growth, increasing prosperity and creating quality jobs (Official Journal of the European Union, 2012a: 2). CSR must not be viewed as a standalone feature in business strategies, but as part of a competitive strategy (Eurocommerce, 2012: 3). It is through the development of CSR that firms can significantly contribute to reaching the European Union's treaty objectives of sustainable development and achieving a highly competitive market economy (European Commission, 2011b: 3).

As mentioned above, numerous European Union strategies and communications, reference the CSR agenda when describing implemented policy changes. According to the Commission, "CSR offers a set of values on which to build a more cohesive society and on which to base the transition to a sustainable economic system" (European Commission, 2011b: 3). Both the Council and the European Parliament have called on the Committee to improve the CSR policies; the resolution "corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" addresses the continued efforts of the European Union to promote CSR in relations around the world and the resolution "corporate social responsibility: promoting society's interests and a route to sustainable and inclusive recovery" puts emphasis on European Union support for global CSR initiatives, supporting the multi-stakeholder approach and CSR definition reflecting the consensus.

The Single Market has also reflected the current movement towards fair and environmentally sustainable growth and has overseen the development of the modern business model where the social burden of the organization takes priority over achieving high levels of financial profit.

In addition, the Social Business Initiative has also covered the organization of "responsible, accountable and transparent" business conduct where entrepreneurial and innovative goods and services are provided to the market in a manner supporting the common good and societal goals. Finally, the Accounting Directive has

harmonized legal requirements for firms of all types and sizes, facilitated cross-border investment, improved financial report comparability and attempted to increase the public confidence in financial and management reports by use of enhanced and consistent specific disclosures across the European Union Member States. The principle based Directive requires the publication of information that is fundamental for reaching an understanding of an undertaking's "development, performance, position and impact of its activity, relating to, at a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters" (European Commission, 2013b: 33).

The European Union strategy for 2011-2014 (COM-2011-681 final) defines Corporate Social Responsibility as "the responsibility of enterprises for their impact on society", updating the previous definition (COM-2001-366) where social environmental issues and interactions with stakeholders were conducted on a voluntary basis (Official Journal of the European Union, 2012a: 2). This new definition of Corporate Social Responsibility constitutes as a paradigm shift as the voluntary aspect of the CSR agenda is removed as a key feature (Eurocommerce, 2012: 2). The Commission highlights the importance for applicable legislation and collective agreements between social partners as a prerequisite to meeting these responsibilities. With the ongoing effects of the recent financial and economic crisis and increasing competition within the market, the European Commission supports that concrete and binding measures are essential in order to ensure that CSR activities are not viewed as a luxury, but instead as a core part of the business strategy (European Trade Union Confederation, 2011: 1). Additionally, firms must initiate a process to integrate social, environmental, ethical, human rights and consumer concerns into their strategies while collaborating with their stakeholders. The Commission also defines the aim of Corporate Social Responsibility activities as "creating shared value for owners, shareholders and society" and "the identification and prevention of adverse impact of business practices" (European Commission, 2011b: 6).

In order to achieve the renewed CSR policy, the communication aimed to develop a new definition for CSR, increase trust in businesses, address the benefits of CSR, increase social dialogue and transparency, develop a regulatory framework,

integrate CSR into education, training, research and align the European and global approaches to CSR (Official Journal of the European Union, 2012a: 2). These actions shall be promoted through external policies developed by the Commission. Global advocacy and complementary legislation will aid in establishing dialogues with partner countries/regions. The Commission is expected to step up its cooperation with Member States and all countries wishing to join the European Union. As such, the CSR agenda is featured as a prominent aspect of the accession process. Additionally, public authorities are charged with the responsibility of providing a supporting role for furthering the strategy. The Commission recommends that these agencies employ a mix of voluntary policy measures, complementary regulation and market incentives (for responsible business conduct and accountability) (European Commission, 2011b: 7). The Commission also calls on European Union enterprises to renew their efforts to respect such principles and guidelines with the aim of fostering consistency between them. (European Commission, 2011b: 14). The international frameworks developed for the disclosure of social and environmental information plays an important role in order to achieve this. Currently, there are several international frameworks available: “the Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact, the International Organization for Standardization 26000 Guidance Standard on Social Responsibility, the International Labor Organization Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights and the Global Reporting Initiative” (European Commission, 2011b: 6). As the integration of financial and non-financial reporting represents an important medium and long term goal of the Commission, the authoritative guidance provided by these internationally recognized principles and guidelines aid in the creation of shared value (European Commission, 2011b: 6). Thus, the Commission urges all types of organizations, including civil society organizations and public authorities to take steps to improve disclosure of their own social and environmental performance (European Commission, 2011b: 12). In light of the Commission commitment towards the CSR agenda, Member States are to develop or update their actions, while referencing internationally recognized CSR

principles and guidelines (European Commission, 2011b: 12).

2.4. THE CORPORATE SOCIAL RESPONSIBILITY RESOLUTIONS OF THE EUROPEAN UNION

The resolution on "corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" (2012/2098(INI)) was published by the Committee on Employment and Social Affairs on the 28th of January 2013. Overall, the Committee on Employment and Social Affairs supports the development of regulatory measures under a robust legal framework that is in line with international standards. Additionally, the resolution addresses the continued efforts of the European Union to promote CSR in relations around the world. As the current financial and economic crisis originated from issues regarding transparency, accountability and responsibility, (European Parliament, 2013b: 4) and considering the position the European Union holds over Member States for progressively building a single Europe-wide free market for goods, services, people, and capital- the Committee argues that the European Union must bear responsibility of resolving this dilemma. Focus on the short-term output of business operations has been one of the leading factors influencing discords in the market. This has, in turn, resulted in a dramatic drop in trust levels for businesses.

However, various agencies throughout the European Union has been joining together in order to combat and resolve these issues. By publishing this resolution, the Committee recognizes the accomplishments of the European Commission and advocates the implementation and advancement of the Corporate Social Responsibility agenda. The Committee contends that the CSR agenda (if implemented correctly and practiced by all types of companies, regardless of size) may facilitate the achievement of sustainable and economic recovery (European Parliament, 2013b: 4). It is also argued that CSR practices could also aid in the restoration of diminished markets confidence and reduce the social consequences of the crisis. The implementation of CSR practices within a business creates an environment where the business itself and the European Union citizens are mutually benefited. The Committee supports that one way of achieving this is the integration

CSR under the sustainable business strategy. Referencing a review (European Parliament, 2013b: 4) conducted on the activities of small and medium-sized enterprises, the Committee points out that these businesses have already begun setting an outstanding example in the field.

However, the Committee argues that, despite the efforts businesses have exercised, the promotion, implementation and monitoring activities for social and environmental standards must be overseen by public authorities (European Parliament, 2013b: 4). The Committee urges the Commission to broaden its activities to include non-Member State countries (European Parliament, 2013b: 5) and accentuates the need for assistance from third-country governments for advancing the CSR of European business worldwide (European Parliament, 2013b: 6). In their own words, the Committee argues that “CSR must also extend to organizations behavior towards and in third-countries” (European Parliament, 2013b: 12). However, the Committee also points out that the European Union must assist these third-country governments in implementing social and environmental regulation and develop an effective inspection regime (European Parliament, 2013b: 88). These regulations must move beyond a voluntary approach (European Parliament, 2013b: 12) to complement to advancing the CSR worldwide.

National authorities are expected to lead the transition period of raising the CSR profile and promote the development of innovative business models that hold the potential for joining businesses and their social environment. Additionally, these authorities are to lay in the foundations for national action plans and the dissemination of best practices (European Parliament, 2013b: 5). Nonetheless, this view of the Committee does not bar businesses from contributing towards the development of the social market.

Organizations of every type and size play an important role in meeting the objectives of the Europe 2020 strategy (European Parliament, 2013b: 5). With the publication of this resolution, the Committee notifies the Council, Commission and the national governments and parliaments of the Member States (European Parliament, 2013b: 10) of the need for regulatory measures [especially as the Commission now references CSR under European Union trade agreements (European Parliament, 2013b: 13)] that are in line with international standards and

emphasizes the importance of avoiding disparate national interpretations that could potentially result in competitive advantages or disadvantages (European Parliament, 2013b: 10) [That are also flexible, lack additional administrative burdens and expense-especially for businesses with fewer than 500 employees and contain a 'comply or explain' system (European Parliament, 2013b: 14)].

Although Corporate Social Responsibility is a key factor in competitiveness (European Parliament, 2013b: 11), it does not autocratically result in a competitive businesses and is a means of creating shared value for business, stakeholders and our society (European Parliament, 2013b: 11). With the publication of this resolution, the Committee endorses the new CSR definition: “the responsibility of enterprises for their impact on society” (COM-2001-366) put forth by the Commission and supports the partition from voluntary aspect of the CSR agenda (European Parliament, 2013b: 4).

The 2012/2098(INI) resolution also calls on the Commission to further the deliberation regarding the Directives of Accounting and Transparency. The Committee supports the Commissions view that the current review and simplification of these Directives offers the potential of complementing the CSR strategy and encourages for further steps to be taken to complete the process (European Parliament, 2013b: 4). Publication of insufficient information by businesses is a problem plaguing the effectiveness of the CSR policy approach that also, in turn, reduces trust levels for promoting sustainable and inclusive growth (European Parliament, 2013b: 5). Additionally, it is stated that CSR activities may also be employed as a marketing tool by businesses (European Parliament, 2013b: 6). In order to combat these issue, the Committee urges the Commission to take greater account of social and environmental considerations and develop measures to provide accurate information for consumers, public authorities, and investors. As long as the efforts result in the disclosure of transparent and comparable non-financial disclosure that meets the needs of investors and stakeholders, and provides consumers with easy access to information on the businesses’ impact on society, governance aspects and life cycle cost methodology- the determination of these binding/non-binding measures are left up to the Commission (European Parliament, 2013b: 6). Ultimately, the Committee advocates the adoption of a legislative proposal that is flexible and

takes into account the multidimensional and diverse nature of the CSR policies implemented by businesses (European Parliament, 2013b: 5).

CSR must be integrated into the business strategy in order to be transferred over to the day-to-day operations and financial strategy of the organization. Good corporate governance is also specified as a tool for achieving a strong link between environmental, social and human rights performance and financial results (European Parliament, 2013b: 5). If firms are able to adeptly shift this commitment to their everyday operations, then the Committee argues that investors and consumers will also be able to identify firms which have made a commitment to CSR and modify their investment decisions accordingly (European Parliament, 2013b: 5). This highlights the benefit of Socially Responsible Investment and raises awareness of its role under the CSR process (European Parliament, 2013b: 5).

Under the 2012/2098(INI) resolution, the Committee also takes into consideration the transition period firms shall face when incorporating the new CSR strategy under their business model. The Committee calls on the Commission to prevent the strain businesses might face in light of increasing reporting requirements regarding sustainability practices. Allowing for a brief transition period before these requirements come into effect ensures that firms are given an opportunity to first develop a detailed CSR policy. This also has the benefit of allowing managers and employees to properly integrate CSR under their internal management systems, rather than the reporting information that lacks substance out of obligation. (European Parliament, 2013b: 5). The Committee also encourages the Commission to promote the use of internationally accepted frameworks, such as those of the Global Reporting Initiative and the Integrated Reporting Council (European Parliament, 2013b: 5).

Finally, the Committee urges the Commission to stand by an informal and intuitive approach to CSR for SMEs (European Parliament, 2013b: 9) and to formulate development and support strategies for reducing the strain of additional administrative or financial constraints (European Parliament, 2013b: 10) these organizations can potentially face while adhering to CSR policies. In order to reduce the effects of these burdens, the Committee recommends that guidelines and handbooks for CSR activities should be prepared. The Committee also calls for the

Commission and the Member States draw up specific measures for small and micro-enterprises (European Parliament, 2013b: 10). It is argued that these documents and measures can be instrumental in increasing levels of CSR acceptance for SMEs (European Parliament, 2013b: 11). Additionally, the document can also potentially benefit compliance with economic, social and environmental CSR practices at national or global level (European Parliament, 2013b: 11). Ultimately, the Committee wishes to maintain the “think small first” principle of the Commission (European Parliament, 2013b: 9) while attempting to boost CSR activities under SMEs.

The resolution on "corporate social responsibility: promoting society's interests and a route to sustainable and inclusive recovery" (2012/2097(INI)) was published by the Committee on Employment and Social Affairs on the 29th of January 2013. Under this document, the Committee on Employment and Social Affairs builds on the resolution of "corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" (2012/2098(INI)), emphasizes the European Union support for global CSR initiatives and finally, offers support for the multistakeholder approach.

Addressing the Commissions latest publication on the definition for Corporate Social Responsibility, the Committee supports that the concept has now been incorporated deeply within European-thinking. When compared with the previous communication, the Committee argues that the definition represents an important milestone for ensuring the European Parliament and stakeholder groups are involved in the CSR debate (European Parliament, 2013b: 14) .

The coverage of the concept is principle based and the Committee warns against misusing the definition in order to determine internationally agreed minimum applicable standards. Contrarily, the Committee states that it should be employed in gauging the implementation of standards (European Parliament, 2013b: 4). Additionally, the definition must be viewed in combination with concepts such as, responsibility, ethics, environment, social, governance, sustainable development and accountability (European Parliament, 2013b: 4).

The Committee argues that this reporting environment is prerequisite for generating a social climate conducive to economic growth and social convergence (European Parliament, 2013b: 5). Finally, the Committee states that as per the Europe

2020 strategy, the CSR must also contain a link to corporate governance- urging firms to take on a “transparent approach” under their operations and to incorporate the elements of ethics, social and environmental concerns into their activities (European Parliament, 2013b: 11). Ultimately, it is a “social and sustainable” investment market and consecutively- investor and consumer demand that drives CSR. Disclosure to these groups should be an indispensable tool that is based on readily applicable and measurable social and environmental principles (Official Journal of the European Union, 2016: 14). Thus, calling on the Commission, the Committee pushes for social partners and financial authorities to work together and build on the “CSR laboratories” to determine material social and environmental issues for firms and their stakeholders (European Parliament, 2013b: 7).

Moreover, with the involvement of “major global accountancy standard-setting bodies” (European Parliament, 2013b: 88), this is indicative that “corporate sustainability reporting integrated into financial accounts” will eventually become the global-norm under reporting practices. The Committee also argues that these reports must eventually be verified by an external body, to increase the credibility of an organizations operations (European Parliament, 2013b: 7).

Additionally, the Committee advocates use of differentiated approaches by industry, as differences in materiality might also necessitate differences in CSR activities (Official Journal of the European Union, 2016: 5). Adding support to the Commission plans to publish clarifying guidelines, the Committee reinforces the multistakeholder initiative and calls on firms and associations under industrial sectors to embrace the development (European Parliament, 2013b: 10).

The Committee also touches on the benefits of incorporating CSR activities under business strategies. Beyond the pronounced benefit of bettering society as a whole (European Parliament, 2013b: 12), the Committee argues that firms can potentially improve its image (European Parliament, 2013b: 12) in the eyes of potential investors and consumers. Being socially responsible can also potentially increase trust levels (Official Journal of the European Union, 2016: 6) in businesses and provide social acceptance for their operations, make the organization economically viable in the long term (European Parliament, 2013b: 12), increase motivation and commitment for workers and management (Official Journal of the

European Union, 2016: 9), contribute to/facilitate social dialog (European Parliament, 2013b: 20) and finally, reduce external risk for modern business profitability (European Parliament, 2013b: 21). CSR is not a luxury good, nor should it be employed in an underhanded way to greenwash and attract potential investors. The Committee also states that CSR should not be supported by business only in times of prosperity, but fully incorporated into the business model and provide high levels of business engagement (Official Journal of the European Union, 2016: 15). Thus, the Committee calls for all European policy-makers to incorporate CSR under economic policy and reinforce CSR within the Europe 2020 Strategy (Official Journal of the European Union, 2016: 15).

To that end, the resolution states that a major emphasis of European Union action must be given for guidelines and principles among European business (European Parliament, 2013b: 13). Additionally, the road to achieving success for the CSR agenda requires the Union CSR policies to be modeled according to international standard, which has the added benefit of reducing disparate national interpretations (European Parliament, 2013b: 13).

As mentioned before, by clearing divergent policies, the European Union may lessen the impact of competitive advantages/disadvantages emerging at national/international level (European Parliament, 2013b: 13). In view of this, the Committee requires unity to be achieved between “international human rights, social and environmental standards” under “the Organization for Economic Cooperation and Development and United Nations guidelines and principles” for “public procurement, export credit, good governance, competition, development, trade, investment” policies (Official Journal of the European Union, 2016: 10). What is more, the Committee calls on “leading businesses” to lead the disclosure of social and environmental information and on “public administration” to create conditions that are able to induce CSR cooperation and develop incentive systems.

Similarly, although CSR must extend to enterprises of all types and sizes (European Parliament, 2013b: 12), the Committee also argues for further action needs to be taken in order to aid the adaptation of the CSR agenda to meet the needs of SMEs (European Parliament, 2013b: 1). The analysis conducted by the Committee shows that CSR practices are confined to large companies (European Parliament,

2013b: 9), this is unfortunate as the Committee argues that SMEs have an important and strategic role to play in fostering the uptake of CSR. This is owed to the fact that SMEs harbor close ties to the areas in which they operate. In order to increase SMEs CSR practice levels, the Committee calls on the Commission and National Authorities to work together under a multi-stakeholder platforms. It is hoped that the cooperation between these bodies can potentially lead to joint actions on social and environmental problems (European Parliament, 2013b: 9).

So far, in order to create a fair and level playing field (European Parliament, 2013b: 8), numerous international initiatives have been developed for CSR; stock exchange listing requirement for the Sustainability Stock Exchange Initiative of Brazil, South Africa and Malaysia, reporting requirements for state owned businesses in China, the requirements of the Securities and Exchange Commission of the United States concerning sustainability performance and CSR guidelines developed by the Indian government (European Parliament, 2013b: 8).

Having said that, the Committee argues that the Global Reporting Initiative, which is a popular international framework for CSR reporting, provides the most widely accepted methodology for transparency (Official Journal of the European Union, 2016: 5). Since its conception in the year 1997 the Global Reporting Initiative program has become a benchmark around the world for measuring, monitoring, and reporting corporate sustainability efforts.

Globally, increasing numbers of highly visible multinational companies have been participating in the Global Reporting Initiative; reporting information on the economic, environmental and social impacts caused by organizations everyday activities (Global Reporting Initiative, 2017a :1). Moreover, the Committee supports that the Organization for Economic Cooperation and Development guidelines on multinational enterprises are credible CSR standards that foster open, fair and responsible business practices worldwide and that it is an useful tool to advance the implementation of the agenda (European Parliament, 2013b: 8).

Coupled with the above mentioned methods, the Committee argues that company codes of conduct also have an important role to play in initiating CSR and raising awareness of it (European Parliament, 2013b: 10). However, the Committee states that these codes lack consistency with existing international standards,

transparency and specificity. Additionally, these codes indicate an avoidance of material issues (European Parliament, 2013b: 10).

Importantly, the resolution requires the European Union Member States to expedite the development and publication of their national CSR action plans implementing the relevant international guidelines. The Committee called for the finalization by the end of December 2013 and recommended the inclusion of “all relevant stakeholders, including non-government organizations, civil society, trade unions, employers’ organizations and national human rights institutions” under the process (Official Journal of the European Union, 2016: 9).

The Committee also added that the CSR efforts of these organizations can only reach success provided that national regulations are put into place and upheld (European Parliament, 2013b: 5). However, there seems to be a lack of success in this regard. The Committee comments that a wide range of public policy measures that were implemented in response to the agenda has yet to yield significant visible impact in furthering CSR (Official Journal of the European Union, 2016: 13). In view of this, the Committee calls for research to be conducted on the public policy measures relating to CSR at the European level and asks the European Commission to lead by example and publish its own CSR report prepared in accordance with the GRI Public Sector Supplement (Official Journal of the European Union, 2016: 13). The Committee commends the framework on sectoral and crosssectoral social dialogue structures and calls for the involvement of representative organizations and trade unions under the process (European Parliament, 2013b: 14).

Finally, the resolution supports the Commissions proposal on non-financial disclosure by businesses. However, the Committee warns against use of the term 'non financial' for disguising real financial consequences for business’ social, environmental and human rights issues (European Parliament, 2013b: 8).

Overall, the analyzed Single Market Initiative, the European Union strategy 2011-14, the Corporate Social Responsibility resolutions of the European Union: "corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" and "corporate social responsibility: promoting society’s interests and a route to sustainable and inclusive recovery”, highlights the importance the European Union places on the CSR agenda. Under the

following chapter we analyze the Accounting Directive [Directive (2013/34/European Union and (2014/95/European Union)] , which is viewed as the culmination of the European Union cooperation efforts surrounding the debate of CSR and draw attention to the importance of the document that holds under European Union regulation.

The European Union exists as an autonomous entity (Borchardt, 2010:21) and has a legal order that is independent of the Member States (Borchardt, 2010:32). This ensures that via the rights conferred upon it by the signed Treaties, the entity has its own sovereign rights and can establish legal order, bestows rights and imposes obligations under each State (Borchardt, 2010:31).

However, even though the Union law carries primacy, which ensures it takes precedence and may not be revoked or amended by national law (Borchardt, 2010:31), national identities are ultimately respected and Member States are allowed to contribute their own particular qualities in the formation of Union law. One important source of European Union law by which this may be achieved are Directives.

Directives are a form of secondary legislation where the measures required to implement binding European Union legal acts are taken by the Member States. Directives determine the objective of the policy change that must be achieved across all Member States. These objectives can either be presented in a strict or principle-based format, depending on the content of the Directive. If the maneuverability of Member States needs to be restricted, for instance for the standardization of environmental protection, the objectives are spelled out and published in detail format. The objectives might also be presented in the principal-based format.

Directives are initially adopted by the Commission and the rules and general principles for the implementation are determined by the European Parliament and the Council (Borchardt, 2010:81). However, the national provision in which the Directive shall be implemented are determined by and defers significantly between Member States. A Directive can range above constitutional law, above ordinary statutory law, or have the same status as statutory law (Borchardt, 2010:120).

Thus, under the next chapter, we take the Accounting Directive in hand and evaluate the rules/general principles for implementation provided, and study the

undertakings (and their characteristic) charged with abiding the Directive. Finally, we analyze the relationship between the International Financial Reporting Standards and the Accounting Directive and offer insight into the differences and similarity between the two documents.



CHAPTER THREE

THE ACCOUNTING DIRECTIVE

Developed by the European Parliament and the European Union Council, the 26 June 2013 dated Directive D.2013/34/European Union and its amendment, the 22 October 2014 dated Directive D.2014/95/European Union, were published within the Official Journal of the European Union on the 29th of June 2013 and the 15th of November 2014, respectively. The document is a principles-based Directive [D.2013/34/European Union item 6] that has the objective of harmonizing legal requirements [D.2013/34/European Union item 8], facilitating cross-border investment, improving financial report comparability [D.2013/34/European Union item 55] and increasing public confidence in financial and management reports by use of enhanced and consistent specific disclosures [D.2013/34/European Union item 55] across the Member States. One of the objective of the document is to increase the relevance [D.2014/95/European Union item 21] and comparability [D.2013/34/European Union item 55] of the information published by organizations across the European Union.

Over the years, the Member States have had to make extensive regulatory changes and have been under pressure to improve and develop their independent regulatory institutions; for reasons such as a desired accession to the European Union and the need to meet the terms of European Union Directives. Regardless, it is stated that these countries have largely remained independent in regards to their national responses and have hardly been effected by “Europeanization” efforts (Morata and Sandoval, 2012: 13). This poses a problem for the harmonization efforts within taken by the European Parliament and the European Union Council, as the “relevance, consistency and comparability” of the information published [D.2014/95/European Union item 21] by organizations cannot be accomplished well enough across the Member States. Thus, the European Parliament and the European Union Council proposed adopting measures at the Union level in order to better achieve the desired affect. The principal base Directive, which provides information on the minimum requirements within the union level ensures that organizations will not be able to exclude themselves from submitting reliable and consistent information that is

comparable from one organization to another. The principal based nature of this Directive shall also ensure that managements will not be able to manipulate the information [D.2013/34/European Union item 6] supplied within the financial statements and management reports to fit the minimum requirements.

The execution date for D.2013/34/European Union was listed as the 20th of July 2015 and Member States were charged with the responsibility of incorporating the Directive into their financial statements and management reports for the year beginning on the 1st of January 2016 or the calendar year 2016. However, with the amendment of D.2013/34/European Union the final version of the document shall be re-evaluated by Member States and the measures addressed within the Directive, reference points and amendment will be incorporated into Member States laws, regulations and administrative provisions [D.2013/34/European Union Chapter 1-1] by the 6th of December 2016. Following this requirement Member States are also charged with the responsibility of ensuring that the Directive is incorporated within organizations financial statements and management reports by 1 January 2017 or during the calendar year 2017 [D.2014/95/European Union article 4]. Under the Directive it is also stated that Member States must reference D.2013/34/European Union and D.2014/95/European Union within the official publication supplied in order to convey the main provisions adopted the national law. Though the method that Member States may employ while making these references are flexible and national regulatory institutions are allowed to disclose the information in any way that they considered to be most useful.

D.2013/34/European Union and its amendment, D.2014/95/European Union are quite extensive in nature and address a wide variety of topics such as;

- the types of firms and their classification criteria applicable to the Directive
- general accounting provisions and principles that should be considered when preparing the balance sheet
- the profit and loss account and the notes to the financial statements
- the measurement base employed for recognition within financial statements
- fair value accounting

- the layout and display of the balance sheet and profit and loss accounts
- the content of the notes to the financial statements
- additional disclosures that need to be supplied by medium-sized and large firms and public interest entities
- exemptions from providing specific disclosure obligations
- the need for electronics publication systems for accounting data
- the responsibilities of the administrative and supervisory bodies of the firm for publishing financial statements and management reports
- the need for auditing annual financial statements and consolidated financial statements
- the information that should be listed within an auditor report
- the preparation of consolidation of financial statement

Additionally, D.2013/34/European Union and its amendment, D.2014/95/European Union also provide information on the content of management reports; which consist of information on corporate governance practices and non-financial information providing insights into the complexity of the business which are vital in understanding of firms development, performance or position.

3.1 THE RELATIONSHIP BETWEEN THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE ACCOUNTING DIRECTIVE

Despite the existence of the Accounting Directives (understood as Directives 78/660/European Economic Community “4th Company Law “ and 83/349/European Economic Community “7th Company Law”, at the time and later the Directives 2013/34/European Union and 2014/95/European Union) the European Parliament and Council, on 19th of July 2002, published “Regulation No 1606/2002 on the application of international accounting standards” with the aim of enhancing the comparability of financial statements prepared by publicly traded companies (International Accounting Standards Regulation item 1) (Official Journal of the European Union, 2002: 1).

This regulation ultimately provided a legal context for the application of the International Financial Reporting Standards in the European Union. Thus, on the 1st of

January, 2005 the European Union Parliament via the “International Accounting Standards Regulation (1606/2002)” forced Member States to apply the European Union-approved version of the International Financial Reporting Standards to the consolidated financial statements of companies listed on the stock market. Furthermore, the Parliament left the choice of having firms with non-consolidated financial statements implement International Financial Reporting Standards at the discretion of national regulators. The actions of the European Parliament and Council brings to mind the question of “why” such standards were required on top of the Accounting Directives and the relation of these Directives with the now mandatory International Financial Reporting Standards.

The role of the International Financial Reporting Standards in the European Union is to support the Accounting Directives. As the International Accounting Standards Regulation item#3 clearly states, the Accounting Directive reporting requirements lacks the necessary conditions for ensuring “high levels of transparency and comparability under financial reporting” from all publicly traded companies. Thus, in order to ensure to that capital markets continue to operate “effectively, smoothly and efficiently”, the European Parliament and Council published the International Accounting Standards Regulation, which supplements the legal framework applicable to publicly traded companies (International Accounting Standards Regulation item#3) and contributes to the functioning of the internal market by requiring publicly traded companies to follow a single set of high quality international accounting standards under the preparation of their consolidated financial statements (International Accounting Standards Regulation item 2) (Official Journal of the European Union, 2002: 1).

Having said that, the European Parliament and Council also imposes certain conditions that the International Financial Reporting Standards must follow in order to be permitted use by Member States. Firstly, the adopted International Financial Reporting Standards requirements must not be contrary to the principles set out under the Accounting Directive. Following this topic, in November 2003, the Commission of the European Communities, published a comment letter on the International Accounting Standards Regulation and the 4th and 7th Accounting Directives and provided authoritative clarification where deemed required. One critical issue

addressed under their paper concerned the Accounting Directives/International Financial Reporting Standards taking precedence over the International Financial Reporting Standards/Accounting Directives. Although the adopted International Financial Reporting Standards requirements must not be contrary to the principles set out under the Accounting Directive, according to Commission, once the standard is adopted, the International Accounting Standards Regulation is directly applicable to the firm preparing reports. The Accounting Directives is, on the other hand, applicable to companies through their transposition into national law (Commission of the European Communities, 2003: 10). Table 2 provides a general outline of the legal framework companies must follow while reporting. Additionally, specific information on the related articles of “D.2013/34/European Union” and D.2014/95/European Union are provided under section 3.4.

Table 2:General Outline of the Legal Framework of Companies

Company Reporting	
Financial Reporting	
In force	The 22 October 2014 dated 2014\95\European Union Directive (D.2014/95/European Union) amended D.2013/34/European Union, published within the Official Journal of the European Union on the 15th of November 2014
In force	The 26 June 2013 dated Accounting Directive 2013\34\European Union Directive (D.2013/34/European Union) published within the Official Journal of the European Union on the 29th of June 2013- Repealed Directives 78/660/European Economic Community “the 4th Company Law“ and 83/349/European Economic Community “7th Company Law”
In force	“Regulation No 1606/2002 on the application of international accounting standards” published on the 19th of July 2002, by the European Parliament and Council
In force	3 November 2008, Commission Regulation 1126/2008 of adopting certain international accounting standards in accordance with 1606/2002 of the European Parliament and of the Council
Repealed	D.83/349/European Economic Community “7th Company Law” of 13 June 1983- including subsequent amendments
Repealed	D.78/660/European Economic Community “the 4th Company Law“ of 25 July 1978 - including subsequent amendments
Other related reporting	
Non-Financial Reporting	
In force	Management report Article#19 of D.2013/34/European Union and D.2014/95/European Union
In force	Nonfinancial Information Article#19a and Article#29a of D.2013/34/European Union and D.2014/95/European Union
In force	Corporate governance statement Article#20 of D.2013/34/European Union and D.2014/95/European Union
Country By Country Reporting	
In force	On payments to governments for extractive and logging industries Chapter 10 of D.2013/34/European Union and D.2014/95/European Union
In force	On certain payments by banks Article#89 of D.2013/36/European Union

Source: (European Commission, 2016d: 1)

In other words, the Accounting Directive (currently D.2013/34/European Union and D.2014/95/European Union Accounting Directive and amendment) covers all types of firms under the jurisdiction of the Member State law, while the International Accounting Standards Regulation only made adoption of International Financial Reporting Standards/International Accounting Standards mandatory for the consolidated financial statement of firms listed in the European exchange market (Federation of European Accountants, 2014: 8). Thus, unless the Accounting Directives is transposed into national law, there is no interaction within the Member State. On the other hand, the International Accounting Standards Regulation, once adopted, is directly applicable to all Member States and the firm preparing reports. Following this line, the issue of interaction is only relevant to the extent that national law deals with the same subject matter as the International Accounting Standards Regulation. However, not all aspects of national accounting systems (transposed from the Accounting Directives) are covered under the International Accounting Standards/International Financial Reporting Standards and unless a contrary treatment is specified under the International Financial Reporting Standards/International Accounting Standards, shall continue to apply. To put it another way, if the International Financial Reporting Standards are silent on a matter, the Accounting Directive should be referred to for its treatment. As a principle based standard set, International Financial Reporting Standards/International Accounting Standards aims for financial reporting to fully reflect the firm's operations and environment. However, the adoption of the standards set has introduced a wide variety of alternative accounting treatments, which is said to substantially reduce the comparability of financial statements. In such a system, there shall always exist transactions that are not covered by explicit rules. When such a situation arises, the International Accounting Standards Regulation takes precedence over the treatment specified under the national accounting system. Finally, a firm must also endorse International Accounting Standards/International Financial Reporting Standards irrespective of any conflicting requirements under their national accounting systems (Abela, 2015: 4). As the International Accounting Standards Regulation is directly applicable, Member States must ensure that any and all accounting elements under their national accounting system are in conformance with the International Financial Reporting

Standards/International Accounting Standards (Commission of the European Communities, 2003: 10). The relation between the International Accounting Standards/International Financial Reporting Standards and Accounting Directive is presented under Table 3.

Table 3: The Relation Between the International Accounting Standards/International Financial Reporting Standards and Accounting Directive

Situation	Solution
Conflict between Accounting Directive and International Financial Reporting Standards/International Accounting Standards	International Financial Reporting Standards/International Accounting Standards takes precedence
No treatment mentioned under International Financial Reporting Standards/International Accounting Standards	Accounting Directive is referred
No mention under Accounting Directive	International Financial Reporting Standards/International Accounting Standards is referred

With this in mind, it could be said that having a strong grasp of both the Accounting Directives (D.2013/34/European Union and D.2014/95/European Union) and the International Financial Reporting Standards/International Accounting Standards full set is imperative in successfully managing and executing the requirements under the documents. The differences between these documents are further explored under the following section.

Secondly, the adopted International Financial Reporting Standards requirements must be conducive to the European public good and thirdly, the standards must produce understandable, relevant, reliable and comparable financial information that allows for decision making and assessing the stewardship of management (article#3 of the International Accounting Standards Regulation). As long as the international standard follows the above stated requirements and does not fall contrary to the Accounting Directive, it may be adopted as a supplement the European Union legal framework.

The adoption of individual standards and the approval of their amendments is a

tedious process. The standard set needs to pass through an examination conducted by various organizations charged by the European Parliament and the Commission, and the amount of time required for approval is quite lengthy. Additionally, standard items sometimes fail to pass the European Union endorsement procedure and this results in the eventual creation of a “European Union-endorsed hybrid International Financial Reporting Standards version”. If a standard fails to pass the European Union endorsement procedure, then it is not required or in certain instances not permitted to be applied by firms abiding the International Accounting Standards Regulation (Commission of the European Communities, 2003: 4). As such, the firms applying the European Union-approved version of International Financial Reporting Standards are, in effect, applying a “different version” (Nobes, 2006: 234; Nobes, 2011 :256) and not the full standard set as approved and published by the International Accounting Standards Board. When compared with the Accounting Directive, it can be seen that the International Financial Reporting Standards provides more specific rules regarding individual or consolidated accounts (Abela, 2015: 3).

3.1.1 Differences Between International Financial Reporting Standards and the Accounting Directive

As mentioned above, the issue of interaction between the International Accounting Standards/International Financial Reporting Standards and the Accounting Directive arises once the national law deals with the same subject matter as the International Accounting Standards Regulation and unless the financial report preparer has a strong grasp of these documents (D.2013/34/European Union, D.2014/95/European Union and the International Accounting Standards Regulation), they can fall into non-compliance if the differences between these standards are unknown. Thus, an in depth knowledge of both the the Accounting Directives and the International Financial Reporting Standards/International Accounting Standards full set is imperative in successfully executing the accounting requirements. With this in mind, we shall briefly summarize issues identified regarding the above mentioned issue.

One difference that was later amended is the requirement that “the annual and

consolidated statements must provide a true and fair view” (Official Journal of the European Union, 2014: 2). Referred to as “fair presentation” under the International Accounting Standards 1, the concept is covered as follows (European Commission, 2011g: 4): “...requiring the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework...the application of International Financial Reporting Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation...”.

Following this, “true and fair view” the Accounting Directive is said to provide an accurate representation of an “undertakings assets and liabilities, financial position and profit or loss” (Official Journal of the European Union, 2014: 2). As can be seen from the statements provided from both documents, the concepts are fairly similar. However, the issue arises once an event under the financial statement fails to give a true and fair view where provisions of the standards are applied. Both the Accounting Directive and the initial version of the International Accounting Standards 1 handled the issue in fairly different ways.

If a financial statement fails to give a true and fair view, the Accounting Directive grants the Member States the opportunity to allow firms to deviate from the provisions (Official Journal of the European Union, 2014: 2). This is referred to as an override (Van Hulle, 1997: 1). On the other hand, the initial version of the International Accounting Standards 1 did not recognize an override for true and fair view and fearing abuse, the Commission called for further clarification of the issue. They argued that the lack of recognition would create a conflict with the Accounting Directives and stated that if the override is not recognized, than this means that the “possibility of judgment is severely restricted by the obligation of applying the codified rules” (Van Hulle, 1997: 9). In the end, the Board agreed with the point brought forth by the Commission and, in 1997, the International Accounting Standards 1 was adopted including the override.

A second issue that shall be addressed under this section is the principle of going concern. Under to the Accounting Directive, the concept is briefly covered in the general financial reporting principles. The Directive states that “the undertaking

is presumed to be carrying on its business as a going concern” and that the annual and consolidated financial statements shall be presented according to this principle. However, this is the limit to the information covered under the document. Highlighting the supportive nature of the International Financial Reporting Standards/International Accounting Standards in relation to the Accounting Directive, the International Accounting Standards 1 “Presentation of financial statements” further addresses the issue and offers complementary information regarding the classification of a going concern, the existence of material uncertainties and information that may be employed in assessing the firms going concern status.

According to the International Accounting Standards 1, going concern is an entity’s ability to continue its operations. The standard states that an entity can not be classified as a going concern if; “management intends to liquidate the entity, cease trading, or has no realistic alternative but to do so” (International Accounting Standard Board, 2009: 10). Additionally, International Accounting Standards 1 addressed the situation of material uncertainties and when significant doubt falls on the entity’s ability to continue as a going concern. If such an event arises, the management must disclose those uncertainties. Limited 12 months from the end of the accounting period, the going concern assumption is assessed employing use of available information about the future (International Accounting Standard Board, 2009: 11) concerning; current and expected profitability, debt repayment schedules and potential sources of replacement financing.

Another point of address between the International Financial Reporting Standards/International Accounting Standards and the Accounting Directive is the interpretation of the principle of prudence. According the International Financial Reporting Standards Conceptual Framework, prudence is exercising caution when faced with uncertainty while making judgments (International Accounting Standard Board, 2015: 89).

When prudence is exercised, assets and income are not overstated/understated and liabilities and expenses are not understated/overstated (International Accounting Standard Board, 2015: 30). As the principle is further analyzed and compared with the Accounting Directive, it can be argued that the International Accounting Standards Board interpretation of prudence only covers “prudent treatment of

discretion” which is dissimilar than what is stated in the Accounting Directive (European Parliament, 2016: 9). Under the Directive, the concept is said to be a core component to achieve a true and fair view of accounts and requires firms to refrain from understating losses or overstating profits. Recognition and measurement is conducted on a prudent bases and only profits earned by the the balance sheet date may be recognized. Additionally, all liabilities and all negative value adjustments from the current/previous year or between dates must be recognize, whether the result of the financial year is a profit/loss (Official Journal of the European Union, 2014: 12). Finally, Member States are given the option of requiring foreseeable liabilities and potential losses to be recognized.

Regarding the annual financial statements that firms are required to supply, article#4 and #19 of the Directive dictates for undertakings that the balance sheet (European Commission, 2013b: 18), the profit and loss account (D.2013/34/European Union article#31, European Commission, 2013b: 18), the notes to the financial statements (European Commission, 2013b: 18, D.2013/34/European Union article#4) and the management report (D.2013/34/European Union article#19, D.2013/34/European Union article#31, D.2013/34/European Union article#19a) are mandatory. However, depending on the size of the undertaking, exemptions exist for the content and complexity of these reports. Additionally, firms may be permitted to publish an abridged balance sheet (D.2013/34/European Union article#14, D.2013/34/European Union article#31), an abridged profit and loss (D.2013/34/European Union article#14, European Commission, 2013b: 27), an abridged notes to financial statements (D.2013/34/European Union article#31, D.2013/34/European Union article#14), a Corporate Governance Report (D.2013/34/European Union article#20). Finally, Member States may require undertakings to provide additional statements (D.2013/34/European Union article#4) and additional information (D.2013/34/European Union article#16, D.2013/34/European Union article#17, D.2013/34/European Union article#31) depending on the operations of the organization. This information is further covered under section 3.3 “Reports to be Disclosed by Undertakings and their Exemptions”. The International Financial Reporting Standards/International Accounting Standards on the other hand, differs from the Accounting Directive in this regard. As covered

under International Accounting Standards 1 paragraph 10, the standard set requires firms to publish a statement of “financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, notes (including significant accounting policies and other explanatory information) and a statement of financial position.” The fact that the standard set requires firms to publish a statement of changes in equity, a management report and a statement of cash flows in addition to what is required under the Accounting Directive highlights the supportive nature of the documents. Additionally, according to Demir and Bahadır (2014: 18), this is indicative of the Accounting Directives preference for offering simplified and harmonized legal requirements that aim to ease the burden of micro and small sized undertakings. The differences between these documents and the above mentioned articles and standards are summarized below.

Following the differences between the two documents (International Financial Reporting Standards/International Accounting Standards and the Accounting Directive) reporting requirements, it must also be noted that the Accounting Directive calls for the publication of non-financial information. As stated under the amendment to the Accounting Directive, D.2014/95/European Union provides and amends the article, requiring information that is fundamental for reaching an understanding of the undertaking's “development, performance, position and impact of its activity, relating to, at a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters” (European Commission, 2013b: 33) that must be laid out by large undertakings. Undertakings which are also PIE with over 500 employees per year, must also formulate and present a non-financial statement, laid out within the firm's management report. Under this statement, the firm must encompass; business model descriptions, the firm's policy for “environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters” (European Commission, 2013b: 33), and the “outcome of the execution of these policies, operational risk, business relationships, product/service risk, risk management policies and non-financial key performance indicators”. When presenting information on these issues the firm must also encompass references, explanations, amounts reported within the annual financial statements. If the firm does not have policies in place in relation to the above-mentioned matters, information must

be provided within non-financial statement on the firm's reasoning. According to the Accounting Directive, Member States may allow firms to provide information on these issues; impending developments and ongoing negotiations. However, this information need not be published and the administrative, management, supervisory bodies are of the opinion that the publication of this information would undermine the performance of the organization and does not restrict the display of a fair and balanced understanding of the firms “development, performance, position and impact” (European Commission, 2013b: 48) of its activities.

Most importantly, when presenting this information the Directive allows Member States to bid firms to employ use of national/union base/international frameworks when preparing the non-financial statement (D.2014/95/European Union Article#19(a)), also if the firm employs use of these frameworks, they are under the obligation of disclosing which framework it relies upon. Additionally, according to D.2014/95/European Union Article#29(a), the Accounting Directive also dictates the publication of the above mentioned information on the obligations for PIE which are parent undertakings of a large group exceeding certain criteria to present a consolidated non-financial statement under the consolidated management reports. This information must cover the performance, position and impact of the activities taken by the organization.

The International Financial Reporting Standards/International Accounting Standards and Accounting Directive also differs in regards to the management report, as well. According to the Accounting Directive, the firms must provide a fair view of an undertaking performance, position, a description of the risk/uncertainties the business faces. The report should be consistent with the size and complexity of the organization and provide financial and non-financial information, key performance indicators and environmental and employee related matters. The management report should also contain information regarding the following issues; the future development of an undertaking, research and development activities, the recent acquisition of shares, the undertaking branches, the use of financial instruments, financial risk managements objective and policies, hedging activities and exposure to different types of risks, such as; price, credit, liquidity and cashflow.

The Accounting Directive also provides information on the content and

placement of corporate governance information that must be included within the management report. This information is; the corporate governance code employed, the governance practices and corporate governance practices required within the national law. In situations where there is a departure from the corporate governance code, the firm's reasoning for departure must be explained in full.

Additional information that must be provided within the corporate governance statements are; “the firm's internal control and risk management system for the financial reporting process, information regarding shareholder meetings and rights, the method for executing these rights and the key powers, the composition and operation of administrative, management, supervisory bodies and committees” (European Commission, 2013b: 34) of the firm.

Further differing from the International Financial Reporting Standards/International Accounting Standards, the Accounting Directive also requires information on the payments to governments. As covered under Article#43 of the Directive, undertakings must provide information on any single/series of payments above €100,000 within one year. The information must be published in relation to certain activities; payments between governments, the amounts, whether it is actually a type of project and amounts per payments. Information need not be published at the project level, but firms may provide the sum total. Value determination of the payments needs to be published under the notes to the financial statements and must confer the substance of the activity. If the information is being provided under a country that has not adopted the Euro, the limit mentioned above must be converted into the national currency and the firm must apply the exchange rate published by the Official Journal of the European Union on that date.

Other issues to consider when evaluating the Accounting Directive and the International Financial Reporting Standards/International Accounting Standards regards the recognition and measurement related principles for the annual and consolidated financial statements are comparative information, the accrual basis of accounting, consistency of presentation, materiality and aggregation and offsetting.

The Accounting Directive dictates that the balance sheet and profit and loss account items must be shown comparatively with the relating figures under the preceding financial year. The Directive also addresses conditions in which the figures

might not be comparable. According to the document, Member States may be permitted to require an adjustment to previous year information and cases of non-comparability or adjustments must be disclosed under the notes to the financial statements (Official Journal of the European Union, 2014: 14). Although, the International Financial Reporting Standards/International Accounting Standards, not unlike the Accounting Directive, requires the publication of comparative information -in respect of the previous financial year, this publication must also be for narrative and descriptive information, and must include the publication of two financial statements. On the other hand, when an adjustment is required to the previous years information, the number of financial statements must, at the minimum, cover three years of reporting for the statements of financial position and two years for the other statements and notes (International Accounting Standard Board, 2009: 12).

According to the Accounting Directive, the “amounts recognized in the balance sheet and profit and loss account shall be computed on the accrual basis” (Official Journal of the European Union, 2014: 12). The International Accounting Standards 1 adds that remaining financial statements, with the exception of the cash flow must also be prepared using the accrual basis of accounting. The standard states that assets, liabilities, equity, income and expenses are recognized upon satisfying the criteria for elements in the Framework (International Accounting Standard Board, 2009: 11).

Regarding, the consistency of presentation, the Accounting Directive dictates that policies and measurement bases must be applied consistently across financial periods (Official Journal of the European Union, 2014: 12). The International Financial Reporting Standards/International Accounting Standards confirms this and adds that an undertaking may not abide to the principle if the change is apparent (International Accounting Standards 8) or the change was required by the International Financial Reporting Standards. Additionally, in order to warrant publication, the information provided by the change must be reliable and relevant to users (International Accounting Standard Board, 2009: 13).

Concerning the materiality and aggregation of information, the Accounting Directive dictates that assets and liabilities must be valued separately, but that the “recognition, measurement, presentation, disclosure and consolidation” requirements

need not be complied with when the amounts are immaterial (Official Journal of the European Union, 2014: 6). This policy also holds true under the International Financial Reporting Standards/International Accounting Standards, however according to the standard, it is the material items of “dissimilar nature or function” that must also be presented separately. A further indication of the supportive nature of the documents, the standard also goes on to state that items that lack individual materiality may be aggregated with other items either under the statements or the notes (International Accounting Standard Board, 2009: 11).

Finally, the International Financial Reporting Standards/International Accounting Standards bars the offsetting of assets and liabilities or income and expenses. However, there are certain conditions that may allow for the situation under the International Financial Reporting Standards (International Accounting Standard Board, 2009: 11). The Accounting Directive leaves the decision to offset assets and liabilities or income and expenses to the Member States, but restrict the decision provided the amounts that are set off are specified as gross amounts under the notes (Official Journal of the European Union, 2014: 12).

We also see that the Accounting Directive and the International Financial Reporting Standards/International Accounting Standards differs in regards to their stance on prescribing an order or format for the presentation of items. As stated under International Accounting Standards 1 paragraph 57, the standard does not prescribe such an order or format, however it does require the disclosure of certain line items under the statement of financial position. These items are specified under International Accounting Standards 1 paragraph 54. The standard argues that as these items are sufficiently different in nature, they simply warrant a separate presentation and that this minimum requirement does not violate the International Accounting Standards Boards stance on dictating statement format. The view of the Accounting Directive is quite different in this regard. Under article#13 the Directive addresses the provided layout for the balance sheet and profit and loss accounts. The Directive provides Member States with two layouts for the display of the statement. The layouts are covered within Annex V and VI of the document and Member States are granted with the choice of prescribing either one or both of these layouts for adoption. If a Member State prescribes both layouts for firms to adhere to it may consent the

undertaking to choose which of the two layouts they may adopt. Member States are also given the choice of not requiring undertakings to present a statements on their performance in the format of the layout provided by the document. As long as the provided information covers the requirements listed within Annex V and VI, then the Member States are free to either bid or consent the layout of their choosing. The layout for the profit and loss account by nature of expense and by function of expense are provided under section and Table 18-19.

The remaining identified differences between the International Financial Reporting Standards/International Accounting Standards and the Accounting Directive are in regards to additional disclosure requirements prescribed by the Directive. According to the document, undertakings are obligated to provide information on the following issues: average number of employees during the financial year (D.2013/34/European Union Article#16), average number of employees during the financial year broken down by categories and if not disclosed separately in the profit and loss account, the staff costs broken down between wages and salaries, social security costs and pension costs, the name and registered office of each of the undertakings in which a participating interest is held (D.2013/34/European Union Article#17), and the separate disclosure of the average number of employees employed by undertakings that are proportionately consolidated (D.2013/34/European Union Article#28).

3.1.2 Who Abides the Accounting Directive?

Under each portion of the document, the Directive gives equal importance to the harmonization efforts of information supplied within organizations of various sizes. Item 28 within D.2013/34/European Union argues that listed organizations have prominent roles within their national economy, while item 10 within D.2013/34/European Union states that the requirements shall help ensure that small undertakings are, to a large extent, harmonized throughout the Union. D.2013/34/European Union also defines and distinguishes firms of all sizes according to differentiating criteria provided by the Directives and addresses their obligation (or exemptions) to disclose information under their financial reports. The Directive of also

takes into consideration the minimum legal requirements that are extended to the financial information made available to the public by undertakings that are in competition with one another [D.2013/34/European Union item 8]. Additionally, the draft published on the 15th of April 2014 on the “disclosure of non-financial and diversity information by large companies and groups” and later, the published D.2014/95/European Union amendment for D.2013/34/European Union, addresses additional requirements for large companies listed on European Union markets or operating in the banking and insurance sectors. D.2014/95/European Union amendment for D.2013/34/European Union, addresses additional requirements for large companies listed on European Union markets or operating in the banking and insurance sectors.

As stated under D.2014/95/European Union item 6 and D.2013/34/European Union item 55, the provisions in the Directives are directed towards the Member States and in turn, firms with ongoing operations under these countries. The measures under these documents must be applied to the Member States laws, regulations and administrative provisions according to the required actions and firm types in the articles.

Article#33 of D.2013/34/European Union also addresses insurance of the collective responsibility of members of the administrative, management, supervisory bodies of an undertaking by the national law. The article addresses the Member States responsibility towards ensuring that “local laws, regulations and administrative provisions” (European Commission, 2013b: 50) apply to the members of the administrative, management, supervisory bodies of the undertakings [D.2013/34/European Union item 33]. The overall firm types addressed under D.2013/34/European Union and D.2014/95/European Union can be seen under the following groups. Table 4-5 offers an overview of the undertakings included under the scope of the Directive and the related exemptions. The undertaking are summarized in detail below.

Table 4: Types of Undertakings Listed Under the Scope of the Directives 2013/34/European Union and 2014/95/European Union and Articles/Items Addressing Exemptions (A)

Types of undertakings	Article/Item addressing undertakings	Exemption concerning undertakings
The types of undertakings listed in Annex I	D.2013/34/ European Union item 1	Article#38 of D.2013/34/ European Union, D.2013/34/ European Union item 6
The types of undertakings listed in Annex II	D.2013/34/ European Union item 1	Article#38 of D.2013/34/ European Union, D.2013/34/ European Union item 6
Undertakings with limited liability such as public and private limited liability companies	D.2014/95/ European Union item 5	D.2013/34/ European Union item 6
Partnerships and limited partnerships all the fully liable members of which are constituted either as public or as private limited liability companies	D.2014/95/ European Union item 5	D.2013/34/ European Union item 6
Members of a partnership which are not constituted as private or public limited companies in fact have limited liability for the partnership's obligations because that liability is limited by other undertakings within the scope of this Directive	D.2014/95/ European Union item 5	D.2013/34/ European Union item 6
The exclusion of not-for-profit undertakings	Article#5 D.2013/34/ European Union	D.2013/34/ European Union item 6, Article#5 D.2013/34/ European Union
Small undertakings	D.2013/34/ European Union item 12	D.2013/34/ European Union item 6, D.2013/34/ European Union item 27, D.2013/34/ European Union item 11, D.2014/95/ European Union item 14, D.2014/95/ European Union item 8, D.2014/95/ European Union item 13, D.2014/95/ European Union item 6, D.2013/34/ European Union item 31, D.2014/95/ European Union item 14

Table 5: Types of Undertakings Listed Under the Scope of the Directives 2013/34/European Union and 2014/95/European Union and Articles/Items Addressing Exemptions (B)

Types of undertakings	Article/Item addressing undertakings	Exemption concerning undertakings
Medium-sized undertakings	D.2013/34/ European Union item 12	D.2013/34/ European Union item 6, D.2014/95/ European Union item 8, D.2014/95/ European Union item 13, D.2014/95/ European Union item 14, D.2013/34/ European Union Article 31, D.2014/95/ European Union item 6,
Large undertakings	D.2013/34/ European Union item 12, Article# 2 of D.2013/34/ European Union	D.2013/34/ European Union item 6, D.2013/34/ European Union item 12, D.2014/95/ European Union item 14, D.2014/95/ European Union item 13, D.2013/34/ European Union item 12, D.2014/95/ European Union item 6,
Micro-undertakings	D.2013/34/ European Union item 13, Article#3 of D.2013/34/ European Union	D.2013/34/ European Union item 6, D.2013/34/ European Union item 15, Article#36 of D.2013/34/ European Union, D.2014/95/ European Union item 6
Public-interest entities	Article#2 of D.2013/34/ European Union, D.2013/34/ European Union item 40	D.2013/34/ European Union item 6, D.2013/34/ European Union item 40
Subsidiary undertakings	Article#2 of D.2013/34/ European Union, Article#37 of D.2013/34/ European Union	D.2013/34/ European Union item 6, Article#37 of D.2013/34/ European Union
Parent undertakings	Article#2 of D.2013/34/ European Union, Article#39 of D.2013/34/ European Union	D.2013/34/ European Union item 6, Article#39 of D.2013/34/ European Union
Investment undertakings and financial holding undertakings	Article#2 of D.2013/34/ European Union, D.2013/34/ European Union item 15	D.2013/34/ European Union item 6, D.2013/34/ European Union item 15

The types of undertakings listed in Annex I: According to D.2013/34/European Union item 1, the Directive must apply the laws, regulations and administrative

provisions of the Member States relating to the types of undertakings listed in Annex I. Taken from the European Commission official website, these types of undertakings has been summarized under Table 6 below and separated according to the European Union Member State.

Table 6: Types of Undertakings Under Annex I

TYPES OF UNDERTAKINGS UNDER ANNEX I*	
Belgium	anonymous companies/ public company, publicly traded partnership, la private limited company/single member ltd, limited liability cooperative
Bulgaria	joint stock company, limited liability company, limited partnership with shares
Czech Republic	private limited company, joint-stock company
Denmark	limited company, limited partnerships, limited liability companies
Germany	public limited company, publicly traded partnership, private limited company
Es tonia	public limited company, private limited company
Ireland	public companies limited by shares or by guarantee, private companies limited by shares or by guarantee
Greece	limited company, limited liability company, company limited by shares
Spain	anonymous companies, limited partnership, limited liability company
France	anonymous companies, publicly traded partnership, private limited company, unlisted public company
Italy	joint-stock company, publicly traded partnership, limited liability company
Cyprus	public limited companies by shares or by guarantee, private companies limited by shares or by guarantee
Latvia	joint-stock company, a limited liability company
Lithuania	joint-stock company, a limited liability company
Luxembourg	anonymous companies, publicly traded partnership, limited liability company
Hungary	joint-stock company, limited liability company
Malta	public limited liability company, private limited liability company, limited partnership with capital divided into shares
Netherlands	anonymous companies, private company with limited liability
Austria	corporation limited by share ownership, company with limited liability
Poland	anonymous companies, limited liability company, limited partnership with shares
Portugal	anonymous companies, limited liability, limited liability partnership
Romania	anonymous companies,limited liability company, partnership limited by shares company
Slovenia	anonymous companies, private limited company, partnership limited by shares
Slovakia	anonymous companies, private limited liability company
Finland	private limited company/private company, public company/public limited company
Sweden	limited company
UnitedKingdom	public companies limited by shares or by guarantee, private companies limited by shares or by guarantee

*The information listed under this table was translated from the Directive 2013/34/European Union.

Source: (European Commission, 2013b: 38)

The types of undertakings listed in Annex II: According to D.2013/34/European Union item 1, the Directive must apply the laws, regulations and

administrative provisions of the Member States relating to the types of undertakings listed in Annex II. However, these undertakings must be direct or indirect members of the undertaking having otherwise unlimited liability and in fact have limited liability by reason of those members being undertakings. These types of undertakings can be described as the undertakings listed under Annex I and undertakings that are not governed by the law of a Member State, that have a legal form and is comparable to those listed in Annex I. These undertakings has been summarized under Table 7 below and separated according to the European Union Member State.

Table 7: Types of Undertakings Under Annex II

TYPES OF UNDERTAKINGS UNDER ANNEX II*	
Belgium	general partnership, limited partnership, unlimited liability cooperative
Bulgaria	general partnership, limited partnership
Czech Republic	general partnership, limited partnership
Denmark	general partnership, limited partnership
Germany	general partnership, limited partnership
Estonia	general partnership, limited partnership
Ireland	partnerships, limited partnerships, unlimited companies
Greece	general partnership, limited partnership
Spain	general partnership, limited partnership
France	general partnership, partnership in commendam
Italy	commercial general partnership , limited partnership
Cyprus	general and limited partnerships (cooperatives)
Latvia	general partnership, limited partnership
Lithuania	general partnerships, limited partnership
Luxembourg	general partnership, limited partnership
Hungary	general partnership, limited partnership, joint venture, merger, sole venture
Malta	general partnership or limited partnership, with capital that is not divided into shares when all the partners have unlimited responsibility with capital divided into shares
Netherlands	general partnership, limited partnership
Austria	general partnership, limited partnership
Poland	general partnership, limited partnership
Portugal	collective partnership, ordinary limited partnership
Romania	general partnership, limited partnership
Slovenia	unlimited liability company, limited partnership
Slovakia	general partnership, limited partnership
Finland	general partnership, limited partnership
Sweden	general partnership, limited partnership
United Kingdom	partnerships, limited partnerships, unlimited companies

*The information listed under this table was translated from the Directive 2013/34/European Union.

Source: (European Commission, 2013b: 40)

However, the undertakings listed under Annex I and Annex II may be considered exempt under certain circumstance. According to article#38 of D.2013/34/European Union, the Directive provides information on the conditions in

which the Member States may not bid undertakings listed under Annex 1 and 2 to follow provisions under the Directive. If the following conditions hold true, then the Member States will be exempt from following the requirements of this Directive; the financial statement of the undertaking in question are prepared and audited by an undertaking that has unlimited liability and is governed by the law of another Member State; the undertaking is already included under the consolidated financial statements of a member with unlimited liability or consolidated financial statements of a larger body or a parent undertaking governed by the laws of Member State. If this exemption is employed, this must be published under the consolidated financial statements notes [D.2013/34/European Union article 38].

Other Undertakings: Including; “Undertakings with limited liability such as public and private limited liability companies”, “Partnerships and limited partnerships all the fully liable members of which are constituted either as public or as private limited liability companies” and “Members of a partnership which are not constituted as private or public limited companies in fact have limited liability for the partnership's obligations because that liability is limited by other undertakings within the scope of this Directive” (as addressed under D.2014/95/European Union item 5).

According to the information provided under D.2013/34/European Union item 6, these undertakings (along with all types of undertakings which are subject to this Directive) may be held exempt by Member States from the obligation to prepare a non-financial statement, as long as a separate report for the same financial year that provides the same information is published [D.2014/95/European Union item 6].

The exclusion of not-for-profit undertakings: As stated under article#5 D.2013/34/European Union, not-for-profit undertakings are excluded from the scope of this Directive. According to Article 50 item 2 and point “g” (Public Oversight Commission, 2015: 3) of the Treaty on the Functioning of the European Union, the European Parliament, Council and Commission are awarded the right to carry out the duties in order to coordinate certain safeguards which, for Member States companies, support the protection of the interests of members and others (European Union, 2012: 5). In line with this article, the Directive requires Member States to exclude not-for-profit organizations from receiving additional reporting requirements.

Small undertakings: Small undertakings that are defined and distinguished

according to information provided by the Directives are included under the scope of these provisions. The differentiating criteria addresses “balance sheet total, net turnover and the average number of employees during the financial year” and is summarized under section 2.1.2.1 [D.2013/34/European Union item 12].

Small undertakings are held exempt from certain criteria. According to D.2013/34/European Union item 27, Member States are given the option of exempting these undertakings from the obligation of preparing management reports, if: the undertakings provide data on the acquisition of own shares in the notes to the financial statements. Additionally, Member States can (D.2013/34/European Union item 11 and D.2014/95/European Union item 14) also exempt small undertakings completely/in part or impose additional requirements than what is given under the Directive, as the Directive should not lead to further administrative burdens [D.2014/95/European Union item 8].

This exemption was also provided in response to the Europe 2020 Strategy in order to improve the business environment for SMEs. The amendment to D.2013/34/European Union takes this one step further and states that, following the ‘think small first’ principle, the new disclosure requirements under D.2014/95/European Union should apply only to certain large undertakings and groups. [D.2014/95/European Union item 13] In this line, the Directives, gives Member States the option of exempting small undertakings from preparing a non-financial statement when a separate report corresponding to the same financial year and covering the same content [D.2014/95/European Union item 6] and the obligation to publish their profit and loss accounts and management reports [D.2013/34/European Union item 31] is provided.

The scope of these non-financial disclosure requirements are defined by the “average number of employees, balance sheet total and net turnover” [D.2014/95/European Union item 14]. Finally, D.2014/95/European Union item 14 adds that the above mentioned exemptions should not keep Member States from requiring the disclosure of non-financial information from undertakings and groups other than undertakings which are subject to this Directive [D.2014/95/European Union item 14].

Medium-sized undertakings: Not unlike small undertakings, medium-sized

undertakings that are defined and distinguished according to information provided by the Directives are included under the scope of these provisions. The differentiating criteria addresses “balance sheet total, net turnover and the average number of employees during the financial year” and is summarized under section 2.1.2.1. [D.2013/34/European Union item 12] As the Directive aims to reduce the impact of additional administrative burdens for medium-sized undertakings [D.2014/95/European Union item 8], the European Council has called for the application of the ‘think small first’ principle, reducing the reporting burden for medium-sized enterprises [D.2014/95/European Union item 13]. Accordingly, the Directive states that the new disclosure requirements should apply only to certain large undertakings and groups.

Additionally, the scope of the non-financial disclosure requirements are determined according to the average number of employees, balance sheet total and net turnover [D.2014/95/European Union item 14] However, D.2014/95/European Union item 14 adds that the above mentioned exemptions should not keep Member States from requiring the disclosure of non-financial information from undertakings and groups other than undertakings which are subject to this Directive [D.2014/95/European Union item 14].

Medium-sized undertakings may be allowed to publish condensed versions of the balance sheet and condensed notes to the financial statements, containing the following information. From under fixed assets; goodwill, land and building, plant and machinery, other tools and equipment, from under financial asset; affiliated undertakings shares and loans, participating interest, loans of an undertaking with participating interest, amounts owed by affiliated undertakings and affiliated undertakings with participating interest. From under investments; shares affiliated undertakings and own shares. From under the creditors portion of the balance sheet; “the debenture loans, convertible loans, amounts owed to credit institutions, to affiliated undertakings, to undertakings with participating interests and accruals and deferred income” [D.2013/34/European Union article 31].

Member States may exempt all undertakings which are subject to this Directive from the obligation to prepare a non-financial statement when a separate report corresponding to the same financial year and covering the same content is

provided. [D.2014/95/European Union item 6] Above all, the Directive states that Member States are permitted to exempt all undertakings which are subject to this Directive from the obligation to prepare a non-financial statement if a separate report corresponding to the same financial year and covering the same content is provided [D.2014/95/European Union item 6].

Large undertakings: Large undertakings that are defined and distinguished according to information provided by the Directives are included under the scope of these provisions. The differentiating criteria addresses “balance sheet total, net turnover and the average number of employees during the financial year” and is summarized under section 2.1.2.1. [D.2013/34/European Union item 12]

According to D.2014/95/European Union item 14, the Directive states that, following the ‘think small first’ principle, the new disclosure requirements for non-financial statement under D.2014/95/European Union should apply only to certain large undertakings that are public-interest entities and to those public-interest entities which are parent undertakings of a large group. Additionally, the scope of the non-financial disclosure requirements are determined according to the average number of employees, balance sheet total and net turnover [D.2014/95/European Union item 14].

In the case of a group on a consolidated basis, large undertakings must have in average number of employees in excess of 500 [D.2014/95/European Union item 13]. If a parent does not prepare a consolidated financial statements for the group, Member States are allowed to require additional provision to classify the firm as a larger undertaking. These additional items must be based on the size and resulting category on a consolidated or aggregated basis [D.2013/34/European Union item 12].

Finally, the Directive states that Member States are permitted to exempt all undertakings which are subject to this Directive from the obligation to prepare a non-financial statement if a separate report corresponding to the same financial year and covering the same content is provided [D.2014/95/European Union item 6].

Micro-undertakings: Generally speaking, under their day to day operations, micro-undertakings are faced with limited resources to comply with the demanding regulatory requirements. As a result, Member States are given the option of exempting these undertakings from certain obligations that would result in additional

administrative burdens. That is not to say that micro-undertakings are held exempt from any national obligations they may be obligated to provide [D.2013/34/European Union item 13]. There are certain condition in which these undertakings may be considered exempt, if; the balance sheet information filed with at least one designated authority according to the national law and the information is forwarded to the business register and a copy may be reached upon application [D.2013/34/European Union item 15].

Article#36 of D.2013/34/European Union provides further information on the exemption of micro undertakings. Provided that the firm discloses the exemption under the notes to the financial statements or at the footnotes of the balance sheet, they may be held exempt from providing information on; the recognition of prepayments, accrued income and deferred income (European Commission, 2013b: 52). The article also provides a detailed list on the information that Member States may allow micro undertakings to publish; items listed under the vertical balance sheet that is provided under Table 16 and 17 excluding prepayments and accrued income, and deferred income (European Commission, 2013b: 52).

For the profit and loss account micro undertaking may provide information on; net turnover, raw material cost and consumables, staff cost, value adjustments, other charges, tax and profit/loss. The article also contains a requirement barring Member States from requiring micro undertakings to apply Article#8, which provides information on the alternative measurement they base of fair value. Article#36 also specifies that micro undertaking shall be considered as small undertakings and bars financial holding undertakings from being considered for the items.

Finally the article addresses the Commissions requirements for submitting a report detailing; “undertakings covered by the size criteria, reduction of administrative burdens” (European Commission, 2013b: 52) via the assumptions/publication requirements for micro undertakings. This report is to be submitted to to the European Parliament, Commission and the European Economic and Social Committee [D.2013/34/European Union article 36]. Finally, according to the information provided under D.2013/34/European Union item 6, these undertakings (along with all types of undertakings which are subject to this Directive) may be held exempt by Member States from the obligation to prepare a non-financial statement, as long as a

separate report for the same financial year that provides the same information is published [D.2014/95/European Union item 6].

Public-interest entities: Included under the scope of this Directive, public-interest entities are considered to be firms that are governed by a Member State national laws “with shares trading on the stock exchange, credit institutions, insurance undertakings and organizations that are categorized as being PIE by a Member State which has significant bearing on the local economy (also categorized by the nature of the business side and number of employees)” (Article#2 of D.2013/34/European Union). Member States are barred from making use of simplifications and exemptions set out and available to public-interest entities [D.2013/34/European Union item 40]. The Directive also explicitly states that regardless of its net turnover, balance sheet total or average number of employees during the financial year, a public-interest entity shall be treated as a large undertaking [D.2013/34/European Union item 40].

Subsidiary undertakings: The subsidiary is a firm within the control of a parent undertaking, including any firm of an absolute parent undertaking (Article#2 of D.2013/34/European Union). Subsidiary undertakings are also covered under the scope of the Directive. However, article#37 of D.2013/34/European Union addresses the conditions in which Member States may not bid subsidiary undertakings to publish annual financial statements and management reports consisting of the reporting, auditing and publishing requirement provided by this Directive: the parent undertaking must apply the laws of the Member States, all shareholder/members of the subsidiary undertaking have declared an agreement to be held exempt from the obligation, the parent undertaking guarantees the subsidiary undertaking its commitments, subsidiary undertaking financial information is included under the consolidated financial statements of the parent undertaking and abides to the requirements of this Directive. Finally, the information on the exemption is provided under the consolidated financial statement notes of a parent undertaking, the consolidated financial statements, management report and audit reports of the subsidiary undertaking are published according to the Member State laws [D.2013/34/European Union article 37].

Parent undertakings: Parent undertaking is defined as an undertaking which has control over a single or multiple subsidiary undertaking (Article#2 of

D.2013/34/European Union). For parent undertakings, article#39 of D.2013/34/European Union dictates the conditions in which Member States can be restricted from applying provisions of the Directive governed by its national law. If parent undertaking prepares the consolidated financial statements according to the Directive, an exemption for the preparation is laid out under the notes to the financial statements of the parent undertaking and the profit/loss of the parent undertaking is shown under the balance sheet. Additionally, Member States shall not bid an undertaking to apply the provisions of the Directive on auditing and the publication of the profit and loss account [D.2013/34/European Union article 39].

Investment undertakings and financial holding undertakings: There are two types of investment undertakings. We see the first one in the form of an undertaking which invests available funds in securities, landholdings, and various assets with the intent of diversifying their investment-risk and providing shareholders with benefits gained from managing assets. The second form is an undertaking that is associated with an investment-undertaking with fixed-capital (Article#2 of D.2013/34/European Union).

Financial holding undertaking, on the other hand, is an undertaking with the objective of acquiring, holding and managing holdings in order to profit over these organizations without integrating themselves into the managements process and without forgoing their rights as shareholders (Article#2 of D.2013/34/European Union). Covered under the Directive, D.2013/34/European Union item 15 states that investment undertakings and financial holding undertakings should be excluded from the benefits of simplifications applicable to micro-undertakings.

3.1.2.1 Differentiating Criteria for Certain Types of Undertakings Covered Under the Scope of the Directives

Article#3 under the Directive, D.2013/34/European Union provides criteria for

a firm to be categorized as a micro undertaking, small and medium -sized undertaking and large undertakings. In order to be considered within these categories two or more of the criteria provided needs to be adhered to. Table 8 provides a brief summary of the criteria concerning these undertakings.

Table 8: The Size Criteria Listed Under the Accounting Directives

	Balance Sheet	Net Turnover	Average Employees
Micro-entity	€ 350,000	€ 700,000	10
Small undertaking	€ 4,000,000	€ 8,000,000	50
Medium-sized undertaking	€ 20,000,000	€ 40,000,000	250
Large undertaking	€ 20,000,000	€ 40,000,000	250

For example, to Directive defines micro undertaking as undertakings with €350,000 to the balance sheet amount, €700,000 to the net turnover, and ten employees average within one accounting period. If a firm in question adheres to one or more of these items, then it may be classified a micro undertaking.

The Directive defines small undertaking, as having; €4 million and €8 million to the balance sheet amount and to the net turnover, respectively. Additionally, the Directive states that small undertakings are to have on average, fifty employees within the accounting period. The Directive also allows Member States to define their own thresholds for these small size firms, but restrict the total balance sheet amount to a maximum of €6 million and €12 million for net turnover.

The Directive defines medium-sized undertaking as undertakings which are not classified as micro undertaking and small undertakings. For these medium-sized undertakings the balance sheet amount cannot exceed the limits of €20 million, net turnover cannot exceed the amount of €40 million and there must be an average of 250 employees during the accounting period.

For large undertakings, these amounts are; €20 million to the balance sheet amount, €40 million to the net turnover and 250 employees average within the accounting period. As we can see, the limits offered by the Directive for medium and large- sized undertakings are the same across the three criteria. Further distinction between these undertakings are left to the Member States and their national laws.

The Directive also offers defining criteria for small groups. As mentioned above, groups are considered to be the combination of a parent undertaking. This includes any subsidiary undertaking of an absolute parent undertaking. Furthermore, the Directive states that, groups that are small in size, will consist of one parent undertaking and subsidiary undertaking within the consolidation process. These groups shall not exceed €4 million and €8 million to the balance sheet sum and to the net turnover, respectively. Additionally, there shall be 60 employees on average present during the accounting period. Member States are also given leeway to exceed the thresholds provided for this undertaking; they may be allowed to increase the threshold amount to €6 million to the balance sheet amount and €12 million to the net turnover.

The Directive defines medium-sized groups as groups that are not considered to be small groups, and which exceed the three criteria mentioned above. The Directive further states that groups that are small shall consist of a parent undertaking and subsidiary undertaking that must be covered within the consolidation-process, shall not exceed €20 million to the balance sheet amount, €40 million to the net turnover and 260 employees on average for the accounting period. Large groups, not unlike the medium and large- sized undertakings, share the same characteristics for medium sized groups.

The Directive also addresses exceptional situations for which the limits provided above for the groups and may be increased by 20%. In conformity with Article#24 the Directive states that a set off and the elimination consequence shall not affect the provided limitation and may be allowed to increase the balance sheet limits and the net turnover limit by 20%. Under Article#24, a set-off is defined as; setting off the bookvalue of shares within capital of an undertaking included within the consolidation process against the percentage representative of the capital and reserves. The Directive also provides several issues that needs to be taken into consideration; the set off is affected by the base of bookvalue on the date the firms are admitted in the consolidation process in its initiation. Unless of course the shares in the capital of the parent undertakings are held by either the undertaking itself or another firm that is encompassed within the consolidation process; and differences that originate from the set off are to be listed directly against those items in the consolidated balance sheet

which have values above or below their bookvalues. Member States are permitted to determine the date on which a set off is to occur. They may either bid the set off to occur on the date of acquisition or in the occasion of acquisition in two or more phases; such as the date the undertaking becomes a subsidiary undertaking. Member States may also consent set-offs to be laid out on the base of the value of identifiable assets and liabilities. In the event that there exists a variation between the amount that may come to pass as a results of the application point employed or occur after the application point has passed, the amount shall be displayed as goodwill within the consolidated balance sheet.

This article also requires financial report preparers to present the methods employed in calculating the value of goodwill and in addition, compelling variation in value within the notes to the financial statements. In the event of offsetting positive and negative goodwill, and analysis needs to be conducted and laid out within the notes to the financial statements. If the goodwill value is negative, it may be displayed within the consolidated profit and loss account. In regards to the elimination process the Directive argues that while the “assets, liabilities, financial positions, profits or losses” (European Commission, 2013b: 16) of the firms shall be encompassed within the consolidation process as if there was a single undertaking; “debts and claims, income and expenditure and profits and losses” (European Commission, 2013b: 16) encompassed in the bookvalues of assets that results from a transaction between undertakings needs to be eliminated from the consolidated financial statements.

Continuing Article#3, the Directive addresses the use of the exchange rate laid out in the Official Journal of the European Union for Member States that have not embraced the Euro. It also states, for when converting national exchange of the Member States into the Euro the amounts addressed within the above items of this article can be boosted or reduced by no more than 5% when rounding off the sum amounts of the national currencies.

If any of the above two out of three limitations are exceeded for two consecutive financial years, the application of derogation provided for the Directive shall be affected. Additionally, when calculating the balance sheet total the balance should take into consideration the following items within assets; the unpaid amount of the “subscribed capital, formation expenses, fixed assets, which cover; intangible asset,

tangible assets, financial assets; current assets, including. Additionally, stocks, debtors, investment, cash a bank and in hand; prepayments and accrued income” (European Commission, 2013b: 17).

When calculating the thresholds amounts for the above items Member States are permitted to bid the introduction of income from alternative pools for which net turnover is not relevant. Additionally, Member States may consent parent undertakings and affiliated undertakings to determine the levels on a consolidated base. However, this item only holds true for affiliated undertakings that were convened for shirking the disclosure of explicit information. affiliated undertakings are also permitted to calculate their thresholds using an aggregation base.

The effects of inflation are also taken into consideration within the Directive. In order to accommodate for these events, the Commission shall review and modify the thresholds pointed out above. This review and amendment needs to take place every five years and shall be conducted by the Commission. The measures of inflation that will be taken into account for the review are the amounts published within the Official Journal of the European Union.

3.2. CONFORMING TO THE ACCOUNTING DIRECTIVE

After being published under the Official Journal, the Directive enters into force 20 days following the publication, which was the 29th of June 2013 for D.2013/34/European Union and the 15th of November 2014 for D.2014/95/European Union (Article#54 for D.2013/34/European Union and Article#5 for D.2014/95/European Union). Ultimately, the goal is the assimilation of the items and measures covered within this Directive under the Member States law/regulation/provisions. Article#53 for D.2013/34/European Union, Article#4 for D.2014/95/European Union and Article#51 for D.2013/34/European Union addresses Member States responsibility for ensuring that the provisions adopted under national law are in conformity with the Directive and provides information on (European Commission, 2013b:62)- the method in which Member States are responsible for bringing into force the Directive under their national jurisdictions. These articles states that if Member States put into force any law/regulations/administrative provisions

they are responsible towards the Commission to communicate the adopted changes of the national law. Additionally, Article#55 for D.2013/34/European Union and Article#6 for D.2014/95/European Union, supports that documents/requirement need to be addressed by each individual Member State. When Member States adopt a change in their national law the Annex, which offers a detailed listing of firms that are covered by the requirements within each Member State, is updated to confer the inclusion. It is the Member States duty to convey the change to the Commission. This is done in order to ensure that updates are conducted within reasonable time (Article#1 for D.2013/34/European Union). Adopted acts enters into force after two months of notifying the European Parliament and European Union Council (Article#49 for D.2013/34/European Union).

In order to ensure that Member States act responsibility in adopting provisions under national law that are in conformity with the Directive and to dissuade adverse treatment, Member States are given the option of enforcing penalties (Article#51 for D.2013/34/European Union). Determining the penalties are left up to the Member States and they are charged with taking all measures fundamental to achieve enforcement. However the Directive does not provide explanatory information covering what these measures are. The only information provided in this regard is a request that the penalties put into force are “effective, proportionate and dissuasive” (Article#51 for D.2013/34/European Union). It is possible that the gap between Member States that might originate as a result of this vague article could lead to differences in adoption. However, as the institutional structure between each Member States defers from country to country leaving this choice to Member States could also potentially results in a more effective execution of the article.

Finally, under D.2013/34/European Union, Member States are given the choice of requiring the “laws, regulations and administrative provisions” (European Commission, 2013b: 62) are to first come into effect starting from the financial year January 1st 2016 or during the year 2016. However, with the amendment of D.2014/95/European Union, this pick is made mandatory for coming into effect starting from the financial year January 1st 2017 or during the year 2017. The final date for bringing in the above mention mandatory laws/regulations/administrative provisions to support the Directive was the 20th of July 2015 for D.2013/34/European

Union and the 6th of December 2016 for D.2014/95/European Union.

3.3. REPORTS TO BE DISCLOSED BY UNDERTAKINGS AND THEIR EXEMPTIONS

This section addresses the general provisions for the preparation of the annual financial statements (financial statements) for the types of undertakings covered under the Accounting Directives. This information is summarized under Table 9-10. According to the European Commission, 2013b: 38), all firms are required to supply for all undertakings the “balance sheet, the profit and loss account and the notes to the financial statements”.

Table 9: The Reports to be Disclosed by Undertakings and their Exemptions (A)

Types of Financial Reports/Undertakings	Micro-entity	Small undertaking	Medium-sized undertaking	Large undertaking	Public Interest Entities
Balance Sheet	May report- exemption exists (European Commission, 2013b: 18)	May report- exemption exists (European Commission, 2013b: 18)	May report- exemption exists (European Commission, 2013b: 18)	May report (European Commission, 2013b: 18)	May report (European Commission, 2013b: 18)
Abridged Balance Sheet	May report D.2013/34/European Union article#14	May report D.2013/34/European Union article#14	May report - exemption exists D.2013/34/European Union article#31	May not report	May not report
Profit and Loss	May report - exemption exists D.2013/34/European Union article#31	May report - exemption exists D.2013/34/European Union article#31	May report - exemption exists D.2013/34/European Union article#31	May report (European Commission, 2013b: 18)	May report (European Commission, 2013b: 18)
Abridged Profit and Loss	May report D.2013/34/European Union article#14, (European Commission, 2013b: 27)	May report D.2013/34/European Union article#14, (European Commission, 2013b: 27)	May report D.2013/34/European Union article#14, (European Commission, 2013b: 27)	May not report	May not report

Table 10: The Reports to be Disclosed by Undertakings and their Exemptions (B)

Types of Financial Reports/Undertakings	Micro-entity	Small undertaking	Medium-sized undertaking	Large undertaking	Public Interest Entities

Notes to Financial Statements	May report-exemption exists (European Commission, 2013b: 18)	May report-exemption exists (European Commission, 2013b: 18)	May report D.2013/34/European Union article#4	May report - exemption exists D.2013/34/European Union article#4, D.2013/34/European Union article#18,	May report - exemption exists D.2013/34/European Union article#4, D.2013/34/European Union article#18,
Abridged Notes to Financial Statements	May report D.2013/34/European Union article#14	May report D.2013/34/European Union article#14	May report - exemption exists D.2013/34/European Union article#31	May not report	May not report
Management Report	May report-exemption exists D.2013/34/European Union article#19, D.2013/34/European Union article#31	May report-exemption exists D.2013/34/European Union article#19, D.2013/34/European Union article#31	May report-exemption exists D.2013/34/European Union article#19, D.2013/34/European Union article#31	May report D.2013/34/European Union article#19	May report- D.2013/34/European Union article#19, D.2013/34/European Union article#19a
Corporate Governance Report	May report-exemption exists D.2013/34/European Union article#20	May report-exemption exists D.2013/34/European Union article#20	May report-exemption exists D.2013/34/European Union article#20	May report-exemption exists D.2013/34/European Union article#20	May report D.2013/34/European Union article#20
Additional Statements Required by Member States	May not report D.2013/34/European Union article#4	May not report D.2013/34/European Union article#4	May report-exemption exists D.2013/34/European Union article#4	May report-exemption exists D.2013/34/European Union article#4	May report-exemption exists D.2013/34/European Union article#4
Additional Information Required by Member States	May report-exemption exists D.2013/34/European Union article#31, D.2013/34/European Union article#16	May report-exemption exists D.2013/34/European Union article#31, D.2013/34/European Union article#16	May report-exemption exists D.2013/34/European Union article#16, D.2013/34/European Union article#17	May report -exemption exists D.2013/34/European Union article#16, D.2013/34/European Union article#17	May report -exemption exists D.2013/34/European Union article#16, D.2013/34/European Union article#17

The financial report preparers are required to abide to the provisions provided by this Directive and must provide a true/fair view of the undertakings asset, liability, financial position and profit and loss account. In case the Directive is insufficient to

provide a true/fair view, Member States may, in addition to the above mentioned financial statements, bid the publication additional information (D.2013/34/European Union article#4). However, Member States are barred from asking for additional statements from small undertakings, but this restriction does not apply to medium and large- sized undertakings. If additional information is required, this must be disclosed within the notes to the financial statements. If a provision of this Directive prevents the publication of information that is true and fair, financial report preparers are given the choice of dis-applying any such provision. As long as the dis-application of the provision allows for the publication of a financial report that is true and fair, financial report preparers can disclose within the notes to the financial statement an explanation for their reason of not applying the provision and the potential effects on the asset, liability, financial position and profit/loss accounts (D.2013/34/European Union article#4).

The Directive provides an allowance for Member States to develop condensed versions of financial statements. This allowance is permitted for small undertaking to bid, at a minimum, only the items listed within Annex III D(II), C and Annex IV D(II). These requirements cover information on a firm's assets, amendment that become due and payable within one year, amounts the firm is owed by affiliated undertakings, trade debtors, undertakings which the firm is linked by virtue of participating interest and other debtors. Additionally, information on subscribes capital that is called but not paid and prepayments and accrued income needs to be provided (D.2013/34/European Union article#14). However, even though small undertaking are required at the minimum to provide information, this does not stop them from going over the minimum requirements and providing the remaining information listed within both Annex, depending on the scope of their activities. Article#14 also permits Member States to allow small and medium -sized undertakings to provide condensed version of the profit and loss account (D.2013/34/European Union article#14). However, the document provides limitations to the amount of information that must be provided within the condensed versions. According to these limitations the following five items may be incorporated within one item titled “gross profit and loss account” when being laid out within the profits and loss account for small and medium -sized undertakings; “net turnover, variations in the amounts of stocks for finished goods and work in

process accounts, work that is performed by the undertaking for its own aspiration and later capitalized, other operating income; which includes raw materials and consumables and within external expenses” (European Commission, 2013b: 27). For items listed within Annex VI, the small and medium -sized undertakings may also combine the following items within "gross profit/loss"; net turnover, the cost of sales, gross profit/loss and other operating income.

Depending on the request of the Member State, additional information on top of the provisions covered under this Directive may also be published by firms (D.2013/34/European Union article#16). This information must be covered by all types of undertakings and lay out within the notes to the financial statements (European Commission, 2013b: 28);

- the accounting policies that are adopted by the organization
- in the event that fixed assets are measured at revalued amounts;
 - a table that shows movement within the revaluation reserves
 - an explanation of the tax treatment and the carrying amount that would of been recognized at the fixed assets not being revalued
- in the event financial instruments or other asset other than financial instruments are measured at fair value;
 - significant assumptions underlying the valuation method and techniques
 - changes in value included directly within the profit and loss account
 - changes in value included within the fair value reserve
 - information on the nature of the instruments
 - significant terms and conditions that can potentially affect the amounts timing uncertainty of future cashflows
 - a table that provides summarizing information on the movement of fair value reserves;
- information that is not included within the balance sheet such as financial commitments guarantees and contingencies
- information on the nature of valuable security
- additional commitments on pensions and affiliated, associated undertakings

- advances in credits granted to the administrative, managerial and supervisory bodies
- information on interest-rate conditions
- any repaid amounts or written off/waived amounts
- information on entered commitments or guarantees and the total for each category
- information on income and expenditure of exceptional size published item by item
- amounts owed that will become payable after more than five years
- debt covered by valuable security furnished by the undertaking
- information on the nature of the security
- the average number of employees during the accounting period.

Continuing Article#16 Member States may bid that small undertaking to disclose additional information, such as (European Commission, 2013b: 29);

- the purchase price or production costs with alternative measurement base
- the beginning and ending amounts of various fixed asset items fair value or revalued amounts
- editions, disposals and transfers during the year
- the beginning and ending amounts for accumulated value adjustments
- value adjustments that are charged during the year as a consequence of editions, disposals and transfers
- during the year, the movement that occurs within accumulated value adjustments
- capitalized interest amounts
- the name and registered office of the under undertaking which prepares the consolidated financial statements of the subsidiary undertaking
- the nature and business aspiration of the undertaking that are not listed within the balance sheet
- the material financial impact, risk and benefit that can potentially originate from the business purposes
- the financial effect and nature of events arising after the balance sheet date

which are considered to be material and not listed within the profit and loss account or the balance sheet.

Article#16 also limits the types of firms that can provide the following information; the amounts, nature and alternative information fundamental for understanding the financial position arising from entering into a transaction with a related party, the aggregated (according to their nature) individual transactions (aside from for when independent information provides a better understanding of the effects). The type firms Article#16 limits this information to are; (for medium-sized undertakings) owners with participating interest, undertaking in which the firm itself has a participating interest and an undertakings administrative, managements and supervisory bodies. Finally, Member States are warned not to bid additional disclosure requirements for small undertakings above the information that is either required or permitted by this article.

Article#17 addresses the information required of medium and large- sized undertakings and PIE in supplementary to Article#16. As mentioned before within the earlier article, Member States are permitted to bid small undertakings to disclose certain types of information. However, within Article#17 this disclosure information becomes mandatory for medium and large- sized undertakings and PIE, this information can be listed as follows (European Commission, 2013b: 31);

- the purchase price or production costs with alternative measurement base
- the beginning and ending amounts of various fixed asset items fair value or revalued amounts
- editions, disposals and transfers during the year
- the beginning and ending amounts for accumulated value adjustments
- value adjustments that are charged during the year as a consequence of editions, disposals and transfers
- during the year, the movement that occurs under accumulated value adjustments
- capitalized interest amounts
- the amounts adjusted for taxation of fixed or current assets
- in the event financial instruments are measured at purchase price or

production cost, these undertakings and entities need to disclose for each class of derivative financial instrument;

- the fair value and fair value determination of the instrument
- information on the nature of the instrument.
- if financial fixed assets are carried at an amount that is excess of their fair value, then these undertakings and entities need to provide information on;
 - the bookvalue in fair value of the individual or groupings of the assets
 - the reason for any underlying assumption for not reducing the bookvalue of the asset.

Additionally, information regarding the amount of emoluments provided to administrative, managements and supervisory bodies in regards to retirement editions of former members must be provided. However, Member States are allowed to disallow this disclosure requirement if it's publication can adversely affect the members of these bodies and help identify their financial information.

Information must also be laid out on the average number of employees, separated according to the different categories and the staff costs, divided according to the cost of wages, social security cost, pension costs and salaries. If there is a deferred tax provision then the movement of the amounts listed within the balance sheet should be published. Finally, the following information should be laid out; name/head/registered office/illegal form of undertakings with unlimited liability (European Commission, 2013b: 31);

- the number and provided rights for participation certificates, convertible debentures, warrants, options
- the name and nominal value, par value in the event more than one type of shared exists and subscribed within the limits of the authorized capital
- the name/registered office of the undertaking that prepares the consolidated financial statements of the largest and smallest of undertakings part of the subsidiary undertaking
- a reference to where the consolidated financial statements may be

obtained from

- the proposed appropriations/ allotment of profits/treatment of loss
- the nature and business aspiration of the undertaking that are not listed within the balance sheet
- the material financial impact, risk and benefit that can potentially originate from the business purposes
- the financial effect and nature of events arising after the balance sheet date which are considered to be material and not listed within to profit and loss account or the balance sheet.

The amount and nature of transactions entered into with related parties and any alternative information deemed fundamental to present a complete picture of the undertaking aggregated by the nature of the transactions must also be published. Member States are given the choice of permitting the disclosure of unconcluded transactions, or barring the disclosure of transactions between members of a group, if the subsidiaries are wholly owned by the member.

Finally, Member States can limit the disclosure of transactions between related parties for medium-sized undertakings if; “owners have a participating interest, the undertaking itself has a participating interest or a member of the administrative, management, supervisory bodies” (European Commission, 2013b: 30).

Article#18 addresses the information required of large undertakings and PIE in addition to Article#16 and 17. Under the notes to the financial statements these undertakings must provide information on; subcategories for net turnover provided by type of activity and geographical region, and the fee for statutory auditor or individual by type of service (tax advisory, insurance and alternative non-audit service). If the display of the above information adversely affects the undertaking, then the Member States may allow for the information to be omitted. However, if the omission is allowed, the information must be reported within the notes to the financial statements. The provision may not apply for firms if the parent undertaking (European Commission, 2013b: 31);

- has majority shareholder/member voting rights of a subsidiary undertaking

- can appoint or remove a majority of members from the supervisory body/administration of the subsidiary undertaking
- is a shareholder/member of the subsidiary undertaking
- has a dominant influence over the subsidiary undertaking (via contracts entered, provision within the memorandum/article of the Association, laws governing the subsidiary undertaking)
- is a shareholder/member of the subsidiary undertaking and control via agreement the majority of voting rights
- is the shareholder/member of this of the subsidiary undertaking
- if a majority of the members from the administrative, management, supervisory bodies that is held office in the prior and current year
- has been appointed via their voting rights.

Article#19 provides information on the purpose and content of the management report. The Directive states that the management report should provide a fair view of an undertaking performance, position, a description of the risk/uncertainties the business faces. The report should be consistent with the size and complexity of the organization and provide financial and non-financial information, key performance indicators and environmental and employee related matters. The management report should also contain information regarding the following issues; the future development of an undertaking, research and development activities, the recent acquisition of shares, the undertaking branches, the use of financial instruments, financially risk managements objective and policies, hedging activities and exposure to different types of risks, such as; price, credit, liquidity and cashflow.

Exemption options exist for small and medium -sized undertakings from providing the non-financial information required within the management reports. However, this exemption applies for small undertaking if they incorporate their assets and liabilities, in full, within the consolidated balance sheet.

In addition to the information being provided within D.2013/34/European Union, D.2014/95/European Union brings Article#19(a) into effect and provides information to the extent fundamental for an understanding of the undertaking's "development, performance, position and impact of its activity, relating to, at a

minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters” (European Commission, 2013b: 33) that must be laid out by large undertakings which are PIE abiding to certain conditions. Undertakings which are also PIE with over 500 employees per year, must formulate and present a non-financial statement, laid out within the firm's management report. Under this statement, the firm must encompass (European Commission, 2013b: 33);

- business model descriptions
- the firm's policy for environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
- the outcome of the execution of these policies
- operational risk
- business relationships
- product/service risk
- risk management policies
- non-financial key performance indicators.

When presenting information on these issues the firm must also encompass references, explanation, amounts reported within the annual financial statements. If the firm does not have policies in place in relation to the above-mentioned matters, information must be provided within non-financial statement on the firm's reasoning.

Additionally, Member States may allow firms to provide information on these issues; impending developments and ongoing negotiations. However this information need not be published and the administrative, management, supervisory bodies are of the opinion that the publication of this information would undermine the performance of the organization. Most importantly, when presenting this information, the Directive allows Member States to bid firms to employ use of national/union base/international frameworks when preparing the non-financial statement.

There are certain exemptions for subsidiary undertakings included within the consolidated management reports or individual report of another undertaking. These undertakings are held exempt from presenting the above-mentioned information.

If the undertaking decides to supply an individual report or chooses not to employ use of national/union base/international frameworks but, still provides

information that is required by the non-financial statements mentioned above- Member States may exempt undertakings from supplying non-financial statements barring certain conditions. The individual reports must be published with the management reports, be publicly available within the official website of the firm, be published within six months the balance sheet and show references within the management report.

This Directive also adds to the responsibility of the statutory auditor or the audit firm. If the firm publishes an individual report or non-financial statement, the auditor's responsibility is to ensure that the content of these reports apply to the requirements of the Directive. Member States are also given the opportunity to bid firms to have their individual reports or non-financial statements verified by an assurance service provider.

Article#31 offers exemptions for small and medium -sized undertakings from the obligation to publish their profit and loss accounts and management reports. The article also addresses the conditions at which medium-sized undertakings may be allowed to publish their profit and loss accounts and management reports. The undertakings may publish condensed versions of the balance sheet and condensed notes to the financial statements, containing the following information (European Commission, 2013b: 49);

- from under fixed assets;
 - goodwill,
 - land
 - building
 - plant and machinery
 - other tools and equipment
- from under financial asset;
 - affiliated undertakings shares and loans,
 - participating interest
 - loans of an undertaking with participating interest
 - amounts owed by affiliated undertakings
 - affiliated undertakings with participating interest
- from under investments;

- shares of affiliated undertakings
- own shares
- from under the creditors portion of the balance sheet;
 - the debenture loans, convertible loans and amounts owed to credit institutions, to affiliated undertakings, to undertakings with participating interests and accruals and deferred income.

Article#40 of this Directive also provides restrictions barring Member States from allowing exemptions to PIE. Unless expressed by the Directive, Member States may not provide simplifications and exemptions for these entities. PIE are to be considered as large undertakings regardless of the amount of net turnover, balance sheet total and average number of employees.

Article#20, within D.2013/34/European Union, covers the content and selection of information that must be included within the management report regarding corporate governance for types of firms listed within Annex 1. The information regarding this article must be listed within a specific section of the management report and must contain the following information and references (European Commission, 2013b: 18);

- the corporate governance code employed
- the governance practices
- corporate governance practices required within the national law.

In situations where there is a departure from the corporate governance code, the firm's reasoning for departure must be explained in full.

Additional information that must be provided within the corporate governance statements are; “the firm's internal control and risk management system for the financial reporting process, information regarding shareholder meetings and rights, the method for executing these rights and the key powers, the composition and operation of administrative, management, supervisory bodies and Committees” (European Commission, 2013b: 34) of the firm.

In regards to the diversity policy of the undertakings administrative, management, supervisory bodies, D.2014/95/European Union amends

D.2013/34/European Union and adds in the following requirement. According to the amendment, the firms diversity policy for the age/gender/educational level/professional background of the employee, the diversity policy objective, the execution of this diversity policy, the outcome of the diverse the policy must be reported. In case no such policy exists, then the firm must disclose the reasoning.

Again, in conformity to the amendment, the statutory auditor or the audit firm is also charged with the responsibility of forming and publishing and opinion on; “the firm's internal control and risk management procedures” (European Commission, 2013b: 34) and main features. The auditor must also check that the following information is provided (European Commission, 2013b: 34);

- the corporate governance code of the firm
- the code that was voluntarily applied
- information on the corporate governance practices of the firm
- information provided on the corporate governance practices of firms that are not required within the national law
- where relevant text can be found on these corporate governance code
- the publication of this information and the documents are not publicly available
- an explanation if there is a departure from the corporate governance code
- information on the parts where the report departs from the corporate governance code
- information and descriptions on;
 - shareholder meetings
 - of firms key powers
 - shareholder rights
 - how these shareholder rights are exercised
 - the development/composition/operation of the administrative, management, supervisory bodies/committees.

As mentioned above, within D.2013/34/European Union, the corporate governance statement must be published within a specific section of the management reports, however, Member States are permitted to bid the information as a individual

report that must be published together with the management report or document loaded onto the official website of the organization and referenced within the management report.

Except for the information on; the firm's "internal control and risk management system for the financial reporting process, information regarding shareholder meetings and rights, the method for executing these rights and the key powers, the composition and operation of administrative, management, supervisory bodies and Committees of the firm" (European Commission, 2013b: 35) the statutory auditor or audit firm employed by the organization must cross check the information required within the management report. Finally, if the organization has issued security other than shares on the regulated market, an exemption from providing the information required within management reports may be provided by the Member State. An additional note within D.2014/95/European Union is added and Member States are given the choice of exempting these firms, unless shares have been issued that are traded in a multilateral trading facility. Small and medium -sized undertakings are also held exempt of providing the information required within the corporate governance statements.

3.4. ACCOUNTING DIRECTIVE AND AMENDMENT REQUIREMENTS

A brief summary of the information covered within the chapter and articles are laid out below, while the titles and structure of the Directive are provided under Table 11-13. This portion of the chapter is summarized from the Directives D.2014/95/European Union and D.2013/34/European Union. A detailed comparative summary of the two Directives are also provided under the Appendix 1-10.

Table 11: Directive (2013\34\EU) - (2014\95\EU) and Articles for Chapters 1-5

	DIRECTIVE (2013\34\EU)	DIRECTIVE (2014\95\EU)
CHAPTER 1	SCOPE, DEFINITIONS AND CATEGORIES OF UNDERTAKINGS AND GROUPS	
Article#1	Scope	
Article#2	Definitions	
Article#3	Categories of undertakings and groups	
CHAPTER 2	GENERAL PROVISIONS AND PRINCIPLES	
Article#4	General provisions	

Article#5	General disclosure	
Article#6	General financial reporting principles	
Article#7	Alternative measurement basis of fixed assets at revalued amounts	
Article#8	Alternative measurement basis of fair value	
CHAPTER 3	BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	
Article#9	General provisions concerning the balance sheet and the profit and loss account	
Article#10	Presentation of the balance sheet	
Article#11	Alternative presentation of the balance sheet	
Article#12	Special provisions relating to certain balance sheet items	
Article#13	Presentation of the profit and loss account	
Article#14	Simplifications for small and medium-sized undertakings	
CHAPTER 4	NOTES TO THE FINANCIAL STATEMENTS	
Article#15	General provisions concerning the notes to the financial statements	
Article#16	Content of the notes to the financial statements relating to all undertakings	
Article#17	Additional disclosures for medium-sized and large undertakings and public-interest entities	
Article#18	Additional disclosures for large undertakings and public-interest entities	
CHAPTER 5	MANAGEMENT REPORT	
Article#19	Contents of the management report	
Article#19a	N/A	Non-financial statement
Article#20	Corporate governance statement	Amended

Table 12: Directive (2013\34\EU) - (2014\95\EU) and Articles for Chapters 6-9

	DIRECTIVE (2013\34\EU)	DIRECTIVE (2014\95\EU)
CHAPTER 6	CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS	
Article#21	Scope of the consolidated financial statements and reports	
Article#22	The requirement to prepare consolidated financial statements	
Article#23	Exemptions from consolidation	
Article#24	The preparation of consolidated financial statements	
Article#25	Business combinations within a group	
Article#26	Proportional consolidation	
Article#27	Equity accounting of associated undertakings	
Article#28	The notes to the consolidated financial statements	

Article#29	The consolidated management report	
Article#29a	N/A	Consolidated non-financial statement
CHAPTER 7	PUBLICATION	
Article#30	General publication requirement	
Article#31	Simplifications for small and medium-sized undertakings	
Article#32	Other publication requirements	
Article#33	Responsibility and liability for drawing up and publishing the financial statements and the management report	Amended
CHAPTER 8	AUDITING	
Article#34	General requirement	Amended
Article#35	Amendment of Directive 2006/43/EC as regards the audit report	
CHAPTER 9	PROVISIONS CONCERNING EXEMPTIONS AND RESTRICTIONS ON EXEMPTIONS	
Article#36	Exemptions for micro-undertakings	
Article#37	Exemption for subsidiary undertakings	
Article#38	Undertakings which are members having unlimited liability of other undertakings	
Article#39	Profit and loss account exemption for parent undertakings preparing consolidated financial statements	
Article#40	Restriction of exemptions for public-interest entities	

Table 13: Directive (2013\34\EU) - (2014\95\EU) and Articles for Chapters 10-11

	DIRECTIVE (2013\34\EU)	DIRECTIVE (2014\95\EU)
CHAPTER 10	REPORT ON PAYMENTS TO GOVERNMENTS	
Article#41	Definitions relating to reporting on payments to governments	
Article#42	Undertakings required to report on payments to governments	
Article#43	Content of the report	
Article#44	Consolidated report on payments to governments	
Article#45	Publication	
Article#46	Equivalence criteria	
Article#47	Application of equivalence criteria	
Article#48	Review	Amended
CHAPTER 11	FINAL PROVISIONS	

Article#49	Exercise of delegated powers	
Article#50	Committee procedure	
Article#51	Penalties	
Article#52	Repeal of Directives 78/660/EEC and 83/349/EEC	
Article#53	Transposition	
Article#54	Entry into force	
Article#55	Addressees	

Article#2 within the Directive offers definitions on various accounting-based keywords. Topics such as; public-interest entity, participating interest, related parties, fixed assets, net turnover, purchase price, production cost, value adjustments, parent undertaking, subsidiary undertaking, affiliated undertaking, associated undertakings, investment undertaking, financial holding undertaking and materiality are covered.

- Public-interest entity (PIE) are considered to be firms that are governed by a Member State national laws with shares trading on the stock exchange, credit institutions, insurance undertakings and organizations that are categorized as being PIE by a Member State which has significant bearing on the local economy (also categorized by the nature of the business side and number of employees) .
- Participating interest is defined as (regardless of being represented by certificate) having rights in the capital of the undertaking. It is supported that by developing this durable link with the undertaking, the firm can add to the functions of the right-holding undertaking. A threshold percentage equal or higher than 20% is fixed by Member States and undertakings that exceed this amount are presumed to be a participating interest.
- Fixed assets, are assets related to an undertakings activities, intended for continuous use.
- Net turnover, an amount left after reducing a sales rebate, value added and other types of tax directly linked to turnover from product sales and provision of services.
- Purchase price, the cost undertaken plus any additional expenses minus a reduction in the cost of the purchase.
- Production cost, the total cost directly identifiable to an item; raw material, consumables and others. Member States are also required (or permitted) to

hold a reasonable percentage of indirect fixed/variable overhead cost as long as the cost in question were incurred within the production. Distribution costs are not permitted to be included within the production cost.

- Value adjustment, changes undergone in value for an individual assets, from the balance sheet date.
- The Directive, in addition, covers different types of undertakings these are; parent, subsidiary, affiliated, group, associated, investments and financial holding. parent undertaking, is defined as an undertaking which has control over a single or multiple subsidiary undertaking. The subsidiary is a firm within the control of a parent undertaking, including any firm of an absolute parent undertaking. A group, on the other hand, is the joint combination of a parent undertaking and all subsidiary undertaking. The term affiliated-undertaking can be used to describe when there are two or more undertakings within a group. The term associated undertaking is employed when an undertaking with participating interest and with a considerable command over the financial and operational policies of said undertaking. If the undertaking has more than 20% shareholder or voting member of right then that undertaking is surmised to have considerable command over said undertaking. There are two types of investment undertakings. We see the first one in the form of an undertaking which invests available funds in securities, landholdings, and various assets with the intent of diversifying their investment-risk and providing shareholders with benefits gained from managing assets. The second form is an undertaking that is associated with an investment-undertaking with fixed-capital. Financial holding undertaking is an undertaking with the objective of acquiring, holding and managing holdings in order to profit over these organizations without integrating themselves into the managements process and without forgoing of their rights as shareholders.
- The term material is defined as information where omitted or misstated could reasonably influence of the information user. The Directive also asserts, that the assessment of materiality for individual items must be

determined by comparison to similar items.

Article#4 addresses the general provision for the preparation of the annual financial statements. Firms are required to supply for all undertakings the “balance sheet, the profit and loss account and the notes to the financial statements” (European Commission, 2013b: 18). Member States are given the choice of requiring small firms to formulate, disclose and publish information in the financial statements about what is required by the Directive. However, in order to bid such information, Member States must ensure that the disclosure requirements are clearly listed and incorporated into the national tax legislation. Additionally, this information needs to be provided using a single filing system and the relevant parts must be included within the financial statements. When new requirements are introduced for small undertakings, this information must be conveyed to the Commission by Member States.

Article#6 provides information on the recognition and measurement related principles for the annual and consolidated financial statements, there are; going concern, consistent application of accounting policies and measurement base, prudence, use of accrual base, the individual valuations of assets and liabilities, the prohibition of any set off between assets and liabilities items or between income and expenditure items, the measurement of items within the financial statements in conformity to the principal of purchase price or production cost. Financial report preparers are also given the choice of not complying with recognition, measurement, display, disclosure and consolidation requirements when the affect of complying with them is immaterial. Additionally, the amounts that are laid out within the opening balance sheet need to correspond with the amounts that are published within the closing balance sheet for the prior year and items within the profit and loss account balance sheet need to be laid out according to the substance of the transaction. Regarding the recognition of measurement of items, the Directive states that only profits made by the balance sheet date can be recognized, all liabilities are to the recognized when they originate within the duration of the year, within the duration of the earlier financial year, between balance sheet date or on the balance sheet date is drawn. Finally, the Directive states that all negative value adjustments regardless of its affect on the profits or loss of the firm need to be recognized.

Article#7 provides information regarding the reevaluation base for measurements. In the previous article, the Directive requiring financial statements to be measured according to the principle of purchase price or production cost, however, Member States are also permitted to bid all undertakings of various types to measure their fixed asset at revalued amounts. As long as the national law provides information for the revaluation base, it must also define the content and limit of the application. If an alternative measurement base is employed for fixed asset at revalued amounts, the variation between purchase price or production cost and the revaluation base needs to be listed within the balance sheet. This amount shall be provided within the capital and reserves portion of the balance sheet, in the revaluation reserve. The Directive also provides the choice of capitalizing the revaluation reserve in whole or in part, at any time. In the event amount transferred to the revaluation reserve is no longer fundamental for the execution of base, the revaluation reserve must be reduced in amount.

Provided that transfers from the revaluation reserves are made from where the amounts transferred are entered in the profit and loss account or the transfers confer an increase in a value that has been realized, Member States are permitted to decide on the governing rules for the application of the revaluation reserves. Direct or indirect distribution of the revaluation reserves is prohibited, unless the distributed amount represents a realized gain. Additionally, the revaluation reserves must be adjusted each year on the base of the revalued amounts.

When disclosing the variation arising as a consequence of the measurement base employed and the value adjustment of the purchase price or production cost measurement base, the amount must be displayed individually within the horizontal or vertical balance sheet layouts provided within Table 14-17.

Article#8 covers the measurement and disclosure of financial instruments. For all types of undertakings, Member States are permitted to bid financial instruments, with the inclusion of derivative financial instruments, to be estimated at fair value. Additionally, this point shall apply for liabilities that are retained as part of a trading portfolio and derivative financial instruments. However, it must be noted that the above-mentioned “Member State permitted restrictions” may not apply for consolidated financial statements, and for instruments such as (European Commission,

2013b: 22);

- non-derivative financial instruments held to maturity
- loans and receivables not held for trading purposes
- subsidiary interest
- associated undertaking interest
- joint venture interest
- equity instruments
- contingent considerations within a business combination.

Finally, the restriction may not apply for financial instruments with exclusive characteristics (that are calculated employing use of a different method).

The article also addresses the different types of financial instruments that are to be considered as derivative financial instruments. For example; commodity-based contracts containing the choice of settling into cash and alternative types of financial instruments. However, contracts that meet the undertakings expected “purchase, sale or use requirement; that were designed as commodity-based contracts and that will be settled with the delivery of the commodity” (European Commission, 2013b: 23) are held separate from these derivative financial instruments.

Assets and liabilities, or any identified portion that qualifies as hedged items within a fair value hedge accounting system, may be permitted to be measured at a specific amount required within the system. Member States may also consent the recognition, measurement and disclosure of the financial instruments employing use of the “European Union approved-version of the International Financial Reporting Standards”.

The article also offers a reference point by which the fair value for financial instruments with a reliable (or sans reliable market) may be determined. For the former, the Directive refers use to the market value and for the later, an amount determined by the generally accepted valuation methods and techniques that offer reasonable approximations of the market value. If a market value cannot be reliably determined, but the instrument has an identifiable component (or similar instrument), the Directive refers use to the market value of these instruments. In the event any of the above methods cannot offer unreliable results, the described financial instruments shall be

measured employing use of the principle of purchase price or production cost.

Changes in the value of the financial investment must be listed within the profit and loss account. However, facing exceptional events, such as; the instrument in question is a hedge instrument and the value changes in question are related to exchange differences- the changes in value must be listed within the fair value reserve account. Member States are permitted to bid changes in value for available-for-sale financial asset to be listed within the fair value reserves. Additionally, for all types of undertakings, Member States may (for assets that are not measured at fair value) allow for the changes in value to be listed within the profit and loss account.

Article#9 addresses the conditions for departure from the layout of the balance sheet and the profit and loss account. The Directive states that the display format for the balance sheet and profit and loss accounts must remain comparable from one year to the next. However, the Directive also provides exceptions for departure from the provided layout as long as the conditions set forth are met. In order to make use of the exception, a provision of the Directive must be inhibiting the financial report preparers from presenting a true/fair view of the undertakings assets, liabilities, financial position and profits or loss. If the financial report preparer decides to apply the allowance, this information needs to be provided within the notes to the financial statements. The article also grants the inclusion of additional tools and items other than what is laid out within the prescribed layouts. However, the Member States are charged with the responsibility of overseeing the display of a more detailed subdivision of these items, such as; additional subtotals, the combination of immaterial amounts to provide a clearer, true/fair view of the undertakings financial reports and new items that are not covered within the remaining parts of the layouts. Member States are also permitted to provide adaptation for the terminology of certain items within the balance sheet and the profit and loss account, as long as the undertaking the adaptations are being provided are part of a specific economic sector. Member States are also given the choice of requiring an adaptation to the layout of the balance sheet and profit and loss account in order to encompass the allotment of the profit/treatment of loss.

On the other hand, Member States are also given the ability to limit an undertakings ability to depart from the layout, as long as the departure from the

balance sheet and profit and loss account might prevent undertakings from filing electronic formats for the statements.

The balance sheet and profit and loss account to offer a comparative view for the prior financial year. In case these figures are not comparable, the figures need to be addressed and the amount, alongside the reason for the adjustment, must be published within the notes to the financial statements.

Additionally, the article addresses the accounting of participating interest employing use of the equity method. However, when making use of the equity method financial report preparers must also take into account the differences that results from the adjustment of the annual financial statements and consolidated financial statements. Member States are also given the choice of requiring the recognition of a certain portion of the profit/loss attributable to a participating interest within the profit and loss account. However, this amount must be limited by the dividends received or payments already claimed. If the amounts surpasses the dividends received for payments already claimed, the variation needs to be listed within a reserve. This reserve is barred from distributing to the shareholders.

Under Article#10, information is provided regarding the layout and display of the balance sheet. Member States are granted the choice of requiring one or both forms of layouts that are published within the Directive. If Member States prescribe both layouts then selecting which is to be employed will be left up to the undertakings.

Article#11 provides a distinction regarding the layout and display of the balance sheet in regards to current and noncurrent items. Member States are allowed to consent or bid undertakings of certain types to present items by distinguishing between currents and noncurrent items. In which case, the layout is permitted to differ from what was set out within Annex III and IV. However the information provided within the balance sheet still needs to be considered equivalent to or in conformity with Annex III and IV. The horizontal and vertical versions of the balance sheet layout are laid out within Table 14-17.

Table 14: Horizontal Balance Sheet Layout from Directive (2013/34/EU) - Annex III: Assets

ANNEX III HORIZONTAL LAYOUT OF THE BALANCE SHEET PROVIDED FOR IN ARTICLE#10 Assets	
A.	Subscribed capital unpaid of which there has been called (unless national law provides that called-up capital is to be shown under 'Capital and reserves', in which case the part of the capital called but not yet paid shall appear as an asset either under A or under D (II) (5)).
B.	Formation expenses as defined by national law, and in so far as national law permits their being shown as an asset. National law may also provide for formation expenses to be shown as the first item under 'Intangible assets'.
C.	Fixed assets
I.	Intangible assets
1.	Costs of development, in so far as national law permits their being shown as assets.
2.	Concessions, patents, licences, trade marks and similar rights and assets, if they were:
(a)	acquired for valuable consideration and need not be shown under C (I) (3); or
(b)	created by the undertaking itself, in so far as national law permits their being shown as assets.
3.	Goodwill, to the extent that it was acquired for valuable consideration.
4.	Payments on account.
II.	Tangible assets
1.	Land and buildings.
2.	Plant and machinery.
3.	Other fixtures and fittings, tools and equipment.
4.	Payments on account and tangible assets in the course of construction.
III.	Financial assets
1.	Shares in affiliated undertakings.
2.	Loans to affiliated undertakings.
3.	Participating interests.
4.	Loans to undertakings with which the undertaking is linked by virtue of participating interests.
5.	Investments held as fixed assets.
6.	Other loans.
D.	Current assets

I. Stocks
1. Raw materials and consumables.
2. Work in progress.
3. Finished goods and goods for resale.
4. Payments on account.
II. Debtors
(Amounts becoming due and payable after more than one year shall be shown separately for each item.)
1. Trade debtors.
2. Amounts owed by affiliated undertakings.
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests.
4. Other debtors.
5. Subscribed capital called but not paid (unless national law provides that called-up capital is to be shown as an asset under A).
6. Prepayments and accrued income (unless national law provides that such items are to be shown as assets under E).
III. Investments
1. Shares in affiliated undertakings.
2. Own shares (with an indication of their nominal value or, in the absence of a nominal value, their accounting par value), to the extent that national law permits their being shown in the balance sheet.
3. Other investments.
IV. Cash at bank and in hand
E. Prepayments and accrued income (Unless national law provides that such items are to be shown as assets under D (II) (6).)

Source: EU Commission. (2013). Directive (2013/34/EU) of the EP and the EUC of 26 June 2013. Official Journal of the European Union, 182, s.60.

Table 15: Horizontal Balance Sheet Layout from Directive (2013/34/EU) - Annex III: Capital, Reserves and Liabilities

ANNEX III HORIZONTAL LAYOUT OF THE BALANCE SHEET PROVIDED FOR IN ARTICLE#10 Capital, Reserves and Liabilities	
A. Capital and reserves	
I. Subscribed capital	
(Unless national law provides that called-up capital is to be shown under this item, in which case the amounts of subscribed capital and paid-up capital shall be shown separately.)	
II. Share premium account	
III. Revaluation reserve	
IV. Reserves	
1. Legal reserve, in so far as national law requires such a reserve.	
2. Reserve for own shares, in so far as national law requires such a reserve, without prejudice to point (b) of Article#24(1) of Directive 2012/30/EU.	
3. Reserves provided for by the articles of association.	
4. Other reserves, including the fair value reserve.	
V. Profit or loss brought forward	
VI. Profit or loss for the financial year	
B. Provisions	
1. Provisions for pensions and similar obligations.	
2. Provisions for taxation.	
3. Other provisions.	
C. Creditors	
(Amounts becoming due and payable within one year and amounts becoming due and payable after more than one year shall be shown separately for each item and for the	

aggregate of those items.)
1. Debenture loans, showing convertible loans separately.
2. Amounts owed to credit institutions.
3. Payments received on account of orders, in so far as they are not shown separately as deductions from stocks.
4. Trade creditors.
5. Bills of exchange payable.
6. Amounts owed to affiliated undertakings.
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests.
8. Other creditors, including tax and social security authorities.
9. Accruals and deferred income (unless national law provides that such items are to be shown under D).
CI. Accruals and deferred income
(Unless national law provides that such items are to be shown under C (9) under 'Creditors'.)

Source: EU Commission, 2013: 61

Table 16: Vertical Balance Sheet Layout from Directive (2013/34/EU) - Annex IV: Part 1

ANNEX IV	
VERTICAL LAYOUT OF THE BALANCE SHEET PROVIDED FOR IN ARTICLE#10	
A.	Subscribed capital unpaid of which there has been called (unless national law provides that called-up capital is to be shown under L, in which case the part of the capital called but not yet paid must appear either under A or under D (II) (5).)
B.	Formation expenses as defined by national law, and in so far as national law permits their being shown as an asset. National law may also provide for formation expenses to be shown as the first item under 'Intangible assets'.
C.	Fixed assets
I.	Intangible assets
1.	Costs of development, in so far as national law permits their being shown as assets.
2.	Concessions, patents, licences, trade marks and similar rights and assets, if they were:
(a)	acquired for valuable consideration and need not be shown under C (I) (3); or
(b)	created by the undertaking itself, in so far as national law permits their being shown as assets.
3.	Goodwill, to the extent that it was acquired for valuable consideration.
4.	Payments on account.
II.	Tangible assets
1.	Land and buildings.
2.	Plant and machinery.
3.	Other fixtures and fittings, tools and equipment.
4.	Payments on account and tangible assets in the course of construction.
III.	Financial assets
1.	Shares in affiliated undertakings.
2.	Loans to affiliated undertakings.
3.	Participating interests.
4.	Loans to undertakings with which the undertaking is linked by virtue of participating interests.
5.	Investments held as fixed assets.
6.	Other loans.
D.	Current assets
I.	Stocks
1.	Raw materials and consumables.
2.	Work in progress.
3.	Finished goods and goods for resale.

4.	Payments on account.
II.	Debtors
(Amounts becoming due and payable after more than one year must be shown separately for each item.)	
1.	Trade debtors.
2.	Amounts owed by affiliated undertakings.
3.	Amounts owed by undertakings with which the company is linked by virtue of participating interests.
4.	Other debtors.
5.	Subscribed capital called but not paid (unless national law provides that called-up capital is to be shown as an asset under A).
6.	Prepayments and accrued income (unless national law provides that such items are to be shown as assets under E).
III.	Investments
1.	Shares in affiliated undertakings.
2.	Own shares (with an indication of their nominal value or, in the absence of a nominal value, their accounting par value), to the extent that national law permits their being shown in the balance sheet.
3.	Other investments.
IV.	Cash at bank and in hand
E.	Prepayments and accrued income
(Unless national law provides that such items are to be shown under D (II) (6).)	
F.	Creditors: amounts becoming due and payable within one year
1.	Debenture loans, showing convertible loans separately.
2.	Amounts owed to credit institutions.
3.	Payments received on account of orders, in so far as they are not shown separately as deductions from stocks.
4.	Trade creditors.

Source: EU Commission, 2013: 62.

Table 17: Vertical Balance Sheet Layout from Directive (2013\34\EU) - Annex IV: Part 2

5.	Bills of exchange payable.
6.	Amounts owed to affiliated undertakings.
7.	Amounts owed to undertakings with which the company is linked by virtue of participating interests.
8.	Other creditors, including tax and social security authorities.
9.	Accruals and deferred income (unless national law provides that such items are to be shown under K).
G.	Net current assets/liabilities
(Taking into account prepayments and accrued income when shown under E and accruals and deferred income when shown under K.)	
H.	Total assets less current liabilities
I.	Creditors: amounts becoming due and payable after more than one year
1.	Debenture loans, showing convertible loans separately.
2.	Amounts owed to credit institutions.
3.	Payments received on account of orders, in so far as they are not shown separately as deductions from stocks.
4.	Trade creditors.
5.	Bills of exchange payable.
6.	Amounts owed to affiliated undertakings.
7.	Amounts owed to undertakings with which the company is linked by virtue of participating interests.
8.	Other creditors, including tax and social security authorities.
9.	Accruals and deferred income (unless national law provides that such items are to be shown under K).
J.	Provisions
1.	Provisions for pensions and similar obligations.
2.	Provisions for taxation.

- 3. Other provisions.
- K. Accruals and deferred income
(Unless national law provides that such items are to be shown under F (9) or I (9) or both.)
- L. Capital and reserves
- I. Subscribed capital
(Unless national law provides that called-up capital is to be shown under this item, in which case the amounts of subscribed capital and paid-up capital must be shown separately.)
- II. Share premium account
- III. Revaluation reserve
- IV. Reserves
 - 1. Legal reserve, in so far as national law requires such a reserve.
 - 2. Reserve for own shares, in so far as national law requires such a reserve, without prejudice to point (b) of Article#24(1) of Directive 2012/30/EU.
 - 3. Reserves provided for by the articles of association.
 - 4. Other reserves, including the fair value reserve.
- V. Profit or loss brought forward
- VI. Profit or loss for the financial year

Source: EU Commission, 2013: 63.

Article#12 addresses several issues relating to the display of certain balance sheet items. The first issue addressed within the article is the disclosure of an asset or a liability when in relation to more than one layout item. The Directive states that when in relation to more than one layout item, the connection to the other asset or liability must be laid out within the notes to the financial statements. Secondly, the article addresses the disclosure of shares in affiliated undertaking. Own shares and its shares in affiliated undertakings needs to be listed within the corresponding items within the layout. Thirdly, the categorization of fixed or current asset shall be evaluated and decided upon depending on the assets aspiration. Additionally, the “purchase price, production cost and revalued amount” (European Commission, 2013b: 25) of the fixed assets that have a limited useful life need to be reduce by the calculated adjustment value, and must be systematically written off during their useful lives. Fourth, when journalizing the rights to immovable and other assets that are categorized similarly within the Member States national law, the amounts must be listed within the land and buildings account.

According to the article when adjusting the value of fixed assets; Member States may conduct the adjustments in respect financially fixed assets. This allows for

a valuation at a lower amount and shall be conducted for assets with economic lives that are limited/ or not. The value adjustment assets needs to be listed within the profit and loss account and displayed individually, however, if the amount cannot be listed individually, it must be published within the notes to the financial statements. The provisions mentioned above does not apply for the value adjustment of goodwill. The aspiration of value adjusting the current assets is to show the assets at a lower value than the market value/ or another lower value that is attributable.

For intangible assets, the Directive states that these assets shall be written off during useful economic lives. Where the useful life of goodwill or development costs cannot be determined, the Member State is given the choice of determining the maximum period by which the firm may write off the intangible assets. However the Directive describes limitations to the maximum and minimum years in which the assets may be written off; a maximum of 10 years and a minimum of five years. If the provision is employed then the firms reasoning for making use of the economic life in question needs to be explained in detail within the notes to the financial statements.

Member States have the choice of barring the distribution of profits unless the distribution reserves and profit are of equal value to the costs that are yet to be written off. However, this provision can only take place if the Member States national law authorities allow for the inclusion of development costs within the asset portion of the balance sheet and the full costs have the yet to be written off. In the case Member States national law authorities allow for the inclusion of formation expenses within the asset portion of the balance sheet, the amount shall be written off within a maximum of five years. These provisions also cover liabilities that are either likely/ or certain to be incurred (however, uncertain in regards to the final amount at the balance sheet date) and shall represent the best appraisal of expenses that are likely to be incurred.

The article also addresses the the journalization of an asset that results from the variation between the amount repayable on account of any debt and the amount received. If such a variation occurs the Member States are allowed to consent the variation to be listed as assets within the balance sheet or published within the notes to the financial statements. This amount also needs to be written off each year employing use of a reasonable amount. However, the Directive does not give information on what constitutes as he reasonable amount. The Directive also does not provide information

on the amount of time this account should be written off, however, it limits the maximum amount of years it takes to completely repay the debt.

Member States are also given the choice of requiring the interest on capital borrowed be included within the production costs. However, the capital must have been borrowed in order to finance the production of fixed/current assets and the inclusion must be published within the notes to the financial statements.

The article also permits the use of four different cost bases for reporting. These are the; “weighted average prices, first in, first out (FIFO), last in, first out (LIFO), or a method echoing the generally accepted best practice” (European Commission, 2013b: 27).

Article#13 provides information regarding the layout and display of the profit and loss account. The Directive provides Member States with two layouts for the display of the statement. The layouts are covered within Annex V and VI of the document and Member States are granted the choice of prescribing either one or both of these layouts for adoption. If a Member State prescribes both layouts for firms to adhere to; it may consent the undertaking to choose which of the two layouts they may adopt. Member States are also given the choice of not requiring undertakings to present a statements on their performance in the format of the layout provided by the document. As long as the provided information covers the requirements listed within Annex V and VI, then the Member States are free to either bid/ or consent the layout of their choosing. The layout for the profit and loss account by nature of expense and by function of expense are provided within Table 18-19.

Table 18: Layout of the Profit and Loss Account by Nature of Expense from Directive (2013\34\EU) - Annex V

ANNEX V LAYOUT OF THE PROFIT AND LOSS ACCOUNT – BY NATURE OF EXPENSE, PROVIDED FOR IN ARTICLE#13	
1.	Net turnover.
2.	Variation in stocks of finished goods and in work in progress.
3.	Work performed by the undertaking for its own purposes and capitalised.
4.	Other operating income.
5.	(a) Raw materials and consumables.
	(b) Other external expenses.
6.	Staff costs:
	(a) wages and salaries;
	(b) social security costs, with a separate indication of those relating to pensions.
7.	(a) Value adjustments in respect of formation expenses and of tangible and intangible

fixed assets.
(b) Value adjustments in respect of current assets, to the extent that they exceed the amount of value adjustments which are normal in the undertaking concerned.
8. Other operating expenses.
9. Income from participating interests, with a separate indication of that derived from affiliated undertakings.
10. Income from other investments and loans forming part of the fixed assets, with a separate indication of that derived from affiliated undertakings.
11. Other interest receivable and similar income, with a separate indication of that derived from affiliated undertakings.
12. Value adjustments in respect of financial assets and of investments held as current assets.
13. Interest payable and similar expenses, with a separate indication of amounts payable to affiliated undertakings.
14. Tax on profit or loss.
15. Profit or loss after taxation.
16. Other taxes not shown under items 1 to 15.
17. Profit or loss for the financial year.

Source: EU Commission, 2013: 64.

Table 19: Layout of the Profit and Loss Account by Function of Expense from Directive (2013/34/EU) - Annex VI

ANNEX VI LAYOUT OF THE PROFIT AND LOSS ACCOUNT – BY FUNCTION OF EXPENSE, PROVIDED FOR IN ARTICLE#13	
1.	Net turnover.
2.	Cost of sales (including value adjustments).
3.	Gross profit or loss.
4.	Distribution costs (including value adjustments).
5.	Administrative expenses (including value adjustments).
6.	Other operating income.
7.	Income from participating interests, with a separate indication of that derived from affiliated undertakings.
8.	Income from other investments and loans forming part of the fixed assets, with a separate indication of that derived from affiliated undertakings.
9.	Other interest receivable and similar income, with a separate indication of that derived from affiliated undertakings.
10.	Value adjustments in respect of financial assets and of investments held as current assets.
11.	Interest payable and similar expenses, with a separate indication of amounts payable to affiliated undertakings.
12.	Tax on profit or loss.
13.	Profit or loss after taxation.
14.	Other taxes not shown under items 1 to 13.
15.	Profit or loss for the financial year.

Source: EU Commission, 2013: 65.

Article#14 provides an allowance for Member States to develop condensed versions of financial statements. This allowance is permitted for small undertaking to bid, at a minimum, only the items listed within Annex III D(II), C and Annex IV D(II).

These requirements cover information on a firm's assets, an amendment that become due and payable within one year, amounts the firm is owed by affiliated undertakings, trade debtors, undertakings which the firm is linked by virtue of participating interest and other debtors. Additionally, information on subscribed capital that is called but not paid and prepayments and accrued income needs to be provided.

Continuing Article#14 small undertakings are also required to provide information on amounts owed and that are becoming payable within one year. This information covers, “debenture loans, amounts that are owed to credit institutions, payments that are received on account of orders, amounts owed to trade creditors, bills of exchange payable, amounts that are owed to affiliated undertakings, amounts that are owed to an undertaking associated by merit of participating interests, tax and social security authorities, other creditors, accruals and deferred income” (European Commission, 2013b: 27). Even though small undertaking are required at the minimum to provide information, this does not stop them from going over the minimum requirements and providing the remaining information listed within both Annex, depending on the scope of their activities.

Article#14 also permits Member States to allow small and medium -sized undertakings to provide condensed version of the profit and loss account. However, the document provides limitations to the amount of information that must be provided within the condensed versions. According to these limitations the following five items may be incorporated within one item titled “gross profit and loss account”.

When being laid out within the profits and loss account for small and medium -sized undertakings (European Commission, 2013b: 27);

- net turnover
- variations in the amounts of stocks for finished goods
- work in process accounts
- work that is performed by the undertaking for its own aspiration and later capitalized
- other operating income, which includes; raw materials, consumables and external expenses.

For items listed within Annex VI, the small and medium -sized undertakings

may also combine the following items within "gross profit/loss"; net turnover, the cost of sales, gross profit/loss and other operating income.

Article#15 covers the information and general provisions regarding the structure of the notes to the financial statements. The article states that the notes to the financial statements (balance sheet and profit and loss account) need to be prepared and laid out in conformity to this chapter and in the order the items are laid out within the financial statements.

Article#21 and 22 provides information on the firms that will undergo consolidation procedures within the Directive. Member States are charged with the responsibility of requiring undertakings that are governed by national law to supply the consolidated financial statements and management reports, if the undertaking is a parent undertaking that (European Commission, 2013b: 36);

- has majority shareholder/member voting rights of a subsidiary undertaking
- can appoint or remove a majority of members from the supervisory body/administration of the subsidiary undertaking
- is a shareholder/member of the subsidiary undertaking
- has a dominant influence over the subsidiary undertaking (via contracts entered, provision within the memorandum/article of the association, laws governing the subsidiary undertaking)
- is a shareholder/member of the subsidiary undertaking and control via agreement the majority of voting rights, the shareholder/member of this of the subsidiary undertaking
- if a majority (at least 20%) of the members from the administrative, management, supervisory bodies that is held office in the prior and current year and has been appointed via their voting rights .

In addition to the above undertakings that are responsible for preparing consolidated financial statements and management reports, Member States can bid; a parent undertaking with dominant influence over a subsidiary undertaking and a joint managed parent undertaking and subsidiary undertaking by the parent undertakings undertaking to draw up the consolidated financial statements and managements report.

The voting rights, rights of appointment and removal of a subsidiary

undertaking, and an individual acting in their own name but on behalf of a parent undertaking must be added to those of the parent undertaking (European Commission, 2013b: 36). However, this may be reduced by the following rights; “shares held on behalf of an individual is not a parent undertaking or subsidiary undertaking of the parent undertaking, shares that are held for security or shares that are held in connection to the grant of loans” (European Commission, 2013b: 37). In the event for shares that are held in connection to the grant of loans, the voting rights of these shares must be executed in the interest of the individual providing the security.

For parent undertakings that have majority shareholder/member voting rights of a subsidiary undertaking and is a shareholder/member of the subsidiary undertaking and control via agreement the majority of voting rights, the shareholder/member of this of the subsidiary undertaking and if a majority of the members from the administrative, management, supervisory bodies that is held office in the prior and current year and has been appointed via their voting rights; the shareholders/member voting rights of the subsidiary undertaking will be reduced by the voting rights of the shares held by the undertaking, the subsidiary undertaking or an individual acting in their own name on behalf of the undertaking.

Regardless of where the subsidiary undertaking is registered, a parent undertaking and all subsidiary undertakings must be consolidated. However, there are exemptions to this rule. An undertaking may not be included within the consolidation process if (European Commission, 2013b: 37);

- the information needed for the consolidation process cannot be obtained without incurring additional expenses
- if the information cannot be obtained within the time limit
- the shares of the undertaking are held for resale purposes
- there are restrictions preventing the parent undertakings from exercising its rights over the assets or the managements of the firm
- the unified management of that undertaking is exercised that originates from a contract, memorandum, article of association.

The Member States may also bid via national law, an undertaking (and those undertakings prescribed within Annex 1 or 2) to supply consolidated financial

statements and management report if the administrative, management, supervisory bodies of the undertaking are a majority of the same person in office for that year and the earlier year.

One modification addressed within this article is the consolidation of the following items; “capital, share premium, revaluation reserve, reserves, profit/loss” (European Commission, 2013b: 37) brought forth from the earlier period/or for this year. These items shall be laid out within the consolidated financial statements within the aggregate form.

Article#23 provides information on the exemption of small and medium -sized groups with the exception of any affiliated undertakings that are PIE. However, if the PIE is listed within Annex 1 of this Directive or a parent undertaking governed by the national law of the Member States and an exempted parent undertaking holds all shares of an exempted undertaking/or if it holds 90% of the shares in the remaining shareholder/members have approved the exemption.

There are certain conditions that the exemption must fulfill, such as; the exempt undertaking and all subsidiary undertaking are consolidated within the large body of undertakings; the consolidated financial statements of the previously mentioned undertaking are prepared by the parent undertakings about body in conformity to the European Union approved version of the International Financial Reporting Standards and the requirements listed within this Directive, the consolidated financial statements, management reports, auditor report and an appendix that is laid out in lieu of the consolidated financial statements are published in conformity to the Member State law in the country's national language or as a translation and finally; the name and registered office of the parent undertaking preparing the consolidated financial statements and the use of the exemption provision are published within the notes to the financial statements.

Member States are also given the choice of further exempting parent undertakings governed by national laws, with the inclusion of PIE, provided that the following conditions are fulfilled. These conditions are; “shareholder/members of the exempted undertaking with a minimum percentage (10% of subscribed capital for a public limited liability and 20% of subscribed capital) of capital have not requested the preparation of consolidated financial statements, within six months of the end of the

year” (European Commission, 2013b: 39).

These exemptions will not hold true if the information listed within the consolidated financial statements or management report are needed by the employees or their representatives and regulatory authorities. Additionally, an undertaking may not be included within the consolidation process if; the information needed for the consolidation process cannot be obtained without incurring additional expenses or if the information cannot be obtained within the time limit, the shares of the undertaking are held for resale purposes, there are restrictions preventing the parent undertakings from exercising its rights over the assets or the managements of the firm, the amounts within the subsidiary undertaking are the immaterial individually and in sum, and the unified management of that undertaking is exercised that originates from a contract, memorandum or article of association.

Article#24 addresses information that must be considered while preparing the consolidated financial statements. The article begins by touching upon the conditions for incorporating assets and liabilities into the consolidated balance sheet. assets and liabilities of the parent undertaking and subsidiary undertaking must be incorporated in full within the balance sheet. Article#24 also addresses the set off of the bookvalue of shares in the capital of an undertaking that is included within the consolidation process against the percentage representative of the capital and reserves.

The Directive provides several issues that needs to be taken into consideration; “the set off is affected by the base of bookvalues on the date the undertakings are included in the consolidation process for the first time, unless of course the shares in the capital of the parent undertakings are held by either the undertaking itself or another undertaking that is included within the consolidation process; and differences that originate from the set off will be entered directly against those items in the consolidated balance sheet which have values above or below their bookvalues” (European Commission, 2013b: 42).

Member States are permitted to determine the date on which a set off is to occur. They may either bid the set off to occur on the date of acquisition or in the event of acquisition in two or more stages; such as the date the undertaking becomes a subsidiary undertaking. Member States may also consent setoffs to be laid out on the base of the value of identifiable assets and liabilities. In the case that there exists a

variation between the amount that may come to pass as a results of the application point employed or occur after the application point has passed the amount shall be displayed as goodwill under the consolidated balance sheet.

This article also requires financial report preparers to present the methods employed in calculating the value of goodwill and in addition, significant changes in value under the notes to the financial statements. In the event of offsetting positive and negative goodwill, an analysis needs to be conducted and laid out under the notes to the financial statements. If the goodwill value is negative, it may be displayed under the consolidated profit and loss account.

If the shares of a subsidiary undertaking that is included under the consolidation process, are held by an individual, the amount must be listed individually under the balance sheet under the non-controlling interest account. A profit/loss identifiable to these shares must be listed individually under the consolidated profit and loss account. The income and expenses of the undertakings must be incorporated under the consolidated profit and loss account.

The Directive also argues that while the assets, liabilities, financial positions, profits or losses of the undertakings shall be included under the consolidation process as if there was a single undertaking; “debts and claims, income and expenditure and profits and losses” (European Commission, 2013b: 42) included in the bookvalues of assets that results from a transaction between undertakings needs to be eliminated from the consolidated financial statements.

Even though consolidated financial statements are to be prepared on the same date as the annual statements, Member States are permitted to change the due date to correspond with the largest/most important undertaking under the consolidation. However, there are conditions in order to be allowed to do so (European Commission, 2013b: 42);

- the deferring dates must be published under notes to the financial statements along with the reasons
- important events that occurred between balance sheet in consolidated balance sheet date regarding the asset, liabilities, financial position and profit/loss of the firm must be disclosed
- the fact that the undertaking is consolidated via use of interim financial

statements must be disclosed

- if there is a three-month variation between the balance sheet date and consolidated balance sheet date this must be disclosed
- composition changes the firm undergoes under the accounting period must be disclosed
- information that helps compare the earlier periods consolidated financial statements with this year's consolidated financial statements must be disclosed
- the preparation of an adjusted comparative balance sheet and profit and loss account must be disclosed.

Assets and liabilities must be measured at a uniform base under the consolidation process, though alternative measurement base might be applied with the Member States permission and further disclosure under the notes to the financial statements. Additionally, if the assets of the firm undergo an adjustment in value for tax purposes, they must be included under the consolidation process once the adjustments have been eliminated. Finally, deferred tax shall be included under the consolidation process if it is probable that charges to tax will arrive for the undertaking in the future.

Article#25 provides information on the conditions by which Member States may consent/ or bid the bookvalues of shares to be held in the capital of a business combination undertaking and included in the consolidation. These undertakings under the business combination must be controlled, with no transition between the control, by the same party before and after the combination. Additional information must also be published as a consequence of the movement under the reserves and the deductions listed under; the consolidated reserves, the names and registered offices of the undertakings concerned and the application message of the bookvalue of shares included under the consolidation.

Article#26 addresses the situation when an undertaking included in a consolidation manages "another undertaking jointly with one or more undertakings not included in that consolidation" (European Commission, 2013b: 44) may be permitted into the consolidated financial statements. This inclusion may occur in

proportion to the capital rights held by the undertaking.

Article#27 covers the balance sheet representation of an undertaking included in a consolidation that has an associated undertaking. According to the article the associated undertaking must be listed as a individual item and have a individual heading under the consolidated balance sheet. This portion of the Directive of also addresses the display of the consolidated balance sheet in case which the article is applied for the first time to an associated undertaking; an associated undertakings bookvalue and associated undertakings capital and reserves represented by participating interest. In such a situation, the associated undertakings bookvalue must be calculated according to the measurement rules addressed above and the variation between the amount proportional to the capital and reserves represented by participating interest and the above-mentioned value must be published either under the consolidated balance sheet/ or the financial statement. For the amount represented by the associated undertakings capital and reserves, the variation between the value and its calculated bookvalue must be published individually under the consolidated balance sheet or the financial statement.

Member States are given the choice of choosing between the methods that will be applied; an associated undertakings bookvalue and associated undertakings capital and reserves represented by participating interest. Depending on the choice of the Member State, the choice employed must be published either under the consolidated balance sheet or the financial statements. If shares are acquired in more than two stages, Member States may also bid the calculation of the amount that originates because of differences between the date of acquisition and the date the undertaking becomes an associated undertaking.

If the measurement methods addressed under the above articles is not employed, this fact must be published under the financial statement note. A Member State is also given the choice of requiring the use of such measures. Any variation in the associated undertakings capital and reserves must increase/decrease; an associated undertakings bookvalue and associated undertakings capital and reserves represented by participating interest. If the amount is positive, this amount must be evaluated in conformity to goodwill requirements.

Profit/Loss for undertakings attributable to the participating interest must be

listed under the consolidated profit and loss account under individual items. Finally the article states that if the amounts in question is not material, then in the provisions may not be applied.

Article#28 covers the information that must be contained under the notes to the consolidated financial statements in addition to information provided by Article#16, 17 and 18. These notes must allow for the financial position of the organization to be taken as a whole, must consider essential adjustments that originates as a consequence of the characteristic of the consolidated financial statements compared to the annual financial statements. As mentioned under the consolidation of related parties, transactions between the groups must be eliminated from the consolidation process; proportionately consolidated average number of employees must be published individually; emoluments/advances/credit provided to administrative, managements and supervisory bodies must be published. However, the amounts must be provided by the parent undertaking and if the undertaking in question is a subsidiary undertaking, it must be provided to the members of the administrative, management, supervisory bodies of the parent undertaking.

Consolidated financial statements shall encompass; the names/registered offices of the undertaking, capital held by undertakings- minus the amounts held by a parent undertaking or amounts held by individuals acting in their own names for the undertaking, the base on which the consolidation process has been carried out- unless the capital and voting rights portions are the same. If there is an undertaking that has been excluded from the consolidation process, is an associated undertaking, proportionately consolidated undertaking or other types of undertakings; the information mentioned above still must be provided under the notes. However, if the display of the above information could potentially damage the organization, then the Member State is given the choice of holding the undertaking exempt from the provision.

Article#29 provides information that needs to be taken into consideration for the development of the consolidated management reports and in order to facilitate the assessment of the position of the undertaking. Adjustments for Article#19 and 20 still apply for the consolidated management reports; “the number and nominal value/absence of nominal value, par value of parent undertakings shares held by the

parent undertaking/subsidiary undertaking/an individual acting in his own name on behalf of the undertaking, corporate governance statements that refer to main features of the internal control and risk management systems” (European Commission, 2013b: 48). The article also addresses the condition for presenting the consolidated management reports and the management reports as a single report. If the consolidated management reports and the management reports are required at the same time, these reports may be incorporated under a single report.

In addition to the information being provided under D.2013/34/European Union, D.2014/95/European Union brings Article#29(a) into effect and provides information on the obligations for PIE which are parent undertakings of a large group exceeding certain criteria to present a consolidated non-financial statement under the consolidated management reports. This criteria is an average of 500 employees within the financial year. The laid out information must concern the minimum requirement of environmental, social, employees, children rights, anti-corruption and bribery developments. This information must cover the performance, position and impact of the activities taken by the organization.

Information that must be laid out under the consolidated non-financial statement can be listed as follows (European Commission, 2013b: 48);

- the business model of the group
- the policies of the group
- the outcome of these implemented policies
- references and additional explanations for amounts reported under the consolidated financial statements
- the operational risk
- business relationships
- product/service risk
- risk management procedures
- the non-financial key performance indicators of the business.

If there are no such policies are being pursued by the business, a clear reasoning must be provided under the report. Additionally, information on the developments and ongoing negotiations may be exempted from the reports if the

administrative, management, supervisory bodies of the organization are of opinion the disclosure of the information can potentially harm the operation of the organizations and does not restrict the display of a fair and balanced understanding of the firms “development, performance, position and impact” (European Commission, 2013b: 48) of its activities.

As mentioned before, Member States are permitted to make use of national/union based/international frameworks when presenting the above-mentioned information. If the firm employs use of these frameworks then the parent undertaking is under the obligation of disclosing which framework it relies upon. A firm fulfilling this obligation will be considered compliant with the display of non-financial information required in the related articles. If a parent undertaking is a subsidiary undertaking, the reporting requirement may be omitted, as long as both undertakings are included in the consolidated management reports or the individual report. Member States are also given the choice of exempting parent undertakings from preparing and presenting the consolidated non-financial statement if the individual report are; published together with the consolidated management reports, is published within six months of the balance sheet date on the official website of the parent undertaking, contains references made under the consolidated management reports and remain available to the public for a reasonable amount of time.

The statutory auditor or the audit firm are also charged, by Member States, with the responsibility of checking whether or not the consolidated non-financial statement or the individual report are being provided. Member States may also bid the verification of the information being provided under the consolidated non-financial statement or the individual reports.

Article#30 addresses the Member States responsibility for ensuring that the annual financial statements, management reports and opinion of the statutory auditor or audit firm are published within a reasonable period of time. This amount must not exceed 12 months after the balance sheet date. However, there are exempting conditions for publishing the management report. If the report (or part of it) can be obtained at a cost that does not exceed the administrative cost, then with the permission of the Member State, the management report may not be published. An exemption condition also exists for an undertaking referred to in Annex II. Firms listed

under Annex II of the Directive, with the condition that the national law of the Member State does not bid this undertaking to supply consolidated financial statements, will make available at its head office a copy of the documents referred under D.2009/101/EC. The report must be obtainable at a cost that does not exceed the administrative cost.

Article#32 covers the alternative publication requirements of undertakings and the reproduction form of the annual financial statements and the management report. The article requires that when the financial statements and management report of firms are published in full, the information may be re-produced so as the statutory auditor or audit firm may be permitted to draw up their opinion. This information needs to be additionally accompanied by the full text of the audit report. In the event the annual financial statements are not published in full, the document needs to state that this published version is an condensed version, disclose the fact that the financial statements have not yet been filled, provide information on the qualification level and results of the audit opinion and any and all references to matters to which the auditor drew attention to. It must also be noted that annual financial statements that are not published in full are not to be accompanied by an auditor report.

Article#33 addresses the insurance of the collective responsibility of the members of the administrative, management, supervisory bodies of an undertaking by the national law. Member States have a responsibility of abiding European Union regulation no 1606/2002 and preparing their annual financial statements, management reports, corporate governance statement in the consolidated version of the statements according to the International Financial Reporting Standards. The article also addresses the Member States responsibility towards ensuring that “local laws, regulations and administrative provisions” (European Commission, 2013b: 50) apply to the members of the administrative, management, supervisory bodies of the undertakings.

Article#34 covers the responsibility of Member States to ensure that the financial statements of PIE, medium and large- sized undertakings are audited by one or more statutory auditors or audit firms. These statutory auditor or the firm have the responsibility to the organization for evaluating the consistency off the management reports with the financial statements published within that year, and whether or not the

legal requirements for the management report have been adhered to. These auditors must also have an understanding of the organizational environment and knowledge of its proceedings in order to form a balanced opinion, identify these statements under the reports and provide information on the nature of these misstatements. D.2014/95/European Union provides an amendment to the article and exempts the application of this article for non-financial statements, consolidated non-financial statement and separate reports.

Article#35 provides information on the items that must be contained under the auditors report (European Commission, 2013b: 52);

- the financial statements that have undergone an audit
- the framework employed in the preparation of financial reports
- information on the scope of the audit
- the auditing standards employed
- the auditor opinion (qualified, unqualified or adverse)
- a clearly stated reasoning concerning;
 - whether or not the annual financial statement provide a true/fair view of the framework employed when preparing financial reports
 - whether or not these reports comply with the auditor is requirements, in the event the auditor cannot express an opinion
 - of reference to important issues without qualifying the audit opinion.

Additionally, this report must be signed by the statutory auditor. However if the statutory auditor signature can lead to a security threat, then the organization may not disclose the information as long as the identity of the person is known to the relevant authorities.

Article#36 of D.2013/34/European Union provides information on the exemption of micro undertakings. Provided that the firm discloses the exemption under the notes to the financial statements or at the foot of the balance sheet, they may be held exempt from providing information on; the recognition of prepayments, accrued income, deferred income (European Commission, 2013b: 52).

The article also provides a detailed list on the information that Member States may allow micro undertakings to publish (European Commission, 2013b: 52); items

listed under the vertical balance sheet that is provided under Table 16 and 17 excluding prepayments and accrued income, and deferred income (European Commission, 2013b: 52). For the profit and loss account micro undertaking may provide information on; net turnover, other income, raw material cost and consumables, staff cost, value adjustments, other charges, tax and profit/loss. The article also contains a requirement barring Member States from requiring micro undertakings to apply Article#8, which provides information on the alternative measurement they base of fair value.

Article#36 also specifies that micro undertaking shall be considered as small undertakings and bars financial holding undertakings from being considered for the items. Finally the article addresses the Commissions requires for submitting a report, detailing; “undertakings covered by the size criteria, reduction of administrative burdens” (European Commission, 2013b: 52) via the assumptions/publication requirements for micro undertakings. This report is to be submitted to to the European Parliament, Commission and the European Economic and Social Committee.

Article#37 of D.2013/34/European Union addresses the conditions in which Member States may not bid subsidiary undertakings to publish annual financial statements and management reports consisting of the reporting, auditing and publishing requirement provided by this Directive; the parent undertaking must apply the laws of the Member States, all shareholder/members of the subsidiary undertaking must have declared an agreement to be held exempt from the obligation, the parent undertaking guarantees the subsidiary undertaking its commitments, subsidiary undertaking financial information is included under the consolidated financial statements of the parent undertaking and abides to the requirements of this Directive. Finally, the information on the exemption is provided under the consolidated financial statement notes of a parent undertaking, the consolidated financial statements, management report and audit reports of the subsidiary undertaking are published according to the Member State laws [D.2013/34/European Union item 37].

Article#38 provides information on the conditions in which the Member States may not bid undertakings listed under Annex 1 and 2 to follow provisions under the Directive. If the following conditions hold true, then the Member States will be exempt from following the requirements of this Directive [D.2013/34/European Union

item 38];

- the financial statement of the undertaking in question are prepared and audited by an undertaking that has unlimited liability and is governed by the law of another Member State
- the undertaking is already included under the consolidated financial statements of a member with unlimited liability or consolidated financial statements of a larger body or a parent undertaking governed by the laws of Member State.

If this exemption is employed, this must be published under the consolidated financial statements notes.

Article#39 of D.2013/34/European Union is on the conditions which restrict Member States from applying provisions of the Directive governed by its national law. If parent undertaking prepares the consolidated financial statements according to the Directive, an exemption for the preparation is laid out under the notes to the financial statements of the parent undertaking and the profit/loss of the parent undertaking is shown under the balance sheet. Additionally, Member States shall not bid an undertaking to apply the provisions of the Directive on auditing and the publication of the profit and loss account.

Article#41 provides explanations for certain definitions on subjects relating to payment to the government. Undertakings dealing in the Extractive Industry shall cover activities of “exploration, prospecting, discovery, development and extraction of different types of minerals, oil, natural gas or other materials” (European Commission, 2013b: 56). Any national/regional/local authority of a European Union Member and third world country, including department/agencies/undertakings shall be considered as part of the government.

The term project, shall consist of operational activities covered by a single “contract, license, lease, concession and similar legal agreements” (European Commission, 2013b: 56). The above-mentioned single contract/license/lease/concession/similar legal agreements shall define the undertaking liability towards the government.

In the event of multiple agreements are interconnected, these shall be

considered to be part of the project. The term payment can come to mean monetary compensation or activity, such as; an entitlement for production, taxes on production or consumption, royalties, dividends, bonuses, licensees, rental fee, entry fees, fees for infrastructure improvements.

Article#42 covers the reporting requirements of large undertakings and all PIE payments made to the government on an annual basis. However there exists exemptions for certain types of firms; if the parent undertakings is subject to Member State law and if the payments to the government is listed under the consolidated financial report of the parent undertaking.

Article#43 is on the conditions for payments held exempt from reporting. Any single/series of payments below €100,000 within one year, need not be reported. However, information must be published in relation to certain activities; payments between governments, the amounts, whether it is actually a type of projects and amounts per payments. Information need not be published at the project level, but firms may provide the sum total.

Value determination of the payments needs to be published under the notes to the financial statements and must confer the substance of the activity. If the information is being provided under a country that has not adopted the Euro, the limit mentioned above published must be converted into the national currency and the firm must apply the exchange rate published by the Official Journal of the European Union on that date.

Article#44 lists the reporting requirements for the consolidated reports on payments to the government. If a large undertaking or PIE is in the “extracted industry/lodging of primary forest industry” (European Commission, 2013b:58), they must supply consolidated statements on the payments that they made to the government.

If a parent undertaking is not directly active under these industries, but it has a subsidiary undertaking that deals with extractive industry and lodging of primary forest then this parent undertaking is also considered to be active. The obligation for these entities to supply the consolidated report must apply to; a parent undertaking of a small and medium -sized group and a parent undertaking, which is also a subsidiary undertaking, that is governed by the Member State law.

This obligation does not hold true for affiliated undertakings which are PIE, if; the parent undertaking has severe long-term restrictions on its assets/or the management of the undertaking, the undertaking must undergo extreme expenses in order to provide the information that is required by the Directive and the shares of the undertaking are held for resale.

Under Article#45 the Directive states that Member States are responsible for ensuring that the reports provided for the government on various payments are published in conformity with the requirements of the Directive.

Article#46 covers the exemption criteria for third-country reporting requirements assessed according to Article#47 and the empowerment of the Commission to adopt delegated acts in conformity to Article#49 when assessing third-country reporting requirements and the requirements of this Directive. The Commission also puts forth specific criteria that need to be included under the assessment of third-country reporting (European Commission, 2013b: 60);

- target undertaking
- recipients of payments
- captured payments
- the attribute of the payment
- a breakdown of these payment
- triggers for reporting on the consolidated base
- frequency reporting
- anti-evasion measures that are put into place.

Additionally, as stated under Article#47, the Commission is charged with the responsibility of developing implementing acts identifying third-country reporting requirements. However, these acts must be considered equivalent to the Directive.

Article#48 consists of an overview of the responsibility of the Commission in reviewing and reporting on the execution of the effectiveness of the Directive and evaluating the impact of international developments such as regime, competitiveness and transparency.

The report must be provided to the European Parliament and to the European Union Council and this report may be accompanied by a legislative proposal. The

Council is also charged with the responsibility of analyzing the extensions for reporting requirements for different sectors and determining whether or not a report on government payments should be audited.

The responsibility of the Commission is analyzing the feasibility of an obligation for all union users. The report must contain information on the “average number of employees, the existence of subcontractors and penalties” (European Commission, 2013b: 61).

According to the amendment laid out by D.2014/95/European Union, the report must also consider developments under the Organization for Economic Cooperation and Development and related European Union initiatives. Additionally, large undertakings may be made to produce an “annual report on the profits, paid taxes on the profits for each Member State and third-country they operate under” (European Commission, 2013b:61).

Finally, under D.2014/95/European Union Article#4 and 3, the amendment informs that the Commission shall formulate guidelines in general and for different sectors on; non-financial key performance indicators, the methodology of reporting this information, how to facilitate relevance, useful and comparable non-financial disclosures.

This guideline shall be nonbinding in nature and shall be prepared by meeting with different stakeholder groups and consulting their views on the subject. The Commission is charged with the responsibility of publishing these guidelines by 6th of December 2016. This guideline is a profound step taken towards; the harmonization of non-financial information and the insurance of relevant, consistent and comparable information published by firms across the Member States [D.2014/95/European Union item 21].

This is an important issue, as an overlap of the corporate social responsibility concepts has resulted in the development of a difficult CSR construct to pin down (Moon, 2004:6). However, the introduction of minimum requirements under the union level could potentially overcome the comparability and consistency issues of the information that is being provided from one organization to another.

Additionally, under D.2014/95/European Union, the Commission is charged with the responsibility of preparing and publishing a report to the European Parliament

and to the European Union Council on the steps taken in the execution of the Directive and the guidance level and methods that are offered to non-listed undertakings that are large in size. The report must be laid out and published, alongside legislative proposals if appropriate, by the 6th of December 2018.

Under the following section, the research question and hypothesis are introduced and developed based on the theories and literature review introduced. Additionally, the research methodology to examine the hypotheses, the dependent and independent variables and the data collection process is described.



CHAPTER FOUR

RESEARCH METHODOLOGY, RESEARCH QUESTION AND HYPOTHESIS DEVELOPMENT

The Call for Information

The last two decades has witnessed various social and economic developments which have resulted in serious ramifications regarding the operation of the global market and the economic viability of businesses. Originally arising from issues regarding a lack of "transparency and responsibility" under the financial system and "accountability" within business practices (European Parliament, 2013: 4), the financial and economic crisis of 2008 (European Commission, 2011a: 1) has diminished confidence/trust levels for the market. The crisis coupled with corporate scandals (Leuz and Wysocki, 2008: 1), increased political and economic corruption at the national level (European Commission, 2014: 53), failure of large firms and irresponsible management behavior (European Commission, 2011b: 14) are problems that continues to plague the effectiveness of businesses. Overall, these developments have harmed the public trust in the institutions, corporation and the market economy and also incensed the feeling of deception (Tonkiss, 2009: 196).

According to Stiglitz (2008a: 1) the operation of the “financial markets hinge on trust”, and with the increasingly complex nature of the financial markets, the problem of trust has become more acute (Tonkiss, 2009: 198). This is worrisome as information markets rely on consumers/producers telling the truth on issues such as; value, quality and cost (Brooks, 1997: 95). In line with this, Guiso, Sapienza and Zingales (2008: 1) argue that “the decision to invest in stocks requires not only an assessment of the risk-return trade-off given the existing data, but also an act of trust that the data in our possession are reliable and that the overall system is fair”.

Ultimately, the financial crisis has drawn attention to the value of information supply, however- regardless of the lessons learned from the crisis- it is stated that consumers and investors are still provided with misleading (European Parliament, 2013a: 5) and insufficient information that can not sufficiently meet the needs of stakeholder groups (European Commission, 2011b: 11), further damaging their trust in the organizations ability to maintain sustainable and inclusive growth (European

Parliament, 2013a: 5). This, in turn, adversely affects the efficient allocation of capital, the going concern and long term investment goals of businesses (European Commission, 2011b: 11). It also raises the external risk for business profitability (European Parliament, 2013b: 21) and can even pose a risk to the motivation and commitment of workers and the management (OJEU, 2016: 9) towards the business. Furthermore, information imperfections and asymmetries (Stiglitz, 2008b: 1) can cause market failure (Brooks, 1997: 92)- as when faced with asymmetrical information, markets often fail to produce efficient outcomes (Brooks, 1997: 95). Once one side of the market has more information than the other side, they can use this information to their advantage to extract higher/lower than fair price (Brooks, 1997: 92).

Thus, it is with no small surprise that- with the widespread growth of multinational corporations (Tanimoto and Suzuki, 2005: 3)- businesses are now facing increasing investor and stakeholder demand for validated information (Wills, 2003: 233; Skouloudis et al., 2010: 426; Brooks, 1997: 95) and open dialog (European Parliament, 2013b: 20) within the decision making process. This movement must not go unanswered as it is stated that (European Commission, 2011b: 11) only by addressing this demand can businesses finally build trust within the market. It is argued that (European Commission, 2010a: 1) the method to achieving competitive and efficient markets and increasing investment levels, passes through modernizing the infrastructure through policy reforms. Especially, with the ongoing effects of the recent financial and economic crisis and increasing competition, adjustments are needed to help strengthen the market.

Under a collection of articles, Stiglitz argues that the only way to really get trust back passes through “strong regulations, embodying norms of good behavior, and appointment of bold regulators to enforce them” (Stiglitz, 2015: 210). Stiglitz (2010: 68) states that more complicated regulatory interventions are required to avoid market failure, and that regulation is conceived as both a preventative/constructive tool for modifying behavior of market participants/consumers (Stiglitz, 2015: 210). They also add that considering the market to be efficient without the burdens of regulation can prove to be unsustainable (Cisternino, 2014: 2).

This view is also in line with Public Interest Theory of Regulation, which advocates that regulation is provided in response to the demand from the Public for corrections for inefficient and inequitable markets (Dreher and Gassebner, 2013: 415). The emergence of the theory rests on the assumption that markets operate very inefficiently if left alone (Posner, 1974: 2), unregulated markets exhibit frequent failures (Pigou, 1938: 405), and a government can counter this and offer protection to the public through the incorporation of regulation (Djankov et al., 2002: 2), such as; public power and reclamation programs (Posner, 1974: 2), interventions in the economy and development of minimum reporting and regulatory requirements.

The public is greatly interested in the development and the operation of the equity and debt capital markets (Djankov et al., 2002: 2; Godfrey and Langfield-Smith, 2005: 1983). Moreover, financial reporting regulation is viewed as a competitive economic tool that can enhance the capital market integrity (Godfrey and Langfield-Smith, 2005: 1986). Thus, it is important to strive to create an environment where it is difficult to undermine trust, increase the amount of information available to investors and ensure that market participants and stakeholders are disclosed relevant information (Cottier, Jackson and Lastra, 2012: 241). As transparency is a principle that plays a key role in re-establishing confidence in the stability of the financial system (Cottier, Jackson and Lastra, 2012: 246), this can only be achieved through the enhancement of transparency levels under the market via regulatory reforms. This will, in turn, ensure that the information -and the underlying values and objectives- being provided under the market are accessible and comprehensible, which are coined as essential elements of “quality” information. Notably, providing the necessary mechanisms to hold market actors accountable (Cottier, Jackson and Lastra, 2012: 257). Global advocacy and complementary legislation will also aid in establishing dialogues with partner countries/regions (European Parliament, 2013b: 4) and reduce the social consequences of the financial and economic crisis (European Parliament, 2013a: 6).

Regulation and CSR

When taken together with the current social and economic environment, concrete and binding measures (European Trade Union Confederation, 2011: 1) are essential in order to ensure that concepts such as transparency, accountability, responsibility, materiality and relevance are not viewed as a luxury, but instead as a core part of the business strategy. With that said, the concept of Corporate Social Responsibility (CSR) has gained an important role in helping firms get through the crisis while continuing to remain competitive (European Commission, 2011b: 7).

Further expanding from the investors need to be fully informed regarding the risks faced by the business when making decisions, the concepts of CSR and sustainability have become the major developments for global corporations (Stanny and Ely, 2008: 347). It is even becoming an increasingly important element on national and transnational policy agendas and a diverse range of businesses are adopting these strategies as a core part of their business models (European Commission, 2014: 7). The concepts covered under CSR address issues on (European Commission, 2011b: 1); combating bribery and corruption, nondiscrimination, freedom of association, collective bargaining, human rights, labor standards, employment practices, child labor, human trafficking, gender equality, health and safety, climate change, good tax governance, resource efficiency, life-cycle assessment and pollution prevention, development, integration of disabled persons, and consumer interests.

These issues are integral parts of the CSR agenda (European Commission, 2011b: 7) and it is through the development of these concepts that the goals of reaching sustainable development and a highly competitive market economy (European Union Commission, 2011b: 3), and a system capable of supporting the development of transparent and comparable information that can meet the needs of investors/ stakeholders may be achieved.

Marimon et al. (2012: 122) argues that adopting CSR under policy is linked to a desire to achieve market trust, attract/ maintain investors or improve country image. Moreover, they state that given the distrust of the market in sectors such as financial services, these sectors shall continue to adopt these policies to gain the trust/develop closer relations with their primary stakeholders (Marimon et al. 2012:

132). Mele et al. (2006: 22) states that as companies are constantly growing in power, an awareness of their influence must be generated to ensure their activities and the activities of interest groups are regulated. This awareness must be generated from a combination of financial and non-financial information. In support of this argument, Marimon et al. (2012: 132) argues that investors and shareholders not only require access to financial information, but also information about environmental and social behavior to provide a broad scope of reliable information to the market and to establish a dialog among all stakeholders.

Thus, it can be argued that through the policy implementation of CSR practices, socially responsible business can contribute to restoring trust in the market in the post-crisis context (European Commission, 2014: 9). Additionally, the European Union Economic and Social Committee advocates that the implementation and advancement of the CSR agenda (if implemented correctly and practiced by all types of companies, regardless of size) may facilitate the achievement of sustainable and economic recovery (European Parliament, 2013b: 4), creating an environment where the business itself and the European Union citizens are mutually benefited (OJEU, 2016: 15).

Additionally, CSR policy not only benefits the market economy, but also the businesses as well. By embedding these principles under their core business strategy and transferring the efforts over to the day-to-day operations and financial activities of the organization, it is argued that firms can better manage practices and engage with the business community. Following the growing trend of companies implementing disclosure practices to achieve more ethical and transparent firm behavior (Mele et al., 2006: 33), the Commission supports that incorporating the CSR agenda under the market can potentially: improve the firm image (European Parliament, 2013b: 12) in the eyes of potential investors and consumers, increase the economic viability of businesses in the long term (European Parliament, 2013b: 12), contribute to and facilitates social dialog (European Parliament, 2013b: 20) and finally, reduce risk levels for the business (European Parliament, 2013b: 21). Overall, the research on CSR presents substantial evidence that CSR policy can play a significant role in enhancing the firm's value.

4.1. RESEARCH QUESTION AND HYPOTHESIS

As mentioned before, transparency is a principle that plays a key role in re-establishing confidence in the stability of the financial system (Cottier, Jackson and Lastra, 2012: 246) and the way to enhance transparency levels under the market is via regulatory reforms. This will, in turn, ensure that the information -and the underlying values and objectives- being provided under the market are accessible and comprehensible, which are coined as essential elements of “quality” information. The academic literature on producing quality information argues for incorporating regulation under the market. It is supported that financial and accounting regulations have the potential to dramatically affect the development of capital markets (Pagano and Volpin, 2001: 502), and thereby the economic growth (Pagano and Volpin, 2005: 517). Thus, Pagano and Volpin (2005: 34) puts forth that a well functioning market requires regulation to minimize the information asymmetries between participants. Healy and Palepu (2001: 444) conduct a review of the empirical research regarding financial reporting and disclosures and support that regulating disclosure within the modern capital market economy can reduce information asymmetry, resulting in the enhancement of published disclosures. Additionally, the researchers argue that this can also aid in the development of a commonly accepted language that managers can use to communicate with investors.

Ball et al. (2003) states that accounting standards alone do not determine the quality of disclosures and notes the positive impact regulation has on the quality financial statements. The findings of their research conducted in the countries of Hong Kong, Malaysia, Singapore and Thailand indicates that even though "high quality" accounting standards are in use, economic and political factors (regulation, bonus plans) affecting statement preparers and auditors result in "low quality" financial reports. They classify countries into groups according to their level of predominance of accounting standards and their accounting professions and determine that financial reporting practices of countries are effected by preparers incentives.

Al-Akra, Eddie and Ali (2010) analyze the mandatory disclosure compliance of 80 non-financial, listed Jordanian companies for the years 1996-2004 and

determine that mandatory disclosure compliance has significantly increased in response to increasing regulation levels. They argued that the undertaking of a program can improve disclosure and in turn, potentially attract foreign investors and mobilize domestic savings. Another benefit addressed within the literature is the advantage regulation has in controlling the level of disorder (Shleifer, 2005: 444).

Beaver (1998) argues that the need for regulation is motivated by concerns other than the market failure- a concern for the welfare of financially unsophisticated investors, and that by creating a minimum disclosure requirement, regulators are able to inform investors and the information gap. Fields and Vincent (2001) argues that accounting regulation affects the quality and quantity of financial disclosures and that in the presence of externalities, this can have various welfare and policy implications. Additionally, they argue that the decisions of external parties other than actual and potential owners of the firm, such as; government regulators, union negotiators, suppliers and competitors might be influenced. Owusu-Ansah and Yeoh (2005) analyze the post execution period for disclosures and by isolating the effects, determined that corporate disclosure levels can improve with the execution of legal backing for accounting standards.

Moreover, the European Commission itself argues that (European Commission, 2011b: 11) further disclosure of relevant information can aid the efficient allocation of capital and contribute towards the overall economic recovery of European Union. The European Commission encourages enterprises to add to this process and has put forth several regulatory proposals in order to ensure that a more responsible and transparent financial system can be achieved (European Commission, 2011b: 11). By addressing these issues, the aim is to ensure easy access to transparent information (European Parliament, 2013b: 6), facilitate cross-border investment, improve financial report comparability ["D.2013/34/ European Union" item 55], provide information on the businesses' impact on "society, governance aspects and life cycle cost methodology" (European Parliament, 2013a: 6)- ultimately contributing towards the goal of increased awareness and trust levels for businesses (European Commission, 2011b: 5).

This is particularly important for CSR information because issues such as a lack of consensus that still continues under the CSR literature and practice on the

content of such processes (as it can be seen from the analysis offered on the theoretical roots and foundations of CSR and its subsequent development from the 1930 to modern literature under chapter one), the overlap between SR concepts (Moon, 2004: 6) and it being termed as a “difficult construct pin down” and disparate national regulatory agency efforts under the sustainability movement are prevalent. Even though the Member States willingly relinquish their freedom to act independently regarding agreed-upon policy changes and recognize/accept the EU institutions power towards the creation of a uniform body of law, this does not mean the national identities of the Member States are dissolved into the European Union (Borchardt, 2010: 23). Although the EU focuses on ensuring Member States cooperation, countries prefer to retain their national sovereignty in certain areas (Borchardt, 2010: 37). The union publishes Directives in order to harmonize the law across Member States but the Directives do not supersede the laws of countries, and instead, places them under the obligation of adapting their national law (Borchardt, 2010:89). National regulatory agencies especially carry the responsibility of leading the process and incorporating general or particular measures in order to achieve the union's tasks.

This poses serious restrictions on achieving “relevant, consistent and comparable” [“D.2014/95/EU” item 21] CSR information across the Member States. Especially when considered from the perspective of the EU, if conflict between reporting practices are allowed to continue across union level, and national provisions are not aligned with European Union rules, the shared goal of achieving a united Europe cannot be realized. In such a situation, Member States would not be able to act in a coordinated manner, relations between Member States could be jeopardized and equal application of practices would not be achieved. This is a dismaying situation that is compounded as investors are increasingly focusing attention on firm CSR activities (European Parliament, 2013b: 11). As a result, this creates a motivation to analyze and explore current harmonization level for CSR practices within the EU.

Representing the ultimate culmination of the Unions cooperation efforts surrounding the debate of CSR, the principle based European Union Accounting Directive and its amendment [Directive (2013\34\European Union and (2014\95\

European Union)] are an important example for responding to the call for harmonization of CSR information. The Directive is uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices. Requiring the publication of information that is fundamental for reaching an understanding of an undertaking's "development, performance, position and impact of its activity, relating to, at a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters" (European Commission, 2013b: 33), the Directive is also fundamental for reaching harmonized legal requirements for firms of all types and sizes. Also, aimed at facilitating cross-border investment, improving financial report comparability, the document has attempted to increase the public confidence in financial and management reports by use of enhanced and consistent specific disclosures across the European Union Member States.

Thus, it is important to question the effectiveness of the CSR harmonization efforts of the EU Accounting Directive. By focusing on this research question, the study aims to offer a unique look at the current harmonization trend for non-financial disclosures. With the ongoing transposition efforts of EU Member States and Candidate Countries, analyzing the current potential impact of the Directive shall offer insights for policy recommendations useful in designing effective social and environmental accountability process and facilitate accountability for organizations across the EU.

Following the arguments of the above mentioned literature (Healy and Palepu, 2001; Owusu-Ansah and Yeoh, 2005; European Commission, 2011b; Ball et al., 2003; Fields and Vincent, 2001; Beaver, 1998; Al-Akra, Eddie and Ali, 2010; Pagano and Volpin, 2005; European Commission, 2010a; Cottier, Jackson and Lastra, 2012), it can be argued that increasing regulation levels under the market can have a positive effect on; harmonizing and improving financial report comparability. Thus, the research question and hypothesis of the study are as follows; *"Has the harmonization efforts of the EU regulation (the publication of the Accounting Directive and amendment) been successful in increasing the harmonization level of CSR reporting for implementing countries?"*.

As mentioned above, this document aims to ensure the widespread harmonization of CSR reporting practices and imposes minimum reporting and regulatory requirements on EU Member States and Candidate Countries. Thus, it is uniquely positioned to analyze the outcomes and implications of these regulatory and enforcement changes. It also offers the opportunity to test the impact of a uniform set of reporting rules in diverse economic setting. It is also hoped that this study shall aid regulators in their efforts to reach similarity in CSR reporting, which is particularly important with the involvement of various national and international organizations under the sustainability movement.

H1: The implementation of the Accounting Directive amendment has increased the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries.

Following the argument of the hypothesis, when comparing the before/after period of the Accounting Directive amendment publication, I shall look for a significant increase in the GRI Related reports (distributed as Level B and Level A) for Directive Implementing countries after the publication of the amendment. This shall show that the variation in the data can be explained (and is not random) by the publication of the Directive and sort out whether or not the increase for the publication of GRI Related reports (distributed as Level B and Level A) is a general trend within the market. This relationship is summarized under Table 20, below.

An increase/decrease for their Non-GRI reports detected under countries that have either fully or to some degree/have not integrated the directive within their national systems will indicate the role this document holds in harmonizing CSR reporting practices. By dividing the sample into fully compliant countries, compliance with failure countries and non-compliant countries we are able to distinguish the possible effect of the directive. As stated under our hypothesis, to clearly view the harmonization success of the document, we expected only to detect change under implementing countries. The results of our analysis offers supportive evidence for backing this claim.

Table 20: Research Template

	Before the Publication of the Accounting Directive Amendment			After the Publication of the Accounting Directive Amendment		
	Level A Reports	Level B Reports	Non-GRI Related Reports	Level A Reports	Level B Reports	Non-GRI Related Reports
Non-Directive Implementing Countries	No significant Association					
Directive Implementing Countries	Significant Increase for GRI Related reports (distributed as Level B and Level A)					

Moreover as the D.2013/34/European Union defines and distinguishes firms of all sizes according to differentiating criteria provided by the Directives and addresses their obligation (or exemptions) to disclose information under their financial reports and as the D.2014/95/European Union amendment for D.2013/34/European Union, addresses additional requirements for large companies listed on European Union markets or operating in the banking and insurance sectors- I propose that is important to consider these additional factors (size/listing status) when evaluating the success or failure of the EU harmonization efforts undertaken regarding CSR practices. As Shleifer (2005) points out, regulatory requirements do not exist in a vacuum and the success of the regime can be affected by a number of factors.

Chapple and Moon (2005) determined that national business system structures and profiles of organizations (such as; multinational corporations) enhance adoption of CSR in Asia. They argue that, to some extent, the argument that firms that are exposed to international competition are likely to have higher CSR standards is supported. Trencansky and Tsaparlidis (2014), support that firm size influences sustainable development practices among companies. They determine that firm size has a U-shaped effect on the level of CSR activities within organizations; when the firm grows from medium to large size-CSR level increases, however when firm size increases from small to medium-sized CSR level decreased. The authors argue that a possible reason for this result could be pressure resistance and a lack of organization for the middle sized companies to engage in CSR practices. On the other hand, the authors argue that large companies face higher pressure to produce CSR activities and

has access to increase capabilities to do so. Udayasankar (2008) examines the economic motivation of firms, separated according to firm size, to participate in CSR activities. They determined that small and large sized firms are likely to participate more in CSR activities, when compared to middle sized firms as they require additional impetus.

Previous analysis conducted by the committee (European Parliament, 2013b: 9) argues that CSR practices are confined to organizations classified as "large enterprises" and "multinational enterprises". On the other hand, the Employment, Social Affairs and Inclusion (2014: 13) argues that it is a fallacy to assume that small and medium-sized enterprises and micro – sized enterprises have a low level of awareness for CSR issues. The author argues that whether or not the CSR activities undertaken by these organizations can be labeled as such- the closer ties to their local communities affords smaller scales businesses an advantage in generating a "heightened awareness" of their social responsibilities in a local context. Thus, taking into account the contrary views addressed under literature, it is important to analyze the predominance of different sizes of firms under countries and its potential effect on the harmonization of CSR practices.

Furthermore, in order to contribute to the global sustainability movement, the EU Member State institutions have undergone extensive regulatory changes to improve and develop their independent regulatory institutions and the stock exchanges have been uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices. So far, in order to create a fair and level playing field (European Parliament, 2013b: 8), numerous international initiatives have been developed for CSR; stock exchange listing requirement for the Sustainability Stock Exchange Initiative of Brazil, South Africa and Malaysia, reporting requirements for state owned businesses in China and the requirements of the Securities and Exchange Commission of the United States concerning sustainability performance (European Parliament, 2013b: 8).

Following the arguments of the above mentioned literature, it can be argued that not only is the distinction between firms of various sizes/listing status important factors to consider because of the inherent structure of the Accounting Directive (the differentiating criteria provided by the Directives for firms of all sizes/listing status),

but they are also important firm-level factors that can affect (Reverte, 2008; Menassa, 2010; European Parliament, 2013b; the Employment, Social Affairs and Inclusion 2014; Udayasankar, 2008; Trencansky and Tsaparlidis, 2014; Chapple and Moon, 2005; Shleifer, 2005) the level of implementation of a regime. By incorporating these firm-level factors under our hypothesis, regulation across groups must be re-examined when evaluating the success or failure of the EU harmonization efforts undertaken regarding CSR practices. Thus, it is important to re-test the harmonization level of CSR reporting among amendment implementing EU Member States and EU Candidate Countries and determine whether or not levels differ in terms of the differentiating criteria (firm-level factors “firm size and firm listing status”) recognized by the Accounting Directive.

4.2. SENSITIVITY ANALYSIS

Under the next section of this study, multiple sensitivity analysis shall be conducted in order to further analyze the factors that could potentially drive CSR reporting practices and affect the robustness of our results. This section of the study should prove useful for policy makers and regulators as they debate the benefits of incorporating regulation/enforcement choices under harmonization efforts.

Griffin and Mahon (1997) argues that industry uniqueness, industry internal competencies and external pressure could create specialization in regards to social interests of firms. Firms within one type of industry could differ from another in regards to their confirmations of stakeholders, consumer orientation, public visibility and government regulation they are obligated to follow. Thus, comparing CSR harmonization levels within the industry can increase the internal validity of the study. It may also ease to the recognition of specific patterns of social performance that may be specific to a single industry, that can potentially play an important role in determining the effectiveness of standards. Following this argument, the Committee itself advocates use of differentiated approaches by industry, as differences in materiality might also necessitate differences in CSR activities (Official Journal of the European Union, 2016: 5) Contrarily, Trencansky and Tsaparlidis (2014) analyze the effect of industry on CSR level within Swedish firms and determined that there is

no significant effect of industry type on the level of CSR activities. Maloni and Brown (2006) on the other hand, argues that as industries such as the “food industry” faces many significant risks from public criticism and has a unique take on CSR issues. They conduct a detailed analysis of reports published by firms hosted under this sector and determine that the CSR applications has extensive elements, such as; “animal welfare, biotechnology, community, environment, financial practices, health and safety, labor, and procurement”.

Another potential factor that could drive CSR reporting practices is the inherent culture of the country. Tanimoto and Suzuki, (2005) states that country specific factors can be an indicator for differences between reporting practices; while Gray, (1988) states that cultural influence can explain and predict differences in accounting practices. As mentioned before, the European Union exists as an autonomous entity (Borchardt, 2010:21) and has a legal order that is independent of the Member States (Borchardt, 2010:32). This ensures that via the rights conferred upon it by the signed Treaties, the entity has its own sovereign rights and can establish legal order, bestows rights and imposes obligations under each State (Borchardt, 2010:31). However, even though the Union law carries primacy, which ensures it takes precedence and may not be revoked or amended by national law (Borchardt, 2010:31), national identities are ultimately respected and Member States are allowed to contribute their own particular qualities in the formation of Union law. The implementation of Directives are gradual and it provides a measure of freedom under the adoption process. The European Union legislative system is based on the concept of achieving the same detailed arrangements across all Member States (Borchardt, 2010:87), however the European Union also has the responsibility of protecting and enhancing its Member States rich cultural diversity (Borchardt, 2010:21). Thus, even though the objective of the Directive is binding, the implementation procedure deviates at country-level. As a result, it is important to test for the effect of cultural differences may produce in driving CSR reporting practices.

Ríos-Figueroa (2016) examines disclosures provided under IFRS 7 by cross-listed firms in the USA employing use of Hofstede’s culture dimensions. By generating a level of risk disclosures, they determine that that secrecy and conservatism are not significantly related with disclosure levels. On the other hand,

Rotberg (2016) looks into the effect of culture on IFRS and how culture (Hofstede's culture dimensions) influences reporting quality. They find no significant relationship between culture and reporting quality. Contrarily, Maali (2016) examines Hofstede's culture dimensions under the reporting practices of MNEs by employing use of a transparency index. They determine that there is a significant relationship between culture and disclosure transparency. Culture dimensions such as, "power distance, masculinity and uncertainty avoidance" are found to significantly affect disclosures. However, long-term orientation and indulgence are not significant. Contrary to what was originally hypothesized, disclosure transparency and the dimension of uncertainty avoidance was found to be positively correlated.

Moreover, Healy and Palepu, (2001) argue that country characteristics play an important role in determining the effectiveness of standards. The Employment, Social Affairs and Inclusion (2014:14) argues that the structure of the country's economy is indicative of the maturity level of CSR policies. When linked to the responsible management of resources and environmental sustainability the authors argue that developed countries have higher levels of CSR reporting. Chapple and Moon (2005) conduct an analysis on the reporting practices of 7 countries; India, Indonesia, Malaysia, the Philippines, South Korea, Singapore, and Thailand, divided according to their level of economic development and determine that the variation between CSR reporting can be explained by national factors such as economy development. However, upon further analysis the authors argue that the findings for Singapore and India yields a weak relationship.

The Employment, Social Affairs and Inclusion (2014:14) continues to add that, another important factor linked to CSR approaches is the type of organizations. They argue that these organizations tend to be held to a different standard in terms of their social and environmental responsibility. Additionally, the authors state that the presence of majority state owned companies or wholly/ majority privately owned businesses (eg. In Nordic countries and other Member States) can differentiate between reporting practice. Moreover, Al-Gamrh and AL-Dhamari (2016) research the CSR practices of government bodies. They determined that these types of organizations harbor a social agenda and are more likely to produce higher levels of CSR disclosures in order to maintain high levels the transparency.

Finally, I shall analyze the impact of the stock exchange on CSR reporting practices. As mentioned before, the stock exchanges have been uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices and in order to create a fair and level playing field (European Parliament, 2013b: 8), numerous international initiatives (sustainability indexes, reporting requirements ..etc) have been developed for CSR. Thus, it is important to consider the influence of stock exchange commitment to the CSR agenda.

4.3. METHODOLOGY

4.3.1. Sample Country Selection

Since the initial formation in the year 1957 as the European Economic Community, the EU has conducted 6 waves of enlargement rounds to increase the number of Member States. These countries and their year of entry is presented under Table 20. As it can be seen from the Table below, there are 28 EU Member States and 5 candidate countries. However, by mid 2019 the number of EU Member States shall be reduced by one as the United Kingdom finalizes the necessary step for withdrawing from the EU.

Table 21: EU Member States and Candidate Countries

Country Name	Year of Entry
Candidate Countries	
Albania	-
Montenegro	-
Serbia	-
The former Yugoslav Republic of Macedonia	-
Turkey	-
European Member States	
Austria	1995
Belgium	1958
Bulgaria	2007
Croatia	2013
Cyprus	2004
Czech Republic	2004
Denmark	1973
Estonia	2004
Finland	1995
France	1958
Germany	1958
Greece	1981
Hungary	2004
Ireland	1973
Italy	1958
Latvia	2004
Lithuania	2004
Luxembourg	1958
Malta	2004
Netherlands	1958
Poland	2004
Portugal	1986
Romania	2007
Slovakia	2004
Slovenia	2004
Spain	1986
Sweden	1995
United Kingdom	1973

In addition to the current Member States, the EU is currently considering the application of 5 countries, these are; Albania, Montenegro, Serbia, the former Yugoslav Republic of Macedonia and Turkey. These countries are considered under the analysis, along with the EU Member States. As EU Candidate countries are legally obligated to fulfill all aspects of EU policy by reforming its own national laws to match the Acquis, they are to plan/or have already implemented policy changes to match EU Member States. Despite the current withdrawal process of the United Kingdom from the EU, the country is still included under the analysis. Even though the United Kingdom is expected to formally leave the EU by the mid 2019, nonetheless the country is still legally obligated to abide EU Regulation until the process is finalized. Moreover, as firms from the countries of The former Yugoslav Republic of Macedonia, Malta, Montenegro and Albania have not published Sustainability Reports under the GRI Database, they were excluded from the second portion of our study. Thus, the final country size for our empirical analysis is 29. The selection process of our sample is summarized under Table 21.

Table 22: Final Sample Size for Empirical Analysis

Category	Number
+ EU Member States	28
- Ongoing Withdrawal	1
+ Candidate Countries	4
+ Suspended Country	1
Total	33
- Countries that have not published Sustainability Reports under the GRI Database	4
Total Sample Size	29

4.3.2. The GRI Database

The study was conducted on the electronic data derived from the full sample of the sustainability reports listed under the GRI Database for the EU Member States and Candidate Countries between the years of 2012-2015. Under the 2012/2098(INI) resolution, the “Committee on Employment and Social Affair” encourages the European Commission to promote the use of internationally accepted frameworks,

such as those of the Global Reporting Initiative and the Integrated Reporting Council. (European Parliament, 2013b: 5). Additionally, the Committee argues that the Global Reporting Initiative provides the most widely accepted methodology for transparency. (Official Journal of the European Union, 2016: 5) and asks that the European Commission to lead by example and publish its own CSR report prepared in accordance with the GRI Public Sector Supplement. (Official Journal of the European Union, 2016:) (13). This further emphasizes the support the EU is willing to support towards the GRI. Another method of support the EU offer the GRI guidelines is the reference to the GRI under the Accounting Directive (D.2014/95/EU and D.2013/34/EU). With D.2014/94/EU Article#19(a) and D.2014/94/EU item 9, the EU states that GRI is also considered to reflect the reporting requirements of the Directive. Thus, the GRI Database was selected for use under the analysis.

4.3.3. Sample Period Selection

As mentioned above, the study was conducted on the electronic data derived from the full sample of the sustainability reports listed under the GRI Database for the EU Member States and Candidate Countries between the years of 2012-2015. Unlike annual financial statements, the Sustainability Reports published by firms are not subject to mandatory audit, as such, the publication of the document under the GRI Database varies. Additionally, the number of sustainability reports published under the website increases by each day. Thus, in order to ensure the full sample of reports for the current year were collected and the report amount distribution between sample years were not unbalanced, the sample size was restricted to those reports already uploaded by the 20th of December 2016.

The GRI report information is hand-collected from the reports listed under the GRI Database and the initial sample size for the recorded reports was 6156. However, a cursory analysis of the data showed that a total of 140 reports were duplicates and were summarily deleted from the sample. This resulted in a final sample of 6016 sustainability reports to be employed under the analysis. Table 22 as

presented below provides information on the distribution of the hand-collected reports and their subgroups.

Table 23: Distribution of Sample Reports for Empirical Analysis

Category	Number
Initial Sample Report Size	6156
- Duplicate Reports	140
Total Sample Report Size	6016
Total number of Firms	2465
Consecutive Reporters Report Size (2012-2015)	2640
First-time Reporters Report Size	429

In addition to collecting the GRI report information, the firms under the sample was further divided into groups representing their commitment to consecutive publication of CSR reports. This distribution shall help explore reporting firms' CSR publication patterns not easily viewed under the data and help determine whether Non-Directive Implementors and Directive Implementors across groups similarly responded to the introduction of the amendment.

4.3.4. Firm, Report and Country Based Data

In order to properly investigate whether the publication of the Accounting Directive and amendment) been successful in increasing the harmonization level of CSR reporting for implementing countries, certain factors shall be controlled for at firm level such as; the sustainability report publishing firms'- country, sector, size/profitability indicator, stock exchange listing status, firm type and the firms sustainability report year and GRI guideline adherence level. Additionally, at country level- information on the sample countries directive implementation status, culture, GDP per capita and sustainability index status shall be employed. The data collection process, data source and data structure are explained in detail below.

4.3.4.1. Independent Variables

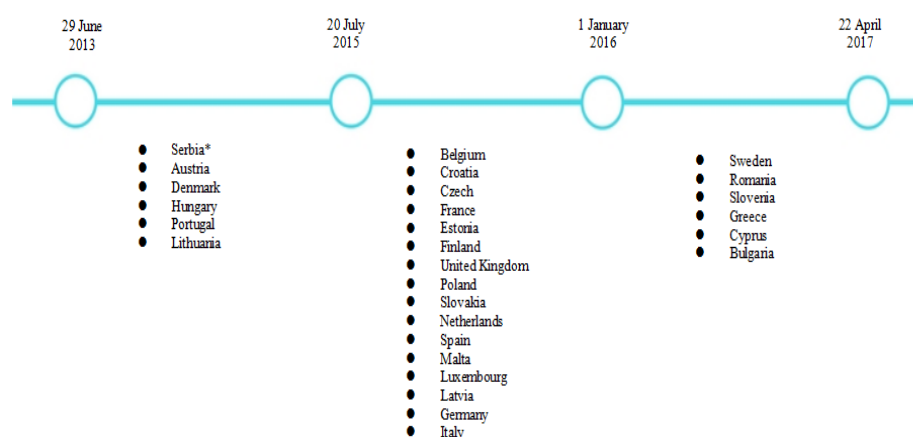
Report year: Collected from the GRI Database this variable consists of the sustainability reports date. The distribution of the sample divided according to years is presented below.

Table 24: Distribution of Sample Reports Divided by Years

Category	Number
Total reports published for the year 2012	1434
Total reports published for the year 2013	1203
Total reports published for the year 2014 (Reports published directly before the publication of the Accounting Directive)	1752
Total reports published for the year 2015 (Reports published after the publication of the Accounting Directive)	1627

Directive implementation status: Despite the requirements placed on EU Member States, we see that each country differs regarding their response timing towards the transposition of the Directive. As a result, it is important to consider this factor when analyzing the response to the publication of the Accounting Directive. The transposing countries for the Accounting Directive is presented under Figure 1.

Figure 1: Transposition Status for the Accounting Directive



*EU Candidate Country

The Accounting Directive was initially published on the 29th of June 2013 and later amended on the 15th of November 2014. According to the amendment

published to the Accounting Directive, the CSR reporting requirements are to be applied to firm financial statements published after this date 1 Jan 2017. However, countries that transposed the Accounting Directive into their national systems have the option of applying the requirements early. The transition period granted by the EC to EU Member States in order to assimilate the requirements within national law/regulation/provisions affords an opportunity to test the CSR harmonization efforts of early adopting countries.

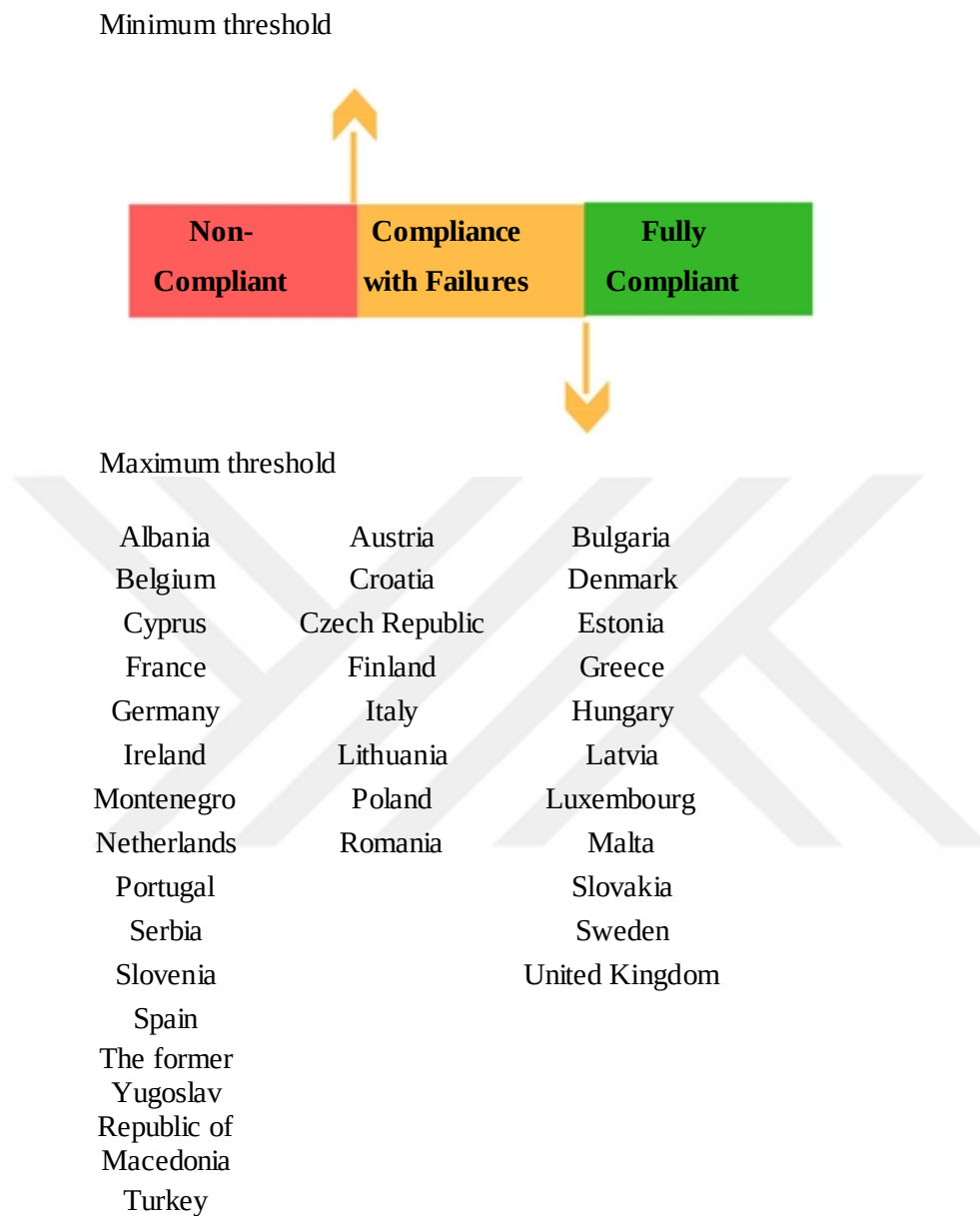
Depending on the Accounting Directive Amendment transposition status of EU Member States and Candidate Countries, the sample was coded under a binomial format: 0 = countries that did not transpose the amendment at the time of the analysis and 1 = countries that did transpose the amendment at the time of the analysis.

Additionally, in order to account for any difficulties countries may have face when transposing the document, the Accounting Directive Amendment transposition status of EU Member States and Candidate Countries were re-calculated by accounting for minimum and maximum thresholds, as well.

- **Fully Compliant coded as “2”:** The sample country transposed the Accounting Directive amendment before the mandatory deadline of 6 December 2016
- **Compliance with Failures coded as “1”:** The sample country missed the mandatory deadline of 6 December 2016 or has an active infringement case launched against is by the EC, however completed the transposition at a later date.
- **Non-Compliant coded as “0”:** At the time of the analysis the sample country did not transpose the Accounting Directive amendment and has an active infringement case launched against is by the EC.

The Minimum and Maximum Threshold countries are presented under Figure 2.

Figure 2: Transposition Status for the Accounting Directive Amendment



The Data for the infringement decisions was collected from the Official EC website (EU Commission at Work, 2013) and information on the national EU law and efforts from N-Lex (2017).

Sustainability index status: As stock exchanges play an important and strategic role in global efforts towards sustainable development, in order to measure the sample countries stock exchange commitment level for the CSR movement, we employ use of the information presented under the Sustainability Stock Exchange (SSE) Initiative Database. The Sustainable Stock Exchanges is a platform for regular

collaboration with various investors, regulators, and companies. Officially initiated in the year 2012, the platform has since then continued to enhance sustainability within their markets increased the number of partner exchanges to 28. The initiative has striven to enhance corporate transparency and environmental, social and corporate governance performance under the exchanges while encouraging sustainable investment. The SSE data was collected from the fact sheets listed under the Database and consisted of information on the formation and existence of sustainability indexes within partner countries (SSE, 2016). Depending on the existence of a sustainability index under the sample, the country was coded under a binomial format: 0 = country exchanges that do not have a Sustainability Index; and 1 = country exchanges that do have a sustainability index.

Culture: As mentioned before, a potential factor that could drive CSR reporting practices is the inherent culture of the country. Thus, in order to test for this, I shall employ use of the Ronen and Shenkar (2013) country culture cluster classification based on similarity and dissimilarity in work related attitudes. The cluster formed by the authors incorporates factors such as religion, geography and language, mapping out cohesive cultures. Overall, the sample countries group into 6 clusters; Nordic, Eastern Europe, Near East, Latin Europe, Germanic and Anglo. Moreover, I take into account the 6 Hofstede (2003) culture dimensions that represent the preferences for one state of affairs over another within each country. Not unlike the Ronen and Shenkar (2013) country culture cluster classification, the Hofstede culture dimensions distinguish between countries rather than individuals. The data for this analysis was gathered from (Hofstede, 2017) and coded to reflect the 6 dimensions; Power/Distance, Individualism/Collectivism, Masculinity/Femininity, Uncertainty/Avoidance, Long/Short Term Orientation and Indulgence/Restraint.

Gross Domestic Product: In order to serve as a proxy for the sample countries economic development (Koechlin and Leon, 2007: 5), the gross domestic product per capita was collected from the WorldBank Database. As the gross domestic product per capita accounts for the economic output of developed countries by dividing the amount by the number of residents, no additional calculation was made.

Additional Firm Variables: The country, industry classification and type of sustainability report publishing firms was coded from the GRI Database. According to the classification afforded under the Database, the type of industry of firms are divided into 38 groups (GRI, 2017: 7). However, in order to aid in the analysis of the data, the industry classifications were further-condensed according to the groups recognized by the Turkish Public Oversight Platform (2015). Finally, the manufacturing industries are also further-condensed and the analysis re-run.

According to the classification afforded under the Database, the type of sustainability report publishing firms are divided into 7 groups [cooperatives, non-profit organizations, partnerships, private companies, public institutions, state-owned companies and subsidiaries]. Under the GRI (2017: 6), private companies are defined as a firm owed by a non-governmental organization/or stakeholders; state-owned enterprises are defined as an organization formed by the government in order to take on commercial activities. Cooperatives are defined as a collectively owned and democratically controlled organization. Subsidiaries are firms controlled through 50% or more of the voting stock, while public institutions are a section of the government. Non-profit organization are run in order to reach an ideal rather than gain profit, and finally, partnerships are an arrangement of business interests.

Size/profitability indicator: This variable will serve as a class divider for sustainability report publishing firms under the GRI Database. According to the Global Reporting Initiative, the organization categorizes firms into 3 groups; Small and Medium Sized Enterprises, Large Enterprises and Multinational Enterprises. In light of an absence of national regulations classifying these organizations, the GRI employs use of a categorizations based on the EU Accounting Directive definition for size (GRI, 2017: 6) Small and medium sized enterprises consist of firms with a balance sheet total below 43 million Euros, while Large Enterprises consist of firms with a balance sheet total above 43 million Euros or 250 employees. Multinational Enterprises on the other hand, must have a balance sheet total above 43 million Euros, 250 employee and must operate on a multinational platform.

Stock exchange listing status: The listing status of firms was collected from the GRI Database and depending on their status, coded as 0 = firms is not listed on the

stock exchange for public trading and 1 = firms is listed on the stock exchange for public trading.

4.3.4.2. Dependent Variable

GRI guideline adherence level: The study shall employ use of the GRI adherence levels [published under the GRI Database per individual report], as proxy for a company's sustainability compliance level. Under the GRI Database, adherence levels are generated as indicators for the degree to which GRI reporting requirements are applied under the firms' CSR reports (GRI, 2017: 10). Coded from each individual report, adherence level information is separated by the Database into 6 groups, with additional levels. However, in order to aid in the analysis, these groups and levels are, by citing several sources, further condensed into 3 groups. These groups are;

0= Reports prepared without consulting international sustainability frameworks. For example, reports referred to as "undeclared" and providing no explicit "in accordance" option (GRI, 2017: 10) under the Database were coded as "0".

1= Entry level reports for the GRI indicators, only abiding a certain portion of the GRI framework and standards.

2= Reports in compliance to the GRI framework and standards.

Currently the G.4 reporting principles and standard disclosures outlines the reporting requirements for CSR and divides adherence levels into two groups "in compliance core" and "in compliance comprehensive". According to Gbangbola and Lawler (2014: 210) the main difference between these groups is that the later requires a greater detail of disclosure. This argument is supported by the GRI Database itself as they distinguish between reporting levels (GRI, 2017:1) by considering the reported indicators (Gault, 2012: 124) and its contribution towards ensuring transparency (Cohen, 2010: 1).

4.3.5. Method

The 3-way chi-squared test was selected for the analysis in order to test for a relationship between the categorical independent and dependent variables (Stata, 2002: 1). This test allows for the comparison of proportions between two or more groups and can be employed as the data meets the basic assumptions underlying the method. These two assumptions that must be met for the chi-square is the assumption of independence and frequency (Gringrich, 2017: 8). In order to meet the requirements of the test of independence, the variables must only be coded under one cell. Thus, the sum of all cell frequencies must be the same as the number of subjects (Yates, Moore and McCabe, 1999: 734). The second assumption for the chi-square analysis is the assumption of frequency. According to this assumption, none of the cells in question must have a frequency below 5. Additionally, in order to test for the existence of a significant association between variables, the rule of thumb for the chi-square analysis is that the sample size must be reasonably large and at a minimum, have at least 5 cases per category (Gringrich, 2017: 8).

As the data does not violate the assumptions for a chi-square analysis, I shall measure the general association and determine the existence of a pattern of independence/dependence for each variable. In case of an association, it is possible to claim a statistical relationship (Gringrich, 2017: 3), however there are multiple types of relationships which can exist among variables (Gringrich, 2017: 8). Thus, the chi square statistic and distribution allows for determining whether the data is distributed as claimed (Gringrich, 2017: 6).

The null chi-square hypothesis, assumes that the variables do not vary according to the other variables and the alternative chi-square hypothesis supports the existence of an association. Thus, if the P-value statistic of the chi-square analysis is significant ($p < 0.001$), this is indicative of some association between variables. However, the cross-tabulation of the variables must also be analyzed in tangent with the results of the analysis in order to correctly interpret the type of association (Baron, 1997:1).

With that said, in order to test our hypothesis “the implementation of the Accounting Directive amendment has increased the harmonization level of CSR

reporting among implementing EU Member States and EU Candidate Countries”, we shall conduct a 3-way chi-square analysis to compare the observed frequency of our categorical data and attempt determine the existence of a significant relationship between our Dependent and Independent Variables (Ruben, 2017: 1).

As mentioned before, the Accounting Directive and amendment aims to ensure the widespread harmonization of CSR reporting practices and imposes minimum reporting and regulatory requirements on EU Member States and Candidate Countries. Thus, it offers the opportunity to test the impact of a uniform set of reporting rules under a diverse economic setting. When considered in line with the arguments addressing the positive effect of regulation levels in increasing financial report comparability, this study shall analyze the CSR efforts of Directive implementing and Non-Directive implementing countries to determine the effectiveness of the regulation requirements under the sustainability movement. If there is some form of relationship, we shall expect the cross-tabulation to reflect the distribution of the relation (Ruben, 2017: 1).

Following the initial chi-square analysis, the reporting firms shall be divided according to the two class variables; stock exchange listing status and size/profitability indicators and the analysis shall be re-run. Finally, the sample shall be further divided according to the reporting firms’ CSR publication pattern (consecutive reporters and first-time reporters), this will aid in the search for trends not easily apparent under firms’ reporting practices.

Moreover, following the 3-way chi-squared test analysis, a multiple sensitivity tests shall be conducted via correlation analysis to determine whether or not the CSR harmonization results were driven by the existence of an inherent relationship. A grouped scatter plot shall be generated in order to observe if our sample exhibits common values for all grouping variables and forms a cluster. This analysis shall serve as a visual aid in determining the driving factor of our variables. This research shall employ use of the statistical package SPSS version 24 for the analysis via the educational site license available to the University.

CHAPTER FIVE

RESULTS AND DISCUSSION

In order to analyze the harmonizing effect of the Accounting Directive amendment on the CSR reporting practices of EU Member States and EU Candidate Countries, I conducted a 3-way chi-square analysis to compare the observed frequency of the categorical data. The initial 3-way chi-square analysis was conducted on the sample of firms reporting in the years 2014-2015. Following this, the sample was divided into consecutively reporting firms and first-time reporting firms in order to further explore the harmonization efforts of the regulation across groups and determine the existence of a significant relationship between the Dependent and Independent Variables.

5.1. MAIN ANALYSIS

The cross-tabulation of the Chi-Square test, recalculated according to the % distribution of reports GRI Adherence Level, is presented under Table 25-26 and the results to the analysis are provided below.

Table 25: Distribution for the Full Sample

Overall Sample					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.039	-0.017	0.012	0.015	0.015
Level B	0.164	0.197	0.165	0.192	0.152
Level A	-0.204	-0.180	-0.177	-0.206	-0.166

Employing use of the full sample of reports published under the years 2014-2015, I analyze the distribution of the GRI adherence level of reports before and after the publication of the Accounting Directive amendments, divided according to country directive compliance level. As it can be understood from the above presented overall analysis (full sample employed), there is only a 2% statistically insignificant reduction [$\chi^2(1, N=3379)=.224, p>0.05; \Phi=0.17, p>0.05$] in Non-GRI

reports for CF countries, while for FC countries there is a 4% [$\chi^2(1, N=3379)=2.083$, $p>0.05$; $\Phi=-0.40$, $p>0.05$] statistically insignificant increase. Looking at the overall sample and without taking into consideration reporting practices of firm of different sizes/types, I determined that the implementation of the Accounting Directive amendment has yet to have a harmonizing effect for CSR reporting practices of firms. The results of the chi-square test of independence establishes that the adherence level of reports are not explained by the publication and country wide implementation of the Accounting Directive amendment. At a 4% increase for FC (Fully Compliant) and a 2% decrease for Non-GRI [$\chi^2(1, N=3379)=1.651$, $p>0.05$; $\Phi=0.112$, $p>0.05$] reports it can be argued that the null hypothesis of “no change in the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries” is not rejected. Thus, it can be stated that the cross-tabulation and statistical results for the chi-square test of Independence supports that there is no association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports” for the overall sample.

Table 26: Distribution for the Full Sample Separated According to Reporting Practices

Consecutive Reporters					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.065	0.020	0.022	0.050	0.027
Level B	0.183	0.196	0.228	0.206	0.196
Level A	-0.247	-0.215	-0.250	-0.256	-0.223
First Time Reporters					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	-0.18	-0.129	0.057	-0.192	0.061
Level B	0.182	0.204	0.057	0.204	0.051
Level A	-0.003	-0.075	-0.114	-0.012	-0.112

However in order to gather an accurate assessment on the effect of the amendment, differences between firm sizes/types and the its potential effect on reporting practices must also be taken into consideration. Thus, following the arguments presented under the hypothesis, I divide the sample further to represent consecutive and first time reporting firms (along with firm size/type).

When the analysis is repeated for first time reporting firms, it shows that Compliant countries' Non-GRI reports have decreased by 19% [$\chi^2(1, N=429)=7.479$, $p<0.01$; $\Phi=0.192$, $p<0.01$] after the publication of the Accounting Directive amendment and that there is a significant association (albeit weak) between “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports” for first-time reporting countries. To put it another way, Non-GRI reports have decreased after the publication of the requirements and this decrease is significantly associated ($p<0.01$) with the implementation status (Compliant/Non-Compliant) of countries’.

The results of the analysis establishes that first-time reporters under fully compliant countries to the Accounting Directive amendment, have benefited from the harmonizing affect of the document. However, the reports of these countries have yet to be fully harmonized to reflect the requirements of the Directive.

Dividing the sample to further reflect the level of implementation between countries (FC, CF and NC), I find that the amount of reduction in Non-GRI reports for FC countries and CF countries after the publication of the Accounting Directive amendments are 18% [$\chi^2(1, N=429)=3.906$, $p<0.05$; $\Phi=0.178$, $p<0.05$] and 13% [$\chi^2(1, N=429)=1.752$, $p>0.05$; $\Phi=0.126$, $p>0.05$], respectively. By dividing the Compliant countries’ to represent FC and CF countries, I determine that the significant association between the Dependent and Independent variables are caused by the adherence levels of FC countries-and while the CF countries indicate a 13% reduction after the publication of the Accounting Directive, this amount is not strong enough to significantly explain the variation between the variables. Thus, it can be further argued that, according to the results of the chi-square test of independence, FC countries CSR practices are explained by a significant, albeit weak association between the publication and country wide implementation of the Accounting

Directive amendment and adherence level of reports for first-time reporting countries.

Analyzing the current reporting practices for NC countries also backs this conclusion. As can be seen under Table 26, the NC countries' (for both Compliant-Non-Compliant countries' and FC-CF-NC countries) indicate an increasing trend in Non-GRI reports after the publication of the amendment. That is to say, contrary to the decreasing levels of Non-GRI reports apparent under Compliant countries' (and FC-CF countries'), the Non-GRI reports of countries that neglected to implement the Accounting Directive amendment have increased by 6% [$\chi^2(1, N=429)=0.653, p>0.05; \Phi=-0.058, p>0.05$] and have not benefited from the harmonizing effect of the document. The fact that only countries that have either fully or to some degree integrated the directive within their national systems have faced a decrease for their Non-GRI reports after the publication of the Accounting Directive amendment (vs. NC countries) is indicative of the role this document holds in harmonizing CSR reporting practices. By dividing the sample into fully compliant countries, compliance with failure countries and Non-Compliant countries I am able to distinguish the possible effect of the directive. As stated under the hypothesis, to clearly view the harmonization success of the document, I expected only to detect change under implementing (either 'fully compliant and/or compliance with failure' or 'compliant') countries. The results of the analysis offers supportive evidence for backing this claim.

Overall, from the first-time reporting firms perspective, this result adds support to the argument that the amendment is a determining factor in predicting CSR adherence levels. Stated differently, the Accounting Directive amendment has had a positive effect on the harmonization efforts of the countries that implemented the document under their CSR reporting regulation at country level. As the Non-GRI reports of countries that neglected to implement the Directive show movement towards increasing in level, I can reaffirm the argument that the publication and country wide implementation of the Accounting Directive amendment has aided in the harmonization of CSR practices for first time reporting firms.

Similarly, when I analyzed the distribution of GRI-related Level A and Level B reports under FC-CF-NC countries' [(Directive Compliance Level (1))], the analysis shows that FC countries Level B reports have increased by 18% [$\chi^2(2, N=429)=5.317$, $p>0.05$; $\Phi=0.208$, $p>0.05$]. This shows that after the publication of the Accounting Directive amendment, first-time reporter firms are slowly shifting away from publishing reports prepared “without consulting the international sustainability frameworks” and are instead increasingly focusing their CSR efforts on the “GRI framework and standards”. This conclusion can also be repeated for CF countries.

When comparing the before-after period of the Accounting Directive amendment, I see that the 13% [$\chi^2(2, N=429)=5.1$, $p>0.05$; $\Phi=0.215$, $p>0.05$] decrease for Non-GRI reports has transferred over to Level B reports. However it must be pointed out that, 7% of the 20% increase under Level B reports is a result of the corresponding decrease under Level A reports. Even though the chi-square test could not detect a statistically significant interaction between the variables, the results of the distribution of GRI-Related Level A and Level B reports are an indicator of the growing interest of first-time reporters in the CSR agenda.

Finally, when I re-evaluate the results according to the Compliant-Non-Compliant countries' [(Directive Compliance Level (2))], I see that Compliant countries Level B reports have increased by 20% [$\chi^2(2, N=429)=4.419$, $p>0.05$; $\Phi=0.14$, $p>0.05$], reflecting the 18% decrease under Non-GRI reports and 2% decrease under Level A reports. Again, while the distribution between the adherence levels was not strong enough to produce a statistically insignificant association, the % interaction before/after the publication of the amendment still serve as an indicator for the growing interest of first-time reporters in the CSR agenda.

If I recap, it can be argued that, for first time reporting firms, the null hypothesis of “no change in the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries” is rejected. Thus, it can be stated that the cross-tabulation and statistical results for the chi-square test of Independence supports that there is an association between the “publication and country wide implementation of the Accounting Directive amendment and adherence

level of reports” for the overall sample. Albeit weak, an association is observed between our variables and the decrease in Non-GRI reports are not due to random variation.

Moving on, I finally analyze the CSR harmonization level for consecutively reporting firms. Similar to the results detected for the overall sample, the chi-square test of independence provide evidence supporting the null hypothesis of “no change in the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries” for consecutively reporting firms. Stated differently, for consecutively reporting firms, there is no association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports”.

As it can be seen from the information provided under Table 26, the consecutively reporting firms have continued to adamantly follow their previous reporting practices and have, as of yet, failed to adapt to changes in CSR reporting requirements. The statistically insignificance for Non-GRI levels after the publication of the Accounting Directive amendment (and lack of supportive movement under the cross-tabulation), regardless of the implementation status of countries is indicative of the level of inattention consecutively reporting firms have given the amendment. This result holds true regardless of the host countries stance on CSR reporting (implementation level of amendment).

Following the views presented under the hypothesis development, the sample is further divided into 3 groups according to firm size/profitability (Multinational, Large and Small-Medium Sized Enterprises) and the above analysis is repeated. The results of the analysis is summarized under Table 27.

Table 27: Distribution for MNEs, Large Enterprises and SMEs Separated According to Reporting Practices

Overall Sample									
	MULTINATIONAL ENTERPRISES			LARGE ENTERPRISES			SMALL AND MEDIUM SIZED ENTERPRISES		
	Directive Compliance Level (1)			Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.033	-0.025	0.002	0.049	-0.023	-0.008	-0.067	0.025	0.079
Level B	0.159	0.229	0.164	0.153	0.200	0.212	0.250	0.124	-0.007
Level A	-0.193	-0.203	-0.166	-0.202	-0.176	-0.205	-0.184	-0.149	-0.072
	Directive Compliance Level (2)			Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.016		-0.002	0.029		-0.011	-0.065		0.088
Level B	0.168		0.184	0.200		0.171	0.206		0.047
Level A	-0.184		-0.181	-0.228		-0.161	-0.140		-0.135
Consecutive Reporters									
	Directive Compliance Level (1)			Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.054	0.044	0.072	0.085	0.032	-0.015	0.000	-0.143	0.100
Level B	0.178	0.218	0.200	0.194	0.183	0.261	0.147	0.214	0.100
Level A	-0.233	-0.261	-0.271	-0.279	-0.215	-0.246	-0.147	-0.071	-0.200
	Directive Compliance Level (2)			Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.053		0.066	0.075		-0.006	-0.121		0.095
Level B	0.186		0.210	0.211		0.219	0.242		0.071
Level A	-0.239		-0.276	-0.286		-0.213	-0.121		-0.167
First Time Reporters									
	Directive Compliance Level (1)			Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.16	-0.504	0.011	-0.213	-0.188	-0.027	-0.435	0.183	0.13
Level B	0.22	0.386	-0.031	0.057	0.12	0.242	0.607	0.167	-0.095
Level A	-0.06	0.118	0.02	0.157	0.068	-0.215	-0.172	-0.35	-0.034
	Directive Compliance Level (2)			Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	-0.347		0.045	-0.204		-0.03	-0.088		0.102
Level B	0.264		0.031	0.138		0.154	0.265		0
Level A	0.083		-0.076	0.067		-0.124	-0.177		-0.102

For Multinational [$\chi^2(1, N=909)=0.125, p>0.05; \Phi=0.027, p>0.05$] and Large Enterprises [$\chi^2(1, N=1973)=0.227, p>0.05; \Phi=0.024, p>0.05$] under the overall analysis, I find that there is only a 3% statically insignificant reduction in Non-GRI reports for CF countries. Moreover, a 3% [$\chi^2(1, N=909)=0.36, p>0.05; \Phi=-0.034, p>0.05$] and 5% [$\chi^2(1, N=1973)=2.034, p>0.05; \Phi=-0.052, p>0.05$] statically insignificant increase for FC countries, respectively. Repeating the analysis for consecutively reporting firms yield similar results. Thus, I determined that, overall, the implementation of the Accounting Directive amendment has not had a reducing effect on Non-GRI reports of Multinational and Large Enterprises. To put it another way, the Accounting Directive amendment has not had a positive effect on the harmonization efforts of MNEs and Large Enterprises within the countries that implemented the document under their CSR reporting regulation.

Repeating the analysis for Small and Medium Sized Enterprises shows that the amount of reduction in Non-GRI reports for FC countries after the publication of the Accounting Directive amendments decrease by 7% [$\chi^2(1, N=496)=1.126, p>0.05; \Phi=0.076, p>0.05$]. Repeating the analysis according to the second directive compliance categorization (Compliant/Non-Compliant countries') provides similar results; a 7% decrease [$\chi^2(1, N=496)=0.959, p>0.05; \Phi=0.065, p>0.05$]. As a result, it can be argued that although there is a downward trend for Non-GRI publications after the publication of the amendment, the statically insignificant chi-square statistics for Compliant countries and CF countries points to a lack of association between the "publication and country wide implementation of the Accounting Directive amendment and adherence level of reports" for SMEs.

When I analyzed the distribution of GRI-related Level A and Level B reports, the analysis shows that FC countries Level B reports have increased by a statistically significant (moderate association) 25% [$\chi^2(2, N=496)=14.863, p<0.001; \Phi=0.278, p<0.001$]. However, it must be pointed out that 18% of the 25% increase under Level B reports is a result of the corresponding decrease under Level A reports. This result, although modest, offers supportive evidence that firms are shifting away from publishing reports prepared "without consulting the international sustainability frameworks".

Moreover, when the analysis is recalculated for consecutively reporting firms, we, again, confirm a similar trend for Small and Medium Sized Enterprises. With a statically insignificant 14% decrease [$\chi^2(1, N=150)=0.7, p>0.05; \Phi=0.158, p>0.05$] in Non-GRI reports, I determine that consecutively reporting SMEs under CF countries have shifted away from publishing Non-GRI reports and are instead increasingly focusing their CSR efforts on the “GRI framework and standards” after the publication of the Accounting Directive amendment. However, since the analysis yielded a statically insignificant decrease, I cannot clearly state that the decrease is a result of the association between the publication and country wide implementation of the Accounting Directive amendment and CSR adherence levels. The 14% decrease under Small and Medium Sized Enterprises only serves as an indicator of the general CSR reporting trend under these firms.

Similarly, when I analyzed the distribution of GRI-related Level A and Level B reports, the analysis shows that CF countries Level B reports have increased by 21% [$\chi^2(2, N=150)=1.863, p>0.05; \Phi=0.258, p>0.05$], an event reflected under the second directive compliance categorization (Compliant/Non-Compliant countries'). According to the re-distributed categorization, Compliant countries' Non-GRI reports have decreased by 12% [$\chi^2(1, N=150)=1.048, p>0.05; \Phi=0.126, p>0.05$] after the publication of the Accounting Directive amendment. Moreover, the countries Level B reports have increased by 24% [$\chi^2(2, N=150)=2.397, p>0.05; \Phi=0.169, p>0.05$], 12% of which resulted from a decrease in Level A reports.

Finally, contrary to the decreasing levels of Non-GRI reports apparent under either FC or CF countries, SMEs under NC countries (overall sample) have increased their Non-GRI report publication after the Accounting Directive amendment. These amounts are; 8% [$\chi^2(1, N=496)=1.138, p>0.05; \Phi=-0.79, p>0.05$] and 9% [$\chi^2(1, N=496)=2.327, p>0.05; \Phi=-0.93, p>0.05$] for the overall samples first and second directive compliance categorization, respectively. For consecutively reporting firms, these amounts are at 10% {[$\chi^2(1, N=150)=0.44, p>0.05; \Phi=-0.105, p>0.05$]; [$\chi^2(1, N=150)=0.891, p>0.05; \Phi=-0.103, p>0.05$] for both compliance categorization.

Moving on to CSR publications by first-time reporters, I re-run the analysis and find that all firms, regardless of size (MNE, Large Enterprises and SMEs), demonstrate a statically significant reduction in Non-GRI reports after the

publication of the Accounting Directive amendment. Reflecting the general trend set for first time reporters, it is determined that the Accounting Directive amendment has had a positive effect on the harmonization efforts of the countries that implemented the document under their CSR reporting regulation. To put it another way, Non-GRI reports have decreased after the publication of the requirements and this decrease is significantly associated with the implementation status (Compliant/Non-Compliant and FC-CF-NC) of countries’.

The first analysis was conducted on first time reporting Multinational Enterprises according to the second categorization of implementation status (Compliant/Non-Compliant countries’). We determine a 35% [$\chi^2(1, N=97)=5.759$, $p<0.05$; $\Phi=0.333$, $p<0.05$] decrease for Non-GRI reports after the publication of the Accounting Directive amendment and a strong statistical significance between the dependent and independent variables. Thus, it can be stated that there is a significant association (strong) between “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports” for first-time reporting MNEs.

When I repeat the analysis according the categorization of FC-CF and NC countries, I find that the reduction for Multinational Enterprises under FC countries Non-GRI reports’ are 16% [$\chi^2(1, N=97)=0.848$, $p>0.05$; $\Phi=0.156$, $p>0.05$] and a statically significant (very strong level of association) 50% for CF countries Non-GRI reports’ [$\chi^2(1, N=97)=5.042$, $p<0.05$; $\Phi=0.458$, $p<0.05$]. By dividing the Compliant countries’ to represent FC and CF countries, I determine that the significant association between the Dependent and Independent variables are caused by the adherence levels of CF countries. It can be further argued that, according to the results of the chi-square test of independence, CF countries CSR practices are explained by a strong significant association between the publication and country wide implementation of the Accounting Directive amendment and adherence level of reports for first-time reporting MNEs.

Similarly, when I analyzed the distribution of GRI-related Level A and Level B reports for each categorization, the analysis shows that FC countries Level B reports have increased by 22% [$\chi^2(2, N=97)=2.061$, $p>0.05$; $\Phi=0.243$, $p>0.05$], while CF countries Level B reports have increased by 39% [$\chi^2(2, N=97)=5.123$,

$p > 0.05$; $\Phi = 0.462$, $p > 0.05$]. Additionally, for CF countries there is a 12% increase for Level A reports as well. These results hold true for Compliant countries' under the second categorization. At 27% [$\chi^2(2, N=97) = 0.511$, $p > 0.05$; $\Phi = 0.107$, $p > 0.05$], I see that the reporters shifting away from Non-GRI reports are now focusing their efforts on publishing Level B (22% increase) and Level A (8% increase) reports.

Even though the above GRI adherence level test have resulted in statistically insignificant results, the distribution between GRI Related Level A and Level B reports serves as an indicator of the general trend of reporting practices.

Moreover, for the first and second categorization of implementation status, I see that NC countries do not reflect this negative trend- adding support to the argument that the Accounting Directive amendment has had a positive effect on the harmonization efforts of implementing countries CSR reporting practices for first-time reporting Multinational Enterprises. Countries that did not implement the Accounting Directive amendment shows an increase of 5% after the publication of the regulation. The fact that only countries that have either fully or to some degree integrated the directive within their national systems have faced a decrease for their Non-GRI reports after the publication of the Accounting Directive amendment is indicated of the role this document holds in harmonizing CSR reporting practices.

The results of the analysis for Large Enterprises follows a similar trend as Multinational Enterprises. Overall, I determine that the second categorization (Compliant/Non-Compliant) countries have seen a 20% statically significant [$\chi^2(1, N=204) = 3.981$, $p < 0.05$; $\Phi = 0.205$, $p < 0.05$] (moderate association) drop in Non-GRI reporting after the publication of the Accounting Directive amendment. Repeating the analysis for FC and CF countries, I find that Non-GRI reports have, again, decreased after the publication of the directive; 21% [$\chi^2(1, N=204) = 0.21$, $p > 0.05$; $\Phi = 2.559$, $p > 0.05$] and 19% [$\chi^2(1, N=204) = 1.773$, $p > 0.05$; $\Phi = 0.188$, $p > 0.05$], respectively. Although the results for FC and CF countries, are not statistically significant, the 21% and 19% decrease in reports still show a trend towards harmonizing CSR practices.

Moving on to the inherent GRI adherence levels, I find that the Non-GRI publishing firms have shifted their efforts towards Level A and Level B reports, reflecting the expected outcome of the directives harmonization efforts. We

re-evaluate the distribution of GRI-related Level A and Level B reports (for first time reporters) and conclude that FC countries have increased their Level A reports by a statically significant 16% [$\chi^2(2, N=204)=2.803, p<0.05; \Phi=0.22, p<0.05$], while this percentage is at 7% for Compliant [$\chi^2(2, N=204)=3.466, p>0.05; \Phi=0.178, p>0.05$] and CF [$\chi^2(2, N=204)=1.776, p>0.05; \Phi=0.188, p>0.05$] countries. On the other hand, I see that the Level B reports for FC countries has only increased by 6%, while the CF and Compliant countries have increased by 12% and 14%, respectively.

When I shift the analysis towards Small and Medium Sized Enterprises I see that these firms also follow the overall trend apparent under first-time reporting firms. According to the cross-tabulation and chi-square test of independence, FC countries SMEs have reduced their Non-GRI reports by a statically significant 44% [$\chi^2(1, N=127)=5.687, p<0.05; \Phi=0.435, p<0.05$] after the publication of the amendment. The significantly strong association level for these firms indicates that the Accounting Directive amendment has had hand in harmonizing the CSR reports of countries that implemented the document under their CSR reporting regulation for first time reporting SMEs.

The drop in Non-GRI reports is reflected as a statistically significant (Very Strong) increase of 61% under Level B [$\chi^2(2, N=127)=10.572, p<0.01; \Phi=0.594, p<0.01$] reports. However, it must be pointed out that 17% of the 61% increase under Level B reports is a direct result of a corresponding decrease under Level A reports. Unlike the results apparent with the first chi-square analysis, SMEs under CF countries have faced a 18% [$\chi^2(1, N=127)=1.176, p>0.05; \Phi=0.183, p>0.05$] increase for Non-GRI reports after the publication of the amendment.

By re-evaluating the results according to the second directive compliance categorization I see that Compliant countries have faced a 9% [$\chi^2(1, N=127)=0.439, p>0.05; \Phi=0.089, p>0.05$] decrease for Non-GRI reports and a 27% [$\chi^2(2, N=127)=1.498, p>0.05; \Phi=0.144, p>0.05$] increase for Level B reports (minus the 18% that resulted from a shift away from Level A reports).

Finally, the results for NC countries under both directive compliance categorization supports the position that the amendment has been successful in harmonizing CSR practices for directive implementing (FC, CF or Compliant) countries. At a 13% [$\chi^2(1, N=127)=1.021, p>0.05; \Phi=-0.128, p>0.05$] and 10%

$[\chi^2(1, N=127)=0.795, p>0.05; \Phi=-0.105, p>0.05]$ increase for the first and second categorization, I see that Non-GRI reports show an increasing trend for NC countries. These results offer supportive evidence for backing the claim that the amendment has played a role in harmonizing CSR reporting practices.

Dividing the sample into 2 groups according to their listing status (listed on the stock exchange for public trading/nonlisted on the stock exchange for public trading), the above analysis is repeated. The results of the analysis is summarized under Table 28.

Looking at the distribution of the GRI adherence level of reports before/after the publication of the Accounting Directive amendments, divided according to country directive compliance level and stock exchange listing status; I determined that (for the overall sample) the Accounting Directive amendment has not had a statically significant effect post implementation for listed (1% decrease, $[\chi^2(1, N=1684)=0.037, p>0.05; \Phi=0.011, p>0.05]$ in CF countries) and not-listed (2% decrease, $[\chi^2(1, N=1695)=0.188, p>0.05; \Phi=0.021, p>0.05]$ in CF countries) firms. This result is also repeated for Compliant countries' listed and non-listed firms.

Furthermore, when the sample is further divided to only represent consecutively reporting listed/non-listed firms, I gather similar results. Thus, according to the information being presented under Table 28, listed or nonlisted firms of the overall sample and consecutive reporters have not benefited from the publication of the Accounting Directive amendment.

However, when I divide the sample to only represent first time reporters, I reach a different conclusion. Following the general trend for first time reporters, I see that listed and nonlisted first time reporting firms have faced a drop in their levels of Non-GRI reports after the publication of the Accounting Directive. This result holds true for both directive compliance level categories.

Table 28: Distribution for Listed/Nonlisted Firms Sample Separated According to Reporting Practices

Overall Sample						
	LISTED ENTERPRISES			NON-LISTED ENTERPRISES		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.040	-0.009	0.009	0.028	-0.021	0.013
Level B	0.169	0.253	0.178	0.163	0.154	0.156
Level A	-0.210	-0.243	-0.187	-0.192	-0.133	-0.169
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.032		0.003	-0.001		0.021
Level B	0.212		0.165	0.171		0.144
Level A	-0.243		-0.168	-0.170		-0.165
Consecutive Reporters						
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.039	0.036	0.022	0.098	0.000	0.021
Level B	0.211	0.253	0.242	0.147	0.129	0.209
Level A	-0.248	-0.290	-0.265	-0.246	-0.129	-0.229
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.048		0.013	0.053		0.044
Level B	0.241		0.218	0.158		0.169
Level A	-0.290		-0.230	-0.210		-0.213
First Time Reporters						
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.282	-0.272	0.109	-0.263	-0.068	0
Level B	0.194	0.272	-0.038	0.241	0.159	0.144
Level A	0.088	0	-0.072	0.022	-0.091	-0.144
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	-0.262		0.101	-0.19		0.005
Level B	0.225		-0.041	0.2		0.119
Level A	0.037		-0.061	-0.011		-0.124

For the first level, I see that listed firms under the FC and CF countries have dropped 28% [$\chi^2(1, N=136)=3.98, p<0.05; \Phi=0.288, p<0.05$] and 27% [$\chi^2(1, N=136)=2.2, p>0.05; \Phi=0.258, p>0.05$] in Non-GRI reports. Although both percentages are similar for FC and CF countries, I see that only the 28% reduction under FC countries are statically significant (moderate association).

On the other hand, NC countries Non-GRI reports have increased by 11% [$\chi^2(1, N=136)=0.603, p>0.05; \Phi=-0.105, p>0.05$]. The fact that only countries that have either fully or to some degree integrated the directive within their national systems have faced a decrease for their Non-GRI reports after the publication of the Accounting Directive amendment (vs. NC countries) is indicated of the role this document holds in harmonizing CSR reporting practices. By dividing the sample into fully compliant countries, compliance with failure countries and Non-Compliant countries I am able to distinguish the possible effect of the directive. As stated under the hypothesis, to clearly view the harmonization success of the document, I expected only to detect change under implementing countries. The results of the analysis offers supportive evidence for backing this claim.

For the second categorization level, the above mentioned result is repeated. We see that, for listed firms under compliance countries, Non-GRI reports have gone down by a statistically significant (moderate association) 26% [$\chi^2(1, N=136)=4.919, p<0.05; \Phi=0.253, p<0.05$] after the publication of the Accounting Directive amendment (moderate significance). Moreover, this amount has gone up by 10% [$\chi^2(1, N=136)=0.533, p>0.05; \Phi=-0.95, p>0.05$] for Non-Compliant countries.

When I further analyze the distribution of GRI related Level B and Level A reports, I determine that first time reporters have shifted their reporting practices from Non-GRI-based reports to Level B reports. To put it another way, reporters have started incorporating GRI elements under their CSR practices and have started publishing entry level reports. For listed firms under FC countries, I see that the Level B reports have increased by 19% [$\chi^2(2, N=136)=4.091, p>0.05; \Phi=0.292, p>0.05$], while Level A reports have only increased by 9%.

For CF countries, the percentage of increase for Level B reports is 27% [$\chi^2(2, N=136)=2.4, p>0.05; \Phi=0.27, p>0.05$]. On the other hand, the amount of reports being published under Level A remains unchanged after the publication of the

Accounting Directive amendment. Overall, compliant countries have increased their entry level reports by 23% [$\chi^2(2, N=136)=0.597$, $p>0.05$; $\Phi=0.101$, $p>0.05$] and Level A reports by only 4%. Under the nonlisted firms of first time reporters, the above mentioned conclusion holds true.

When I go over the results for nonlisted firms hosted under fully compliant countries, I determine that FC countries Non-GRI reports have dropped by a statistically significant (moderate association) 26% [$\chi^2(1, N=293)=5.452$, $p<0.05$; $\Phi=0.27$, $p<0.05$] with the amendment and Level B reports have increased by a statistically significant (strong association) 24% [$\chi^2(2, N=293)=6.524$, $p<0.05$; $\Phi=0.295$, $p<0.05$]. Contrary to what I saw under listed firms posted under CF countries, nonlisted firms have only faced a 7% [$\chi^2(1, N=293)=0.351$, $p>0.05$; $\Phi=0.067$, $p>0.05$] drop under Non-GRI reports. This result is indicative of CF non-listed firms (when compared to the success achieved by listed firms) failure to fully incorporate the amendment under reporting practices.

Non-listed firms under countries that neglected to incorporate the amendment have faced no changes under their Non-GRI reports- distinguishing between the impact of the directive for compliant and Non-Compliant countries. When I re-calculate the results according to the second compliance categorization, I reach data supportive of this conclusion. Overall, Compliance countries' have reduce their Non-GRI report publication by a statistically significant (weak association) 19% [$\chi^2(1, N=293)=4.543$, $p<0.05$; $\Phi=0.19$, $p<0.05$] after the publication of the Accounting Directive amendment, while Non-Compliant countries Non-GRI reports have increased by less than 1% [$\chi^2(1, N=293)=0.003$, $p>0.05$; $\Phi=-0.005$, $p>0.05$].

Moving on, I shall now further separate the sample for listed and nonlisted firms according to firm size and re-conduct the analysis. The results are presented under Table 29, below.

Table 29: Distribution for MNEs Separated According to Listed/Nonlisted Firms

MULTINATIONAL ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.033	-0.025	0.002	0.016	-0.002
Level B	0.159	0.229	0.164	0.168	0.184
Level A	-0.193	-0.203	-0.166	-0.184	-0.181



	LISTED MNE			NON-LISTED MNE		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.044	0.017	0.020	-0.009	-0.115	-0.057
Level B	0.136	0.214	0.122	0.268	0.272	0.279
Level A	-0.180	-0.229	-0.142	-0.259	-0.157	-0.223
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.024		0.028	-0.021		-0.094
Level B	0.160		0.127	0.200		0.344
Level A	-0.184		-0.156	-0.179		-0.250

As mentioned above, Multinational Enterprises have, as of yet, neglected to incorporate the Accounting Directive amendment under their CSR reporting practices. With only a 3% reduction in Non-GRI reports for CF countries, these Enterprises have not benefited from the harmonizing effect of the amendment. In order to gather a clearer view of the reporting practices of Multinational Enterprises, I further divide the sample 2 to represent listed and non-listed MNEs. Overall, I do not find a positive impact of the amendment for listed MNE firms.

On the other hand, when I analyze the results for nonlisted MNE firms, I find a weak statistically insignificant impact that is repeated across FC, CF and NC countries; less than 1% [$\chi^2(1, N=225)=0.005, p>0.05; \Phi=0.009, p>0.05$], 12% [$\chi^2(1,$

$N=225)=0.774$, $p>0.05$; $\Phi=0.118$, $p>0.05$] and 6% [$\chi^2(1, N=225)=0.366$, $p>0.05$; $\Phi=0.057$, $p>0.05$], respectively. Moreover, this result is supported under the second categorization with only a 2% [$\chi^2(1, N=225)=0.048$, $p>0.05$; $\Phi=0.021$, $p>0.05$] overall decrease for compliance countries Non-GRI reports and a 9% [$\chi^2(1, N=225)=1.061$, $p>0.05$; $\Phi=0.096$, $p>0.05$] decrease for Non-Compliant countries after the publication of the Accounting Directive.

As it can be seen from Table 30, dividing the sample to only represent consecutively reporting firms yield similar results. All things considered, it can be concluded that non-listings and listed firms under consecutively reporting MNEs have neglected to incorporate the amendment requirements under their CSR reports.



Table 30: Distribution for Consecutively Reporting MNEs Separated According to Listed/Nonlisted Firms

Consecutive Reporters					
MULTINATIONAL ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.054	0.044	0.072	0.053	0.066
Level B	0.178	0.218	0.200	0.186	0.210
Level A	-0.233	-0.261	-0.271	-0.239	-0.276

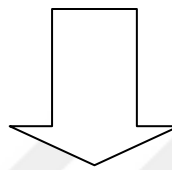
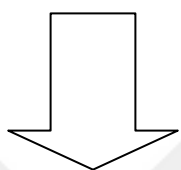


	LISTED MNE			NON-LISTED		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.032	0.054	0.059	0.000	0.000	0.000
Level B	0.162	0.216	0.216	0.000	0.334	0.000
Level A	-0.193	-0.271	-0.275	0.000	-0.334	0.000
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.043		0.054	0.000		0.000
Level B	0.180		0.214	0.250		0.000
Level A	-0.223		-0.268	-0.250		0.000

Moving on I analyze the results for first time reporting MNEs under Table 31. Reflecting the general trend for first-time reporters, I see that MNEs (listed and nonlisted) have benefited from the harmonization affect of the directive amendment. Analyzing the CSR publications by first-time reporting MNEs, I re-run the analysis and determine that listed and nonlisted firms demonstrate a reduction in Non-GRI reports after the publication of the Accounting Directive amendment.

Table 31: Distribution for First Time Reporting MNEs Separated According to Listed/Nonlisted Firms

First Time Reporters					
MULTINATIONAL ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	-0.16	-0.504	0.011	-0.347	0.045
Level B	0.22	0.386	-0.031	0.264	0.031
Level A	-0.06	0.118	0.02	0.083	-0.076



	LISTED MNE			NON-LISTED MNE		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.191	-0.545	0.267	0	-0.633	-0.371
Level B	0.138	0.455	-0.25	0.5	0.467	0.371
Level A	0.053	0.091	-0.017	-0.5	0.167	0
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	-0.329		0.303	-0.458		-0.303
Level B	0.257		-0.273	0.333		0.469
Level A	0.071		-0.031	0.125		-0.167

As mentioned before, first-time reporting MNEs under FC, CF and overall compliance countries had faced a reduction in their Non-GRI reports after the amendment of 16%, 50% and 35%, respectively. Additionally, the distribution between GRI related levels across each type of country grouping had shown a shifting interest towards publishing entry-level (Level B) reports. Indicating that, for MNEs, firms are starting to incorporate GRI elements under their CSR reporting practices. When the sample is further divided to reflect listed MNEs and nonlisted MNEs, the harmonization effect of the amendment is much more apparent.

For listed firms under FC countries I see that, after the publication of the Accounting Directive amendment, Non-GRI reporting has gone down by 19% [$\chi^2(1, N=66)=1.067, p>0.05; \Phi=0.199, p>0.05$] and, in turn, Level B reports have increased by 14% [$\chi^2(2, N=66)=1.181, p>0.05; \Phi=0.209, p>0.05$] and Level A reports of increased by 5%. Moving on to CF countries I see a much more prominent effect. Compliance with failure countries have decreased their Non-GRI reports by 55% [$\chi^2(1, N=66)=2.026, p>0.05; \Phi=0.395, p>0.05$], 46% [$\chi^2(2, N=66)=2.026, p>0.05; \Phi=0.395, p>0.05$] of which have resulted in a corresponding increase for Level B reports and 10% for Level A reports.

Contrary to the increase under directive implementing countries (fully compliant and compliance with failures) I see that countries that neglected to implement the directive have not benefited from the harmonization of CSR reporting practices. With a 27% [$\chi^2(1, N=66)=1.321, p>0.05; \Phi=-0.225, p>0.05$] increase under Non-GRI reports, non-compliance countries have demonstrated a clear difference from Compliance countries' – further highlighting the fact that when separated according to level of compliance, the variance in reporting practices can be explained by the implementation of the amendment.

When I look at the second categorization of compliance levels this conclusion is repeated. Overall, compliance countries have decreased their Non-GRI reports by 33% [$\chi^2(1, N=66)=3.534, p>0.05; \Phi=0.305, p>0.05$], while Non-Compliant countries have increased their Non-GRI reports by 30% [$\chi^2(1, N=66)=1.768, p>0.05; \Phi=-0.251, p>0.05$].

Following this, the GRI related publications are further divided to reflect Level A and Level B reports and it is determined that the production under Non-GRI reports has, in turn, resulted an increase under Level B reports. Thus, it can be argued that listed first time reporting MNE firms are shifting away from Non-GRI reports and are focusing their efforts on producing Level B reports.

Nonlisted MNE first time reporting firms have been similarly affected by the publication of the Accounting Directive. However, contrary to their listed counterparts, the CSR reports of nonlisted firms hosted under fully compliance countries have remains unchanged after the publication of the amendment. Additionally, Non-Compliant countries too have faced a reduction under their

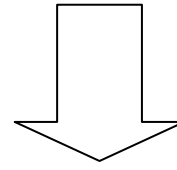
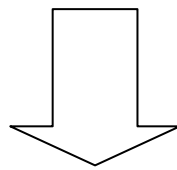
Non-GRI reports in the aftermath of the amendment. Thus, for nonlisted MNEs, it is impossible to clearly state that the Accounting Directive was a driving force for harmonizing CSR reporting practices.

For CF countries, nonlisted firms have faced a 63% [$\chi^2(1, N=31)=2.026$, $p>0.05$; $\Phi=0.395$, $p>0.05$] decrease in Non-GRI. Moreover, these firms Level B and A reports have increased by 47% [$\chi^2(2, N=31)=4.547$, $p>0.05$; $\Phi=0.643$, $p>0.05$] and 17%, respectively. When I look at the second categorization of compliance levels, I see that the overall compliant countries have reduced their Non-GRI reports by 46% [$\chi^2(1, N=31)=2.941$, $p>0.05$; $\Phi=0.488$, $p>0.05$]. Similarly, Non-Compliant countries have faced a 30% [$\chi^2(1, N=31)=1.431$, $p>0.05$; $\Phi=0.29$, $p>0.05$] drop in their Non-GRI reports.

Continuing the analysis, I now focus on the reporting practices of Large Enterprises, divided according to their stock exchange listing status. The results of the analysis are presented below, under Table 32.

Table 32: Distribution for Large Enterprises Separated According to Listed/Nonlisted Firms

LARGE ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.049	-0.023	-0.008	0.029	-0.011
Level B	0.153	0.200	0.212	0.200	0.171
Level A	-0.202	-0.176	-0.205	-0.228	-0.161



	LISTED LARGE ENTERPRISES			NON-LISTED LARGE ENTERPRISES		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.033	-0.042	-0.012	0.065	-0.019	-0.003
Level B	0.206	0.283	0.239	0.099	0.144	0.189
Level A	-0.240	-0.240	-0.227	-0.165	-0.125	-0.188
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.026		-0.027	0.034		0.004
Level B	0.256		0.210	0.145		0.140
Level A	-0.282		-0.183	-0.179		-0.144

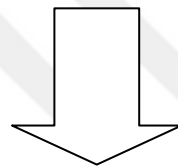
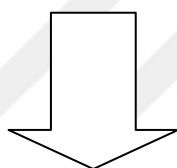
Following the general trend set by Multinational Enterprises, Large Enterprises too have, as of yet, neglected to incorporate the Accounting Directive amendment under their CSR reporting practices. With only a 2% reduction in Non-GRI reports for CF countries, these Enterprises have not benefited from the harmonizing effect of the amendment. In order to gather a clearer view of the reporting practices of Large Enterprises, I further divide the sample 2 to represent listed and non-listed LEs. Overall, I do not find a positive impact of the amendment for listed or nonlisted LE firms. With only a 4% [$\chi^2(1, N=942)=0.481, p>0.05; \Phi=0.05, p>0.05$] and 2% [$\chi^2(1, N=1031)=0.093, p>0.05; \Phi=0.019, p>0.05$] reduction for Non-GRI reports after the publication date of the amendment, I can clearly state that the adherence level of CSR reports is not determined by the

publication of the amendment and country based implementation status for Large Enterprises.

Dividing the sample to only represent Large consecutive reports, I find similar results to a certain degree. The results to the analysis are presented below.

Table 33: Distribution for Consecutively Reporting Large Enterprises Separated According to Listed/Nonlisted Firms

Consecutive Reporters					
LARGE ENTERPRISES					
Adherence Level of Report	Directive Compliance Level (1)			Directive Compliance Level (2)	
	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.085	0.032	-0.015	0.075	-0.006
Level B	0.194	0.183	0.261	0.211	0.219
Level A	-0.279	-0.215	-0.246	-0.286	-0.213



	LISTED LARGE ENTERPRISES			NON-LISTED LARGE ENTERPRISES		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.045	0.023	0.000	0.000	-0.182	0.105
Level B	0.259	0.279	0.263	0.171	0.182	0.105
Level A	-0.304	-0.302	-0.262	-0.171	0.000	-0.210
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.055		-0.010	-0.138		0.111
Level B	0.294		0.233	0.241		0.083
Level A	-0.349		-0.224	-0.104		-0.194

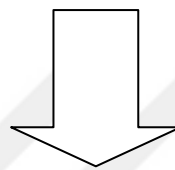
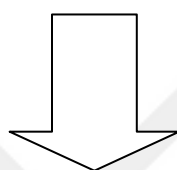
According to the information provided under Table 33, it can be concluded that out of the sample for consecutively reporting Large Enterprises, only nonlisted firms hosted under CF countries have benefited from the harmonizing effect of the

directive amendment (a 18% increase [$\chi^2(1, N=368)=0.161, p>0.05; \Phi=-0.4, p>0.05$]). This result, coupled with the information gained from Non-Compliant countries (a 11% [$\chi^2(1, N=368)=0.21, p>0.05; \Phi=0.43, p>0.05$] increase after the publication of the amendment) supports the argument that the directive implementation by countries was a determining factor for adherence levels. The second categorization (with a 14% [$\chi^2(1, N=368)=1.941, p>0.05; \Phi=-0.097, p>0.05$] decrease for compliant and 11% [$\chi^2(1, N=368)=1, p>0.05; \Phi=0, p>0.05$] for Non-Compliant countries) also supports this result.

Moreover, when I divide the GRI-Related reports to reflect their levels, I determine that under the first categorization- nonlisted Large Enterprises have shifted their reporting practices from Non-GRI reports to entrance level (Level B) reports. Under CF countries I see that Level B reports have increase by 18% [$\chi^2(2, N=368)=3.747, p>0.05; \Phi=0.194, p>0.05$], fully corresponding to the level of decrease detected under Non-GRI reports. While, on the other hand, compliant countries have increased their Level B reports by 24% [2] (minus the 10% decrease under the Level A reports). Moving on, I further separate the sample to only reflect the first time reporting firms.

Table 34: Distribution for First Time Reporting MNEs Separated According to Listed/Nonlisted Firms

First Time Reporters					
LARGE ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	-0.213	-0.188	-0.027	-0.204	-0.03
Level B	0.057	0.12	0.242	0.138	0.154
Level A	0.157	0.068	-0.215	0.067	-0.124



	LISTED LARGE ENTERPRISES			NON-LISTED LARGE ENTERPRISES		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.333	-0.334	-0.129	-0.253	-0.117	-0.031
Level B	0.25	0.334	0.257	0.01	0.032	0.269
Level A	0.083	0	-0.129	0.244	0.085	-0.237
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant	Non-Compliant		Compliant	Non-Compliant	
Non-GRI	-0.214	-0.167		-0.213	-0.015	
Level B	0.186	0.3		0.107	0.124	
Level A	0.029	-0.133		0.106	-0.108	

The results of the analysis for first time reporting Large Enterprises are as follows. As mentioned before, I determine that FC and CF countries have seen a drop for published Non-GRI reports after the publication of the directive; 21% and 19%, respectively. The Non-GRI publishing firms have instead shifted their efforts towards Level A and Level B reports, reflecting the expected outcome of the directives harmonization efforts. Repeating the analysis for the second categorization yields similar results; a 20% drop in Non-GRI reporting after the publication of the Accounting Directive amendment. While Large Enterprises under Non-Compliant

countries, show a 3% decrease in Non-GRI reports-ultimately, this amount does not take away from the conclusion that (when compared to non-implementing countries) the Accounting Directive amendment implementation has been a determining factor for CSR insurance levels.

Following this analysis I re-evaluate the distribution of GRI-related Level A and Level B reports and conclude that FC countries have increased their Level A reports by 16%, while this percentage is at 7% for Compliant and CF countries. On the other hand, I see that the Level B reports for FC countries has only increased by 6%, while the CF and Compliant countries have increased by 12% and 14%, respectively. Once again, this reflects the general trend of shifting away from Non-GRI reports to entrance level GRI reports.

Dividing the sample to reflect listed and nonlisted first time reporting large Enterprises I find similar results. Under listed first time reporting large Enterprises, FC countries have faced a 33% [$\chi^2(1, N=59)=2.179, p>0.05; \Phi=0.358, p>0.05$] drop in Non-GRI reports after the publication of the amendments. For CF countries this decrease is 34% [$\chi^2(1, N=59)=2.104, p>0.05; \Phi=0.342, p>0.05$]. When I look at the second categorization for compliance level, the decrease for compliant countries is 21% [$\chi^2(2, N=59)=2.286, p>0.05; \Phi=0.356, p>0.05$]. However, it must be noted that the decrease for compliant (fully or partially) is reflected under listed large Enterprises hosted under Non-Compliant countries, as well. At 13% [$\chi^2(1, N=59)=0.411, p>0.05; \Phi=0.131, p>0.05$]- 17% [$\chi^2(1, N=59)=0.694, p>0.05; \Phi=0.167, p>0.05$] Non-Compliant countries have too faced a reduction under their Non-GRI reports. Since the results for compliant countries are repeated for Non-Compliant countries I cannot claim that listed large Enterprises (for first-time reporters) have reduced their Non-GRI reports as a direct result of the amendment. This claim is easier to make for nonlisted large Enterprises.

When compared with the results for listed large Enterprises, these firms show a sharper difference between the percentage changes for compliant and Non-Compliant countries. Looking at the second categorization for compliance level, I see that the overall compliance countries have reduce their Non-GRI reporting by 21% [$\chi^2(1, N=145)=2.765, p>0.05; \Phi=0.213, p>0.05$] after the publication of the Accounting Directive amendment. Non-Compliant countries, on the other hand, have faced only a

2% [$\chi^2(1, N=145)=0.021, p>0.05; \Phi=0.016, p>0.05$] drop in Non-GRI reporting. Under the first categorization of compliance level, this difference is even more distinct. FC countries Non-GRI reporting has been reduced by 25% [$\chi^2(1, N=145)=2.755, p>0.05; \Phi=0.259, p>0.05$] and CF countries by 12% [$\chi^2(1, N=145)=0.427, p>0.05; \Phi=0.116, p>0.05$]. Comparing these results to only a 3% [$\chi^2(1, N=145)=0.075, p>0.05; \Phi=0.032, p>0.05$] drop under Non-Compliant countries does not take away from the conclusion.

Finally, I shall analyze the reporting practices of SMEs under the overall sample and divide it according to their reporting practices; first time and consecutive reporters. The results for the overall sample of SMEs are presented below, under Table 35.

Table 35: Distribution for SMEs Separated According to Listed/Nonlisted Firms

SMALL AND MEDIUM SIZED ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	-0.067	0.025	0.079	-0.065	0.088
Level B	0.250	0.124	-0.007	0.206	0.047
Level A	-0.184	-0.149	-0.072	-0.140	-0.135



	LISTED SME			NON-LISTED SME		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.024	0.143	0.014	-0.083	0.027	0.091
Level B	-0.019	0.229	-0.083	0.302	0.109	0.001
Level A	0.043	-0.371	0.069	-0.218	-0.136	-0.091
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.007		0.000	-0.073		0.113
Level B	0.126		-0.059	0.215		0.061
Level A	-0.133		0.059	-0.142		-0.174

Previously, when I analyze the reporting practices of SMEs under FC countries, I find a 7% decrease in Non-GRI reports after the publication of the Accounting Directive amendment. Upon further analyzing data by dividing the GRI related report into their levels, it is determined that the increase is a result of a shift to Level B by firms. When compared to the high results generated under first time reporters, the percentage decrease detected under the overall sample of SMEs is quite small. However, when coupled with an increase under Non-Compliant countries Non-GRI reporting practices, this offers a weak but supportive evidence for the hypothesis. This result is repeated under the second categorization of compliance level.

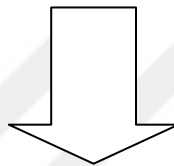
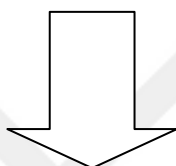
Moving on, I further separate the sample SME firms into two groups. This allows us to determine whether or not reporting practices differ among listed and nonlisted SMEs.

When I analyze Table 35, I find that neither listed nor nonlisted SMEs reporting practices deviate from the overall sample. Under FC countries listed SMEs, Non-GRI reports have only decreased by 2% [$\chi^2(1, N=58)=0.018, p>0.05; \Phi=0.025, p>0.05$] after the publication of the Accounting Directive amendment. For FC countries nonlisted SMEs, this amount is only 8% [$\chi^2(1, N=438)=1.544, p>0.05; \Phi=0.097, p>0.05$].

When I separate the sample according to the second categorization of compliance level, this result is repeated. Table 36 depicting these results are provided below.

Table 36: Distribution for Consecutively Reporting SMEs Separated According to Listed/Nonlisted Firms

Consecutive Reporters					
SMALL AND MEDIUM SIZED ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	0.000	-0.143	0.100	-0.121	0.095
Level B	0.147	0.214	0.100	0.242	0.071
Level A	-0.147	-0.071	-0.200	-0.121	-0.167



	LISTED SME			NON-LISTED SME		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	0.182	0.000	0.106	0.132	0.040	-0.034
Level B	0.273	0.222	0.158	0.119	0.100	0.259
Level A	-0.454	-0.222	-0.263	-0.250	-0.140	-0.224
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	0.105		0.100	0.096		0.000
Level B	0.211		0.200	0.125		0.199
Level A	-0.316		-0.300	-0.221		-0.200

Overall, CF countries have faced a reduction of 14% in Non-GRI reports. This amount is further reduced to 12% when dividing the sample of countries according to the second categorization of compliance level. Unfortunately, when I re-conduct the analysis to examine the reporting practices of listed and nonlisted SMEs I see that, overall, firms have not benefited from the harmonizing effect of the Accounting Directive amendment. However, this can not be said for first time reporting SMEs where the effect of the directive is much more pronounced. Table 37 below, supports this conclusion.

Table 37: Distribution for First Time Reporting SMEs Separated According to Listed/Nonlisted Firms

First Time Reporters					
SMALL AND MEDIUM SIZED ENTERPRISES					
	Directive Compliance Level (1)			Directive Compliance Level (2)	
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Compliant	Non-Compliant
Non-GRI	-0.435	0.183	0.13	-0.088	0.102
Level B	0.607	0.167	-0.095	0.265	0
Level A	-0.172	-0.35	-0.034	-0.177	-0.102



	LISTED SME			NON-LISTED SME		
	Directive Compliance Level (1)			Directive Compliance Level (1)		
Adherence Level of Report	Fully Compliant	Compliance with Failures	Non-Compliant	Fully Compliant	Compliance with Failures	Non-Compliant
Non-GRI	-0.667	-0.5	-0.5	-0.5	0.2	0.099
Level B	0.333	0.167	0	0.778	0.145	-0.041
Level A	0.333	0.333	-0.5	-0.278	-0.344	-0.058
	Directive Compliance Level (2)			Directive Compliance Level (2)		
Adherence Level of Report	Compliant		Non-Compliant	Compliant		Non-Compliant
Non-GRI	-0.5		0.333	-0.071		0.089
Level B	0.5		-0.667	0.25		0.077
Level A	0		0.334	-0.179		-0.166

At 44% for FC countries, first time reporting SMEs portray the success of the amendment. Further dividing the sample to reflect with the non-message SMEs gives us a similar result. After the publication of the accounting amendment listed SMEs under FC countries have shown a 67% [$\chi^2(1, N=11)=1.333$, $p>0.05$; $\Phi=0.577$, $p>0.05$] decrease in Non-GRI reports, while CF countries Non-GRI reports have decreased by 50% [$\chi^2(1, N=11)=-$, $p>0.05$; $\Phi=-$, $p>0.05$]. Unfortunately, as the Non-Compliant countries' show a similar inclination after the publication of the

amendments, I cannot clearly state that the drop in Non-GRI reports is a direct result of implementation.

However, when the analysis is repeated for the second categorization of compliance level, I see that listed SMEs under compliance countries have decreased their Non-GRI reports by 50% [$\chi^2(1, N=11)=1.2$, $p>0.05$; $\Phi=0.408$, $p>0.05$], while simultaneously Non-Compliant countries have faced an increase of 33% [$\chi^2(1, N=11)=0.833$, $p>0.05$; $\Phi=-0.447$, $p>0.05$]. Thus, although the results for compliant countries were statistically insignificant, I can state that the drop in Non-GRI reports can serve as an indicator for the disposition of implementation countries.

Further analyzing the levels for GRI related reports, I determined that the corresponding decrease in Non-GRI reports are reflected as an increase of 50% [$\chi^2(2, N=11)=3.333$, $p>0.05$; $\Phi=0.745$, $p>0.05$] under Level B reports. It can be argued that firms are increasingly integrating CSR elements under their reports.

While the results are nonlisted SMEs are not as pronounced as they are for listed SMEs, the conclusion still holds true. According to the results gained from the repeated analysis, FC countries have, when compared to Non-Compliant countries, directly benefited from the implementation of the amendment with a statistically significant 50% [$\chi^2(1, N=116)=6.118$, $p<0.05$; $\Phi=0.485$, $p<0.05$] decrease (very strong association) in Non-GRI reports. Again, I determine that firms are focusing their interests in entry level CSR reports (77% [$\chi^2(2, N=116)=5.949$, $p>0.05$; $\Phi=0.425$, $p>0.05$] increase, 28% which is the results of a decrease in Level A reports). Looking at the second categorization of compliance level, I find that the overall compliant countries Non-GRI reports have gone down by 8% [$\chi^2(1, N=116)=0.253$, $p>0.05$; $\Phi=0.071$, $p>0.05$] and contrarily, noncompliance countries' Non-GRI reports have increased by 9% [$\chi^2(1, N=116)=0.534$, $p>0.05$; $\Phi=-0.09$, $p>0.05$]. This offers weak but supportive evidence the hypothesis.

Overall, a brief summary of my findings are presented below. I conducted a 3-way chi-square analysis in order to test my hypothesis "the implementation of the Accounting Directive amendment has increased the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries". I determined that, when re-evaluating the sample to consider Accounting Directive recognized criteria, the harmonizing effect of the amendment is apparent. This

analysis offers supportive evidence to the literature and adds to the argument that undertaking regulation levels under the market can have a positive effect (Al-Akra, Eddie and Ali, 2010; Yeoh, 2005) on harmonizing and improving financial report comparability.

Ultimately, by re-evaluating the hypothesis according to the overall sample and consecutive reporters sample, I determined that the harmonization level of CSR reporting does not defer in terms of the differentiating criteria recognized by the Accounting Directive. Separated according to firm size the GRI implementation levels for multinational, large and small – medium-sized enterprises indicate a statistically insignificant association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports”. However, when the sample of reports are analyzed for first time reporters, I determined that these firms FC countries have faced a reduction in Non-GRI reports at 18% [$\chi^2(1, N=429)=3.906$, $p<0.05$; $\Phi=0.178$, $p<0.05$], while Compliant countries Non-GRI reports have reduced by 19% [$\chi^2(1, N=429)=7.479$, $p<0.01$; $\Phi=0.192$, $p<0.01$].

Additionally, large, multinational and small – medium-sized enterprises are affected (at different levels) by the implementation of the amendment. For first time reporting Multinational Enterprises, I detect a 35% [$\chi^2(1, N=97)=5.759$, $p<0.05$; $\Phi=0.333$, $p<0.05$] statistically significant (strong level of association) drop in non-GRI reports under compliance countries. This percentage goes up to nearly 51% [$\chi^2(1, N=97)=5.042$, $p<0.05$; $\Phi=0.458$, $p<0.05$] for CF countries with a statistically significant (very strong level) association). For large enterprises, I determined that, under compliance countries, there is a 21% [$\chi^2(1, N=204)=3.981$, $p<0.05$; $\Phi=0.205$, $p<0.05$] reduction in non-GRI reports and that this reduction is statistically significant with a moderate level association. Finally, for small and medium-sized enterprises, I determined that FC countries face a reduction of 44% [$\chi^2(1, N=127)=5.687$, $p<0.05$; $\Phi=0.435$, $p<0.05$] after the publication of the accounting directive amendment and that this reduction is statistically significant with a very strong level of association between the variables. Thus, it can be argued that the null hypothesis of "no association" is rejected for the full sample of first time reporters and when sample is reconstructed to reflect the criteria of firm size.

Re-evaluating the hypothesis according to the overall sample and consecutive reporters sample divided according to listed/non listed firms, I determined that ultimately, the harmonization level of CSR reporting does not defer in terms of the differentiating criteria recognized by the Accounting Directive. Separated according to firm listing status, the GRI implementation levels for multinational, large and small – medium-sized enterprises indicate a statistically insignificant association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports”. However, when the sample of reports are analyzed for first time reporting firms, I am faced with contrary results. For first time reporting firms, I detect a 28% [$\chi^2(1, N=136)=3.98, p<0.05; \Phi=0.288, p<0.05$] statistically significant (moderate level of association) drop in non-GRI reports under FC countries for listed firms. This amount is 26% [$\chi^2(1, N=136)=4.919, p<0.05; \Phi=0.253, p<0.05$] with a moderate level of association for compliant countries. For nonlisted firms under first time reporters, I detect a 26% [$\chi^2(1, N=293)=5.452, p<0.05; \Phi=0.27, p<0.05$] statistically significant (moderate level of association) drop in non-GRI reports under FC countries. However, this amount is 19% [$\chi^2(1, N=293)=4.543, p<0.05; \Phi=0.19, p<0.05$] with a weak level of association for compliant countries. Thus, it can be argued that, the null hypothesis of "no association" is rejected for listed and nonlisted first time reporting firms .

Re-evaluating the hypothesis according to the overall sample and consecutive reporters sample divided according to listing status and firm size, I determined that ultimately, the harmonization level of CSR reporting does not defer in terms of the differentiating criteria recognized by the Accounting Directive. Separated according to the criteria, the GRI implementation levels for multinational, large and small – medium-sized enterprises indicate a statistically insignificant association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports”. However, when the sample of reports are analyzed for first time reporting firms, I determine that Nonlisted SME of FC countries face a 50% [$\chi^2(1, N=116)=6.118, p<0.05; \Phi=0.485, p<0.05$] statistically significant (very strong level of association) drop in Non-GRI reports. Thus, it can be argued that, the null hypothesis of "no association" is rejected for nonlisted SMEs.

Following the main analysis for testing our hypothesis, we shall now move on to testing the robustness of our results with multiple sensitivity analysis.

5.2. SENSITIVITY ANALYSIS

This section addresses the factors that could potentially drive CSR reporting practices and affect the robustness of our above depicted results. These factors are important to consider when evaluating the success or failure of the EU harmonization efforts undertaken regarding CSR. As mentioned before, regulatory requirements do not exist in a vacuum and the success of the regime can be affected by a number of factors (Shleifer, 2005: 1). Thus, I conduct multiple sensitivity analysis in order to further analyze the results of our hypothesis. The results to the analysis are presented below.

While testing for the main hypothesis in the previous section, I divided the sample according to the listing status of the firm and analyzed the effect the accounting directive amendment had on the harmonization of CSR reporting practices. Ultimately, I determined that, for the overall sample, the amendment had not had a statistically significant effect post implementation for listed firms. This result also held true for Compliant countries' listed firms. Additionally, the analysis was also repeated for multinational Enterprises, large enterprises and small- and medium-sized enterprises. Under Multinational and Large Enterprises, I conclude that the adherence level of CSR reports is not determined by the publication of the amendment and country based implementation status, and that these listed firms have not benefited from the harmonizing effect of the accounting directive amendment. Finally, I analyze the reporting practices of SMEs under the overall sample and find that, while the cross-tabulation of the chi-square test of independence points to a reduction in Non-GRI reports after the publication of the Accounting Directive amendment for implementing countries, the significance test point to a weak and statistically insignificant relationship.

With this in mind, I conduct a sensitivity analysis in order to determine, if not by the implementation of the amendments, whether or not listed firms 'under the

overall sample' are affected by the influence of stock exchange commitment to the CSR agenda. The results of the analysis are presented under Table 38.

By employing use of a correlation analysis, I examine the relationship between the overall CSR adherence level of implementing countries and the existence of a Sustainability Index within the stock exchange. I determined that there is a statistically moderate, negative relationship ($r(18)=-0.537$, $p<0.05$) between the Non-GRI adherence percentage at country level and the existence of a sustainability index under the countries stock exchange for listed firms. That is to say, listed firms hosted under countries with a higher percentage of Non-GRI reports do not have a Sustainability Index under their stock exchange (0= country exchanges that do not have a sustainability index). Stated differently, listed firms hosted under countries with a higher percentage of CSR adherence levels have a Sustainability Index under their stock exchange. Thus, it can be argued that (coupled with the results reached under the main analysis), listed firms CSR reporting practices are driven by the existence of a Sustainability Index rather than the country wide implementation of the accounting directive amendment.

Furthermore, upon recalculating the Non-GRI adherence percentage at country level for firms of each size, I find that for listed MNEs there is a statistically moderate, negative relationship ($r(18)=-0.453$, $p<0.05$) between the Non-GRI adherence percentage at country level and the existence of a Sustainability Index under the countries stock exchange. Stock exchanges play an important and strategic role in global efforts towards sustainable development. Having said that, under the current sustainability agenda, numerous international initiatives have been developed for ensuring the widespread and harmonized adoption of CSR practices. One of which has been the formation of Sustainability Indexes. Requiring the satisfaction of certain listing criteria by firms, these indexes impose additional responsibilities and as can be understood from the analysis, are a driving force in effecting CSR harmonization for firms listed on the stock exchange. Upon dividing the sample according to firm size, we determine that listed MNEs report levels are improved by the existence of these indexes, more so than the country wide implementation of the Accounting Directive amendment. This result is further supported when I analyze the relationship for nonlisted firms (divided according to firm size).

Table 38: The Influence of Stock Exchange Commitment to the CSR Agenda- Correlation Analysis

<u>Directive Implementing Countries</u>		<u>Non Directive Implementing Countries</u>	
Listed	Not Listed	Listed	Not Listed
Pearson r(18)=-0.452, p>0.05 Spearman's r(18)=-0.537, p<0.05	Pearson r(18)=-0.112, p>0.05 Spearman's r(18)=-0.091, p>0.05	Pearson r(12)=-0.140, p>0.05 Spearman's r(12)=-0.048, p>0.05	Pearson r(12)=-0.162, p>0.05 Spearman's r(12)=-0.193, p>0.05
<i>Large Enterprises</i>	<i>Large Enterprises</i>	<i>Large Enterprises</i>	<i>Large Enterprises</i>
Pearson r(18)=-0.318, p>0.05 Spearman's r(18)=-0.298, p>0.05	Pearson r(18)=-0.391, p>0.05 Spearman's r(18)=-0.364, p>0.05	Pearson r(12)=-0.532, p>0.05 Spearman's r(12)=-0.535, p>0.05	Pearson r(12)=-0.092, p>0.05 Spearman's r(12)=-0.024, p>0.05
<i>Multinational Enterprises</i>	<i>Multinational Enterprises</i>	<i>Multinational Enterprises</i>	<i>Multinational Enterprises</i>
Pearson r(18)=-0.507, p<0.05 Spearman's r(18)=-0.453, p<0.05	Pearson r(18)=+0.523, p<0.05 Spearman's r(18)=+0.521, p<0.05	Pearson r(12)=+0.10, p>0.05 Spearman's r(12)=+0.85, p>0.05	Pearson r(12)=+0.22, p>0.05 Spearman's r(12)=+0.49, p>0.05
<i>Small and Medium Sized Enterprises</i>	<i>Small and Medium Sized Enterprises</i>	<i>Small and Medium Sized Enterprises</i>	<i>Small and Medium Sized Enterprises</i>
Pearson r(18)=-0.418, p>0.05 Spearman's r(18)=-0.393, p>0.05	Pearson r(18)=-0.321, p>0.05 Spearman's r(18)=-0.327, p>0.05	Pearson r(12)=-0.569, p>0.05 Spearman's r(12)=-0.557, p>0.05	Pearson r(12)=+0.086, p>0.05 Spearman's r(12)=+0.098, p>0.05

As presented under Table 38, the Non-GRI adherence percentage at country level and the existence of a Sustainability Index under the countries stock exchange are not correlated for nonlisted firms ($r(18)=-0.091$, $p>0.05$). This result is repeated for nonlisted firms of all sizes. Under nonlisted MNEs there is a statistically moderate, positive relationship ($r(18)=+0.521$, $p<0.05$). Stated differently, nonlisted MNEs hosted under countries with a lower percentage of CSR adherence levels have a sustainability index under their stock exchange. The fact that the relation between the variables is only confirmed for listed firm and not for nonlisted firms offers supportive evidence that, overall, the existence of a Sustainability Index is a, albeit moderate, driving force in effecting CSR reporting levels.

I also conduct the same analysis for Non Directive implementing countries and I determine that, unlike implementing countries, the Non-GRI adherence percentage at country level and the existence of a Sustainability Index under the countries stock exchange are not correlated. It can be argued that listed firms under implementing countries, when compared to their counterpart under non-implementing countries ($r(12)=-0.048$, $p>0.05$), are much more aware/take interest in Sustainability Indexes. As there is a statistically significant relationship between adherence levels and the existence of an index for listed firms under implementing countries vs. the statistically insignificant relationship for listed firms under non-implementing countries, it can also be argued that listed firms under implementing countries reflect the general stance of the country for the CSR agenda.

Following this, I move on to analyze the effect of industry dominance level at country level and the potential relation with CSR reporting. As argued before, industry uniqueness, industry internal competencies and external pressure could create specialization in regards to social interests of firm (Griffin and Mahon, 1997:1). Thus, it is important to compare CSR reporting levels of countries according to the dominance of a certain industry under the sample. This will aid in determining whether or not patterns of social performance are specific to a single industry. With the EU Committee itself advocating differentiated approaches by industry in CSR activities (Official Journal of the European Union, 2016: 5), this analysis holds an important place in increasing the internal validity of the study. I initially conduct a sensitivity analysis for each type of industry coded under the GRI database and later

condense these codes to reflect the groups recognized by the Turkish Public Oversight Platform. The results to the condensed industry groupings are presented under Table 39.

According to the analysis conducted on the condensed industry groupings, there is a statistically strong, negative relationship between the Non-GRI adherence percentage at country level and the industry dominance level for the “Food and Beverage Products” ($r(18)=-.643$, $p<0.05$) and the “Transportation, Communication and Storage” ($r(18)=-.639$, $p<0.05$) industries.

Moreover, the analysis was repeated for Level A and Level B reports and the results were confirmed for the “Food and Beverage Products” industry. Finally, the results to the initial test are presented under Appendix 11-12. According to the initial test where the 38 industry codes of the GRI Database are included under the correlation analysis without condensing industry groupings, I again find a statistically strong, negative relationship between the Non-GRI adherence percentage at country level and the industry dominance level for the “Food and Beverage Products” ($r(18)=-.643$, $p<0.05$). This result supports the argument put forth by Maloni and Brown (2006) that the “Food Industry” CSR applications contain extensive elements because of the many significant risks from public criticism. On the other hand, the lack of significant correlation for the remaining groups is supportive of the arguments presented by Trencansky and Tsaparlidis (2014) that there is no significant effect of industry type on the level of CSR activities.

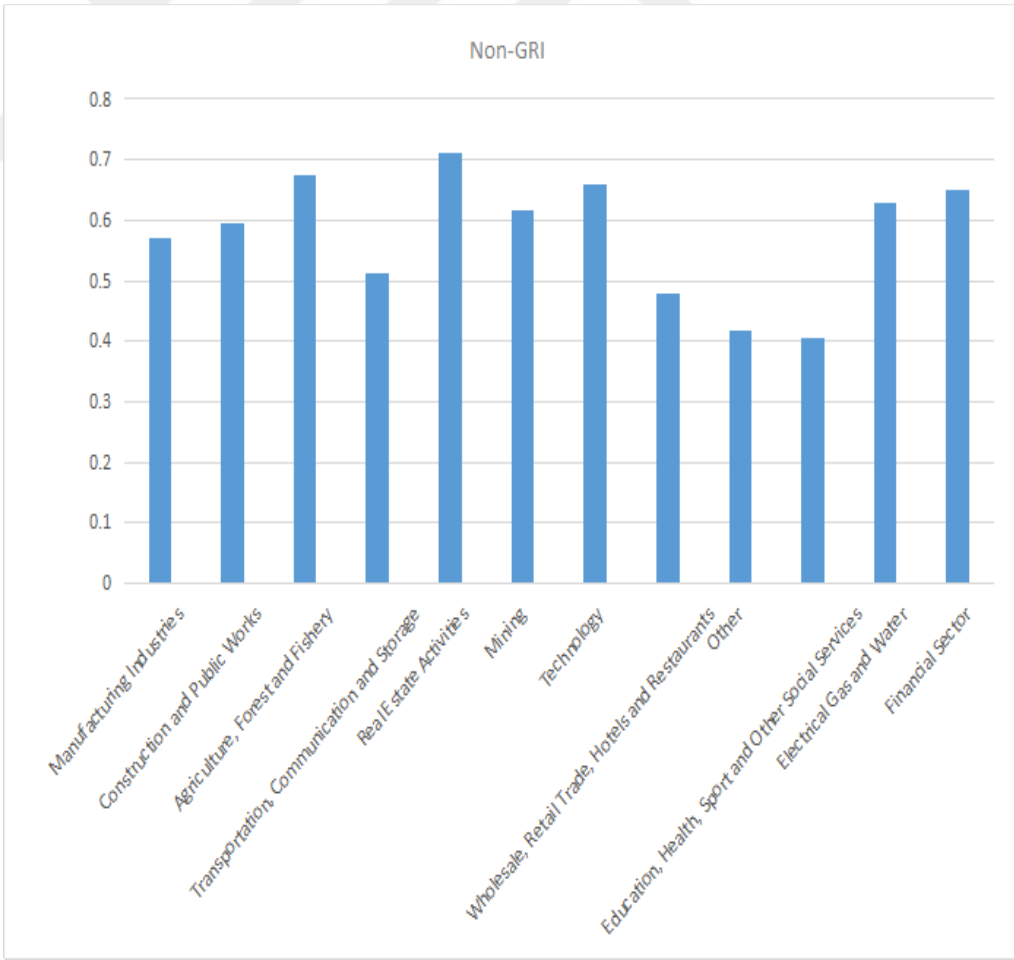
Table 39: Industry Dominance Level in Country- Correlation Analysis

	Spearmans			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
Grouped: Construction and Public Works	0.071	p>0.05	18	0.04	p>0.05	18
Grouped: Manufacturing Industries- Chemical, Oil Rubber and Plastic Products	0.104	p>0.05	18	0.379	p>0.05	18
Grouped: Financial Sector	-0.193	p>0.05	18	-0.217	p>0.05	18
Grouped: Agriculture, Forest and Fishery	0.224	p>0.05	18	-0.452	p>0.05	18
Grouped: Manufacturing Industries- Metal Goods, Machinery and Machinery	-0.312	p>0.05	18	0.137	p>0.05	18
Grouped: Manufacturing Industries- Paper and Paper Products, Printing and Publication	0.156	p>0.05	18	-0.407	p>0.05	18
Grouped: Manufacturing Industries- Metal Main Industry	0.03	p>0.05	18	0.03	p>0.05	18
Grouped: Manufacturing Industries- Weaving, Clothing and Leather	-0.119	p>0.05	18	0.092	p>0.05	18
Grouped: Manufacturing Industries- Food, Drink and Tobacco	-.592**	p<0.05	18	-0.128	p>0.05	18
Grouped: Transportation, Communication and Storage	-0.105	p>0.05	18	-.639**	p<0.05	18
Grouped: Real Estate Activities	0.08	p>0.05	18	-0.159	p>0.05	18
Grouped: Mining	-0.126	p>0.05	18	0.093	p>0.05	18
Grouped: Technology	0.025	p>0.05	18	-0.342	p>0.05	18
Grouped: Wholesale, Retail Trade, Hotels and Restaurants	0.056	p>0.05	18	0.244	p>0.05	18
Grouped: Other	-0.27	p>0.05	18	-0.003	p>0.05	18
Grouped: Education, Health, Sport and Other Social Services	-0.244	p>0.05	18	-0.219	p>0.05	18
Grouped: Electrical Gas and Water	0.231	p>0.05	18	-0.387	p>0.05	18
Grouped: Manufacturing Industries	-0.296	p>0.05	18	0.377	p>0.05	18

In order to further test for the robustness of the results, the country factor is removed from the analysis and the relationship between Non-GRI reporting prepared without consulting international sustainability frameworks and the industry groupings are displayed along two axes. Figure 3 is presented below. According to a

visual analysis of the graph, it can be stated that the Non-GRI reports published under the industry groupings of “Real Estate Activities”, “Agriculture, Forest and Fishery”, “Mining”, “Technology”, “Electric, Gas and Water” and the “Financial Sector” are over 60%. Stated differently, the GRI Related reports published under these industries (Level A and B) are below 40%. The lowest GRI Related reports published (Level A and B) are under the “Real Estate Activities” industry grouping at below 30%. On the other hand, “Education, Health, Sport and Other Social Services” have the highest level of GRI Related reports published (Level A and B) at nearly 60%. The “Other”, “Wholesale, Retail Trade, Hotels and Restaurants” and “Transportation, Communication and Storage” industry groupings closely follow between a 40-50% range. The information for Level A and B are presented under Appendix 18-19.

Figure 3: Industry Dominance Level Calculated at Firm Level



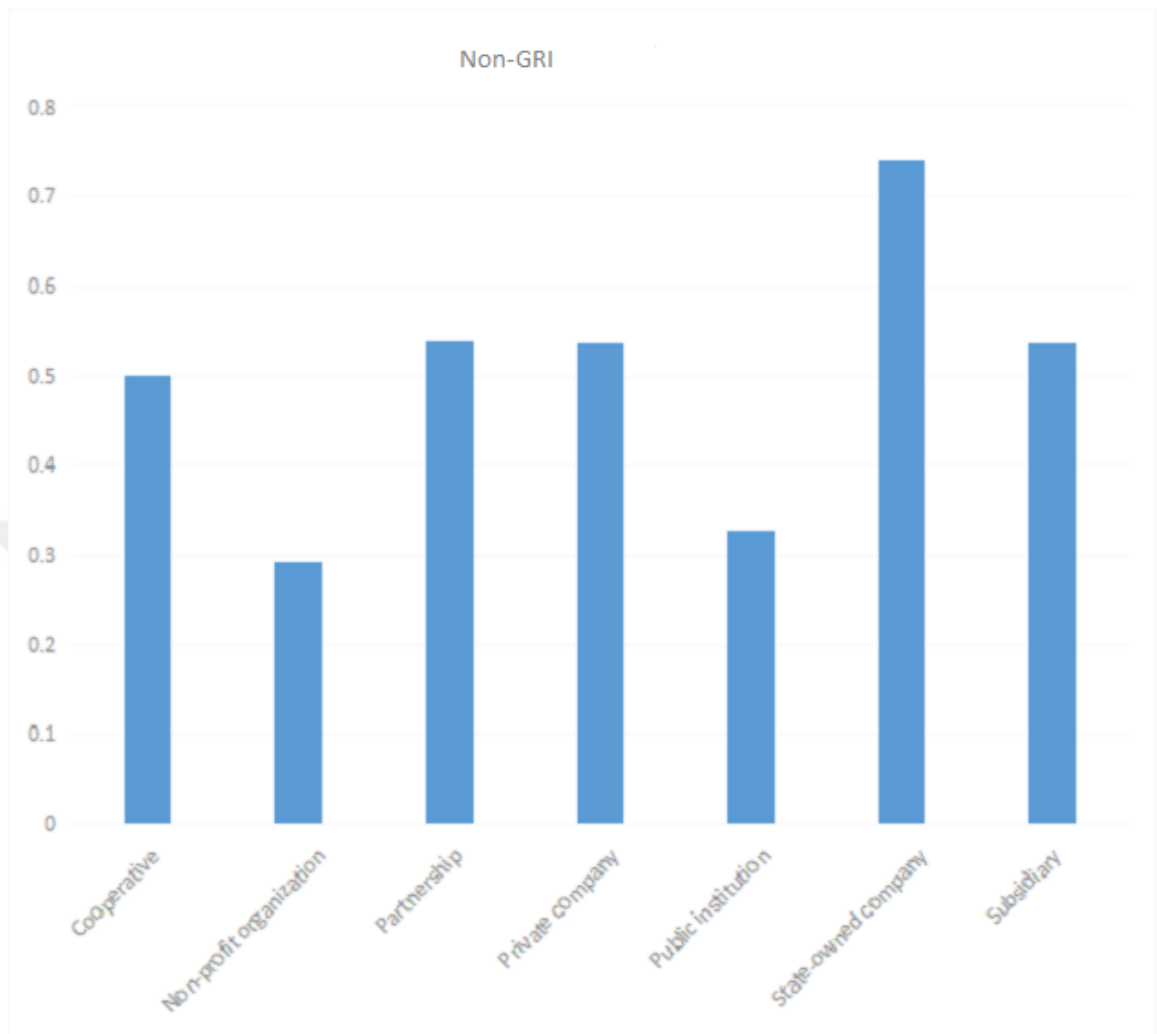
Following this, I move on to test for the potential effect of firm type dominance level at country level and the potential relation with CSR reporting. Contrary to what is reported by the Employment, Social Affairs and Inclusion (2014) and Al-Gamrh and AL-Dhamari (2016), the results of the analysis show that, according to the classification afforded under the GRI Database, reports published do not indicate a pattern of social performance are specific to firms of a certain type. The results for the firm type analysis are presented under Table 40. Repeating the analysis for Level A and Level B reports yields similar results (presented under Appendix 17).

Table 40: Sensitivity Analysis- Company Type Dominance Level in Country

	Spearman			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
Cooperative	0.323	p>0.05	18	0.28	p>0.05	18
Non-profit organization	-0.006	p>0.05	18	-0.032	p>0.05	18
Partnership	-0.299	p>0.05	18	-0.442	p>0.05	18
Private company	0.338	p>0.05	18	0.382	p>0.05	18
Public institution	0.065	p>0.05	18	0.032	p>0.05	18
State-owned company	-0.034	p>0.05	18	-0.068	p>0.05	18
Subsidiary	-0.424	p>0.05	18	-0.355	p>0.05	18

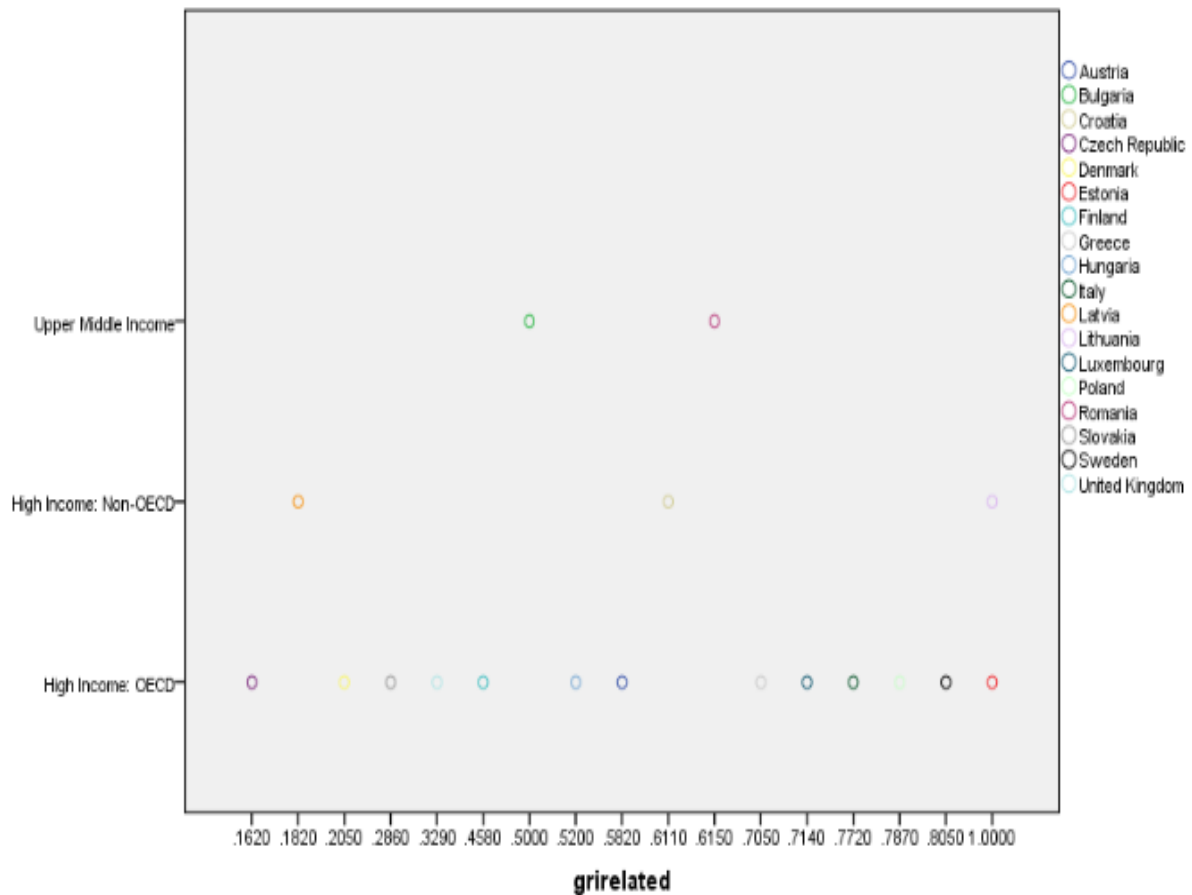
In order to further test for the robustness of the results, the country factor is removed from the analysis and the relationship between Non-GRI reporting prepared without consulting international sustainability frameworks and the firm types are displayed along two axes. Figure 4 is presented below. According to a visual analysis of the graph, it can be stated that state owned companies have the highest level of the Non-GRI reports at over 70%. On the other hand, I determine that cooperatives, partnerships, private companies and subsidiaries are equally divided in terms of their GRI reporting practices at 50%. Finally, non-profit organizations and public institutions Non-GRI reporting levels near 30%.

Figure 4: Sensitivity Analysis -Company Type (Firm Level)



I next test for the existence a pattern of social performance under Directive implementing countries separated according to income level (high income OECD, high income Non-OECD and upper middle income) and gross domestic product per capita. Figure 5 depicts the results for income below.

Figure 5: Sensitivity Analysis-Income



A visual analysis of the provided graph indicates that the % distribution of GRI Related reports are not affected by the level of income. Out of the 18 countries that implemented the Accounting Directive amendment, 13 are high income: OECD countries, while only 3 are high income: Non-OECD and 2 countries are upper middle income. The 13 countries coded as high income: OECD hold a range of 16%-100% and do not indicate a pattern of social performance. A correlation analysis conducted on the gross domestic product per capita also supports this result. By employing use of a correlation analysis, I examine the relationship between the overall CSR adherence level of implementing countries and the gross domestic product per capita. I determined that there is a statistically insignificant relationship ($r(18)=-0.038$, $p>0.05$) between the Non-GRI adherence percentage at country level and GDP. That is to say, there is no relationship between countries with a higher/lower percentage of Non-GRI reports and the gross domestic product per capita. Thus, it can be argued that (coupled with the results reached under the graph

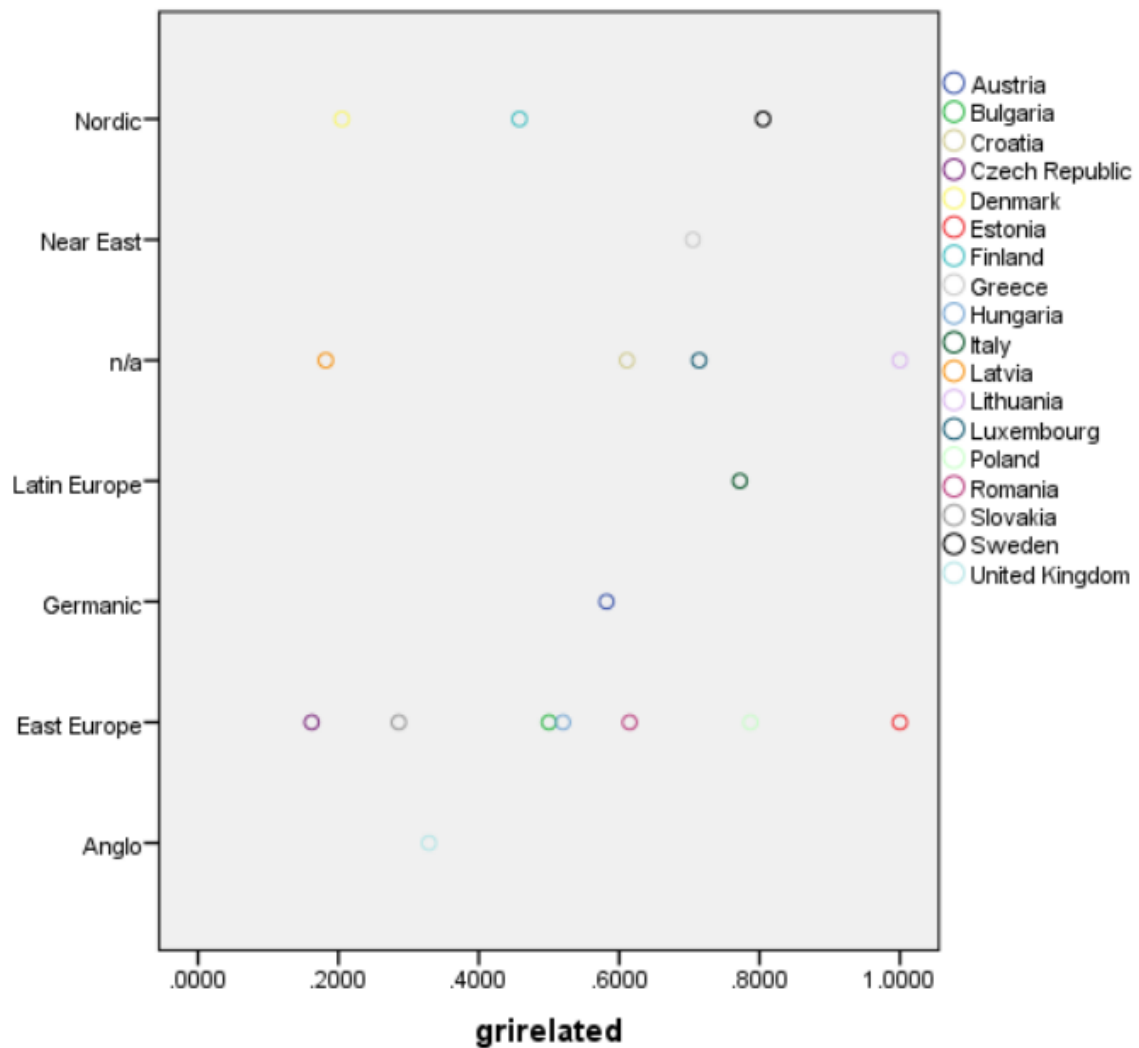
and the conclusion reached under Chapple and Moon, (2005)), CSR reporting practices are not driven by GDP. Table 41 shows the results for the correlation analysis between the variables. Repeating the above analysis for Level A and Level B reports yields similar results. The results are presented under Appendix 15-16.

Table 41: Sensitivity Analysis-GDP

	Spearman			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
GDP	-0.082	p>0.05	18	-0.038	p>0.05	18

Finally, I conduct a sensitivity analysis and test for the potential effect of country culture and the potential relation with CSR reporting. The results of the analysis show that, according to the culture cluster classification afforded under Ronen and Shenkar (2013), reports published do not indicate a pattern of social performance. The results for the analysis are presented under Figure 6. Repeating the analysis for Level A and Level B reports yields similar results.

Figure 6: Sensitivity Analysis- Global Cluster (Culture Cluster)



A visual analysis of the above graph shows that the % distribution of GRI Related reports are not affected by country culture. The 7 countries coded under East Europe hold a range of 37%-100% and do not indicate a pattern of social performance. This result also hold true for countries left out of the Ronen and Shenkar (2013) classification and Nordic culture cluster. Finally, I employ use of Hofstede's culture dimensions and analyze the relationship between the overall CSR adherence level of implementing countries and culture. The results of the correlation analysis is presented below, under Table 42.

Table 42: Sensitivity Analysis- Hofstede

	Spearman			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
% of Power Distance	-0.042	p>0.05	18	-0.047	p>0.05	18
% of Individualism	-0.048	p>0.05	18	-0.158	p>0.05	18
% of Masculinity	-0.119	p>0.05	18	-0.132	p>0.05	18
% of Uncertainty Avoidance	0.232	p>0.05	18	0.279	p>0.05	18
% of Long Term Orientation	0.097	p>0.05	18	0.186	p>0.05	18
% of Indulgence	-0.077	p>0.05	18	-0.138	p>0.05	18

I determined that there is a statistically insignificant relationship between the Non-GRI adherence percentage at country level and Hofstede cultural dimensions. That is to say, there is no relationship between countries with a higher/lower percentage of Non-GRI reports and the 6 cultural dimensions; Power/Distance, Individualism/Collectivism, Masculinity/Femininity, Uncertainty/Avoidance, Long/Short Term Orientation and Indulgence/Restraint. Thus, it can be argued that (coupled with the results reached under the graph), CSR reporting practices are not driven by country/national culture. Confirming the current arguments provided under literature (Ríos-Figueroa, 2016; Rotberg, 2016; Maali; 2016) Repeating the above analysis for Level A and Level B reports yields a slightly different result (presented under Appendix 13-14).

Under the analysis conducted for Level B report, I determined that there is a moderate statistically significant positive relationship ($r(18)=0.556$, $p<0.05$) between the Non-GRI adherence percentage at country level and uncertainty avoidance. Stated differently, as the Non-GRI reports decrease/increases, the national uncertainty avoidance level decreases/increases. It can be argued that, as originally hypothesized by Maali (2016), as the level of information being provided under firm disclosures increase- the cultural dimension of uncertainty avoidance (which represents the level of anxiety that members feel when faced with uncertain/unknown situations) decreases.

CONCLUSION

With a lack of consensus under the CSR literature and practice, the principle based EU Accounting Directive and its amendment was published in order to ensure “relevant, consistent and comparable” [“D.2014/95/EU” item 21] CSR information is achieved across the Member States. However, while uniquely positioned in ensuring the widespread and harmonized adoption of CSR practices, the Directive transposition efforts of the EU Member States and Candidate Countries are still ongoing. Thus, this creates a motivation to analyze and explore current harmonization level for CSR practices within the EU because, unless national provisions are not aligned with European Union rules, the shared goal of achieving a united Europe cannot be realized.

Exploring the views presented under the Public Interest Theory of Regulation and the literature regarding the effect of imposing regulation, I test for a positive effect on harmonizing and improving financial report comparability and look for a significant increase in the GRI Related reports (distributed as Level B and Level A) for Directive Implementing countries after the publication of the amendment. Consistent with the arguments under (Healy and Palepu, 2001), the Directive has-to an extent- had a harmonizing effect on CSR reports published by EU Member States and Candidate Countries.

The study aimed to offer a unique look at the current harmonization trend for non-financial disclosures under the EU. It also aimed to provide policy recommendations useful in designing effective social and environmental accountability process and facilitate accountability for organizations across the EU.

The study was separated into five sections. Under the first section I analyzed the topic of Corporate Social Responsibility in detail. Before responding to the call for harmonization of CSR information, it is imperative to first break down the development of the concept. Throughout the first section, I trace the theoretical roots and foundations of the concept as far back to the 1930s and highlight the movements success in facilitating CSR development under modern literature. I also detail the level of awareness/credibility the sustainability movement

has generated and provide examples from literature to reflect the interest generated toward CSR reporting on a global scale.

Evolving from cases of excessive use of power of large corporations, the lack of corporate accountability (Sage Publications, 2011: 146) and unprecedented economic growth (Macintosh, 1999: 145)- the roots of the concept initially sprung from corporate law, tied closely to society's interests and the overall role of business. Today, the CSR agenda faces efforts to harmonize reporting requirements under firms to increase comparability of practices and align European and global approaches (OJEU, 2012a: 2).

Upon conducting a detailed review of the related literature, I determine that early definitions of CSR were tied more to society's interests (Wood and Jones, 1995: 132) than to those of the firm. The central issue was the role of business. Initially evolving from the philosophy on which the US securities legislation was based, CSR aided in defining the fiduciary duty for management (Sage Publications, 2011: 146) to ensure the managers employed their powers for “the benefit of all the shareholders as their interests appears”.

Following this, the CSR literature slowly shifted to include considerations for external stakeholders and with a growing concern for society, the increasing complexity of the industry and the power now afforded to large-scale organization- the value of good governance was highlighted for achieving the means of thriving within the business domain, while simultaneously achieving public good (Barnard, 1948: 15). With that said, the notion of realizing a “thriving business” quickly gained popularity and CSR literature underwent a clear paradigm shift.

Groups started emerging arguing that the business is solely an economic institution with its responsibilities limited to the "economy aspect of public welfare" (Davis, 1960: 73). As a champion of this view, Friedman (1970) argued that, unless the corporation in question is a nonprofit organization, their responsibility must be to "make as much money as possible, while conforming to the basic rules of society" (laws and ethical customs) (Friedman, 1970: 1).

The literature published on CSR following these articles rejected the notion that the sole responsibility of the organization was to generate profit and aimed at “rediscovering” how businesses may create shared value under the business and

society (Bowen, 2013: xiii). The importance levied on profit was reduced in light of the businesses role in society.

Finally, representing the final stage of the CSR movement, ‘stakeholder theory’ was launched and quickly became highly relevant for the CSR agenda. Today, the seeds of “stakeholder theory” and the work of pioneering authors who integrated the subject under social responsibility can be viewed under various successful CSR initiatives and European Union regulation. With this in mind, I next analyzed the involvement of the European Union/European Unions organizations and their view on a new unified definition for CSR under section two.

Baring the responsibility (European Commission, 2011a: 3) to restore confidence in a market that has been severely shaken, the European Parliament and the European Union Commission adopted measures at the Union level in order to better achieve the desired affect of submitting reliable and consistent information that is comparable from one organization to another. Striving to achieve the proposed goals of the European Union 2020 strategy, the Commission set out; to reaffirm the European Union influence (European Commission, 2011b: 6), to work out the weaknesses of the market and assist business by establishing an organizational structure capable of delivering the expected benefits (European Union Trade Union Confederation, 2011: 1). The Commission argues that it is only through the publication of these elements that accountable, transparent and reliable business practices can be achieved (European Commission, 2011b: 11).

Evolving out of the Single Markets movement towards fair and environmentally sustainable growth and reflecting the final stage under the evolution of the CSR movement, numerous European Union strategies and communications have referenced the CSR agenda and has been instrumental in achieving a solid foundation for today’s practices.

Following this, the European Commission launched the Social Business Initiative to improve the financial, administrative and legal environment of businesses and provide a lasting impact on the society, the environment and the local community (European Commission, 2013a: 4). Furthermore, the European Commission consulted with the European Union Economic and Social Committee (OJEU, 2012a: 1) and published the Renewed European Union Strategy, which was

launched as part of the plans for achieving responsible business. The strategy aimed to support the Social Business Initiative and provided a proposal to revise the Transparency and Accounting Directives (Business European Union, 2012: 3).

Not only have these events been instrumental in facilitating effective discussions on CSR, but have created an inclusive environment where national and international agencies alike may make their opinions known and have also had significant bearing on how regulators choose to influence business conduct for CSR concerns. The European Union strategies have especially benefited from these discussion and the stage has been set for the development of the CSR agenda

Under section three, I analyze the culmination of the European Union cooperation efforts surrounding the debate of CSR, is the Accounting Directive and its amendment [Directive (2013\34\European Union and (2014\95\ European Union)]. This document highlights the contribution accountants have made on the issue. The principle based directive is fundamental for reaching harmonized legal requirements for firms of all types and sizes. This Directive has aimed to facilitate cross-border investment, improve financial report comparability and has attempted to increase the public confidence in financial and management reports by use of enhanced and consistent specific disclosures across the European Union Member States. It holds an important place in combating the distortions in the Market and works in tangent with the International Financial Reporting Standards to ensure to that capital markets continue to operate “effectively, smoothly and efficiently” (OJEU, 2002: 2).

Under section four, I continue my analysis of the Accounting Directive and amendment and test its success in ensuring comparable CSR reports under 28 EU Member States and 5 Candidate countries. With a lack of CSR reports published under 4 countries, the final sample size was 29. The study was conducted on the electronic data derived from the full sample of the sustainability reports listed under the GRI Database between the years of 2014-2015. The GRI report information was hand-collected from the reports listed under the GRI Database and the final sample size for the recorded reports was 3379.

The Accounting Directive was initially published on the 29th of June 2013 and later amended on the 15th of November 2014. According to the amendment published

to the Accounting Directive, the CSR reporting requirements are to be applied to firm financial statements published after this date 1 Jan 2017. However, countries that transposed the Accounting Directive into their national systems have the option of applying the requirements early. The transition period granted by the EC to EU Member States in order to assimilate the requirements within national law/regulation/provisions afforded an opportunity to test the CSR harmonization efforts of early adopting countries.

The 3-way chi-squared test was selected for the analysis in order to test my hypothesis “the implementation of the Accounting Directive amendment has increased the harmonization level of CSR reporting among implementing EU Member States and EU Candidate Countries” and to test for a relationship between the categorical independent and dependent variables. A statistical package SPSS version 24 for the analysis via the educational site license available to the University.

The findings to the analysis suggest that undertaking regulation levels under the market can have a positive effect (Al-Akra, Eddie and Ali, 2010; Yeoh, 2005) on harmonizing and improving financial report comparability. I determined that, when re-evaluating the sample to consider Accounting Directive recognized criteria, the harmonizing effect of the amendment is apparent.

Study provided insight the reporting practices of first time, consecutive reporters and established that first-time reporters have benefited from the harmonizing affect of the document. Overall, from the first-time reporting firms perspective, this result adds support to the argument that the amendment is a determining factor in predicting CSR adherence levels. Stated differently, the Accounting Directive amendment has had a positive effect on the harmonization efforts of the countries that implemented the document under their CSR reporting regulation at country level (19% reduction under Non-GRI, weak level association). The consecutively reporting firms have continued to adamantly follow their previous reporting practices and have, as of yet, failed to adapt to changes in CSR reporting requirements. The statistically insignificance for Non-GRI levels after the publication of the Accounting Directive amendment (and lack of supportive movement under the cross-tabulation), regardless of the implementation status of countries is indicative of the level of inattention consecutively reporting firms have given the amendment.

This result for these firms are repeated regardless of listing status and firms size (MNEs, Large Enterprises and SMEs). This result draws attention to the need for further policy recommendations in order to generate awareness of the Accounting Directive amendment and the subsequent reporting requirements. The current trend under these disclosures indicates a failure on part of the harmonization efforts of the EU and unless these issues are resolved, the goal of achieving comparable social and environmental reporting and increasing accountability levels shall remain incomplete.

On the other hand, it can be concluded from the analysis that, upon entering the CSR reporting arena, first-time reporting firms are much more likely to consult the Directive requirements and that the Accounting Directive amendment has had a positive effect on the harmonization efforts of the countries that implemented the document under their CSR reporting regulation at country level. Consecutively reporting firms have, regardless of the implementation status of the host country, continued their reporting practices after the publication of the amendment and have not, as of yet, incorporated the CSR requirements under their reports.

Following this, the GRI related publications are further divided to reflect Level A and Level B reports and it is determined that the production under Non-GRI reports has, in turn, resulted an increase under Level B reports. Thus, it can be argued that listed first time reporting firms are shifting away from Non-GRI reports and are focusing their efforts on producing Level B reports.

However, when I look at the overall sample-without taking into consideration reporting practices of firm of different sizes/types- I determined that the implementation of the Accounting Directive amendment has yet to have a harmonizing effect for CSR reporting practices of firms. The results of the chi-square test of independence establishes that the adherence level of reports are not explained by the publication and country wide implementation of the Accounting Directive amendment. With the Directive transposition efforts of the EU Member States and Candidate Countries are still ongoing, the EU must offer further policy recommendations in order to generate awareness of the Accounting Directive amendment/reporting requirements. Moreover, as is apparent under first time reporting firms, there is a clear distinction between the harmonization success of the

document between implementing and non-implementing countries. The fact that only countries that have either fully or to some degree integrated the directive within their national systems have faced a decrease for their Non-GRI reports after the publication of the Accounting Directive amendment (vs. NC countries) is indicative of the role this document holds in harmonizing CSR reporting practices. By dividing the sample into fully compliant countries, compliance with failure countries and Non-Compliant countries I am able to distinguish the possible effect of the directive. As stated under the hypothesis, to clearly view the harmonization success of the document, I expected only to detect change under implementing (either 'fully compliant and/or compliance with failure' or 'compliant') countries. The results of the analysis offers supportive evidence for backing this claim and also, highlights the need for the EU to step up their infringement procedures regarding noncompliant countries. As the Member States are legally obligated to transpose the Accounting Directive under their national systems, once past the legal deadline (6 December 2016 for the amendment) the EU can take the country to court and require them to take the necessary measures to comply with the Court's judgment. However, the resolution of the infringement cases and once found guilty, the full transposition of the document could take a while. A prompt response on part of the EU in resolving these issues is imperative for the overall harmonization efforts of the Directive.

Ultimately, by re-evaluating the hypothesis according to the large, multinational and small – medium-sized enterprises under first time reporters, I determine that they are affected (at different levels) by the implementation of the amendment. For first time reporting Multinational Enterprises, I detect a statistically significant (strong level of association) drop in Non-GRI reports (51%). For large enterprise this drop in Non-GRI reports represents a moderate level significant association (21%). Finally, for small and medium-sized enterprises, this reduction is statistically significant with a very strong level of association between the variables (44%). Although the Directive provides reporting requirements for firms of all sizes, the obligation (or exemptions) to disclose information under their financial reports differs depending on firm size. However, it can be argued that an access to the IFRS by MNEs and Large Enterprises shifts these firms reporting practices away from the Accounting Directive, while contrarily-a lack of reporting guidelines specifically

targeting SMEs motivates these firms to successfully incorporate the document under the financial reports. Additionally, the fact that the Directive was prepared with the Europe 2020 'think small first' principle might be a reason for the very strong level of association detected under SMEs harmonization efforts. On the other hand, the Directive also targets profitable companies active under the European Union markets, which could motivate the practices of MNEs and Large Enterprises.

The assessment previously afforded for the overall sample and consecutively reporting firms are repeated under their large, multinational and small – medium-sized enterprises. I determined that, for these firms, the harmonization level of CSR reporting does not defer in terms of the differentiating criteria recognized by the Accounting Directive. Thus, separated according to firm size the GRI implementation levels for multinational, large and small – medium-sized enterprises indicate a statistically insignificant association between the "publication and country wide implementation of the Accounting Directive amendment and adherence level of reports" (overall sample and consecutively reporting firms). This result indicates that regardless of the firms size, consecutively reporting firms are fixed in their ways and have not, as of yet, incorporated the CSR requirements under their reports. This result also further highlights the need for the incorporation of motivating policy targeting these firms. Re-evaluating the hypothesis according to the overall sample and consecutive reporters sample divided according to listed/non listed firms yields similar results.

However, when the sample of reports are analyzed for first time reporting firms, I am faced with contrary results. For first time reporting firms, I detect a 26% statistically significant (moderate level of association) drop in non-GRI reports. For nonlisted firms under first time reporters, I detect a weak level of association for compliant countries (19%). Thus, it can be argued that, the null hypothesis of "no association" is rejected for listed and nonlisted first time reporting firms, however, the relationship is much more apparent under listed firms.

Moreover, re-evaluating the hypothesis according to the overall sample and consecutive reporters sample divided according to listing status and firm size, I determined that ultimately, the harmonization level of CSR reporting does not defer in terms of the differentiating criteria recognized by the Accounting Directive.

Separated according to the criteria, the GRI implementation levels for multinational, large and small – medium-sized enterprises indicate a statistically insignificant association between the “publication and country wide implementation of the Accounting Directive amendment and adherence level of reports”. However, when the sample of reports are analyzed for first time reporting firms, I determine that Nonlisted SME face a 50% statistically significant (very strong level of association) drop in Non-GRI reports. This result offers supportive evidence to the earlier argument that a lack of reporting guidelines specifically targeting SMEs motivates these firms to successfully incorporate the document under the financial reports.

Finally, I addresses the factors that could potentially drive CSR reporting practices and affect the robustness of our above depicted results. These factors are important to consider when evaluating the success or failure of the EU harmonization efforts undertaken regarding CSR. Thus, I conduct multiple sensitivity analysis in order to further explore the results of our hypothesis.

I determine that, ultimately, industry dominance level at country level is not significantly correlated with CSR levels- except for under the “Food and Beverage Products” and “Transportation, Communication and Storage” industries. It can be argued that this is a result of industry internal competencies and external pressure that can create specialization in regards to social interests of firm. Additionally, it can be argued that (Maloni and Brown, 2006) as the “Food and Beverage Products” face significant risks from public criticism, the CSR applications contain extensive elements.

Following this, I test for the effect of firm type, country income level, GDP per capita, Ronen and Shenkar (2013)’s country culture cluster and Hofstede’s dimensions. I determine that, overall, there is no significant effect on the level of CSR activities. Repeating the analysis for Level A and B reports yield similar results- except for Hofstede’s uncertainty avoidance dimension under Level B reports. According to the conducted correlation analysis for Level B report, I determined that there is a moderate statistically significant positive relationship between the Non-GRI adherence percentage at country level and uncertainty avoidance. Stated differently, as the Non-GRI reports decrease/increases, the national uncertainty avoidance level decreases/increases. It can be argued that as the level of information

being provided under firm disclosures increase- the cultural dimension of uncertainty avoidance (representing anxiety level of members facing uncertain/unknown situations) decreases.

Finally, I conduct a sensitivity analysis on the overall sample of firms in order to determine if not by the implementation of the amendments, whether or not firms are affected by the influence of stock exchange commitment to the CSR agenda. I determine that listed firms hosted under countries with a higher percentage of CSR adherence levels have a Sustainability Index under their stock exchange. Thus, it can be argued that from the overall sample of listed firms, CSR reporting practices are driven by the existence of a Sustainability Index rather than the country wide implementation of the accounting directive amendment. Furthermore, upon recalculating the Non-GRI adherence percentage at country level for firms of each size, I find that for listed MNEs, there is a statistically moderate, negative relationship between the Non-GRI adherence percentage at country level and the existence of a Sustainability Index under the countries stock exchange. This indicates that, MNEs CSR reporting practices are driven by the existence of a Sustainability Index. This result is not surprising as firms listed under Sustainability Indexes are largely composed of MNEs and these firms have the resources to better satisfy the additional listing criteria imposed on firms under the index.

The limitation of the study is listed as follows; unlike annual financial statements, the Sustainability Reports published by firms are not subject to mandatory audit. Additionally, the publication date of the document under the GRI Database greatly varies and the number of reports increases by each day. Thus, in order to ensure the full sample of reports for the current year were collected and the report amount distribution between sample years were not unbalanced, the sample size was restricted to those reports already uploaded by the 20th of December 2016. Although, the reports were not published at the time, being able to include the 2016 reports under the analysis could have improved the analysis. In the future, researchers could cover the mandatory adoption period for the Accounting Directive amendment and analyze the current harmonization efforts of EU Member States and Candidate countries.

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APPENDICES

APP 1: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#1-6

	DIRECTIVE (2013\34\EU)	AMENDMENT
CHAPTER 1		
Article#1	The scope of the directive and provisions of the Member States relating to the types of undertakings Member states responsibility regarding their responsibility to the commission and changes undertaken under their national law	N/A
Article#2	Various accounting-based keywords and their definitions	N/A
Article#3	Criteria for a firm to be categorized as a micro undertaking, small undertaking, medium sized undertaking and large undertaking. Information on the formation of small, medium-sized and large groups. Exceptional situation for the limits provided for the balance sheet total and net turnover criteria The use of the exchange rate published in the Official Journal of the European Union member states that have not adopted the euro Limitation for the amount of years that a firm may exceeds or ceases to exceed the limits set out by the article Calculation for the balance sheet total When calculating the thresholds for the previous items member states may require the inclusion of income from additional sources of undertakings Adjustment for the effects of inflation	N/A
CHAPTER 2		
Article#4	The financial statements firms are obligated to provided annually The directives goal for the preparation of the annual financial statements General provisions for the balance sheet, profit and loss account and notes to the financial statements Member states reservation of the right to require additional information in annual financial statement which goes beyond the requirements of the directive The communication of the above requirement to the commission	N/A
Article#5	Information on the name of the undertaking and points (a) and (b) of Article#5 of Directive 2009/101/EC.	N/A
Article#6	The recognition and measurement related principles for the annual and consolidated financial statements Exceptional situations where member states may permit a set off between assets and liability items or between income and expenditure items Exemption from the presentation of the above items Recognition of foreseeable liabilities and potential losses within or between balance sheet dates	N/A

APP 2: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#7- 14

	DIRECTIVE (2013\34\EU)	AMENDMENT
Article#7	Information regarding the reevaluation basis for measurement Journalization of the revaluation reserve The calculation and the timeline for the calculation of value adjustment	N/A
Article#8	The measurement and disclosure of financial instruments Determining fair value of financial instruments Journalization of the changes in value	N/A
CHAPTER 3		
Article#9	Conditions for departure from the layout of the balance sheet and the profit and loss Inclusion of additional tools and items other than what is presented under the prescribed layouts Member states ability to limit an undertakings ability to depart from the layout Comparative presentation of the financial statement Adaptation to the layout of the balance sheet and profit and loss account in order to include the appropriation of profit or the treatment of loss.	N/A
Article#10	Information regarding the layout and presentation of the balance sheet	N/A
Article#11	Distinction regarding the layout and presentation of the balance sheet in regards to current and noncurrent items	N/A
Article#12	Disclosure of an asset or a liability when in relation to more than one layout item Disclosure of shares in affiliated undertakings The categorization of fixed or current assets Journalization of the rights to immovables Writing off the value of fixed assets with limited useful economic lives Interest on capital borrowed to finance the production of fixed or current assets Use of the basis of weighted average prices, on the basis of the first in, first out(FIFO) method, the last in, first out (LIFO) method, or a method reflecting generally accepted best practice The journalization of an asset that results from the difference between the amount repayable on account of any debt and the amount received Writing off intangible assets Liabilities the nature of which is clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise	N/A
Article#13	Information regarding the layout and presentation of the profit and loss account	N/A
Article#14	Allowance for member states to develop abridged versions of financial statements	N/A

APP 3: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU): Article#15-19a

	DIRECTIVE (2013\34\EU)	AMENDMENT
CHAPTER 4		
Article#15	Information regarding the structure of the notes to the financial statements	N/A
Article#16	Additional information that must be disclosed, other than the provisions of this directive Disclosure requirements for small undertakings	N/A
Article#17	Information required of medium-sized and large undertakings and public-interest entities in addition to Article#16	N/A
Article#18	Information required of large undertakings and public-interest entities in addition to Article#16- 17 Omission of the above item if resulting in prejudicial situations	N/A
CHAPTER 5		
Article#19	Information that must be presented under management reports Exemptions from preparing management reports	N/A
Article#19a		Information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters that must be presented by large undertakings which are public interest entities abiding to certain conditions. Conditions for fulfilling an obligation under Article#19 (1) Exemption for of the subsidiary undertakings included under the consolidated management report or the separate report of another undertaking Exemption for undertakings preparing a separate report corresponding to the same financial year whether or not relying on a national, union base or international framework

APP 4: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#20-24

	DIRECTIVE (2013\34\EU)	AMENDMENT
Article#20	The content and section of information that must be included under the management report regarding corporate governance for types of firms listed under annex 1 Auditor opinion provided in accordance to Article#34 Exemption conditions for types of firms listed under annex 1	Changes in the content and section of information that must be included under the management report regarding corporate governance for types of firms listed under annex 1
CHAPTER 6		
Article#21	Firms that will undergo consolidation procedures under the directive	N/A
Article#22	Conditions in which consolidated financial statements and consolidated management reports shall be required by member states Conditions that apply to voting rights Location of registered office and its affects on the consolidation process	N/A
Article#23	The exemption conditions of small groups from the consolidation process The exemption of medium-sized groups except for where any affiliated undertakings are a public-interest entity Additional conditions for exemption	N/A
Article#24	Conditions for incorporating assets and liabilities into the consolidated balance sheet Evaluation of the book value of shares in the capital Journalization of shares in subsidiary undertakings Incorporating income and expenditure of undertakings into the consolidation process Presentation of the consolidated financial statement and items that must be eliminated from the consolidated financial statements The dates on which consolidated financial statements need to be drawn up The steps that need to be taken in case which the composition of the undertakings included under the consolidation process undergoes significant changes throughout the year The measurement of assets and liabilities included under the consolidated financial statements Measurement basis that must be applied when drawing up consolidated financial statements and the steps that need to be taken in case the measurement basis is not applied consecutively for each item Deferred tax recognition under the consolidation process Assets that have undergone value adjustments and its inclusion under the consolidated financial statements	N/A

APP 5: A Summary of the Information Covered under Directive (2013/34/EU) and (2014/95/EU):
Article#25-29

	DIRECTIVE (2013/34/EU)	AMENDMENT
Article#25	Conditions and which member states may permit or require the book values of shares to be held in the capital of a business combination undertaking and included in the consolidation Additional information that must be disclosed as a result of the movement under the reserves and the names and registered offices of the undertakings concerned	N/A
Article#26	The commission in which an undertaking included in a consolidation manages another undertaking jointly with one or more undertakings not included in that consolidation may be permitted into the consolidated financial statement	N/A
Article#27	The balance sheet representation of an undertaking included in a consolidation that has an associated undertaking Presentation of the consolidated balance sheet in case which the article is applied for the first time to an associated undertaking Information that must be disclosed under the notes to the consolidated financial statements in case revaluation for an associated undertakings assets or liabilities have been valued by methods other than those used for consolidation The balance sheet presentation under the consolidated financial statements relating to the above items The condition in which to article me not be applied	N/A
Article#28	Information that must be contained under the notes to the consolidated financial statements in addition to information provided by Article#16, 17 and 18 An alternative reporting format for the information required by the above item	N/A
Article#29	Information that needs to be taken into consideration for the development of the consolidated management report and in order to facilitate the assessment of the position of the undertaking Adjustments for Article#19 and 20 can apply for the consolidated management reports Condition for presenting the consolidated management report and the management reports as a single report.	N/A

APP 6: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU): Article#29a-31

	DIRECTIVE (2013\34\EU)	AMENDMENT
Article#29a		An obligation for public-interest entities which are parent undertakings of a large group exceeding certain criteria to present a consolidated nonfinancial statement under the consolidated management report. Information that must be presented under the consolidated nonfinancial statement An exemption for a parent undertaking which is also a subsidiary undertaking Conditions for member states to exempt parent undertakings from the obligation to prepare the consolidated nonfinancial statement The statutory auditor responsibility for checking whether or not the consolidated nonfinancial statement or the separate report have been provided An option for allowing member states to require nonfinancial statements were separate reports to be a short by an independent service provider
CHAPTER 7		
Article#30	Member states responsibility for ensuring that the annual financial statements, management reports and opinion of the statutory auditor or audit firm are published within a reasonable period of time. Exemption conditions for publishing the management report Exemption conditions for an undertaking referred to in Annex II to refrain from publishing and financial statements in accordance with Article#3 of Directive 2009/101/EC	N/A
Article#31	Exemption for small and medium-sized undertakings from the obligation to publish their profit and loss accounts and management reports Conditions at which medium-sized undertakings may be allowed to publish their profit and loss accounts and management reports.	N/A

APP 7: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#32-35

	DIRECTIVE (2013\34\EU)	AMENDMENT
Article#32	The reproduced form of the annual financial statements and the management report and the full text of the audit report shall be published alongside the annual financial reports In case the annual financial statements are not published in full, information that must be listed under abridged version of financial statements	N/A
Article#33	The the insurance of the collective responsibility of the members of the administrative, management and supervisory bodies of an undertaking by the national law Member States responsibility towards ensuring that local laws, regulations and administrative provisions apply to the members of the administrative, management and supervisory bodies of the undertakings for breach of the duties	Member States responsibility towards ensuring that the members of the administrative, management and supervisory bodies of the undertakings have collective responsibility which are provided by the national loss
CHAPTER 8		
Article#34	The responsibility of member states to ensure that the financial statements of public-interest entities, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms The responsibilities of statutory auditors	An exemption preventing Article#34 from applying to the non-financial statement referred to in Article 19a(1) and the consolidated non-financial statement referred to in Article 29a(1) or to the separate reports referred to in Articles 19a(4) and 29a(4)
Article#35	Information that must be contained under the audits report The additional responsibility of the statutory auditor The steps that need to be taken in regards to the audit report when the annual financial statements of the parent undertaking are attached to the consolidated financial statements	N/A

APP 8: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#36-40

	DIRECTIVE (2013\34\EU)	AMENDMENT
CHAPTER 9		
Article#36	A detailed list on the information that member states may exempts micro undertakings from providing a detailed list on the information that member states may allow micro undertakings to provide A requirement barring member states from requiring micro undertakings to apply Article#8 Micro undertakings consideration as small undertakings Financial holding undertakings barring from being considered for the above items The commissions requirements for submitting a report detailing the situation for micro undertakings to the EP, Commission and the European Economic and Social Committee	N/A
Article#37	Conditions in which member states may not require subsidiary undertakings to publish annual financial statements and management reports containing the reporting, auditing and publishing requirement provided by this directive.	N/A
Article#38	Conditions in which the member states may not require undertakings listed under Article#1a and 1b to apply the directive	N/A
Article#39	Conditions which restrict member states from applying provisions of the directive governed by national law	N/A
Article#40	Restrictions barring member states from providing exemptions to public-interest entities	N/A

APP 9: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU):
Article#41-47

	DIRECTIVE (2013\34\EU)	AMENDMENT
CHAPTER 10		
Article#41	Definitions provided on subjects relating to payment to the government	N/A
Article#42	Reporting requirements of large undertakings and all public-interest entities payments made to the government on an annual basis Exemption for certain types of firms	N/A
Article#43	Conditions for payments held exempt from reporting Additional information that must be disclosed in relation to certain activities	N/A
Article#44	Reporting requirements for the consolidated reports on payments to the government Exemption conditions for the above item	N/A
Article#45	The publication requirements of consolidated reports referred to in Article#42 and 44 to the government Member state responsibility for ensuring that the reports provided for the governments on various payments are published in accordance with the requirements of the directive	N/A
Article#46	Exemption criteria for third country reporting requirements assessed according to Article#47 The empowerment of the commission to adopt delegated acts in accordance to Article#49 when assessing third country reporting requirements and the requirements of this directive Criteria to be included under the assessment of third country reporting requirements that were identified by the commission	N/A
Article#47	Implementing acts the commission must apply identifying third country reporting requirements	N/A

APP 10: A Summary of the Information Covered under Directive (2013\34\EU) and (2014\95\EU): Article#48- 55

	DIRECTIVE (2013\34\EU)	AMENDMENT
Article#48	The responsibility of the commission in reviewing and reporting on the implementation the effectiveness of the directive and evaluating the impact of international developments such as regime, competitiveness and transparency. The responsibility of the commission in analyzing the visibility off an obligation for all union users	An item requiring that the reports should also take into consideration the developments of the OECD and the results of related European initiatives, the possibility of introducing an obligation requiring large undertakings to produce on an annual basis a country-by-country report for each Member State and third country in which they operate, containing information on, as a minimum, profits made, taxes paid on profits and public subsidies received
CHAPTER 11		
Article#49	The power conferred upon the commission awarded by the European Parliament and Council and the steps that the commission must take when adopting a delegated act	N/A
Article#50	Assistance afforded to the commission in ensuring that the directive reaches the agreed-upon objective	N/A
Article#51	Member states responsibility for ensuring that the provisions adopted under national law are in accordance with the directive and the enforcement of penalties to dissuade adverse treatment	N/A
Article#52	The repeal of Directives 78/660/EEC and 83/349/EEC and their continued use as reference points under the directive	N/A
Article#53	The method in which member states are responsible for bringing into force the directive under their national jurisdictions Member states responsibility towards the communication of the adopted changes to the national law	N/A
Article#54	The date in which the directive needs to enter into force after being published under the Official Journal of the European Union	N/A
Article#55	Member states responsibilities towards the directive	N/A

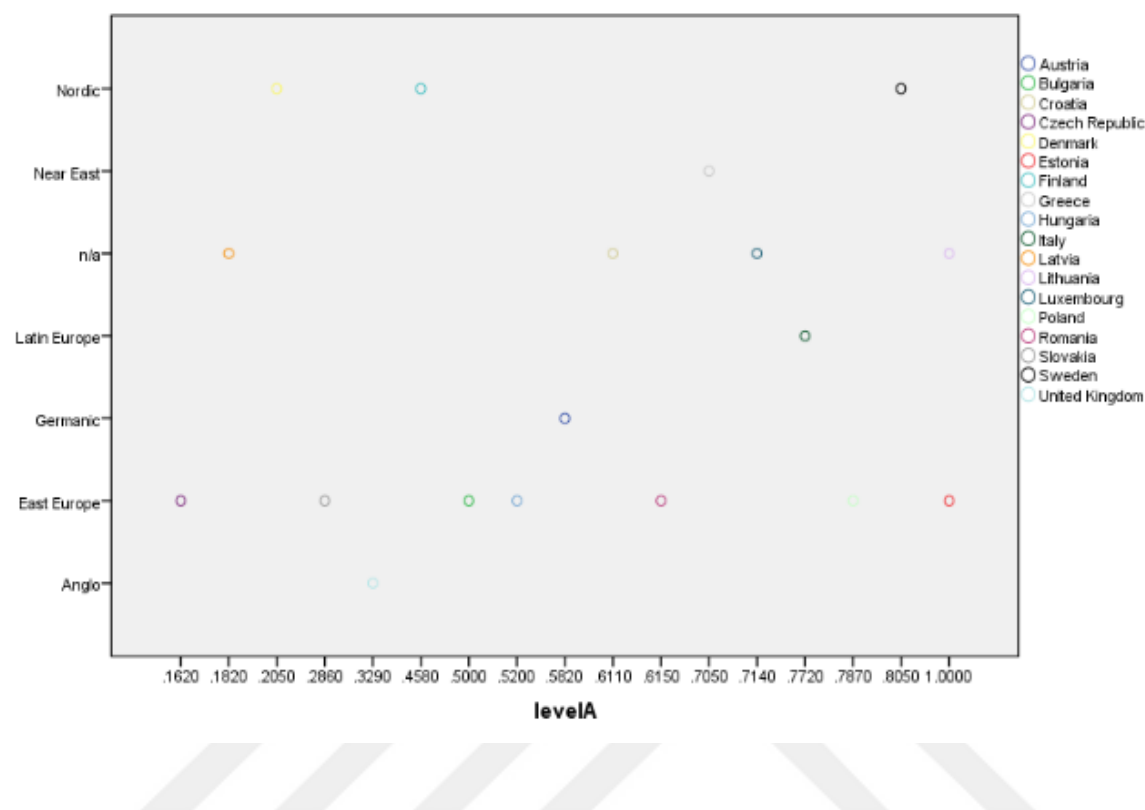
APP 11: Sensitivity Analysis: Industry Dominance Level in Country (A)

	Spearman			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
Agriculture	-0.02	p>0.05	18	0.066	p>0.05	18
Automotive	-0.251	p>0.05	18	-0.349	p>0.05	18
Aviation	-0.023	p>0.05	18	0.039	p>0.05	18
Chemicals	0.104	p>0.05	18	0.379	p>0.05	18
Commercial Services	0.119	p>0.05	18	0.28	p>0.05	18
Computers	0.009	p>0.05	18	0.064	p>0.05	18
Conglomerates	-0.025	p>0.05	18	-0.078	p>0.05	18
Construction	0.075	p>0.05	18	0.021	p>0.05	18
Construction Materials	0.049	p>0.05	18	0.029	p>0.05	18
Consumer Durables	0.264	p>0.05	18	0.278	p>0.05	18
Energy	0.055	p>0.05	18	0.092	p>0.05	18
Energy Utilities	-0.007	p>0.05	18	-0.107	p>0.05	18
Equipment	0.004	p>0.05	18	-0.188	p>0.05	18
Financial Services	-0.262	p>0.05	18	-0.39	p>0.05	18
Food and Beverage Products	-.605**	p<0.05	18	-.643**	p<0.05	18
Forest and Paper Products	0.244	p>0.05	18	0.135	p>0.05	18
Health Care Products	-0.276	p>0.05	18	-0.385	p>0.05	18
Healthcare Services	0.009	p>0.05	18	-0.145	p>0.05	18
Household and Personal Products	-0.006	p>0.05	18	-0.228	p>0.05	18
Logistics	0.073	p>0.05	18	-0.022	p>0.05	18
Media	0.156	p>0.05	18	0.03	p>0.05	18
Metals Products	0.03	p>0.05	18	0.092	p>0.05	18
Mining	-0.126	p>0.05	18	-0.342	p>0.05	18
Non-Profit/ Services	0.081	p>0.05	18	-0.031	p>0.05	18
Other	-0.168	p>0.05	18	-0.14	p>0.05	18

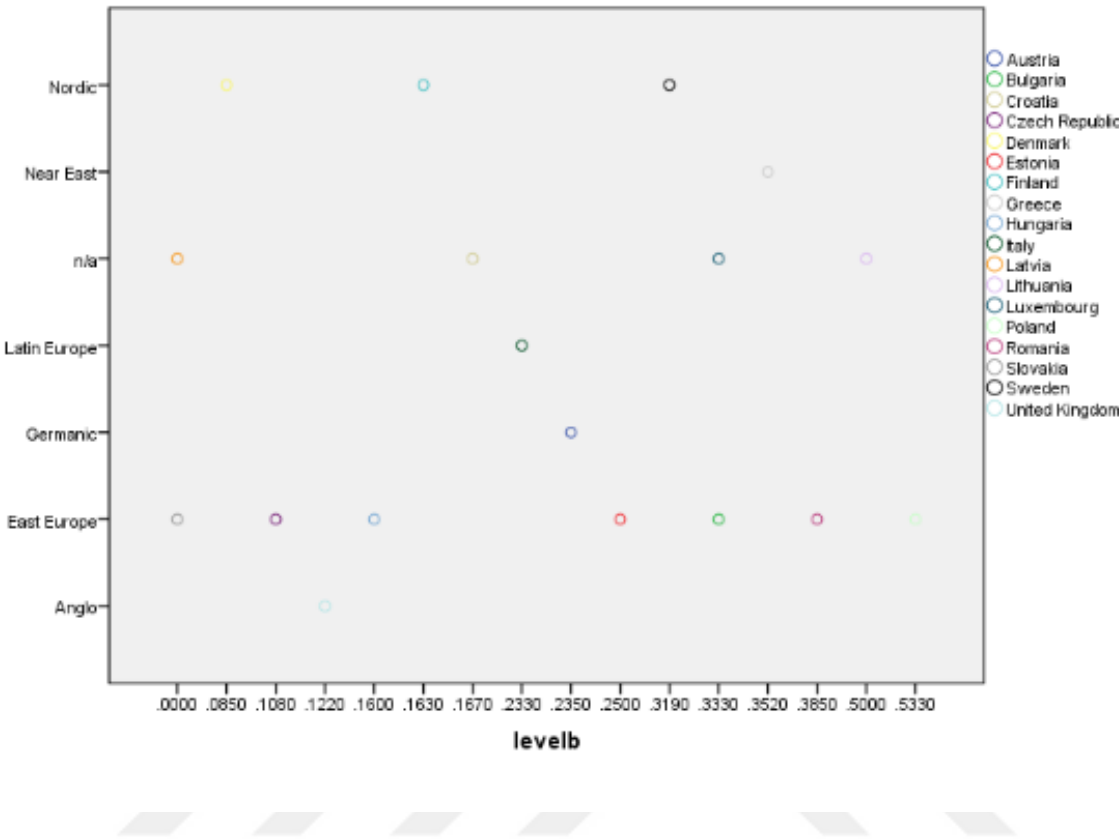
APP 12: Sensitivity Analysis: Industry Dominance Level in Country (B)

	Spearman			Pearson		
	Correlation Coefficient	Sig. (2-tailed)	N	Correlation Coefficient	Sig. (2-tailed)	N
Public Agency	-0.32	p>0.05	18	-0.165	p>0.05	18
Railroad	-0.158	p>0.05	18	-0.28	p>0.05	18
Real Estate	0.08	p>0.05	18	0.093	p>0.05	18
Retailers	0.037	p>0.05	18	-0.231	p>0.05	18
Technology Hardware	0.002	p>0.05	18	-0.048	p>0.05	18
Telecommunications	0.034	p>0.05	18	0.24	p>0.05	18
Textiles and Apparel	-0.119	p>0.05	18	-0.128	p>0.05	18
Tobacco	0.047	p>0.05	18	-0.074	p>0.05	18
Tourism/Leisure	-0.026	p>0.05	18	0.025	p>0.05	18
Toys	-0.304	p>0.05	18	-0.347	p>0.05	18
Universities	0.128	p>0.05	18	0.132	p>0.05	18
Waste Management	-0.105	p>0.05	18	-0.038	p>0.05	18
Water Utilities	-0.047	p>0.05	18	0.364	p>0.05	18

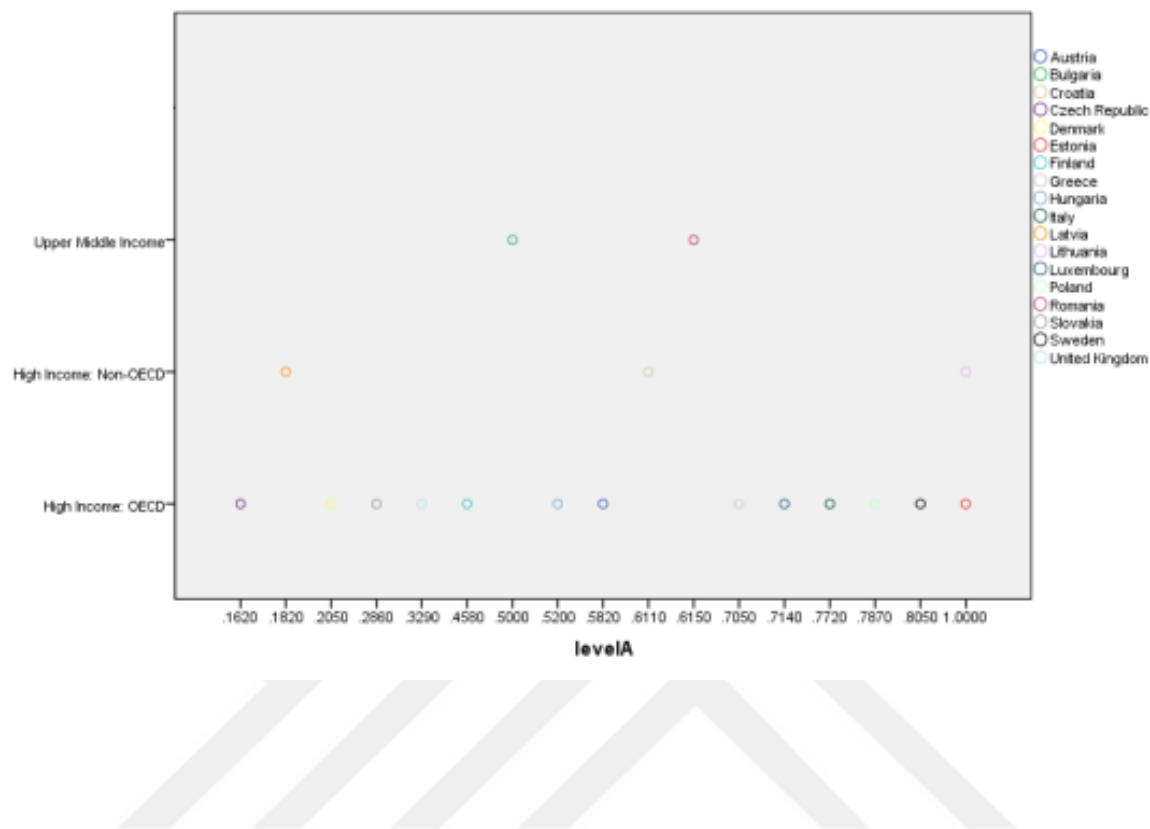
APP 13: Sensitivity Analysis: Global Cluster Level A



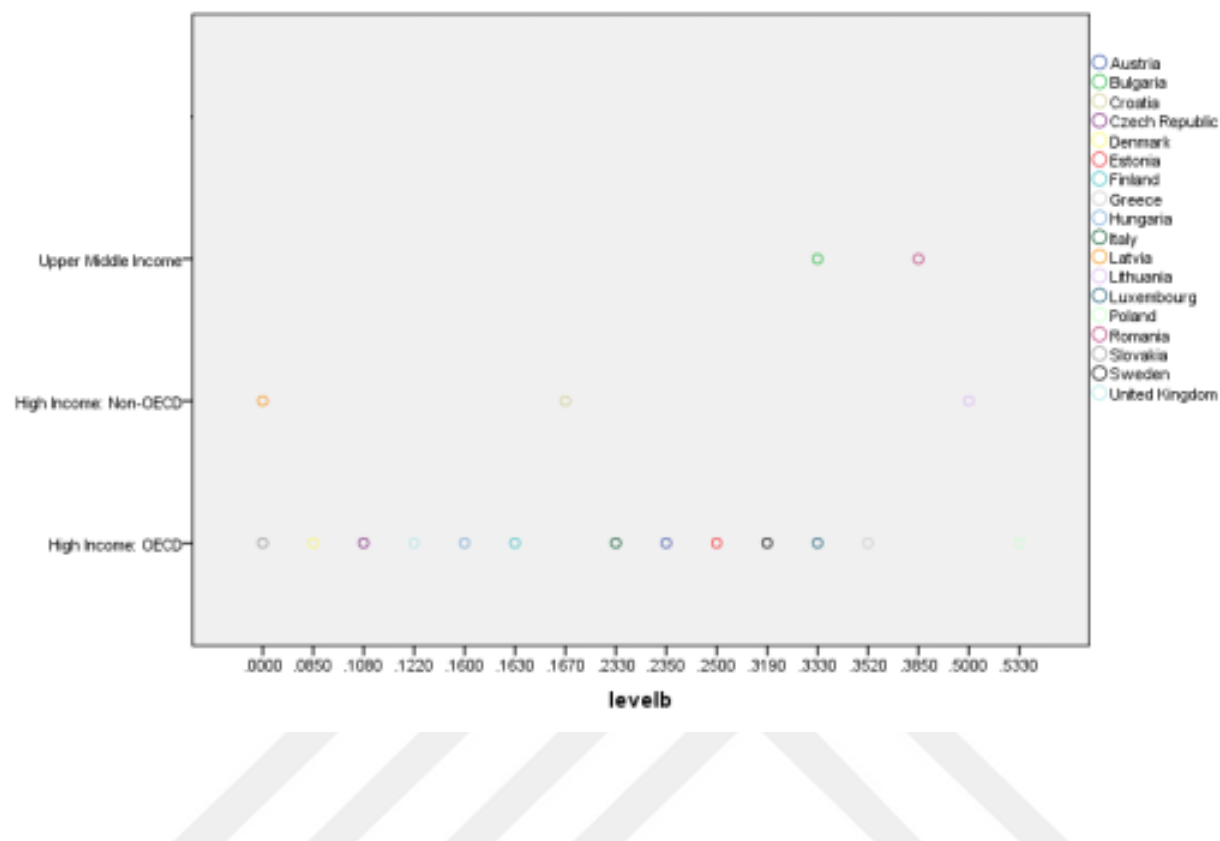
APP 14: Sensitivity Analysis: Global Cluster Level B



APP 15: Sensitivity Analysis: Income Level A



APP 16: Sensitivity Analysis: Income Level B



APP 17: Sensitivity Analysis: Company Type (Firm Level)

		Non-GRI	Level B	Level A
		Row N %	Row N %	Row N %
	Cooperative	50.0%	5.0%	45.0%
	Non-profit organization	70.7%	9.8%	19.5%
	Partnership	46.2%	23.1%	30.8%
	Private company	46.4%	21.6%	32.0%
	Public institution	67.3%	10.9%	21.8%
	State-owned company	26.0%	28.6%	45.3%
	Subsidiary	46.3%	23.5%	30.2%

APP 18: Sensitivity Analysis: Industry (Firm Level)

		Non-GRI	Level B	Level A
		Row N %	Row N %	Row N %
	Agriculture	50.0%	50.0%	0.0%
	Automotive	46.7%	24.4%	28.9%
	Aviation	48.6%	17.1%	34.3%
	Chemicals	23.3%	26.7%	50.0%
	Commercial Services	39.4%	22.7%	37.9%
	Computers	57.1%	14.3%	28.6%
	Conglomerates	48.4%	19.4%	32.3%
	Construction	36.1%	20.5%	43.4%
	Construction Materials	30.6%	22.4%	46.9%
	Consumer Durables	7.1%	35.7%	57.1%
	Energy	33.3%	20.0%	46.7%
	Energy Utilities	23.9%	22.5%	53.5%
	Equipment	34.5%	10.3%	55.2%
	Financial Services	35.4%	21.7%	43.0%
	Food and Beverage Products	56.8%	21.6%	21.6%
	Forest and Paper Products	26.8%	31.7%	41.5%
	Health Care Products	55.6%	15.6%	28.9%
	Healthcare Services	34.6%	30.8%	34.6%
	Household and Personal Products	50.0%	18.8%	31.3%
	Logistics	33.3%	24.1%	42.6%
	Media	33.3%	23.1%	43.6%
	Metals Products	26.7%	28.9%	44.4%
	Mining	38.5%	30.8%	30.8%
	Non-Profit/Services	51.4%	12.9%	35.7%
	Other	43.9%	20.4%	35.7%
	Public Agency	61.8%	8.8%	29.4%
	Railroad	52.9%	5.9%	41.2%
	Real Estate	28.0%	26.7%	45.3%
	Retailers	54.5%	21.2%	24.2%
	Technology Hardware	33.3%	16.7%	50.0%
	Telecommunications	31.7%	23.3%	45.0%
	Textiles and Apparel	62.5%	12.5%	25.0%
	Tobacco	50.0%	16.7%	33.3%
	Tourism/Leisure	40.7%	25.9%	33.3%
	Toys	100.0%	0.0%	0.0%
	Universities	47.4%	21.1%	31.6%
	Waste Management	34.2%	18.4%	47.4%
	Water Utilities	34.4%	6.3%	59.4%

APP 19: Sensitivity Analysis: Industry Groupings (Firm Level)

		Non-GRI	Level B	Level A
		Row N %	Row N %	Row N %
	Grouped: Manufacturing Industries	42.90%	13.70%	43.40%
	Grouped: Construction and Public Works	40.4%	20.2%	39.4%
	Grouped: Agriculture, Forest and Fishery	32.6%	32.6%	34.9%
	Grouped: Transportation, Communication and Storage	48.8%	18.3%	32.9%
	Grouped: Real Estate Activities	28.8%	27.4%	43.8%
	Grouped: Mining	38.5%	30.8%	30.8%
	Grouped: Technology	34.1%	23.5%	42.4%
	Grouped: Wholesale, Retail Trade, Hotels and Restaurants	52.1%	22.8%	25.1%
	Grouped: Other	58.2%	16.8%	25.0%
	Grouped: Education, Health, Sport and Other Social Services	59.3%	16.9%	23.7%
	Grouped: Electrical Gas and Water	37.0%	19.0%	44.0%
	Grouped: Financial Sector	35.00%	11.80%	53.20%