INCONSISTENCIES IN DIGITAL AND SUSTAINABILITY REPORTING –

The Corporate Reporting Monitor 2021

There can be little doubt that digitization and sustainability are two key challenges to current corporate reporting strategies and practices. Much uncertainty remains, both in terms of ideal digital reporting formats as well as widely accepted sustainability reporting standards. This year's Corporate Reporting Monitor sheds some light on current trends, but also some inconsistencies in how companies in Switzerland, Germany and Austria tackle both of these reporting challenges.

By Christian P. Hoffmann, Lea Knabben, Monika Kovarova-Simecek and Thomas Scheiwiller

The Corporate Reporting Monitor is the first yearly international study surveying corporations on their reporting strategy. Launched in 2019 by the Center for Corporate Reporting, this year the survey was conducted for the third time in cooperation with the Center for Research in Financial Communication at the University of Leipzig and the University of Applied Sciences of St. Pölten. The multi-method study is based on quantitative interviews with heads of corporate reporting of listed companies in Germany, Switzerland and Austria and service providers in the field, supplemented by qualitative interviews displaying best practices and focusing on reporting trends.

«Digital reporting is stuck with PDFs while simultaneously embracing the new XBRL-format»

This year's survey highlights how corporate reporting can help instill trust in companies and their leadership during times of turbulence and uncertainty. More than 90% of respondents state that tools of online communication (social media and the corporate website) are becoming ever more important in times of uncertainty. This raises the question of how corporations approach the digitization of their corporate reporting. Surprisingly, the survey results show that while print reports are steadily losing ground, more and more corporations choose to follow a "PDF first" strategy (Fig. 1). Only 16% have implemented an "online first" reporting approach. Thereby, the transformation to web-based corporate reporting appears stuck in the past.

The lack of comprehensive online-reporting is mirrored by stagnating external budgets. More than a half of the surveyed experts (59%) do not expect rising external reporting budgets within the next three years.

At the same time, however, driven by regulation, a majority of 71% of the surveyed corporations have implemented a new digital reporting format from a corporate perspective or are planning to do so: XBRL-reports as prescribed by ESMA-standards. In the Swiss case, only 8% have already implemented XBRL-reports, 20% are planning to do so. Overall, most companies (33% overall) have chosen an integrated solution for generating their XBRL-report, 15% have gone for a "bolt-on" solution (Fig. 2). Of those affected by ESEF-requirements, a clear majority of 76% was somewhat or very satisfied with their chosen solution, with no statistically significant difference between those choosing a "built-in" or "bolt-on" solution (Fig. 3).

The full results of the Corporate Reporting Monitor 2021 are available to survey participants. In addition, CCR members receive a detailed report, complemented with a management summary, high-level interpretations and recommendations. Insights from the research team are also available in dedicated workshops upon request.

An Executive Summary can be ordered at info@corporate-reporting.com.

THE PDF FIRST STRATEGY CONTINUES TO GAIN IMPORTANCE

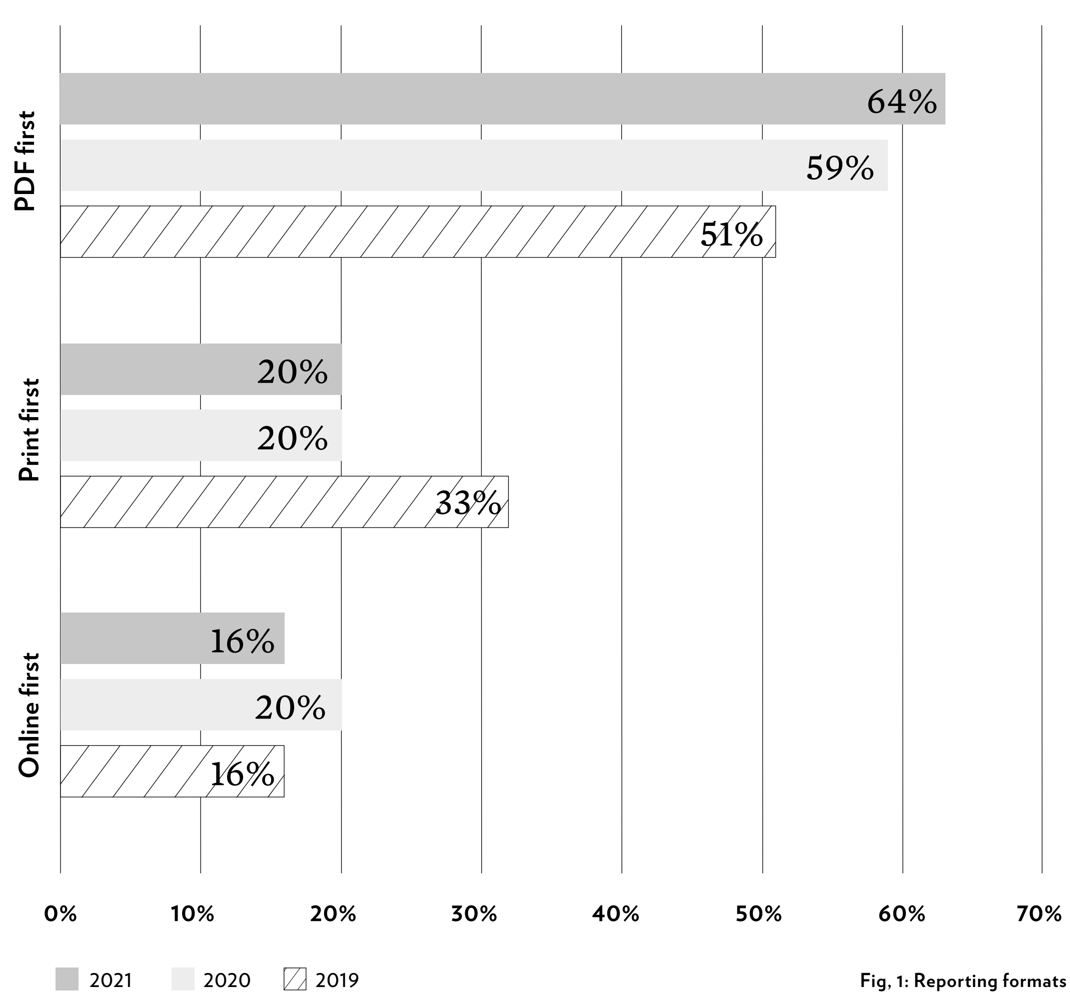

Fig. 1: Reporting formats

MOST COMPANIES HAVE CHOSEN AN INTEGRATED SOLUTION FOR GENERATING THEIR XBRL-REPORT

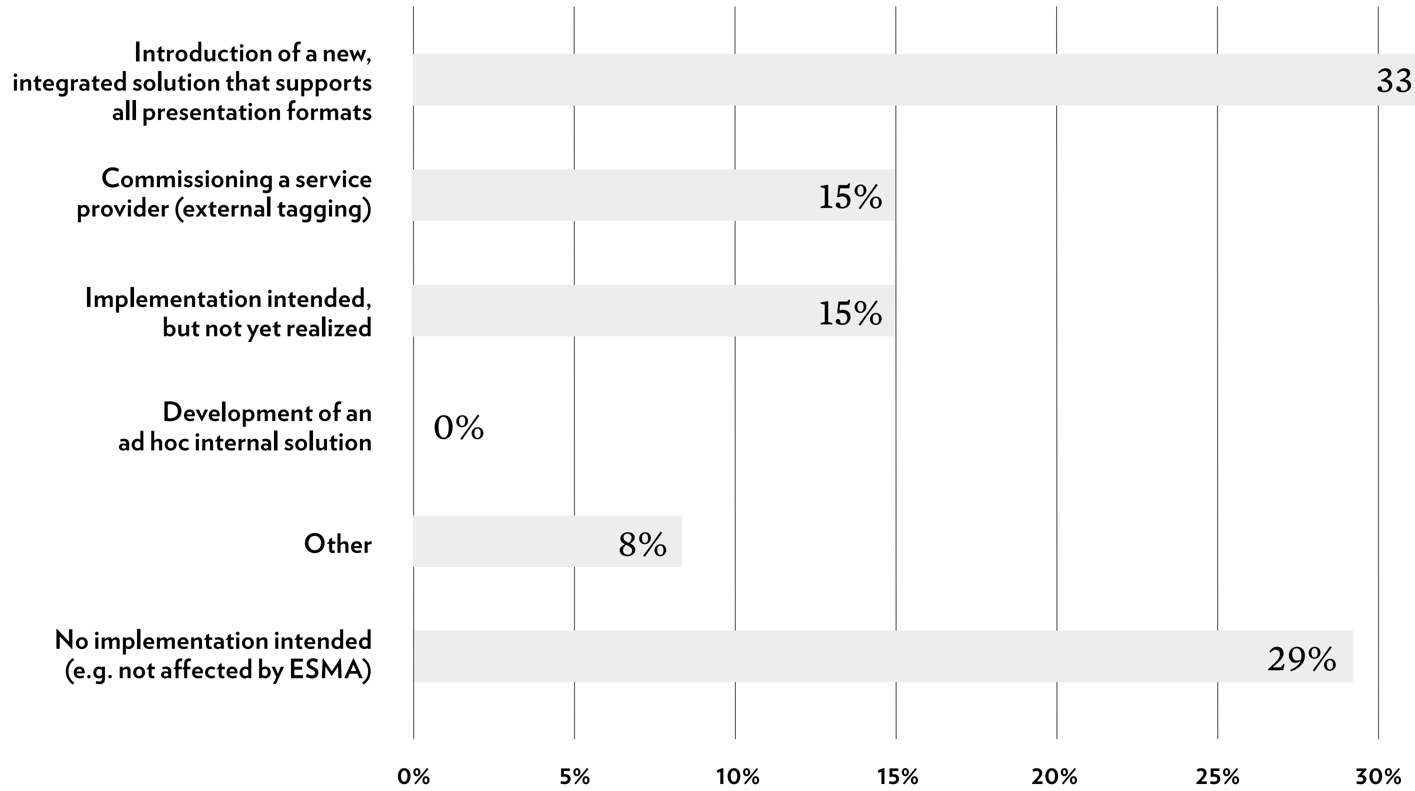

Fig. 2: Implementation of ESMA requirements

Interestingly, a majority of the experts surveyed (67%) expect that XBRL-reports will be the most frequently used format among capital market participants within three years. Possibly even more surprising, almost half expect that XBRL will be extended to sustainability reporting soon. It remains to be seen whether the embrace of XBRL-reporting will be able to move reporting practices beyond the "PDF first" mindset.

The second major component of how corporate reporting can foster trust in uncertain times revolves around sustainability: Already, this year, explaining the sustainability of corporate performance has emerged as the third-most important reporting objective covered in the Corporate Reporting Monitor. Almost 100% of participants believe that environmental and social reporting constitutes an important tool for instilling trust among stakeholders. This year's study also revealed some hopeful signs for the long-awaited standardization of ESG-reporting. A three-quarter majority now considers GRI the standard for sustainability reporting. Experts overwhelmingly expect further standardization within the next three years.

A much-discussed approach, however, does not seem to benefit from this development: integrated reporting. A record low share of 10% of the surveyed companies state that they intend to publish an integrated report in 2022. Instead, a relative majority of 44% plans to publish a combined report that contains both financial and sustainability data – without following the model prescribed by the Integrated Reporting Framework. Almost 90% of experts agree that the corporate report should be presented in differentiated formats to distinct stakeholder audiences.

The Corporate Reporting Monitor indicates that the "dis-integrated" model of sustainability reporting comes with a risk of neglecting the explanation of how E, S and G affect the bottom line. While the surveyed heads of reporting consider sustainability communication ever more important, especially in times of uncertainty, explaining the company's business model was rated somewhat less important than in 2020. Previous research has shown, however, that the financial community is most likely to pay attention to ESG-data if their impact on financial performance is apparent.

To summarize, almost half of the sample experience increasing uncertainty in their stakeholder environment – mostly driven by regulatory and technological changes (94% and 92% agreement, respectively). Digital communication and a focus on sustainability are being seen as promising approaches to instilling

A CLEAR MAJORITY WAS SATISFIED WITH THEIR CHOSEN SOLUTION FOR THE XBRL-REPORT

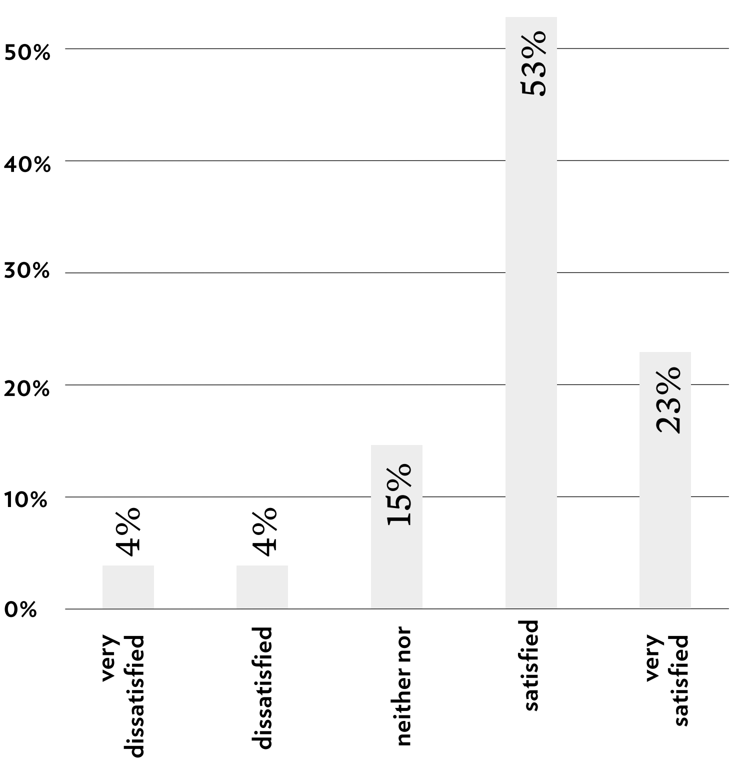

Fig. 3: Satisfaction of Implementation

trust among stakeholders. However, some inconsistencies remain. While, driven by regulatory requirements, corporations are embracing the new XBRL-format, reporting strategies are stuck in a "PDF first" mindset. Also, while sustainability reporting is bolstered by increasing standardization, and is clearly "top of mind" among heads of reporting, integrated reporting is losing ground, and highlighting the impact of ESG on business models may be neglected.

Once again, the Corporate Reporting Monitor 2021 reveals that two-thirds of the surveyed corporations have not yet established a formal reporting strategy. Evaluation practices remain underdeveloped. To successfully master critical challenges such as digitization and sustainability reporting, a more strategic approach to corporate reporting may be required.

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