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**NON-FINANCIAL REPORTING IN THE BALTIC STATES
AFTER THE IMPLEMENTATION OF DIRECTIVE 2014/95/EU**

Bachelor's thesis

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I hereby declare that I have compiled the paper independently and all works, important standpoints and data by other authors has been properly referenced and the same paper has not been previously presented for grading.

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ABSTRACT

As it is mentioned in Directive 2014/95/EU, which is focused on disclosure of non-financial information, starting from 1st of January 2018 large undertakings within European Union are obliged to produce adequate non-financial reporting for the matters of environmental and social influence, human rights and anti-corruption actions. As well as all covered European organisations are required to be transparent, Estonian, Latvian and Lithuanian companies are not exceptions. The aim of Bachelor thesis is to find an impact of Directive 2014/95/EU on disclosure of non-financial data provided by organisations quoted in Nasdaq Baltic List, identify an increase or decrease in the number of non-financial disclosures and detect a trend between the Baltic States in the level of transparency by country. For this reason, the focus was directed on theoretical research of Corporate Social Responsibility, its background, evolution and principles. Additionally, the regulations of Directive 2014/95/EU were reviewed to clarify each detail of the act. The methods of research are the scoring scale to assess the level of compliance with Directive and the analysis which was conducted of non-financial information in Management, Annual or Separate Reports. The final results reveal a positive impact of Directive 2014/95/EU.

Keywords: CSR, Directive 2014/95/EU, disclosure, Nasdaq Baltic List, non-financial information

INTRODUCTION

Corporate Social Responsibility (hereinafter CSR) as an integral part of daily operations of influential undertakings has been discussed since last decades. But even nowadays not every business entity is familiar with CSR principles and aims. Subsequently, the notion “CSR” might be omitted in situations where it should be the centre of attention. Presently undertakings from diverse types of industries are obliged to be responsible for the result of their performance in relation to environment, society and potential risks. In other words, to be more sustainable, accountable and transparent.

Although CSR has plenty of meanings and definitions and can be understood in different ways, David Crowther and Güler Aras emphasize that its primary objective lies in “the relationship between global corporations, governments of countries and individual citizens.” (Crowther & Aras, 2008, p. 10). By and large, CSR activities comprise responsibility regarding environment and usage of its resources, society the undertakings might affect, consumers, partners, workers and legal business operations.

The business of the European Union (EU) has always been performing according to high standards. Hence, to remain at a high level and to make European business the most advantageous business in the world, the EC (European Commission) intended to coerce certain large undertakings within EU to adhere to CSR practices and issue non-financial reports to demonstrate the final outcome of their activities to stakeholders by relying on internationally accepted standards. To make this procedure official, the European Council along with the European Parliament established Directive 2014/95/EU in 2014 which was spread on European countries. As a result, the EU made an important step towards sustainable development in the European market.

Not so long ago, the Baltic States (comprising Estonia, Latvia and Lithuania) were unfamiliar with CSR fundamentals and its importance in business. Since the Directive is defined and confirmed, the Baltic States were compelled to follow this policy by disclosing mandatory non-financial data

starting from 2018 in compliance with national laws. Currently, each of the Baltic countries might consider the methods of disclosure individually and differently due to dissimilarities in legislations among these countries.

This Directive asserts that all designated firms are expected to initiate disclosures of mentioned information starting from 2018. The topic of Bachelor thesis is relevant and novel considering the fact that Baltic organisations were not examined and analysed right after Directive started operating in practice.

The research problem lies in the actuality of situation that even after integration of Directive 2014/95/EU several imposed undertakings in the Baltic States might ignore some aspects of the act or non-financial reporting at all. For this purpose, governments are requested to ensure in transposition of Directive into national laws while organisations have to guarantee complete compliance with it.

The aim of this Bachelor thesis is to determine the influence of Directive 2014/95/EU on CSR non-financial reporting of companies quoted in Nasdaq Baltic List, defining a trend between Baltic countries in the amount of disclosures by country and find out an increase or decrease in non-financial reporting as a result of Directive.

To make accurate research and evaluation, at first there was a need to identify the CSR models, principles and ideas by using academic literature to reveal the process of integration with historical background based on fundamental approaches, to investigate the main purpose of Directive and additional documents from official resources of the European Commission and analyse non-financial disclosure with compliance to Directive provided by Baltic undertakings listed in Nasdaq Baltic List.

The whole work was divided into three major parts focused on multiple objectives. The first part reveals the history and development of CSR models with basic principles and steps for realization of its essentials. The second chapter explains the reasons for which undertakings are presumed to disclose non-financial information and eventual effect on brand image. Moreover, the second part denotes the fundamentals of Directive, namely who is affected and what should be disclosed. The third section is directed to practical analysis of non-financial reporting published by largest organisations in Estonia, Latvia and Lithuania listed in Nasdaq Baltic List with final results.

1. HISTORY AND PRINCIPLES OF CORPORATE SOCIAL RESPONSIBILITY

The first part of Bachelor thesis is concentrated on historical background of Corporate Social Responsibility divided into five specific periods and formation of first theories of Corporate Social Responsibility developed by different authors and researchers with further expansion of its models. Also, this chapter reveals the steps which should be taken into consideration while integration of CSR activities into practice with significance of its elements for undertakings and stakeholders.

1.1. The first mention of CSR and evolution of its concept as a new required approach

The first principles and practice of corporate social responsibility were firstly mentioned and thus emerged approximately during ancient times. It is well-known from the history of the cases when farmers, architects, soldiers and traders were responsible for the whole society. Eventually, as a result of unfortunate consequences or unexpected deaths, the civil society intended to execute them. Even back then, it was taken into consideration that the results of someone's actions could be adverse in relation to others.

The development of CSR principles and ideas proceeded in different ways according to various periods of time. As a result, the official evolution of CSR consists of different stages of its development and importance among societies and ventures. With time the perceptions and expectations of organisational operations reached new levels and passed progressively from one stage to a new one. It can be argued that at first the whole evolving process of CSR concept was mostly developed under such conditions as political stability, economic changes, usage of natural resources and public protests (Farcane & Bureana, 2015). After theoretical studies, it can be stated that the whole process of evolution can be divided into five fundamental milestones:

- 1) 18th century–1950s. Initial efforts to cognize CSR principles in business;
- 2) 1950s–1970s. First official mention of CSR and its ideas;
- 3) 1970s–1980s. The emergence of “Self-Interest”, “Strategic Corporate Altruism” and “Enlightened Self-Interest” theories;
- 4) 1980s–1990s. Moral values in business and development of “Stakeholder Approach”;
- 5) 1990s–2000. First attempts to implement CSR into practice.

As the first stage of evolution of corporate social responsibility can be defined the period starting from the 18th century until the end of the Second World War. This interval is known as “the Emergence of Corporate Social Responsibility”. Already in the 18th century the first ideas of CSR were expressed in recognizable article “Wealth of Nations” created by Adam Smith in 1776. Although, Scottish philosopher mentioned that every single person is fixated mostly on self-interest, he encouraged the market participants to interact fairly with equitable treatment (Smith, 1776). The process of industrialization in England was accompanied by poverty, suppressing the rights and freedoms of local citizens. Several humanists such as Robert Owen stoke out against injustice. As an owner of the factory in New Lanark, he conducted an experimental models which discovered a direct relationship between convenient working conditions and profit (Gordon, 1994). Unfortunately, his efforts did not lead to a full change of regime, at least it set in motion the ideas of rethinking the whole situation.

Andrew Carnegie has left a significant imprint of history of CSR. At the turn of the 20th century, after his retirement, Andrew dedicated himself to charity programs by establishing a fund to provide with assistance needy groups of people. Moreover, he donated millions of dollars for the sake of constructions of new public libraries. In addition to all of this, in the history his name is associated with article “The Gospel of Wealth” the purpose of which is to encourage successful entrepreneurs to aim on social benefits by setting new charities and supporting social programs (Carnegie, 1889).

The second stage of development of CSR practice dates back closer to 1950s. Most scholars and academics call this period as “The first epoch of CSR” because the concept was firstly explicitly stated and formulated. In 1953 it was done by Howard R. Bowen in his published work “Social Responsibilities of the Businessman” focused on businessmen concerns about social responsibility and topics of human relations, legal and government relations and ethical attitude. Also, the author focused attention on the problem of responsibilities of businessmen. He is convinced that a

businessman is not aware of direct impact on every engaged stakeholder as the result of his actions, choices, decisions and processes (Bowen, 1953, p. 57).

Besides, the second stage is known as a period of climate monitoring and research. After the Second World War, most of the time was dedicated to exploring the planet and its environment. Basically, most of the concentration was directed to research damage of produced gases and vapours, including carbon dioxide. By the end of the 1950s, the scientists and researchers insisted on reduction of the level of emission of those gases released from large factories and global organisations. Subsequently, ecologists urged society to be more active in forming certain groups and movements to support healthy environment ideas.

By the third stage, started after 1970, there had been an upsurge of interest in corporate social responsibility. This was connected with the fact of deterioration of ecological situation and crisis as the result of economic instability. It was generally agreed that large entities could have a negative impact on society, political balance and consumption of natural resources. Therefore, because of the prevailing situation, formed groups of activists required total public control over activities of undertakings.

However, Milton Friedman, an American economist, was not accorded with such perspective. He stucked mostly to the theory which holds that the main objective and purpose of the whole business system is profitability. In this approach american economist implied that the main aim of the business is only to be focused on satisfying its owners needs by gaining profits under the legal norms and laws while government was obliged to take care of environment and to be sociable responsible (Friedman, 1970). As a result of this, Milton Friedman nominated a “Self-Interest Theory”. It is needless to say that the result of this concept, for the most part, is only concentrated on the result of the economic aspect.

Contrariwise, the exactly opposite model gained the increasing popularity the same year. That theory was termed “Strategic Corporate Altruism” by The Committee for Economic Development in the USA. The basic idea was to demonstrate the importance of contribution of business into social problems and quality (Committee for Economic Development, 1971). Specifically, the ideology revealed a need from the whole business to be interested in social welfare, charities and healthy environment. As Thomas Nagel emphasized, altruism can be discribed as an aspiration to realization of someone’s need with lack of bad intentions (Nagel, 1970, pp. 79–89).

Ultimately, the third concept named “Enlightened Self-Interest” shifted attention on business as a totally responsible system where the interest of managers and owners was to increase a company’s value ensuring that strategy and methods they use are safe and harmless for society and natural resources. It assumes that the primary goal is still making a profit but it should be achieved with responsible and fair activities (Madsen, 2010, pp. 643–644). Shortly, the third approach is a consensus between “Self-Interest Theory” and “Strategic Corporate Altruism”. The last two positions gave impetus to development and understanding of CSR aspects which entities were supposed to take into consideration. Although, the CSR aspects were not formulated clearly yet, in 1979 Archie B. Carroll accurately highlighted four social responsibility categories. He asserted that “any given responsibility or action of business could have economic, legal, ethical, or discretionary motives embodied in it.” (Carroll, 1979, p. 500). Thereby, Carroll illustrated the areas where business has responsibility for the outcomes.

The fourth stage in the historical evolution of CSR had its origins from the 1980s and referred to first and clear mentions of business moral values and rules. During that time to examine the influence of components of business on financial performances and corporate social responsibility R. Edward Freeman designed a “Stakeholder Approach” in 1984 which was directed to strategic management. By components of business Freeman meant interested parties named as stakeholders which were the part of the process to create business significance and effectiveness. As the author mentioned generally corporate social responsibility is an essential element of strategic management in business and it is necessary to embody this process to satisfy stakeholders (Freeman, 1984). Thomas M. Jones had a debate about implementation of CSR as a firm responsibility. Moreover, according to his article, it is not enough to recognize the idea of CSR, the challenging steps lie in integration of it into practice (Jones, 1980, p. 65).

Steven L. Wartick along with Philip L. Cochran dedicated their research to the evolution of Corporate Social Performance. In 1985 their book “The Evolution of the Corporate Social Performance Model” introduced the final three dimensions figure of the firm’s Corporate Social Involvement. Wartick and Cochran created a frame of Corporate Social Performance with three united positions where CSR is presented as the first position and defined as philosophical view (Wartick & Cochran, 1985, pp. 765–767). For the first time, CSR was perceived as a component of the whole corporate social performance model. Finally, this model was beneficial for further studies of interconnections between business and society.

The last stage was memorable for the first attempts of integration of CSR as a mandatory process starting from the 1990s. By that time the European Union had been informed about rationality to put into practice the process of integration of CSR by firms. The first progressive step towards sustainable development in the official level was achieved in 1992 in Rio de Janeiro. United Nations General Assembly invited representatives from different countries to take part in the conference dedicated to development and safety of environment. The scholars of CSR indicate that the summit played a crucial role in integration of CSR activities because, in addition to environmental issues and sustainable development, the participants raised the problem of common interests between undertakings and social problems. In 1991 Donna J. Wood introduced a review of corporate social responsibility placing emphasis on its components, principles and tasks. The author distinguished three levels of fundamentals and essence (institutional, organizational and individual) which jointly clarify the principles of corporate social responsibility (Wood, 1991, p. 695).

But still, the question about compromise was opened. To find the consensus, Lee Burke and Jeanne M. Logsdon formulated the connection between CSR and firm's financial success to achieve success in that obstacle. By using their five-dimensional model, they ultimately identified that CSR provides an economic advantage to the firm which not only invests in its operational system but implements CSR principles also (Burke & Logsdon, 1996, pp. 496–501).

All mentioned theories developed over decades are considered as elements of modern CSR. Although, the concept of corporate social responsibility has an extensive history of its evolution and most of the concepts and ideas have been ripe undoubtedly there are still new concepts to come and emerge.

1.2. Progressive stages of implementation and integration of CSR activities

After protracted studies and discussions, the EU admitted that CSR is a needful element of corporation's operations. However, undertakings, for its part, discovered a tendency that CSR has a positive impact on long-term income and general impression. Thus, CSR operations should be integrated as an essential part of everyday activities of the ventures. But still in the early stages

firms could face a problem of high costs to implement this project into reality with the lack of knowledge in this field.

The process of integration is associated with different factors, which appeared at the end of the 1990s. Firstly, in 1997 Global Reporting Initiative (hereinafter GRI) was founded in the USA. The main goal of that organisation was to help firms, governments and stakeholders to identify the impact on environment, society, corruption matters and human rights (GRI, 2019). Officially in 2000 GRI released the first reporting framework for sustainable reporting for corporations and SMEs (small and medium enterprises). Thereby, according to sustainability reporting standards, worldwide organisations got an opportunity to promulgate the required information to be more transparent. In 1999 a new corporate social reporting standard AA1100 was published by Institute of Social and Ethical Accountability to assist companies in following particular terms to stick to social and ethical reporting.

Thereupon, in 2000 the heads of EU countries arranged the Lisbon Summit to construct a strategy dedicated to sustainable economic growth and European economy as the most competitive in the world where CSR was taken into consideration (European Parliament, 2000). Moreover, the Commission of the EU communities published the final version of the document concerning CSR for a better understanding of its concepts and elements as a result of debates about Green Paper which was presented in 2001. As a description, the European Commission stated in the document that enterprises should transpose the CSR concept into their activities on voluntary basis (European Commission, 2002).

What is more, it was obvious that in the near future the procedure of CSR program reporting would be considered as a required operation within EU because most of the advanced forums were devoted to sustainable activities and its guidelines. One of those forums was “Multi-Stakeholder Forum” whose interests lied on the promotion of aspects of CSR and importance of innovations and transparency. After long debates the final version of report was published with examined topics such as improving aspects, promotion in SMEs and transparency (Eurofound, 2004).

As the next phase, the Council of the EU made a resolution concerning CSR. The final concluding document requested to put the emphasis on increase of awareness of CSR programme, Commission from Multi-Stakeholder forum to ensure the effectiveness of their activity via

reporting, the Member States to promote CSR activities at national level with explanation of possible privileges and advantages in future results (The Council of the European Union, 2003).

In 2006 as the result of communication, the European Commission submitted a new document devoted to CSR and further actions on it. This act encouraged to focus on the results of accomplished work towards implementation of CSR elements and put an emphasis on assistance of Multi-Stakeholders forums, collaboration with Member States and transparency (Commission of the European Communities, 2006).

In practice, during the efforts to integrate CSR, the organisations are vulnerable to challenges and losses resulted from the fact that the whole process can contradict their interests, the long-term interests and can lead to high costs. In that way, it is recommended to carry out the entire process step by step in order to ensure that every aspect is taken into account. Dmitriev, a chairman of Vnesheconombank, indicated some of those important levels in the presented guidebook oriented on awareness of CSR. Indeed, to be socially responsible, the undertaking is supposed to devote considerable efforts to analysis of every single thing.

The first step towards implementation of CSR can be considered as a fundamental stage. At this level a company's mission is to be assured that all its current operations and upcoming ideas are made in compliance with the law and legislations (Дмитриев, 2011). By adhering to the law, an organisation selects a fair competition, payment of taxes and protection of business interests and supporting anti-corruptive policy.

As the next step, the priorities must be set in favour of achieving significant progress in the field of environmental issues, innovations and new technologies in production and development of policy in relation to product quality for the sake of consumers. It is this stage that requires most of the costs from the company as expenses include investments into research and development for creating modern technologies, higher costs for quality and payments for safety of the natural environment.

Gradually this program outgrows into a vital part of the system and the strategy of the company. Since then, this stage of integration implies active support of CSR by the company at the internal and external levels. In internal level, comfort conditions and exemplary attitude are the priorities targeted on interested parties inside the organisation while in external level a promotion within

business partners, suppliers and other external stakeholders must be complied (Hohnen & Potts, 2007, pp. 57–65). To achieve considerable success in this field, all parties concerned are compelled to take part in the development of CSR strategy. As the final result, an entire organisation formulates favourable conditions for further perspectives.

To summarize, the fact that a significant amount of time was devoted to CSR is not coincidental. As history has revealed, CSR basics are needful in daily life so that organisations are responsible for correct functuanality both internally and externally. For this reason, ventures are recommended to combine CSR philosophy with regular operations to ensure that the whole operating system is honest and advanatgeous, to improve weaknesses, to prevent further violations and assure a secure way forward for the future generation.

2. NEW DIRECTIVE TOWARDS TRANSPARENCY AND ACCOUNTABILITY

This section is devoted to detailed description of necessity in non-financial reporting produced by undertakings from various types of industries to increase transparency and sustainability. It also demonstrates why stakeholders are interested in non-financial information. Additionally, the second chapter contains the information about further development of disclosure procedure starting from reporting based on a voluntary basis and finishing with establishment by the European Parliament and the Council Directive 2014/95/EU designed to ensure that certain undertakings produce required information concerning ESG (environmental, social and governance).

2.1. Reasons to report

Being sociably responsible is a must in today's world but in addition to this, a report about ESG operations should be composed, and it is more complicated than that. As statistics shows, the number of organisations involved in reporting is increasing with each year. Although, all engaged undertakings strive to stick to reporting procedure and there is a huge amount of standards about how to report according to regulations, but still the question remains open regarding the selection of standards, law reporting which depends on the country and information which is required to be reported.

In itself, non-financial reporting is in great demand for the whole global business including undertakings and its stakeholders. Due to reporting, many more features can be configured. Primarily, it affects organisational decisions and operations because new facts are floating to the surface. For example, the final result has the possibility to show what the company actually does, which information is missed and what must be improved. Consequently, it becomes possible to follow the direction to work on. The amount of stakeholders who are interested in transparency of company's activities is enormous. It is common knowledge that as a stakeholder of an organisation can be described the following groups: a) government, b) shareholders, c) workers,

d) suppliers, e) consumers, f) non-financial organizations, g) investors and creditors, h) banks, i) business partners and etc.

Each of them necessitates a comprehensive review of non-financial activities represented by involved undertakings. It can be argued that non-financial reporting serves as a connection and way of interaction for the further cooperation and development between undertakings and interested parties (Porter & Kramer, 2006).

For government, the reported information is essential as it gets the ability to track the performance with regard to environmental issues. With current opportunity, the state authorities can investigate and estimate the damage caused as a result of undertaking's practice. Therefore, they can develop a program to assist undertakings with improvement of results in this field (Дмитриев, 2011). Also, some countries may use a system of penalties to enforce companies to reconsider their policy. Protection of environment and resource conservation are the final outcome.

Non-financial reporting satisfies the consumers in the matter of production process and quality of the product they acquire. They want to be sure that the production process of the product they pay for is entirely honest and legal from top to bottom. Moreover, non-financial reporting convinces that all human rights are respected during the whole procedure.

Reliability is one of the key factors in a successful business. That is why the business partners and suppliers need to be confident in each other. For doing so, they have to demonstrate that ethical norms are valuable via non-financial reporting which contains a clause relating to ethical positions and morals (Carroll & Buchholtz, 2008, pp. 231–447). In addition, the suppliers and contractors undertake to provide comfortable and safe working conditions with respect of human rights.

Investors and creditors are the key individuals in this chain. As known, they are mostly interested in financial indicators and figures to analyse the credibility and solvency of the company. However, in recent time, this is not sufficient, as non-financial information similarly defines a company's stability. Besides, non-financial information can be useful to measure the potential risks, and this in turn, prevents potential uncertain investments.

From the point of view of competition, non-financial reporting can be considered as motivation to establish a better report for its stakeholders. Furthermore, as the competitors analyze the financial

results of different entities involved in the same market, they can make an identical procedure with non-financial indicators to improve the efficiency of CSR activities according to this data.

Non-financial organizations may also request non-financial information to notice the outcome according to the territory it is located. Such sections in reports as the usage of non-renewable resources, impact on society, working places can be also explored.

Unfortunately, it can be problematic to absorb all disclosed information presented in reports because undertakings are capable of asserting finite facts whilst it misleads the public (Fauset, 2006, pp. 10–13). Needless to say that available data might contain omitted parts or completely unavailable materials by reported organisations to create a positive public opinion of the brand's image. To avoid unfair scenarios and assist organisations with reporting procedure, the official standards with reporting frameworks were elaborated.

As it was mentioned before, the first reporting framework was established by GRI. This document is currently the most used in the world. First of all, the main specificity of GRI framework is a convenience to apply its instructions incrementally. Thus, GRI reporting enables undertakings to become accustomed to the whole process. As a positive thing, the undertakings become more experienced over time. To be motivated, GRI prepared a competition where every organisation is welcomed to participate by preparing reports according to GRI standards (GRI, 2019). This event contains different rewards which have a positive impact on the image of winning undertakings.

Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprise (MNEs) is the next guidelines in the list. They are accepted internationally and devoted mostly on following subjects: concept and principles, general policies, disclosure, human rights, employment and industrial relations, environment, bribery and consumer interests (OECD, 2018).

ISO26000 was introduced in 2010 and includes terminology and comprehensive understanding of CSR. The final version of the document was designed both for organisations and governments. These standards provide assistance identifying the directions of CSR and its principles.

Group of standards AccountAbility (AA1000) is based on three principles such as inclusivity, materiality and, responsiveness (Accountability Standards Board, 2018). The aim of the standards is to increase quality of non-financial reporting. They also issued additional groups of standards

for assurance and stakeholder engagement. In addition, AccountAbility group conducts trainings and provides interaction between involved parties.

United Nations Global Compact (UNGC) was founded on the 26th of July in 2000. The first step towards composing the document was made in conference dedicated to sustainable development and environment safe in Rio de Janeiro in 1992. Currently, according to UNGC there are more than 9500 organizations stick to the compact with more than 60000 public reports. It is based on voluntary procedure where the reporting undertakings are supposed to adhere to ten main principles in four directions: human rights, standards of labour, environment and, anti-corruption actions (United Nations Global Compact, 2019).

Non-financial reporting is essential for both operating organizations and for stakeholders. It serves as a direct dialogue and interaction between them. Today it is time when companies can not deviate from full transparency and responsibility for the actions they perform. For this, to make it more simplified for undertakings, various non-financial organisations issued approved internationally standard frameworks so all engaged sides can proceed to primary target together legitimately and justifiably.

2.2. Disclosure of non-financial information from voluntary to mandatory procedure

As soon as the practical results demonstrated that with non-financial reporting disclosed organisations attract more investors, have better long-term financial key indicators, well-recognized brand and products, more undertakings desired to move forward on the path of voluntary disclosure procedure. For most EU undertakings, it has become the norm to devote the equal amount of time on financial and non-financial information as they complement each other. However, the complexity of reporting had not faded away. On the one hand, different tools such as codes of conduct, management standards, reporting assurance, labels and many other various policies were invented by EU to facilitate the process of integration of CSR and to increase transparency in enterprises. On the other hand, the usage of these instruments voluntarily might be quite problematic to ensure that all of them are in compliance (Commission of the European Communities, 2002). Certainly, multiple standards frameworks were developed to unite MNEs and large undertakings to espouse and support transparent policy. Nevertheless, several standard

frameworks can be applied together at the same time depending on industry a company operates in. Such actions can lead to disorientation. As a final result, the EU countries needed official fundamental document obliging the particular undertakings to report required non-financial information with the set of specific standards to lead.

As a result, in 2011 the European Commission released a new strategy regarding CSR. The agenda of the action plan of the strategy was adopted for the next four years. It was based on an extended European Strategy named “Europe 2020 strategy”. Eventually, in this commission, the EU made a decision to point out which standards are acceptable to rely on and at least one of them should be followed by all large European ventures. Identically, Member States were invited to create national plans and agenda of actions to support CSR and improve effectiveness of CSR policies (European Commission, 2011).

In 2013 the European Parliament together with the Council devised detailed accounting rule – Directive 2013/34/EU on all applicable financial statements of certain types of businesses. At first, the Directive defines three types of companies according to their balance sheet, net turnover and number of employees: micro, small, medium and, large undertakings. Mainly, this accounting Directive is intended for the purpose to ensure International Financial Reporting Standards (IFRS) are met, transactions of mining and logging industries are transparent for governments, and public-interest entites, starting from medium-sized undertakings, must have an auditor to estimate their financial statements (EC Directive 2013/34/EU). But next year this Directive was amended by updated Directive 2014/95/EU which was crucial in European history.

2.3. Obligatory procedure of reporting of non-financial information and diversity policies according to Directive 2014/95/EU established by the European Commission

It has been a while since the EU attached great importance to the revitalization of CSR fundamentals as a required mechanism. For this reason, the time has come to make a big decision in this direction. Hence, the European Commission adopted renewed accounting legislation termed “Directive 2014/95/EU” amending Directive 2013/34/EU on 22nd of October 2014. The Directive entered into force after the 20th day after the period of its publication. As the next step, the Member States were obligated to transpose major chapters into national laws no later than 6th of December 2016. Thereby it was implied that starting from 1st of January of 2017 and during the whole year

the Directive should be imposed on designated undertakings (EC Directive 2014/95/EU art 4, 2014). It means that already in January 2018 the covered undertakings are required to start non-financial reporting. By banding together, GRI, CSR Europe in cooperation with Accountancy Europe took over a control process of integration of the Directive into national laws of Member States.

It was estimated that in total the legislation covers more 6000 organisations within EU. The key aspects of the Directive indicated that the act is entirely geared on disclosure of non-financial information by the following organisations (European Commission, 2014):

- Large undertakings in the territory of EU;
- Banks;
- Insurance companies;
- Other public-interest entities with more than 500 employees.

In accordance with article 1 of the Directive, the aforementioned organisations are supposed to report non-financial statements either on Management Report or Other Separate Report on the basis of the country law. The information to be disclosed is mentioned in Directive as follows (EC Directive 2014/95/EU):

- Environmental;
- Human rights issues;
- Social and labour;
- Anti-corruption and bribery.

At the same time, all nominated organisations are compelled to increase transparency by illustrating in reports their business model, the activities connected with outcomes as the result of these activities, the possible risks during these activities and suggestions for their solutions with additional non-financial indicators related to CSR (GRI and CSR Europe, 2017). Occasionally, any organisation has an opportunity to exclude the data they consider sensitive with further presented explanations of doing so. Admittedly, to ensure in compliance of reliability and accuracy of information pointed in consolidated reports, Member States should provide firms with legislative auditors (Ernst & Young Accountants, 2017).

The Baltic States (Estonia, Latvia, Lithuania) like other European countries, were subjected to disclosure non-financial information as the result of obligations cited in Directive 2014/95/EU. It is not a big secret that each of these states has diverse laws and obligations in the legislation acts

so the proximity of elements of non-financial reporting practice after transposition Directive 2014/95/EU into country laws by governments was identified and depicts a final situation between Estonia, Latvia and Lithuania which is presented in Appendix 1.

Bearing in mind the fact that this Directive was elaborated for all European Member States, the aforementioned table outlines the situation of different approaches to this regulation by every country of the Baltic States. At first, it might seem that Latvia and Lithuania had approached the question more radically as they have a system of fines for those undertakings and/or their responsible persons who do not comply but still the only concluding results from the practical part and further researchers in this field can certify which of approaches is the most efficient.

To sum up, it is noticeable that the European Union succeeded in integration of CSR policy into undertaking's system via Directive, thereby making certain organisations transparent to stakeholders and responsible for each deed. Undoubtedly, with this Directive the EC reassured the world community that European business intends to take high positions in the globe.

3. CASE STUDY: THE IMPACT OF NEW DIRECTIVE ON COMPANIES LISTED ON BALTIC STOCK EXCHANGE

The third chapter of Bachelor thesis demonstrates the final research results of non-financial information disclosed in Management, Annual or Separate Standalone reports by Estonian, Latvian and Lithuanian listed in Nasdaq Baltic List undertakings as a consequence of requirements specified in Directive 2014/95/EU. Besides, the overview of Nasdaq Baltic List with prevailing firms which are situated there.

3.1. Overview and classification by industry type of listed undertakings

Presently in 2019, the Baltic Nasdaq includes three markets which are Tallinn Stock Exchange, Riga Stock Exchange and Vilnius Stock Exchange. Each of them might have various standards because of distinctions in acts of national law among the countries (see Appendix 2). Regardless, Baltic Nasdaq has a set of common rules which are intended to be followed by Estonian, Latvian and Lithuanian listed undertakings. One of this is Corporate Governance implementation recommendations and requirements together with trading rules and listing rules (Nasdaq, 2019). Existing groups of regulations were created for both stakeholders and ventures, so that presented companies pledge to enhance the transparency with the reference to Directive 2014/95/EU, ensure the disclosure of necessary information by adhering to international standards and follow the EU regulated market rules.

Currently, Nasdaq Baltic List consists of Baltic Main List, Baltic Secondary List and First North (which is not regulated EU market). For further analysis only Baltic Main List is taken to be examined which comprises 33 Baltic undertakings where Estonia and Lithuania are prevailing with 15 and 14 organisations respectively and Latvia with rest 4 organisations.

On the basis of the data taken from official website of Baltic Nasdaq, it can be affirmed that most of the companies operate in Real Estate, Finance and Banking sector which is 18%, then Food industry with 15%, the next position take both Utilities and Retail estimated 12%, next are Transportation Services (including Traveling tours) and Manufacturing with 9%, Pharmaceutical,

Construction and Media and Telecommunication are 6% and Basic Materials and Oil and Gas take the last position with 3%. This statistics is illustrated in Figure 1 below.

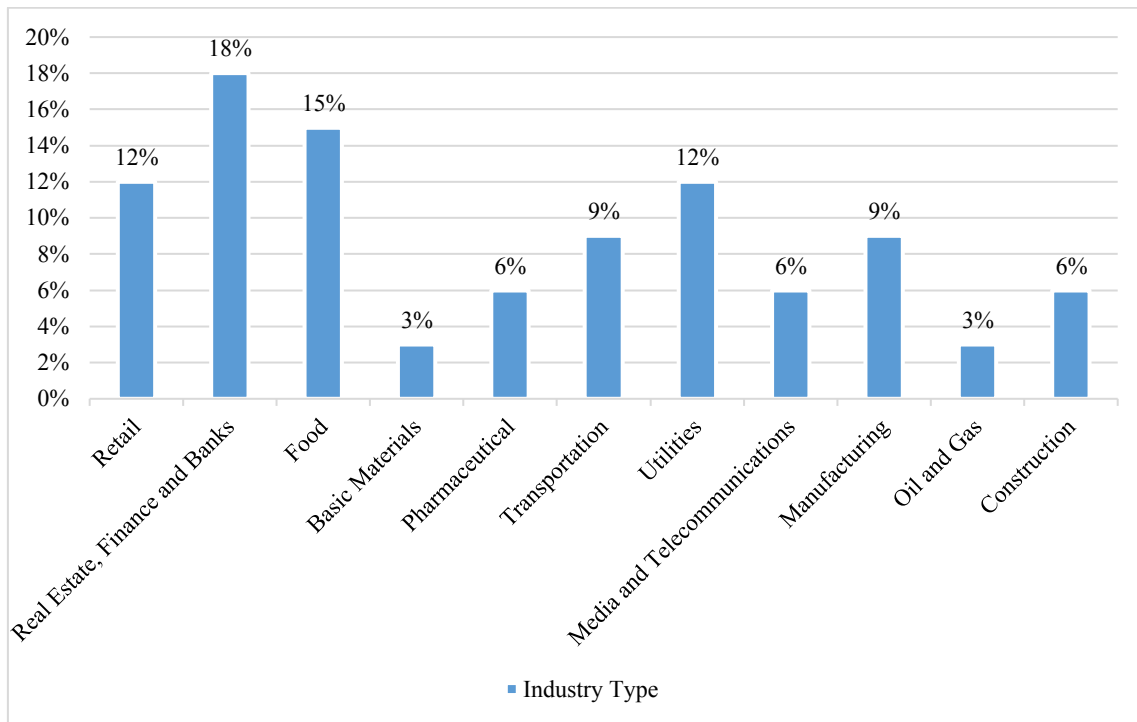


Figure 1. Classification by industry type of Baltic firms listed in Baltic Main List
Source: Author’s calculations.

It is obvious that all industries exemplified in Baltic Main List might also affect all aspects discussed in Directive. For this reason, it is crucial to report about sustainability, social influence and human rights actions to prevent later unfavourable consequences such as undertaking’s image and distrust on the part of stakeholders.

3.2. Sources of practical materials and data sample

The Directive instructs that all required information should be transparent in public and available for stakeholders, thereby to get the accurate result the data to be analysed was collected from official sources of Baltic organisations which are reports. These documents, for its part, were gathered from the next sources:

- Official websites of firms;
- Nasdaq “reporting” section, table “Annual Reports, Corporate Governance Reports and ESG”;

- Sustainability reporting database.

The criteria of Directive 2014/95/EU about effective sustainability reporting are applied for all 33 companies undertakings quoted in Baltic Main List from Nasdaq taken as a sample. Additionally, the following information was considered:

- Sample companies have to be situated only in Estonia, Latvia or Lithuania and quoted in Nasdaq Baltic Main List in as of the date of May 2019;
- Ensuring that taken as a sample undertakings fulfil their obligations of publishing either Management Report or Stand-alone Report with reference to non-financial information (including Annual Report or Year Book) in any accessible official sources;
- Checking whether necessary information is accurately outlined, simply mentioned or eliminated completely in these reports of each organisation.

In agreement with Nasdaq Rules, the companies quoted in Baltic Main List are obliged to report annually, semi-annually and quarterly. However, the result of observation illustrated that Baltic undertakings disclose non-financial information in reports issued annually. Hence for analysis of information, were collected latest annual, management, corporate governance, ESG reports and yearbooks which are based on annual data.

3.3. Analysis of non-financial disclosure in Management, Annual or Separate Reports provided by selected undertakings

Starting from 2018 the certain large undertakings from the Baltic States are imposed to comply with EU Directive established to increase sustainability reporting. According to Directive, the following organisations are obliged to disclose information on four matters. Consequently, to be fully in compliance, all 33 organisations from Nasdaq Baltic Main List are supposed to have all these non-financial aspects included in their reports.

Thus, the scoring system was applied to analyse a level of compliance with Directive 2014/95/EU after implementation of it. The scale of this system comprises three numbers depending on the actual situation of disclosure of non-financial information presented in Table 1.

Table 1. Scoring scale.

Scoring	Meaning	Clarification
0	No information	Directive requires that all non-financial information is stated in official reports provided by undertakings. Therefore, if information about aspect is available only in websites or other resources with no reference to management report then 0 points are given.
1	Overall information	If information about aspect is available in annual, management or stand-alone report as specified in Directive, but not explicitly disclosed. Detailed data is omitted.
2	Precisely disclosed	If information is about aspect is available in annual, management or stand-alone report as specified in Directive and explicitly disclosed in divided sections with detailed description of it. In case the undertaking disclosed non-financial information with relying on internationally accepted standards, then it automatically got maximum points for each aspect.

Source: Created by author.

By aspects are meant the matters with supplementary data to be contained in reports. The following aspects were examined to discover the level of compliance with Directive (European Commission, 2014):

- business model;
- environmental influence;
- labour and social matters;
- respect of human rights;
- anti-corruption actions;
- policies and outcomes related to CSR;
- risks.

During the analysis the companies scope were reviewed and compared. The Baltic listed organisations are covered by Directive if they have at least 500 employees. In addition to this requirement, Latvian and Lithuanian undertakings are supposed to have either 40 million euros in

net turnover or 20 million euros in balance sheet (see Appendix 1). As a result, several organisations were eliminated from the analysis. Although such companies as Klaipėdos nafta, LHV Group, Lietuvos energijos gamyba and Tallinna Vesi in theory are assumed to be removed from analysis analogously because they have less than 500 employees but these ventures were also taken for research as they operate in spheres with direct impact on environment and society, namely oil and gas industry, utilities and finance. Finally, after accurate observation 27 out of 33 organisations were selected for analysis.

Considering the fact that all aspects must be transparent to be fully compliant, the report of each undertaking is expected to earn the maximum points or at least one point given for all reported aspects to be mainly compliant with Directive. The maximum points for the level of disclosure an undertaking can get is 14 while the minimum acceptable is 7 points with 1 point for each aspect which is half less. In that case, the organisations with fewer points than 7 or with 0 points at least for one aspect can be considered as a non-compliant organisation. Figure 2 demonstrates the final result of the evaluation of 27 undertakings.

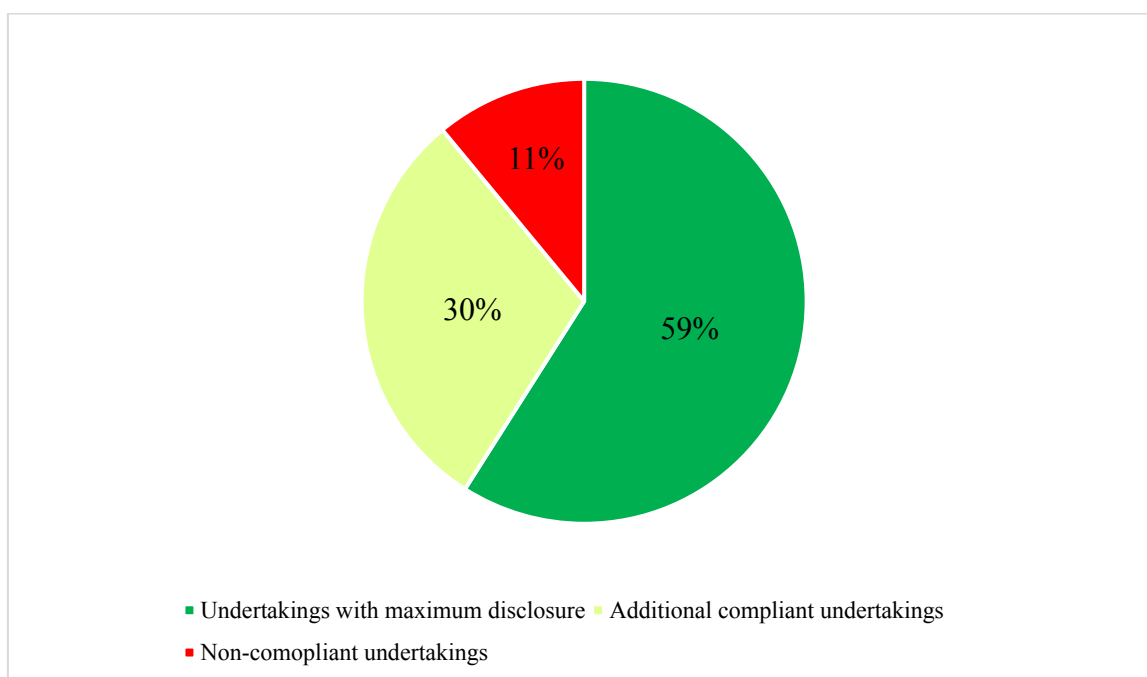


Figure 2. The percentage of compliance among undertakings in the Baltic States
Source: Author's calculations.

As it turned out, nowadays 89% of Baltic listed organisations publish non-financial information with the reference to Directive where 59% scored the maximum points in each aspect which

implies the precisely and explicitly disclosed. 30% of Baltic organisations fell into “partly disclosed” category. Even though it still indicates that these firms are in compliance, at the same time they are expected to disclose more information by using international standards. And finally, only 11% of ventures are failed to reveal a significant amount of non-financial performance. That is why enterprises belonging to the last category are presumed to make huge progress towards Directive next years.

Additionally, it was found that all four included companies with direct impact which theoretically were supposed to be eliminated, follow the Directive principles. Klaipėdos nafta and Tallinna Vesi gathered maximum points while LHV Group and Lietuvos energijos gamyba are in the second category. This fact clearly demonstrates that current undertakings take full responsibility for the outcomes of their operations even if they are not imposed by Directive.

Presently, among 16 fully disclosed enterprises, Lithuanian companies are in the lead with 8 of them, whereas Estonian companies are in the second position with 7 firms and Latvia is the last one with only one enterprise. However, the list of non-compliant organisations mostly consists of Estonian organisations with two of them and one Lithuanian organisation. The most complete list of Baltic Nasdaq organisations with estimations of each aspect together with total number of scoring the disclosed information is presented in Appendix 2. Also, there can be found the weakest and strongest sides of non-financial disclosure of every single analysed enterprise.

As already stated, the Directive started operating in Member States from January 2018. Therefore, in order to gain a better understanding of a situation and to detect the impact of Directive, the level of disclosure in 2017 and 2018 was compared. The final results are presented in Figure 3 below.

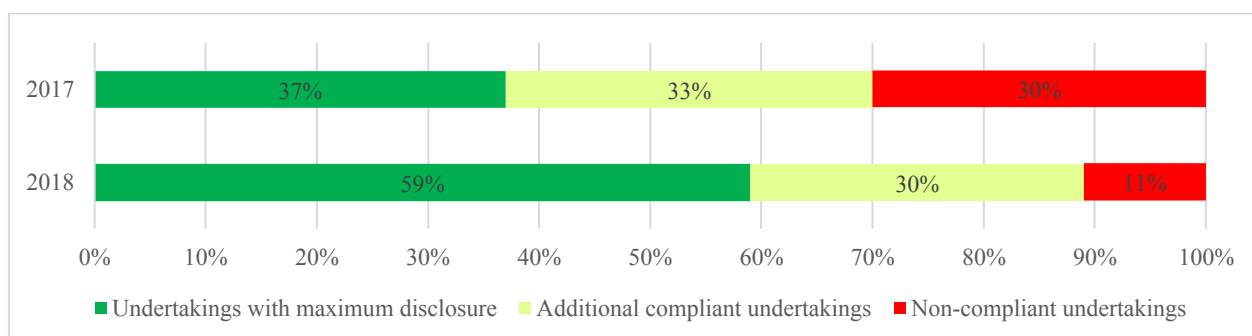


Figure 3. The percentage of compliance among undertakings in the Baltic States
Source: Author’s calculations

The final result demonstrates that the level of transparency has increased. The number of organisations with maximum disclosure raised from 10 to 16 organisations which is 22% increase, the number of additional compliant undertakings decreased from 9 to 8 organisations which is a reduction in 3% and the number of non-compliant organisations decreased from 8 organisations to 3 which is a decrease by 19%. In other words, the Directive has a positive effect on non-financial reporting among Baltic organisations. This fact may be also related to governmental awareness and laws as the result of this Directive.

Moreover, it should be emphasized that Estonian and Lithuanian enterprises made significant improvements towards transparency. The final result underlines the growth in the quantity of Estonian and Lithuanian organisations with maximum disclosure and decline in additional compliant undertakings while the number of Latvian firms is stably unchanged. Although, the final result 89% is recognised as a high overall score, but nonetheless it is still expected that all organisations would follow the Directive requirements according to international standards.

On the whole, the results of the analysis are superficial. Nevertheless, this analysis illustrates a current level of transparency in Nasdaq Baltic List. Although it may also seem that analysis conditions are strict, but it is worth remembering that all functioning organisations are expected to be stable, reliable, accountable and responsible. For this reason, stakeholders expect to get the maximum available non-financial information to be sure in decent and fair functionality.

CONCLUSION

Notoriously, the Directive was created on the basis of CSR theory. Even though CSR obtained a lot of meanings, approaches and forms during its development by numerous researchers and scholars, but each of these authors concluded that CSR is necessary for stable business and sustainable progress by the reason of the fact that firms are able to control the impact of its actions on society, environment and honest performance.

During theoretical research it became clear that after a long evolution of CSR, first global organisations started using non-financial reporting as a voluntary procedure considering that transparency serves as a dialogue between undertaking and a huge groups of interested parties, first and foremost, such as governments, shareholders, workers, suppliers, consumers, business partners and etc. Additionally, it was proved practically that for the full disclosure of information the undertaking gets the opportunity to develop faster, stay ahead of competitors and increase the trust by stakeholders.

As most of the global organisations were unfamiliar with CSR principles, non-financial organisations were formed to support organisations with publishing non-financial data. Thereby, the emergence of such international standards as GRI, OECD, ISO26000, AA1000 and UNGC simplified the process disclosure. Eventually, the number of issued non-financial reports increased with time.

As has been made from the action of the European Union in relation to CSR practices, non-financial reporting has to become an integral part of certain operating undertakings. This big movement of establishment the Directive 2014/95/EU by the European Commission primarily was made to assist organizations to increase non-financial reporting among them and this, in turn, improves the quality of operations by identifying the weakest sides and develop the relationship with stakeholders.

The certain large undertakings from the Baltic States are also involved in required non-financial disclosures covered by Directive 2014/95/EU. That is why the aim of the Bachelor thesis was to identify how compliant the Baltic undertakings were, to determine whether the Directive made an impact on non-financial reporting and observe a large or small amount of non-financial disclosures.

For the analysis were taken undertakings quoted in Nasdaq Baltic List. Given that the Directive covers only certain undertakings, 27 organisations are chosen as the result of selection. For analysis was used a scoring system to assess the level of disclosure and transparency published in management report, annual report or separate report with reference to management report.

As anticipated, the outcome of the impact of Directive 2014/95/EU turned out to be positive. At present, 24 organisations (89%) among 27 firms mentioned in Nasdaq Baltic List disclose non-financial information according to Directive, 16 of them (59%) are fully transparent and 8 companies (30%) are partly transparent. Also, 3 ventures (11%) are failed to stick to this accounting act. The Directive 2014/95/EU itself started operating as from January 2018, thus to spot the whole picture, reports of 2017 and 2018 years were reviewed and compared additionally. The analysis detected total increase by 19% in number of undertakings which started following the key aspects of Directive. As it was found, the largest contribution was made by Estonian and Lithuanian undertakings. The level of transparency remains relatively high and there has been a progressive increase in number of companies with fully disclosed information but all in all, other remaining enterprises are supposed to join the group of entities with maximum disclosure in the near future.

The assessment of the analysis is subjective. Undoubtedly, there is a need to make a more thorough analysis to see the whole picture in Nasdaq Baltic List. The analysis results are based on the situation with a period of time of two years. To catch a trend of progress or regress in non-financial reporting and transparency, a wider range of years should be considered. In addition, the future research can be also dedicated to alternative large entities of the Baltic States which are not listed in Nasdaq Baltic List.

All things considered, it can be concluded with certainty that the author of Bachelor thesis has achieved its objective which demonstrates actual situation in Nasdaq Baltic Main List in 2019.

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APPENDICES

Appendix 1. Transposition gateway in Estonia, Latvia and Lithuania.

	Analogy of disclosure between Estonia, Latvia and Lithuania	Contrast of disclosure between Estonia, Latvia and Lithuania
Company Scope	Number of Employees Estonia, Latvia, Lithuania: <ul style="list-style-type: none"> Over 500 employees 	Number of Employees The same minimum amount of employees in three Baltic States
	Net Turnover or Balance Sheet Latvia and Lithuania: <ul style="list-style-type: none"> Over EUR 40 million in Net Turnover or over EUR 20 million in Balance Sheet 	Net Turnover or Balance Sheet Estonia: <ul style="list-style-type: none"> Does not have the same requirements as listed in two Baltic States
	Public Interest Entities Estonia, Latvia, Lithuania: <ul style="list-style-type: none"> Listed companies Insurance and reinsurance undertakings 	Public Interest Entities Estonia: <ul style="list-style-type: none"> Credit institutions Latvia: <ul style="list-style-type: none"> Financial institutions Lithuania: <ul style="list-style-type: none"> Bank and the central credit union, pension funds, large state or municipal enterprises, investment undertakings, brokerage and management firms, Vilnius Security Exchange

Appendix 1. Continues

Report Features	<p>For the following matters</p> <p>Estonia, Latvia, Lithuania:</p> <ul style="list-style-type: none"> • Environment • Social and labour • Human rights • Anti-corruption 	<p>For the following matters</p> <p>All three Baltic States have an identical information to disclose</p>
	<p>The report shall contain</p> <p>Estonia, Latvia, Lithuania:</p> <ul style="list-style-type: none"> • Undertaking's business model • Policies related to non-financial matters and their outcomes • Risks related to non-financial matters • KPI's which are used <p>Latvia and Lithuania:</p> <ul style="list-style-type: none"> • Explanation of the sums indicated in financial statement which are related to CSR 	<p>The report shall contain</p> <p>Estonia:</p> <ul style="list-style-type: none"> • The undertaking does not have to explain the sums indicated in financial statement which are related to CSR
	<p>The information shall be presented</p> <p>Estonia and Latvia :</p> <ul style="list-style-type: none"> • The management report 	<p>The information shall be presented</p> <p>Latvia:</p> <ul style="list-style-type: none"> • A separate report published alongside with management report • A consolidated management report

Appendix 1. Continues

		<p>Lithuania:</p> <ul style="list-style-type: none"> • A separate report published within three months of the last day of the financial year and made available in undertaking's website and referenced in annual report
	<p>Which may rely upon</p> <p>Estonia, Latvia, Lithuania:</p> <ul style="list-style-type: none"> • An international, EU-based or national reporting framework 	<p>Which may rely upon</p> <p>All EU countries were presented the similar frameworks to follow</p>
<p>Additional Aspects</p>	<p>Estonia, Latvia, Lithuania:</p> <ul style="list-style-type: none"> • Comply and explain principle <p>Latvia and Lithuania:</p> <ul style="list-style-type: none"> • Safe harbour principle • Fines are specified <p>Estonia and Lithuania:</p> <ul style="list-style-type: none"> • Auditor's involvement: presence of statement 	<p>Estonia:</p> <ul style="list-style-type: none"> • Fines are not specified • Diversity Statement: must be presented in management report <p>Lithuania:</p> <ul style="list-style-type: none"> • Diversity Information: must be presented in the annual reports
<p>Links</p>	<p>Estonia, Latvia, Lithuania:</p> <ul style="list-style-type: none"> • Law 	<p>Estonia:</p> <ul style="list-style-type: none"> • Accounting Act as Supporting Document <p>Latvia:</p> <ul style="list-style-type: none"> • Financial Instruments Market Law as Supporting Document

Appendix 1. Continues

		<p>Lithuania:</p> <ul style="list-style-type: none">• Law on the Financial Accountability of Enterprises as Supporting Document
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Source: Created by author based on a comprehensive overview of implementation EU Directive (GRI and CSR Europe, 2017).

Appendix 2. Listed Baltic undertakings with final disclosure in 2018.

Baltic Main List								
Name of company	Business model	Environmental matters	Labour and social matters	Respect of human rights	Anti-corruption	Policies and results related to CSR	Risk	Disclosed data
Apranga	2	2	2	2	2	2	2	14
AUGA group	2	2	2	2	2	2	2	14
Baltika	2	2	2	2	2	2	2	14
Ekspress Grupp	2	2	2	2	2	2	2	14
Energijos Skirstymo Operatorius	2	2	2	2	2	2	2	14
Grigeo	2	2	2	2	2	2	2	14
Klaipėdos nafta	2	2	2	2	2	2	2	14
Merko Ehitus	2	2	2	2	2	2	2	14
Nordecon	2	2	2	2	2	2	2	14
Olainfarm	2	2	2	2	2	2	2	14
Pieno žvaigždės	2	2	2	2	2	2	2	14
Rokiškio sūris	2	2	2	2	2	2	2	14
Tallink Grupp	2	2	2	2	2	2	2	14
Tallinna Kaubamaja Grupp	2	2	2	2	2	2	2	14
Tallinna Vesi	2	2	2	2	2	2	2	14
Vilkyškiu pieninė	2	2	2	2	2	2	2	14
Grindeks	2	2	2	2	1	2	2	13
Harju Elekter	2	2	2	1	2	2	2	13
Lietuvos energijos gamyba	2	2	2	2	2	2	1	13

Appendix 2. Continues

Panėvežio Statybos trestas	2	2	2	2	2	1	2	13
Telia Lietuva	2	2	2	2	2	2	1	13
Šiaulių bankas	2	2	2	1	2	2	2	13
Tallinna Sadam	2	2	2	1	1	2	2	12
LHV Group	2	1	2	2	1	1	2	11
Linus Agro Group	2	2	2	1	0	2	2	11
PRFoods	2	2	1	0	1	1	0	7
Silvano Fashion Group	1	2	2	1	0	1	0	7

Source: Created by author based on analysis of key aspects in Management, Annual or Separate Report