Engaging stakeholders in corporate decision-making through strategic reporting: an empirical study of FTSE 100 companies

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Abstract

The strategic report is the latest iteration of non-financial reporting in the UK. This project empirically analyses the practical implications and relevance of the production of a strategic report for shareholders and especially other stakeholders (e.g. employees, customers, suppliers, environmental agencies, social, community, and human rights bodies). The strategic reports of the FTSE 100 companies from 2015 and 2016 are scrutinised, using a methodology involving compliance coding. This study is especially significant as the practical implications and relevance of the production of a strategic report by company directors have not been discussed in depth in prior literature. This paper fills this gap by first providing empirical evidence on compliance with the relevant statutory provisions. It sheds light on the manner in which companies consider environmental, social and governance (ESG) issues in decision-making and the extent to which disclosure represents an effective strategy for engaging stakeholders in that process. It also evaluates the type and quality of information transferred from the company to stakeholders in the form of the strategic report. This first systematic review of strategic reporting in the UK carries international implications due to the high international shareholder base in FTSE 100 companies.

I. Introduction

Over the past years, voluntary self-regulatory instruments like the United Nations Global Compact[4] and the Global Reporting Initiative[5] have become important vehicles through which firms demonstrate their commitment to a more sustainable future, including adherence to environmental and social rules.[6] Current developments in corporate governance – like Directive 2014/95/EU[7] and the move towards

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[4] See: <www.unglobalcompact.org/> accessed 30 July 2017.
[5] See: <www.globalreporting.org/> accessed 30 July 2017.
[6] See generally: Luis A. Perez-Batres et. al, *Stakeholder Pressures as Determinants of CSR Strategic Choice: Why do Firms Choose Symbolic Versus Substantive Self-Regulatory Codes of Conduct?* 110 Journal of Business Ethics 157 (2012).
[7] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non- financial and diversity information by certain large undertakings and groups (hereinafter: 'Directive 2014/95/EU'). The Directive imposes, on certain large companies and groups, an obligation to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors (in terms of age, gender, geographical diversity and professional background).

integrated reporting (IR)[8] – have clearly underlined the importance of comprehensive and in depth disclosures where, in addition to established financial factors, non-financial matters (such as environmental, employee, social and human rights issues) are also reported on. In the UK, the disclosure requirements of quoted companies[9] are to be found in company law[10] and securities law[11] and have recently been increased through the introduction of the strategic report.[12] According to the amended CA 2006, the directors of a company[13] must prepare a strategic report for each financial year of the company.[14] The aim of the strategic report is to provide details on how s. 172 CA 2006 has been applied.[15]

In this paper, the strategic reports of the FTSE 100 companies[16] will be scrutinised with reference to 13 variables.[17] This study is especially significant, as the practical implications and relevance of the production of a strategic report, in the context of non-financial issues, by company directors, have not been discussed in depth in prior literature.[18] This paper will fill this gap and first,

[8] <http://integratedreporting.org/> accessed 30 July 2017.
[9] Under s 385 (2) Companies Act 2006 c 46 (henceforth: 'CA 2006'), a 'quoted company' is a company whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the FSMA Act 2000, or is officially listed in an EEA State, or is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.
[10] Including: CA 2006; Financial Reporting Council ('FRC'), UK Corporate Governance Code (April 2016) (henceforth: 'UK CG Code'); Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410) and Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (SI 2013/1981).
[11] Financial Conduct Authority ('FCA') Handbook, Disclosure Guidance and Transparency Rules sourcebook (henceforth: 'DTR'); FCA, Listing Rules, r 9.8.
[12] CA 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/1970); UK CG Code, Provision C.1.2; DTR 4.1 (refers to a management report which will usually include the strategic report and directors' report); FCA, Listing Rules, r 9.8.13R.
[13] Except a small company: ss 414A (2) and 414B CA 2006.
[14] s 414A(1) ibid. The strategic report must be approved by the board and signed on its behalf by a director or the company secretary (s 414D). Failure to prepare this report constitutes a criminal offence (s 414A(5)-(6)).
[15] Section 172 (1) provides that a director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard amongst other matters to – the likely consequences of any decision in the long term, the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment, the desirability of the company maintaining a reputation for high standards of business conduct, and the need to act fairly as between members of the company. The main criticism of s 172(1) CA 2006 is that its paramount objective is to promote the success of the company for the benefit of its members as a whole and the other factors, listed in this provision, are subordinated to shareholders' interests. See: Katarzyna Chalaczkiewicz-Ladna, *The Relevance of Long-term Interests in the Decision-making Processes of Company Directors in the UK, Delaware and Germany: A Critical Evaluation*, 90 (unpublished PhD thesis, University of Edinburgh, 2016).
[16] Companies listed on the London Stock Exchange. The hundred largest FTSE companies are analysed in this paper, as they provide a sizeable sample and allow comparison of companies from different sectors.
[17] The detailed methodology is explained in section III below.
[18] However, some important empirical studies in this area must be mentioned. Yun analysed the role of CSR in the context of employment in the UK and China: Chong Yun, *The Role of Corporate Social Responsibility in Corporate Governance in the Context of Employment: A Comparative Study of the United Kingdom and China* (unpublished PhD thesis, University of Glasgow, 2014). Taylor conducted empirical studies on ss 172 and 417 CA 2006 involving senior officials of 350 FTSE companies: Peter Taylor, *Enlightened Shareholder Value and the Companies Act 2006* (unpublished PhD thesis, Birkbeck College, 2010). See also: Eurosif and ACCA, *What do Investors Expect from Non-financial Reporting* (2013) <www.accaglobal.com/content/dam/acca/global/PDF-

provide concrete evidence on compliance with the provisions of a strategic report, especially the extent to which ESG issues are considered by the companies. This first systematic review of strategic reporting in the UK carries international implications due to the high international shareholder base in FTSE 100 companies. Secondly, the type and quality of information transferred from the company to stakeholders, based on the strategic report, will be evaluated here. As such, the results of this empirical study (Stage 1), will inform future research of these authors on non-financial reporting (Stage 2).

In general, it is anticipated that Stage 2 will involve drafting and carrying out detailed interviews with selected stakeholders (for example: environmental organisations, trade unions, consumer bodies, NGOs & social, community and human rights bodies). The interviews will generate qualitative data on the strategic reports and especially non-financial reporting and will enable conclusions to be drawn on whether or not the views of the stakeholders correspond with the Stage 1 results. In other words, Stage 2 will gather evidence on whether compliance with strategic report requirements results in a better informed stakeholder base and it will allow us to comment on the impact of the report on stakeholders, in particular, the extent to which strategic reporting forms a basis for stakeholder engagement. In summary, Stages 1 & 2 together will ensure a comprehensive and detailed study on strategic reporting in the UK.

This paper is divided into theoretical (Section II) and empirical (Sections III and IV) parts. Section II provides background on the current disclosure obligations in terms of the strategic report. In general, the aim of Section II is to discuss recent developments in the field of non-financial reporting in order to contextualise the empirical study carried out by the authors, rather than to provide solutions regarding the issues raised in this section. In Section III, the methodology followed with regards to the empirical analysis of strategic reports is described. In Section IV, the results of the study are

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technical/sustainability-reporting/tech-tp-wdir.pdf> accessed 30 July 2017. A survey conducted in 2013 after the European Commission proposed new requirements for disclosure of non-financial information for all large companies in the EU – 94 surveys from 18 countries were analysed and among other things, 93% of investors surveyed disagreed or strongly disagreed that current levels of non-financial disclosure are sufficient to assess materiality; *The KPMG Survey of Corporate Responsibility Reporting 2015* (2015) <https://home.kpmg.com/content/dam/kpmg/pdf/2015/12/KPMG-survey-of-CR-reporting-2015.pdf> accessed 20 July 2017 – analysing Corporate Responsibility in 100 largest companies in 45 countries (4500 companies in total); Deloitte, *A New Beginning – Annual Reports Insights 2013* (2013) <www2.deloitte.com/content/dam/Deloitte/uk/Documents/about-deloitte/deloitte-uk-audit-a-new-beginning-interactive.pdf> accessed 30 July 2017. Section 7 of the Deloitte Report states that in 2013 39% of companies (28% in 2012) provided extensive commentary on their environmental impact and 32% (in 2012 30%) provided this level of detail regarding employee maters. Finally, *Grant Thornton's Annual Review of Corporate Governance* (2016) <www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/2016-corporate-governance-review.pdf> accessed 31 July 2017 contains an important review of the strategic reports of FTSE 350 companies (pp 6-24). In particular, it comments on the business model, business context and future business development and the long-term viability statement. However, there is only a short section on culture (pp 19-21, 23) and sustainability reporting, i.e. environmental matters, employee and social, community and human rights issues (p 22). The main conclusion about sustainability reporting is that there has been little improvement in recent years in this area.

presented, scrutinised and evaluated. Finally, in Sections V and VI, conclusions are presented and emerging themes identified. The way forward is indicated.

II. Background

Section 172 CA 2006 is perceived by many as one of the most controversial sections of the CA 2006.[19] It generated an enormous amount of debate during the consultation process and when the Companies Bill was going through Parliament.[20] In terms of s 172(1) CA 2006, directors should focus on promoting the success of the company for the benefit of its members and are only subsequently entitled to take into account any other factors (e.g. the likely consequences of any decision in the long term, the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment, the desirability of the company maintaining a reputation for high standards of business conduct, and the need to act fairly as between members of the company).

Section 172(1) is thus based on the 'enlightened shareholder value' (ESV) approach.[21] It is acknowledged that s 172 CA 2006 underlines the importance of non-shareholders' interests and encourages directors to think about these other interests, but in practice it is evident that CA 2006 articulates shareholder primacy. Currently, the consideration of non-shareholders' interests is of secondary importance and is subordinated to the interests of shareholders – confirming the supremacy of shareholders' interests.[22] It is pertinent to note that consideration of other factors is even more problematic, since the appropriate scheme for analysing these factors has neither been established nor considered in any detail by the courts.[23] Moreover, the other stakeholders listed in s 172 CA 2006 are not entitled to take any actions against the directors.[24]

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[19] Parker Hood, *Directors' Duties under the Companies Act 2006: Clarity or Confusion?* 13 (1) Journal of Corporate Law Studies, 15 (2013); Lady Justice Arden, *Companies Act 2006 (UK): A New Approach to Directors' Duties* 81 Australian Law Journal 162 (2007).

[20] See for example: HL Company Law Reform Bill Deb 6 February 2006, col 252 (Lord Freeman) and the subsequent debate <www.publications.parliament.uk/pa/ld200506/ldhansrd/vo060206/text/60206-28.htm> accessed 30 July 2017.

[21] CA 2006, c 46, Explanatory Notes, Commentary on s 172 subs 325 <www.legislation.gov.uk/ukpga/2006/46/notes/division/6/2> accessed 30 July 2017.

[22] Chalaczkiewicz-Ladna, supra n 15, 50-51.

[23] *Richmond Pharmacology Ltd v Chester Overseas Ltd* [2014] EWHC 2692 (Ch) paras 66-68 (Stephen Jourdan QC); *Re Southern Countries Fresh Foods Ltd* [2008] EWHC 2810 (Ch) para 53 (Mr Justice Warren). See also: Deirdre Ahern, *Directors' Duties, Dry Ink and the Accessibility Agenda* 128 (Jan) Law Quarterly Review 114, 132 (2012). Referring to the *Re West Coast Capital (Lios) Ltd* [2008] CSOH 72 decision, Lynch doubts whether s 172 CA will be discussed in courts: 'it seems that s.172 really is nothing more than a restatement of the previous law, and deserves the almost dismissive judicial treatment that it has received': Elaine Lynch, *Section 172: A Ground-breaking Reform of Director's Duties, or the Emperor's New Clothes?* 33(7) Company Lawyer 196, 202 (2012).

[24] Andrew Keay, *Moving Towards Stakeholderism? Enlightened Shareholder Value, Constituency Statutes and More: Much Ado About Little?* 22 (1) European Business Law Review 1, 33-36 (2011); Fraser Dobbie, *Codification of Directors' Duties: An Act to Follow?* 11 Trinity College Law Review 1, 18-19 (2008).

The practical importance of section 172 CA for stakeholders is currently unclear.[25] It is worth acknowledging, however, that in August 2017 the Government suggested strengthening stakeholders' interests through improved reporting, UK CG Code changes, raising awareness and more guidance.[26]

As mentioned before reporting requirements in the UK are quite extensive and complex. The strategic report, which came into force on 1 October 2013, replaced the business review[27] and together with the corporate governance report,[28] directors' remuneration report and financial statements,[29] and finally, the directors' report[30] form the annual report.[31] The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).[32]

The table below illustrates the key reporting requirements for a quoted company in the UK:

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[25] Irene-marie Esser and Jean du Plessis, *The Stakeholder Debate and Directors' Fiduciary Duties* 19 SA Mercantile Law Journal 346, 353 (2007).

[26] BEIS, *Corporate Governance Reform Green Paper* (November 2016) <www.gov.uk/government/uploads/system/uploads/attachment_data/file/584013/corporate-governance-reform-green-paper.pdf> accessed 30 July 2017 and subsequently BEIS, *Corporate Governance Reform: The Government Response to the Green Paper Consultation* (August 2017) <www.gov.uk/government/uploads/system/uploads/attachment_data/file/640470/corporate-governance-refo rm-government-response.pdf> accessed 4 September 2017. Four reform proposals in this area are suggested in the Response to the Green Paper, e.g. the FRC is invited to consult on the development of a new UK CG Code principle establishing the importance of strengthening the voice of employees and other non-shareholder interests at board level as an important component of running a sustainable business. See, on this issue, Georgina Tsagas, *Section 172 of the Companies Act 2006: Desperate Times Call for Soft Law Measures* (July 2017) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2996090> accessed 4 September 2017. The FRC was also invited to consider and consult on a specific Code provision requiring premium listed companies to adopt, on a 'comply or explain' basis, one of three employee engagement mechanisms, i.e. a designated non-executive director; a formal employee advisory council; or a director from the workforce. The current intention is to bring the reforms into effect by June 2018 , see: BEIS, *Corporate Governance Reform: The Government Response to the Green Paper Consultation*, cited above, 4 and 6. See also: ICSA and the Investment Association, *The Stakeholder Voice in Board Decision Making: Strengthening the Business, Promoting Long-term Success*, 4 (September 2017) <www.theinvestmentassociation.org/assets/components/ima_filesecurity/secure.php?f=press/2017/2017-09TheStakeholderVoiceinBoardDecisionMaking.pdf> accessed 12 October 2017 on guidance issued to companies with the aim to help companies to consider stakeholders' interests when taking strategic decisions.

[27] Formerly regulated in s 417 CA 2006. For in depth analysis of the business review see: Andrew Keay, *The Duty to Promote the Success of the Company: Is it Fit for Purpose?* 19-22 (August 2010) University of Leeds School of Law, Centre for Business Law and Practice Working Paper <www.law.leeds.ac.uk/assets/files/research/events/directors-duties/keay-the-duty-to-promote-the-success.pdf> accessed 30 July 2017.

[28] FCA, Listing Rules, r 9.8.6(5) and s 419A CA 2006.

[29] ss 420-422A, s 439-439A CA 2006 (after the changes made by ss 79-82 of the Enterprise, Regulatory Reform Act 2013 c 24) and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (SI 2013/1981)).

[30] ss 415-419A CA 2006.

[31] Based on s 423 ibid every company has a duty to circulate copies of annual accounts and reports.

[32] s 414C (1) ibid.

Table 1: Reporting requirements in the UK based on s 414C CA 2006 (Strategic Report)

Issue to be disclosed	Type of disclosure (mandatory or 'comply or explain')
A fair review of the company's business and a description of the principal risks it faces (s 414C (2) CA 2006)	Mandatory
The main trends and factors likely to affect the future development, performance and position of the company's business (s 414C (7) (a) CA 2006)	Mandatory
Information about environmental matters, the company's employees, social, community and human rights issues (s 414C (7) (b) CA 2006)	'Comply or explain'
A description of the company's strategy and business model (s 414C (8) (a), (b) CA 2006)	Mandatory
Gender diversity (s 414C (8) (c) CA 2006)	Mandatory

In 2014, the FRC published a detailed non-mandatory Guidance document supporting the legal requirements for the strategic report, which serves as a best practice statement for all entities preparing the report.[33] The aim of this Guidance is to improve the quality of the corporate reporting and this should be achieved through 'encouraging entities to prepare a high quality strategic report – which provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects.'[34] The biggest complaint regarding the current Guidance concerns its actual practical effectiveness. Although it contains helpful guidelines on what should be included in the report, it is argued that it is not sufficient. For example, by emphasising the paramount importance of shareholders' interests, the Guidance is not necessarily in line with the ESV approach adopted in the Companies Act. Therefore, a recently published consultation – which was open until 24 October 2017 – on a updated edition of its Guidance on the Strategic Report is a welcome development.[35] The proposals reflect the enhanced disclosures that certain large companies are required to make under the newly inserted ss 414CA and 414CB into the CA 2006, in respect of the environment, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters.[36] Moreover, the draft amendments also aim to strengthen the link between the purpose of the strategic report and the matters directors should have regard to under s 172 CA 2006.[37] Most importantly, the Guidance encourages companies to disclose information on how companies have considered the interests of broader stakeholders, to inform members of the company and help them

[33] FRC, *Guidance on the Strategic Report*, 3 (June 2014) <www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Strategic-Report.pdf> accessed 30 July 2017. The Guidance includes sections on the application of materiality to the strategic report, communication principles and content elements (see: sections 5, 6 and 7 respectively).
[34] ibid.
[35] FRC, *Draft Amendments to Guidance on Strategic Report: Non-Financial Reporting* (August 2017) <https://frc.org.uk/getattachment/9e05c133-500c-4b98-9d76-497172387bea/;.aspx> accessed 4 September 2017.
[36] There are references to the new provisions throughout the amended Guidance.
[37] FRC, supra n 35, 5.

assess how directors have performed their duty to promote the success of the company.[38] Although the Guidance on the Strategic Report is non-mandatory, this amendment is especially significant as it strengthens the importance of stakeholders' interests.

Non-financial reporting in the UK is also influenced by Directive 2014/95/EU. Member States had to finalise the transposition of this Directive into national legislation by 6 December 2016.

To bring the UK position in line with the 2014/95/EU Directive, the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations inserted new provisions on non-financial information into the Companies Act 2006 (ss 414CA and 414CB into the CA 2006).[39] These provisions came into effect on 26 December 2016 and apply to companies and qualifying partnerships, specified in s 414CA CA 2006, with financial years beginning on or after 1 January 2017.

According to s 414CA CA 2006, a non-financial information statement must be issued by a traded company,[40] a banking company,[41] a company carrying on insurance market activity[42] or groups which are not small or medium-sized and which exceed on their balance sheet dates the criterion of the average number of 500 employees. Section 414CB (1) CA 2006 provides that the management report shall include a non-financial statement containing 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.

The reporting requirements, based on the non-financial statement, which companies discussed before, are obliged to provide in the UK from financial year beginning on or after 1 January 2017, can be illustrated as follows:

[38] ibid 10. See also other references to the stakeholders' interests: section 4, paras. 5.3, 5.4, 5.7, 7.2, 7.10 and 7.18.

[39] Art 1 Directive 2014/95/EU amending Art 19a Directive 2013/34/EU.

[40] 'Traded company' means a company any of whose transferable securities are admitted to trading on a regulated market – see: s 474(1) CA 2006. A 'traded company' is a broader term than a 'quoted company' (i.e. a company to which apply non-financial reporting requirements under s 414C(7) CA 2006) as regulated markets are broader than the official list mentioned in footnote 6. For instance, debt may be traded on regulated market even no official listing.

[41] 'Banking company' means a person who has permission under Part 4A of the Financial Services and Markets Act 2000 (c. 8) to accept deposits, other than– (a) a person who is not a company, and (b) a person who has such permission only for the purpose of carrying on another regulated activity in accordance with permission under that Part – see: ss 1164(2) and (3) CA 2006.

[42] An 'authorised insurance company' means a person (whether incorporated or not) who has permission under Part 4A of the Financial Services and Markets Act 2000 (c. 8) to effect or carry out contracts of insurance – see: s 1165 (2) CA 2006.

Table 2: Reporting requirements in the UK based on s 414CB CA 2006

Issue to be disclosed	Type of disclosure (mandatory or 'comply or explain')
Information relating to, as a minimum: environmental matters, the company's employees, social matters, respect for human rights and anti-corruption and anti-bribery matters (s 414CB (1) and (4) CA 2006)	'Comply or explain'
A brief description of the company's business model (s 414CB (2) (a) CA 2006)	Mandatory
A description of the policies pursued by the company in relation to such non-financial matters (s 414CB (2) (b) CA 2006)	Mandatory
The outcome of the policies pursued by the company in relation to such non-financial matters (s 414CB (2) (c) CA 2006)	Mandatory
A description of the principal risks relating to such non-financial matters and how the company manages such risks (s 414CB (2) (d) CA 2006)	Mandatory
A description of the non-financial key performance indicators relevant to the company's business (s 414CB (2) (e) CA 2006)	Mandatory

In order to prevent duplication, if a non-financial information statement complies with s 414CB (1) to (6), the strategic report of which it is part is deemed as fulfilling some of the requirements[43] for non-financial information which are already contained in section 414C CA 2006.[44] Finally, s 414CB does not require disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the commercial interests of the company, provided that such non-disclosure does not prevent a fair and balanced understanding of the company's development, performance or position or the impact of the company's activity.[45]

It is worth underlining at this point that the recent UK Consultation Paper of 2016[46] evaluated overlaps and similarities between the Directive 2014/95/EU and UK non-financial reporting requirements and expressed a desire for wider reforms to the scope of narrative reporting by companies in the UK.[47] In November 2016, the Government published its response to this Consultation.[48] In general, many organisations broadly supported increased flexibility within the

[43] s 414C(4)(b) CA 2006; s 414C(7) ibid, except as it relates to community issues; s 414C(8)(b), s 414C(12) ibid, so far as relating to the provisions mentioned in paragraphs (a) to (c).
[44] s 414CB (7) ibid.
[45] s 414CB (9) ibid. This type of information is also exempt from immediate, on-going disclosure under art 14 (4) Market Abuse and Accepted Market Practices Directive (Directive 2003/6/EC of 28 January 2003) ('MAD').
[46] BIS, *The Non-Financial Reporting Directive: A Call for Views on Effective Reporting Along Proposals to Implement EU Requirements* (February 2016) <www.gov.uk/government/uploads/system/uploads/attachment_data/file/500760/BIS-16-35-non-financial-reporting-directive-consultation-February-2016.pdf> accessed 30 July 2017.
[47] The Government was interested in the views on: the electronic reporting, gender reporting, greenhouse gas emissions reporting and other regulatory reforms (see: pp 21-24).
[48] BEIS, *The Non-Financial Reporting Directive: The Government Response to the consultation on implementation of the Directive* (November 2016)

annual report (for instance, placing information on the company's website), but there was little support for the option to prepare a separate report.[49]

It is difficult to assess the exact impact of the Directive on the quality of non-financial reporting in the UK at this stage. The new provisions apply to a wider range of companies and Directive 2014/95/EU provides more details as to non-financial disclosure and hopefully non-binding Guidelines, issued by the Commission and future amended Guidance on the Strategic Report, which will be issued by the FRC, will improve the quality of non-financial reporting. Companies are now required to report on further ESG factors like anti-corruption and bribery matters and are expressly encouraged to report on additional matters. This makes corporate reporting better tailored towards the company's individual needs, although in the UK reporting on the additional issues is already widespread in the strategic report and CSR reports.

The downside of these changes is that they are likely to be costly, which might act as a significant hindrance. They also have the potential to make corporate reporting more complex and opaque– some quoted companies (having fewer than 500 employees) will continue to apply the existing requirements under the strategic report, whilst the other quoted companies will be required to provide an additional non-financial statement under the new law and also comply with the provisions regarding the strategic report. Moreover, similarly, to the existing provisions of the strategic report (s 414C CA 2006), the non-financial reporting under the new law (s 414CB CA 2006) works on a 'comply or explain' basis and the lack of forward looking orientation in the non-financial information statement is an important omission.

Finally, reference must be made to integrated reporting in the context of disclosure. The main goal of integrated reporting – a voluntary regulatory initiative initiated by the Intentional Integrated Reporting Council – is to explain to providers of financial capital how an organisation creates value over time and to promote a more cohesive and efficient approach to corporate reporting. At the same time IR benefits all stakeholders (including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers), not only shareholders.[50]

<www.gov.uk/government/uploads/system/uploads/attachment_data/file/575530/beis-16-41-non-financial-reporting-directive-implementation-consultation-government-response.pdf> accessed 30 July 2017.

[49] ibid 3. The Government sought views on two options regarding the scope of the Directive. One was based on minimal implementation, and the other to repeal the UK requirements for companies outside the scope of the Directive. Currently, the comments are being analysed and the impact of amendments will be explored in a future consultation.

[50] The International <IR> Framework, 4 (2013) <http://integratedreporting.org/resource/international-ir-framework/> accessed 30 July 2017. The IR consists of Guiding Principles (A. Strategic focus and future orientation; B. Connectivity of information; C. Stakeholder relationships; D. Materiality; E. Conciseness; F. Reliability and completeness; G. Consistency and comparability) and Content Elements (A. Organizational overview and external environment; B. Governance; C. Business Model; D. Risks and Opportunities; E. Strategy and Resource Allocation; F. Performance; G. Outlook; H. Basis of preparation and presentation; I. General Reporting Guidance). Ibid 3.

Integrated reporting presents a global approach to corporate reporting and confirms that non-financial reporting is becoming more important, also at international level. Although generally supported by academics and professionals, IR also encountered criticism.[51] For instance, Flower argues that despite original plans to create one report, IR does not cover sustainability, creates an additional layer of disclosure to existing sustainability and financial reporting, focuses on capital providers, rather than the impact of the firm's activities on stakeholders in a comprehensive manner, and finally has a very limited impact on financial reporting.[52]

Currently more than 1500 companies in 30 countries apply the IR Framework[53] and South Africa is the only jurisdiction with integrated reporting recommended by law.[54] In comparison, in the UK, IR can be adopted only voluntarily by the companies. There are views that the new strategic report and especially the Guidance on the Strategic Report ensure better quality reporting and therefore align the UK much closer with the IR Framework.[55] The IIRC in their response to the Corporate Governance Reform Green Paper recommends adopting IR in the UK, as a way of supporting a more inclusive corporate governance model, which is not only protecting shareholder interests, securing the skills and intellectual capital to grow, but also taking into consideration the needs of primary stakeholders.[56] An IR Framework could also be used as a tool for reporting on adherence with s 172.[57] In general, the strategic report is positively evaluated by the IIRC, as consistent with the principles of IR. However, at the same time the lack of full integration of stakeholder focused information is pointed out.

To conclude, IR as a new and voluntary approach to corporate reporting is gaining popularity. Currently companies in the UK may choose to use integrated reporting as a corporate reporting tool. It seems that this is the right moment for the UK Government to consider whether IR could by applied

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[51] David Monciardini et al., *Integrated Reporting and EU Law. Competing, Converging or Complementary Regulatory Frameworks?* 7-8 (2017) University of Oslo Faculty of Law Legal Studies Research Paper Series No 2017-23 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2981674> accessed 18 July 2017.

[52] John Flower, *The International Integrated Reporting Council: A Story of Failure* 27 Critical Perspectives on Accounting 1, 15 (2015).

[53] Richard Howitt, *Long-term Thinking: A Key Principle of 21st-century Governance* (26 April 2017) <http://boardagenda.com/2017/04/26/long-term-thinking-21st-century-governance/> accessed 26 July 2017.

[54] In South Africa it is soft law, but part of the law through the Johannesburg Stock Exchange (JSE) Listings Requirements. Note that there is an interest in IR in other jurisdictions, for instance in Australia: Anna Huggins et al., *Integrated Reporting and Directors' Concerns about Personal Liability Exposure: Law Reform Options* 33 Company and Securities Law Journal 176 (2015). See: the King Committee and the Institute of Directors in Southern Africa, *The Report on Corporate Governance for South Africa 2016* ('King IV').

[55] IIRC, *IIRC Welcomes Move towards Better Quality Reporting in the UK*, Press Release (9 June 2014) <http://integratedreporting.org/news/iirc-welcomes-move-towards-better-quality-reporting-in-the-uk/> accessed 30 January 2017; Jean du Plessis and Andreas Rühmkorf, *New Trends Regarding Sustainability and Integrated Reporting for Companies: What Protection Do Directors Have?* 36(2) Company Lawyer 49, 54 (2015).

[56] IIRC, *IIRC Response to UK Government on Corporate Governance Reform* (17 February 2017) <https://integratedreporting.org/news/iirc-response-to-uk-government-on-corporate-governance-reform> accessed 30 July 2017.

[57] ibid.

by UK companies in a more systematic manner and become the form of reporting recommended by law, as is the case in South Africa.[58]

The strategic report introduced enhanced disclosure requirements with regard to non-financial information in the UK. Although the emphasis s 414C (1) CA 2006 places on section 172 CA 2006 is a welcome development, the strategic report requirement raises questions about the effectiveness and quality of the strategic report and finally the market's ability to evaluate the performance of the disclosing company. Because of Directive 2014/95/EU, further changes regarding non-financial reporting were introduced. The Directive encourages reporting on further ESG factors like board diversity, anti-corruption and bribery matters and allows reporting on additional matters, chosen by the company. In general, the new provisions are improving non-financial disclosure in the UK. However, more transparency and clarity would be beneficial. It is worth underlining that recently in the UK there have been complementary developments aiming at strengthening the link between s 172 CA and the interests of stakeholders. The Government Response to the Green Paper and the FRC's Consultation on Guidance to the Strategic Report suggested strengthening the stakeholders' interests through improved reporting, UK CG Code changes, raising awareness and more guidance. Finally, internationally recognised integrated reporting standards offer additional options with regard to ESG reporting and the UK Government should consider their mandatory application for certain companies.

III. Methodology

Leximetric approach

This study is inspired by a leximetric approach. 'Leximetrics' refers to quantitative[59] measurement of law and leximetric coding involves a series of steps to be taken in assigning numerical values to relevant legal rules.[60] Siems et al. have been using leximetrics to challenge La Porta, Lopez-de-Silanes, Shleifer, and Vishny's (LLSV) findings regarding the 'legal origins' theorem.[61] In a nutshell, LLSV argued that corporate law across 49 countries should be explained in part as a result of legal origin.[62] They argued that legal rules governing investor protection could be measured and coded for

[58] See: King IV, supra n 54.

[59] Quantitative research seeks to find what works best or which variables best explain a particular result, whereas qualitative researchers explore day-to-day interactions, how things transpire and the individual meanings of these events for the people involved – see: Stephen Lapan et al., *Introduction to Qualitative Research*, in: Stephen Lapan et al. (eds), *Qualitative Research: An Introduction to Methods and Designs,* 8 (San Francisco, California: Jossey-Bass 2012).

[60] Priya Lele and Mathias Siems, *Shareholder Protection: A Leximetric Approach* 7(1) Journal of Corporate Law Studies 17, 18 (2007).

[61] ibid; Mathias Siems, *Shareholder Protection around the World: 'Leximetric II'* 33 Delaware Journal of Corporate Law 111 (2008); John Armour et al., *Shareholder Protection and Stock Market Development: An Empirical Test of the Legal Origins Hypothesis* 6(2) Journal of Empirical Legal Studies 343 (2009).

[62] Rafael La Porta et al., *Law and Finance* 106 Journal of Political Economy 1113 (1998). Another important index measuring corporate governance practices at firm level should be briefly mentioned. In order to scrutinise a relationship between shareholder rights and corporate performance, Gompers et al., in their highly influential paper, created an index for 1500 US companies using 24 anti-takeover provisions. The main finding of this study

many countries using national commercial laws. They concluded that common law countries have the strongest protection of outside investors – both shareholders and creditors – whereas civil law countries have the weakest protection.[63] While these studies have been extremely influential,[64] inaccuracies have been identified[65] and subsequent research has identified many coding errors.[66] Thus, both the methodology and conclusions have proven to be controversial.

Siems et al. have studied the development of shareholder protection between 1970 and 2005 in Germany, France, the UK, the US and India and created an index with 60 variables.[67] Leximetric data coding technique is based on the numerical comparative law approach developed by LLSV, but as a result of a more diligent coding, Siems et al. created a more accurate and in-depth methodology. First, they set up an extensive list of variables. LLSV had been criticised over using the very limited number of variables (just six in the first study), which hardly provided a meaningful picture of the legal protection of shareholders.[68] Secondly, Siems et al.'s indices took into account a wider range of legal and regulatory information.[69] A third difference concerns weighting of the variables. Whilst many of the LLSV codings use binary variables (that is, either '0' or '1' for all variables), Siems et al. decided to use binary ('0', '1') as well as non-binary numbers ('1/2,' '1/4', '3/4'), to reflect the fact that the law might be ambiguous at times. Also, non-binary coding can lead to more meaningful results.[70] Finally, and most importantly, in contrast to the LLSV research, Siems et al.'s indices are longitudinal, which facilitated studying the process of legal change over time.[71]

is that during the 1990s corporate governance was strongly correlated with stock returns. The authors concluded that firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures and made fewer corporate acquisitions. See: Paul Gompers et al., *Corporate Governance and Equity Prices* 118 (1) Quarterly Journal of Economics 107 (2003). For the critical evaluation of the Governance Index created by Gompers et al., see: Ruth Aguilera and Kurt Desender, *Challenges in the Measuring of Comparative Corporate Governance: A Review of the Main Indices* 11-14 (2012) <https://ssrn.com/abstract=1995615> accessed 12 November 2017.

[63] Rafael La Porta et al., *Investor Protection and Corporate Governance* 58 Journal of Financial Economics 3, 9 (2000).

[64] Papers written by La Porta et al. were one of the most frequently cited works on Corporate Governance in the period of 2003 – 2007, see: Boris Durisin, Fulvio Puzone, *Maturation of Corporate Governance Research, 1993 – 2007: An Assessment* 17(3) Corporate Governance: An International Review 266 (2009).

[65] Karl Okamoto, *A 'Law & Personal Finance' View of Legal Origins Theory* 6 BYU Law Review 1635 (2009).

[66] Sofie Cools, *The Real Difference in Corporate Law Between the United States and Continental Europe: Distribution of Powers* 30(3) Delaware Journal of Corporate Law 697 (2005); Udo Braendle, *Shareholder Protection in the USA and Germany - 'Law and Finance' Revisited* 7 German Law Journal 257 (2006); Holger Spamann, *The 'Antidirector Rights Index' Revisited* 23(2) Review of Financial Studies 468 (2010).

[67] Lele and Siems, supra n 60. This paper concentrates on leximetric methodology; shareholder protection is not scrutinised here.

[68] ibid 19.

[69] Armour et al., supra n 61, 351.

[70] Lele and Siems, supra n 60, 30; Armour et al., supra n 61, 351-352.

[71] Armour et al., supra n 61, 352.

Leximetrics and this research

The main criticism of leximetrics is that it fails to capture the complexity of the legal norms and is not able to examine the dynamic nature of the law-and-society system.[72] However, these limitations are less relevant for this study. First, as this study does not evaluate legal norms but is rather coding outcomes of compliance with the legal rules, the criticism underlined above is not relevant. Secondly, the current study focuses on a very narrow topic and thirteen binary and non-binary variables[73] have been identified to evaluate non-financial reporting in the context of the strategic report. Hence, the set of criteria is wide, providing depth of the overall analysis. Finally, as this research does not have a comparative character, it does not face difficulties associated with comparative methodology, experienced by LLSV and Siems et al.[74]

This paper measures compliance with the provisions of a strategic report, especially the extent to which the interests of other stakeholders (e.g. employees, customers, suppliers, environmental considerations, social, community and human rights bodies) are considered by the companies. Although this paper is influenced by a leximetric approach, the legal rules are not evaluated here, instead a method involving compliance coding is used in order to estimate the quality and quantity of reporting where the compliance with the legal norms (i.e. the outputs) are ascertained. Using thirteen variables to collect data of appropriate range and depth, this study carries out compliance coding and provides concrete evidence on compliance with the provisions of a strategic report regarding shareholders' considerations, but especially the interests of employees, customers, suppliers, environmental considerations, social, community and human rights bodies. The strategic reports (from 2015 and 2016) published annually by the FTSE 100 companies[75] on their websites were analysed, in order to ascertain the quality and quantity of information disclosed. The provisions regarding the strategic report came into force in October 2013, so two annual reports per company were examined. The analysis of two reports per company facilitates the creation of a longitudinal survey that tracks the earlier and current versions of the strategic reports.[76] SPSS (Statistical Package for the Social Sciences) software was used in this study to analyse the data.[77] As this empirical research evaluates non-financial reporting in the context of the strategic report, the strategic reports clearly are the main source of data.

In addition, compliance coding is the most suitable method in assessing the quality and quantity of reporting (i.e. full, partial or non-disclosure). Although binary and non-binary coding ('0',

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[72] Mathias Siems, *Numerical Comparative Law: Do We Need Statistical Evidence in Law in Order to Reduce Complexity?* 13 Cardozo Journal of International and Comparative Law 521, 529 (2005).
[73] See: Table 3 below.
[74] Siems, supra n 72, 539-540.
[75] As a large amount of text was accessed, a systematic analysis was conducted. See: Wendy Olsen, *Data Collection: Key Debates and Methods in Social Research,* 79 (Los Angeles, California; London: SAGE, 2014).
[76] Glenn Bowen, *Document Analysis as a Qualitative Research Method* 9(2) Qualitative Research Journal 27, 30 (2009).
[77] IBM Corp. Released 2014. IBM SPSS Statistics for Windows, Version 23.0. Armonk, NY: IBM Corp.

‘1’ or ‘2’)[78] is a basic and subjective method, this is still the most appropriate way of analysing compliance in a structured and consistent manner. Especially, it facilitates the discussion on differences between companies and specific variables. Non-binary coding (i.e. ‘0’ in case of non-disclosure, ‘1’ for adequate disclosure and ‘2’ for a fuller or maximum disclosure) will provide more nuanced information in comparison to using only binary coding (i.e. either ‘0’ for non-disclosure or ‘2’ in case of disclosure). In order to avoid misleading results, the variables and coding are clearly explained below and were modified into more precise wording after sample marking by the authors of ten strategic reports.

As explained in the introduction, the results of Stage 1 (i.e. compliance coding), will inform future research on non-financial reporting conducted in Stage 2. The aim of Stage 2 will be to collect qualitative data on the strategic reports and especially non-financial reporting, through interviews with selected stakeholders (environmental organisations, trade unions, consumer bodies, NGOs & social, community and human rights bodies). Conclusions will be drawn on whether or not the views of the stakeholders are in line with the actual reports that were scrutinised in Stage 1. Stage 2 will gather evidence on whether full compliance results in a fully informed stakeholder base and the extent to which strategic reporting forms a basis for stakeholder activism.

Variables and coding

The variables are derived from the legislation on strategic reporting and especially, ss 414A, 414C CA 2006 and provisions of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 regarding greenhouse gas emissions.[79] Compliance coding has led to the construction of an index as a measurement of non-financial reporting. A mixed binary and non-binary coding (‘0’, ‘1’ or ‘2’) and longitudinal approach have been chosen (2015 and 2016 reports were analysed).[80] The variable (including a provision it is derived from), description and coding of the variables are identified in Table 3 below. Apart from variable 11 – where the reasoning behind the scoring was different – in general, ‘0’ was assigned in case of non-disclosure/non-compliance, ‘1’ in case of disclosure and ‘2’ for a fuller or maximum disclosure.[81]

[78] See: section ‘Variables and coding’ below.
[79] As it was discussed in section II above, the new provisions regarding non-financial matters have been implemented in the UK (ss 414CA and 414CB CA 2006) because of Directive 2014/95/EU. However, they were not taken into consideration for the drafting of the variables as they are only relevant for the companies from financial year beginning on or after 1 January 2017 and this paper scrutinises only 2015 and 2016 reports.
[80] Siems, supra n 61, 119.
[81] For a detailed analysis of scores for each variable, see: section ‘The analysis of variables’ below.

Table 3. Description and Coding of Variables

Variables	Description and Coding
1.The role and objective of the strategic report (s 414C (1) CA 2006)	Equals 1 if the aims and objectives are specified (i.e. the reports refers to the duty under s 172 CA 2006); also equals 1 if the general aims and objectives are not given, but the non-financial objectives are clarified; equals 2 if the general aims and objectives and also non-financial objectives are clearly indicated; equals 0 if there is no information about the role and objective of the strategic report.
2.The description of the company's strategy and business model (s 414C (8)(a),(b) CA 2006)	Equals 1 if the company's strategy and business model are mentioned; equals 2 if there is a fuller description of these issues; equals 0 if there is no information.
3.Review of the company's business and the principal risks and uncertainties facing the company (s 414C (2) CA 2006)	Equals 1 if there is information about a fair review of the company's business and a description of the principal risks and uncertainties facing the company; equals 2 if there is a fuller description of these issues; equals 0 if there is no information.
4.A forward looking orientation (s 414C (7)(a) CA 2006)	Equals 1 if the report only mentions a forward looking orientation (i.e. it includes the main trends and factors likely to affect the future development, performance and position of the company's business); equals 2 if in addition, it contains information about any policies of the company in relation to the forward looking orientation and the effectiveness of these policies; equals 0 otherwise.
5.Environmental matters (s 414C (7) (b)(i) CA 2006)	Equals 1 if the report contains information about environmental matters (including the impact of the company's business on the environment); equals 2 if in addition, it contains information about any policies of the company in relation to environmental matters and the effectiveness of these policies; equals 0 otherwise.
6.Greenhouse gas (GHG) emissions (Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, Part 3 Directors' Report, para. 7)	Equals 1 if the report contains information about GHG emissions (including the annual quantity of emissions in tonnes of carbon dioxide to the extent that it is practical for the company to obtain the information in question; but where it is not practical for the company to obtain some or all of that information, the report must state what information is not included and why); equals 2 if in addition, it contains information about any policies of the company in relation to carbon emissions and the effectiveness of these policies (including the methodologies used to calculate the information disclosed and at least one ratio which expresses the quoted company's annual emissions in relation to a quantifiable factor associated with the company's activities); equals 0 otherwise.
7.The interests of the company's employees (s 414C (7) (b)(ii) CA 2006)	Equals 1 if the report contains information about the company's employees; equals 2 if in addition, it contains information about any policies of the company in relation to the company's employees and the effectiveness of these policies; equals 0 otherwise.
8.Gender diversity (s 414C (8)(c) CA 2006)	Equals 2 if the report contains a breakdown showing at the end of the financial year— (i) the number of persons of each sex who were directors of the company,(ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)) and (iii) the number of persons of each sex who were employees of the company; equals 1 if it contains some (but not all) information indicated above; equals 0 if there is no information regarding gender diversity.
9.Social or community matters (s 414C (7) (b)(ii) CA 2006)	Equals 1 if the report contains information about social or community matters; equals 2 if, in addition, it contains information about any policies of the company in relation to social or community matters and the effectiveness of these policies; equals 0 otherwise.
10.Human rights issues (s 414C (7) (b)(ii) CA 2006)	Equals 1 if the report contains information about human rights issues; equals 2 if in addition, it contains information about any policies of the company in relation to human rights issues and the effectiveness of these policies; equals 0 otherwise.
11.Explanation of non-compliance (quality of non-	Equals 1 if there is one or more omissions (i.e. lack of information about environmental matters (including the impact of the company's business on the environment), the company's employees, or social, community and human rights

compliance) (s 414C (7)(b) CA 2006)	issues) and the report does not mention them. Equals 2 if the report identifies one or more omissions and it states which of those kinds of information it does not contain; including a clear and reasoned explanation for the company's not doing so; equals 0 otherwise.
12.Quality of non-financial reporting in general (s 414C (7) and (8) CA 2006)	Equals 1 if the report contains information specified in s 414C(7) and (8) CA 2006 ('minimum reporting'); equals 2 if more information on non-financial reporting is included (e.g.: regarding the need to foster the company's business relationships with suppliers, customers and others; the desirability of the company maintaining a reputation for high standards of business conduct; the need to act fairly as between members of the company (s 172 (1) (c), (e), (f)); however, if additional information is provided, but not all information given in s 414C(7) and (8) CA 2006 equals 1; equals 0 otherwise.
13.Transparency of non-financial reporting (Only applicable if additional CSR/sustainability reports exist)	Equals 2 if the strategic report makes clear links to the disclosure made in the other CSR report/reports; equals 1 if the other CSR report is just mentioned in the strategic report, and equals 0 if the other CSR report is not mentioned in the strategic report, but it exists. (If there is no additional report the variable is not applicable.)

IV. Results and Discussion

As underlined in the introduction, this first systematic review of strategic reporting in the UK is concentrating on two issues. First, it provides concrete evidence on compliance with the provisions of a strategic report, especially the extent to which the companies consider ESG issues. Secondly, the type and quality of information stakeholders received from the company based on the strategic report is studied here. The list of FTSE 100 companies was comprised as of 17 May 2017 and were divided into sectors.[82] In this section, general aggregates of all observations – based on the 13 variables for both 2015 and 2016 – will be presented. This will be followed by the separate study of each variable (including reasoning behind the allocation of scores and the measurement of the mean[83] and the standard deviation[84]) and two examples of cross-tabulation (i.e. an analysis of the relationship between transparency of reporting and first, disclosure of the information on the interests of employees and secondly, environmental considerations). Further, the industry-specific patterns will be discussed (based on four sectors: financial services & banks, supermarkets, mining and pharmaceutical companies). Subsequently, concluding remarks will be offered in Section V, including analysis of the two research questions posed above. The way forward is mentioned in Section VI.

General aggregate of all observations

Thirteen variables were analysed for all FTSE 100 companies, for both 2015 and 2016 – which gives 1300 observations for each year (2600 observations in total). The full results for years 2015 and 2016

[82] Appendix I: List of companies, including sector division.
[83] The arithmetic mean is the most common measure of central tendency and is produced by calculating the sum of the values and then dividing by the number of values.
[84] A measure of the extent of deviation from the mean in a sample of scores.

are shown in the Appendix II.[85] In general, there is data for each company for both years, with an exception of two companies in 2015. *ConvaTec Group plc* became a listed company only in 2016 hence, there was no obligation to provide the strategic report for 2015. Although *Paddy Power Betfair plc* issued their annual report for 2015,[86] as the company had been formed only in 2016, they were not legally required to issue an annual report nor a strategic report in 2015 hence only the 2016 results were coded for this company. There are a few instances of missing data most notably connected to variable 13 (transparency of reporting), which did not apply to all companies (it will be discussed in depth below). Finally, on the London Stock Exchange *TUI AG* is listed, however, only annual and strategic reports *of TUI Group* plc are available. As it was explained by TUI Group Investor Relations, in an email sent to one of the authors of this paper, *TUI AG* is a German stock corporation listed on the London Stock Exchange and it is part of *TUI Group plc,* which is an overall group name.

Each variable will be analysed separately below. However, at this point, it is worth scrutinising briefly the highest and lowest scores of all companies for both 2015 and 2016. As it was explained in the Methodology section above and especially in Table 3, '0' is in general the lowest score, assigned for not providing any information,[87] a company would score '1' in case of adequate (minimum compliance with the statutory requirements) disclosure and '2' was the maximum score, for a fuller and more detailed disclosure.[88] With regard to variables 1-10 and variable 12, only *Scottish Mortgage Investment Trust plc* received a '0' score in 2015 and 2016 for the lack of information regarding greenhouse gas emissions, the interests of the company's employees, social and community and finally human rights issues. This company explained the reasons for non-compliance in the report (i.e. the lack of employees and outsourcing all of the company's activities to third parties). In general, however, the lowest score was '1' and the highest '2.' Neither in 2015 nor in 2016 did any company receive only '2's'.

[85] In Appendix I (the list of chosen companies), each company was assigned a number which enables reading and analysing the results for each company included in Appendix II.

[86] See: <www.paddypowerbetfair.com/~/media/Files/P/Paddy-Power-Betfair/documents/annual-report-2015-v2.pdf> accessed 31 July 2017.

[87] In variable 11 (quality of non-compliance) '0' score is not negatively associated. It means that the company provided all the required information. As in variable 11 the logic behind the scoring was different and since variable 13 (transparency of reporting) was not applicable to all companies, these two variables were not included in calculating the highest and lowest results of all companies.

[88] For a detailed analysis of scores for each variable, see: section 'The analysis of variables' below.

Table 4: Number of companies with highest and lowest scores in 2015 and 2016

Indicators	2015	2016
High performance (i) all '2's', apart from variable 4	1[89]	0
High performance (ii): all '2's', apart from variable 1	14[90]	19[91]
Low performance (i): 5 categories with '1' score	9[92]	9[93]
Low performance (ii): 6 categories with '1' score	4[94]	1[95]

To conclude, the significance of the results is based on the breadth and depth of this study (i.e. the collection of 2600 observations). The comparison between 2015 and 2016 with regard to the highest and lowest results for particular companies shows slightly more companies with better results and fewer companies with poorer results in 2016. Hopefully, this trend will also be observed in the following years.[96]

The analysis of the variables

Variable 1: The role and the objective of the strategic report

The first variable analyses the role and objective of the strategic report in general. It is derived from a general spirit of the provisions on strategic reporting (i.e. the requirement to report on financial and especially non-financial issues) and s 414C (1) CA 2006. The latter states: '(t)he purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).' A company received '1' against this variable, if either the aims and objectives of the report were specified (if there was an explicit reference to 's 172 CA' or 'duty to promote success of the company' in the strategic report) or non-financial objectives were clarified (this requirement was fulfilled if environmental or employee related issues or social, community & human rights matters were mentioned in the report). A '2' score was possible only if at the same time there was an explicit reference to 's 172 CA' or 'duty to promote success of the company' and non-financial objectives were considered. Finally, if there was no reference to any of these issues the result was '0'.

[89] Royal Mail plc.

[90] Land Securities Group plc; Aviva plc; RSA Insurance Group plc; Barclays plc; HSBC Holdings plc; Antofagasta Holdings plc; Randgold Resources Ld; Unilever plc; AstraZeneca plc; Mediclinic International plc; Royal Dutch Shell plc; Carnival plc; InterContinental Hotels Group plc; Whitbread plc.

[91] Land Securities Group plc; Aviva plc; Standard Life plc; RSA Insurance Group plc; HSBC Holdings plc; Randgold Resources Ld; Coca-cola HBC AG; Marks and Spencer plc; Next plc; Unilever plc; Sage Group plc; AstraZeneca plc; GlaxoSmithKline plc; Rolls-Royce Holdings plc; BP plc; Royal Dutch Shell plc; Carnival plc; InterContinental Hotels Group plc; Whitbread plc.

[92] Hammerson plc; Scottish Mortgage Investment Trust plc; Standard Life plc; Compass Group plc; Worldpay Group plc; Micro Focus International plc; Croda International plc; Wolseley plc; TUI AG.

[93] Scottish Mortgage Investment Trust plc; Direct Line Insurance plc; Glencore plc; Compass Group plc; DCC plc; Experian plc; Tesco plc; Croda International plc; Centrica plc.

[94] Old Mutual plc; Tesco plc; WM Morrison Supermarkets plc; Centrica plc.

[95] Old Mutual plc.

[96] The authors of this study are planning to carry out in the near future the empirical research regarding compliance with the strategic report provisions for 2017 and 2018.

It is worth underlining that there is no legal requirement to refer to s 172 or to the duty to promote the success of the company in the strategic report. The purpose of this variable was to test whether there is any practical evidence of a connection between strategic reporting and s 172 CA 2006. As was explained in Section II (Background) above, it is currently argued in the literature that the connection between directors' duties under s 172 and their reporting duties under s 414C CA 2006 is not clear and strong enough.[97] Only s 414C (1) CA 2006 makes a direct reference to s 172 CA 2006 and the new provisions introduced by the Directive are not improving these links. Turning now to our empirical research, there is valid data for 98 companies[98] with regard to 2015 and for 100 companies in 2016. The mean in 2015 was 1.02 and the standard deviation was very low – 0.141 – indicating that the data is clustered around the mean. In 2016, the results were similar: the mean 1.01 and the standard deviation 0.099. The scores are illustrated in the table below.

Table 5: The role and objective of the strategic report in 2015 and 2016 (Variable 1)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	-	-	-	-
Disclosure ('1')	96	97	+1	2
Maximum disclosure ('2')	2	1	-1	-

To sum up, only St James's Place plc and Royal Mail plc in 2015 and St James's Place plc in 2016 made a clear reference to duty to promote the success of the company in their strategic reports. Although the companies are not legally obliged to do so and the lack of such explicit reference does not preclude that in practice at least some companies are linking the strategic reporting provisions with the duty under s 172, these surprisingly low results could indicate a weak connection between strategic reporting and duty to promote the success of the company. These results also demonstrate that the potential of the strategic report is not fully used. As it will be shown below, in general, when the legal duty exists, the standard of compliance is very high, amounting even to over compliance. Hence, the strategic report could be used as a tool to demonstrate adherence to s 172 CA 2006, ideally by putting a stronger emphasis on consideration of stakeholders' interests (this could be done by incorporating all factors listed in s 172 into s 414C), rather than only concentrating on shareholders' interests.

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[97] See: *FRC Response to BEIS Green Paper Consultation on Corporate Governance Reforms*, 4-6 (February 2017) <www.frc.org.uk/News-and-Events/FRC-Press/Press/2017/February/FRC-responds-to-Green-Paper-on-Corporate-Governmen.aspx> accessed 30 July 2017; IIRC, supra n 56.

[98] ConvaTec Group plc was only listed in 2016 and Paddy Power Betfair plc was created in 2016, hence there is no data for these companies with regard to 2015. As this is the case not only with regard to variable 1, but all variables, the scores ConvaTec Group plc and Paddy Power Betfair plc achieved in 2016 are presented in the tables analysing variables 1 to 13 under a separate heading, i.e. 'Additional two companies 2016.' The results the remaining 98 companies achieved in 2015 and 2016 are presented under the heading 'Balanced panel (98 companies).'

Variable 2: The description of the company's strategy and business model

The next two variables focus mainly on financial considerations. Variable 2 – the description of the company's strategy and business model – is based on ss 414C (8)(a),(b) CA 2006. If the company's strategy and business model were mentioned in the strategic report, the result was '1.' A '2' score was possible, if a fuller description of these issues was included and finally '0,' if there was no information. It is worth underlining that ss 414C (8)(a),(b) CA 2006 only require 'description' of the company's strategy and business model, hence minimum reporting on these issues might amount to compliance with these provisions. The mean in both years was very high: 1.94 in 2015 and 1.95 in 2016 and the standard deviation 0.240 and 0.218 respectively. The results were as follows:

Table 6: The description of the company's strategy and business model in 2015 and 2016 (Variable 2)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	-	-	-	-
Disclosure ('1')	6	5	-1	-
Maximum disclosure ('2')	92	93	+1	2

Variable 3: Review of the company's business and the principal risks and uncertainties facing the company

Variable 3 is based on s 414C (2) CA 2006, which provides that the strategic report must contain a fair review of the company's business and a description of the principal risks and uncertainties facing the company. In case of minimum reporting on these issues, the result was '1.' A fuller description of the company's business and the risks and uncertainties facing the company resulted in a '2.' For instance, based on s 414C (3) CA 2006, a review of the company's business could include a balanced and comprehensive analysis of the development and performance of the company's business and the position of the company's business at the end of the financial year consistent with the size and complexity of the business. The score equalled '0' if there was no information provided. In a similar vein as with regard to variable 2, minimum disclosure might amount to a full compliance with the legislation. The quality of compliance is very high with regard to variable 3, even higher than with regard to variable 2. As in the previous cases, there was no data in 2015 for *ConvaTec Group plc* and *Paddy Power Betfair Group plc*. The mean for this variable was the highest: 1.99 in 2015 and 1.99 in 2016 and the standard deviation the lowest among all scrutinised variables: 0.100 in 2015 and 0.099 in 2016. The extremely high levels of compliance with regard to variables 2 and 3, indicate either that these issues are crucial for the companies or that the companies have developed effective ways of reporting on them.

Table 7: Review of the company’s business and the principal risks and uncertainties facing the company in 2015 and 2016 (Variable 3)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure (‘0’)	-	-	-	-
Disclosure (‘1’)	1	1	-	-
Maximum disclosure (‘2’)	97	97	-	2

Variable 4: A forward looking orientation

Unfortunately, the results are not that optimistic with regard to variable 4 – concerning a forward looking orientation of the company, but clearly the scores are considerably higher than with regard to variable 1. Variable 4 refers to s 414C(7)(a) CA 2006 – which scrutinises long-term orientation of a given company:

> In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect the future development, performance and position of the company’s business, (...) including information about any policies of the company in relation to those matters and the effectiveness of those policies.

Based on the legislation, if the report only mentions a forward looking orientation (i.e. it includes the main trends and factors likely to affect the future development, performance and position of the company's business), the score was ‘1’. Higher scores – amounting to a full compliance with s 414C(7)(a) CA 2006 – were possible, if in addition information about any policies of the company in relation to the forward looking orientation and the effectiveness of these policies were included and in case of lack of information on the long-term approach a ‘0’ was assigned.

In general, the concept of forward looking orientation mentioned in s 414C(7)(a) CA 2006 is not very precise, hence, its meaning is harder to grasp and the empirical study confirms it. In all companies where data were provided (i.e. 98 with regard to 2015 and 100 with regard to 2016) a long-term approach was at least mentioned. This time the results in both years were almost identical as seen in Table 8. The mean was 1.29 in 2015 and 1.27 in 2016 and the standard deviation was one of the highest among the variables (0.452 in 2015 and 0.444 in 2016), which indicates that the results were more dispersed in his case by comparison with the three previous variables.

Table 8: A forward looking orientation in 2015 and 2016 (Variable 4)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure (‘0’)	-	-	-	-
Disclosure (‘1’)	70	71	+1	2
Maximum disclosure (‘2’)	28	27	-1	-

The results are not entirely disappointing; it is worth highlighting that 28 companies in 2015 and 27 in 2016 provided a detailed description of the main trends and factors likely to affect the future development of the company. However, the main conclusion after analysing all reports is that the information about the long-term approach was quite general and scattered. Even if there were various references to 'long-termism' or 'forward thinking' etc., often there was no clear and coherent approach on how to achieve a long-term success. Especially, the policies on the future development and performance of the company's business and effectiveness of these policies, mentioned in s 414C (7)(a) CA 2006, were difficult to find. Overall, there is clear empirical evidence that the companies are struggling with this issue. Certainly, guidance on how to correctly report compliance with 414C(7)(a) and how to draft policies applied in this regard would be useful.[99] Moreover, 'forward looking orientation' could have been better linked with 'long-term considerations' from s 172(1)(a) CA 2006. In principle, both these terms, consider the same issue – a long-term success of the company – but this is not clearly articulated in legislation and might cause confusion. Without further guidance or a more precise regulation, s 414C(7)(a) is likely to share the fate of 'long-term considerations' from s 172, as a concept without clear content and scope.[100]

Variable 5: Environmental matters

With variable 5, the discussion moves to the consideration of non-financial issues. This variable is derived from s 414C (7) (b)(i) CA 2006 and it focuses on environmental matters. The result was '0,' if there was no information on environmental issues. A score of '1' was awarded, if minimum information was provided, i.e. the report contained some information on environmental matters (including the impact of the company's business on the environment). A '2' score was awarded, if the description was fuller, fulfilling all requirements specified in s 414C (7) (b)(i) CA 2006, i.e. if it contained information about any policy of the company in relation to environmental matters and the effectiveness of these policies. This variable considered reporting on a company's broad approach to environmental issues, including environmental impact in one or more of the following KPIs, suggested by the 'Environmental Reporting Guidelines,': GHG emissions, water, waste, materials and resource efficiency, biodiversity/ecosystem services and emissions to air, land and water.[101] Although variable 6 concentrates specifically on greenhouse gas emissions, a company's approach to GHG emissions

[99] For instance, similar guidance to the excellent Guidelines issued on environmental matters. See: the discussion on Variable 5 for more details and DEFRA, *Environmental Reporting Guidelines: Including Mandatory Greenhouse Gas Emissions Reporting Guidance* (June 2013) <www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf> accessed 30 July 2017.

[100] See: Chalaczkiewicz-Ladna, supra n 15, ch III and IV for a detailed discussion about the meaning of long-term considerations under s 172.

[101] See: DEFRA, supra n 99, 8.

was also acknowledged within variable 5. In other words, if GHG emissions were the only environmental factor considered by the company, the highest score for variable 5 was still possible, assuming their impact was duly analysed, including any working policies and effectiveness thereof. However, technical details with regard to mandatory reporting on GHG emissions, as specified in Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (including the annual quantity of emissions etc) was analysed only with regard to variable 6 below.

Again, in 2015 the data were available for 98 and in 2016 for 100 companies. Overall, the quality of disclosure on environmental matters was very high (see Table 9 below). In 2015, the mean was 1.82 and the standard deviation 0.387 and the results were similar in 2016: 1.88 and 0.325 respectively. The companies included various case studies and examples of the actual projects, e.g.: sustainable environmental investments and the analysis of company's impact on environment. Certainly, this field could be an example of effective reporting.

Table 9: Environmental matters in 2015 and 2016 (Variable 5)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	-	-	-	-
Disclosure ('1')	18	10	-8	2
Maximum disclosure ('2')	80	88	+8	-

It should be underlined at this point that the 'Environmental Reporting Guidelines' provide an extraordinary tool and comprehensive guidance for the companies regarding environmental disclosure. For instance, they list principles for accounting & reporting environmental impacts, which should be applied by the companies: relevant, quantitative, accuracy, completeness, consistent, comparable and transparent.[102] Secondly, they provide detailed steps to be taken when reporting on environmental impact (Step 1 - Determine the boundaries of your organisation, Step 2- Determine the period for which you should collect data, Step 3- Determine the key environmental impacts for your organisation, Step 4 - Measure, Step 5 – Report).[103] Further, the Guidelines recommend developing and reporting at least three KPIs and finally recommend considering actions i to vii[104] useful in developing the environmental strategy.[105] The Guidelines also summarise benefits of environmental reporting. These include: benefiting from lower energy and resource costs, gaining a better understanding of exposure to the risks of climate change and demonstrate leadership, which will help strengthening green credentials in the marketplace and the fact that investors, shareholders and other

[102] ibid 4.
[103] ibid 5.
[104] Action i - Intensity ratios, Action ii - Setting a base year, Action iii - Setting a target, Action iv - Verification & assurance, Action v - Your upstream supply chain, Action vi - Downstream impacts, Action vii - Business continuity and environmental risks). Ibid.
[105] ibid 5.

stakeholders are increasingly requesting better environmental disclosures in annual reports and accounts. Importantly, the link between environmental and financial performance is highlighted, i.e. organisations measuring their environmental performance generally delivered cost savings and new business sales for the majority of the study's small and medium sized enterprises.[106] Overall, the Guidelines are succeeding in making environmental reporting more straightforward and attractive from the company's perspective and without doubt, such Guidelines would also be useful on forward looking orientation, or other non-financial issues.

Variable 6: GHG emissions

This variable also considers environmental matters. However, rather than describing a general approach on the impact of the company on the environment, it focuses on one particular issue, i.e. greenhouse gas emissions. In comparison to the 'comply or explain' disclosure on environmental issues,[107] reporting on GHG emissions is mandatory for a quoted company.[108] There is research suggesting GHG emissions disclosure will contribute to saving four million tonnes of CO2e emissions by 2021.[109] This variable is based on the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.[110]

Lack of reporting resulted in a '0' score. Minimum information about GHG emissions resulted in scoring '1' – i.e. if the report contained information about the annual quantity of emissions in tonnes of carbon dioxide to the extent that it was practical for the company to obtain the information in question (but where it was not practical to obtain some or all of that information, the report had to state what information was not included and why). Fuller description, in fulfilment of all conditions specified in the legislation, resulted in a '2' score, i.e. when the directors' report stated the methodologies used to calculate the information disclosed and provided at least one ratio which expressed the quoted company's annual emissions in relation to a quantifiable factor associated with the company's activities. The Regulations do not mention any prescribed methodology for reporting, but the Environmental Reporting Guidelines recommend using one of the widely recognised independent standards (such as: ISO14064 – Greenhouse gases. Part 1 (2006); the WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition); UK

[106] ibid 1.
[107] s 414C(7) CA 2006.
[108] Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, Part 3 Directors' Report, para. 7.
[109] See: <www.carbontrust.com/resources/guides/carbon-footprinting-and-reporting/mandatory-carbon-reporting/> accessed 30 July 2017.
[110] Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, Part 3 Directors' Report.

Government's Environmental Reporting Guidance (2013 version)).[111] The Guidelines also provide a very useful and detailed guidance on mandatory GHG emissions.[112]

In terms of missing data for GHG emissions, in 2015 there was no data for *ConvaTec Group plc* and *Paddy Power Betfair plc*. In both years, *Scottish Mortgage Investment Trust plc* scored '0.' That was the case as all of the company's activities were outsourced to third parties. The company therefore had no greenhouse gas emissions to report on. Taking into consideration the mandatory nature of provisions regarding GHG emissions, high results presented in Table 10 were expected (in 2015, the mean was 1.95 and the standard deviation 0.262, whilst in 2016 the results were 1.98 and 0.199). In fact, among non-financial variables, the compliance rates against this variable were the highest.

Table 10: GHG emissions in 2015 and 2016 (Variable 6)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	1	1	-	-
Disclosure ('1')	3	-	- 3	-
Maximum disclosure ('2')	94	97	+3	2

Variable 7: The interests of the company's employees

The next variable considers the information in the strategic report concerning the company's employees and it is based on s 414C (7) (b)(ii) CA 2006. Similarly to environmental matters, disclosure of employee considerations works on a 'comply or explain' basis. With regard to the minimum reporting on these issues (i.e. any information), the result was '1'. A more detailed description resulted in a '2' (i.e. when in line with s 414C (7) (b)(ii) CA 2006, the information about any policies of the company in relation to the company's employees and the effectiveness of these policies was also provided) and the score equalled '0,' if no information about the company's employees was given. In 2015, again 98 companies provided the data and in 2016, there was no missing data. The quality of reporting was also extremely high (the second highest score within non-financial variables) regarding disclosure of employees' issues (and this was the case despite the lack of Guidelines similar to those issued on environmental matters). In both years under review, *Scottish Mortgage Investment Trust plc* received a '0' score, because they did not have any employees. Overall, the high levels of compliance, as seen in Table 11, look very promising and the empirical study of the strategic reports in this regard showed that the companies are reporting on a variety of issues. For example: valuing diversity, training programmes, rewarding positive behaviours, case studies showing development of particular employees, employees' engagement in charities and volunteering, helping working carers, employees and culture. The mean was one of the highest: 1.91

[111] DEFRA, supra n 99, 29.
[112] ibid ch 2.

in 2015 and 1.93 in 2016, whilst the standard deviation in both years was reasonably low: 0.322 in 2015 and 0.292.

Table 11: The interests of the company's employees in 2015 and 2016 (Variable 7)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	1	1	-	-
Disclosure ('1')	7	5	-2	-
Maximum disclosure ('2')	90	92	+2	2

Variable 8: Gender diversity

The next variable concentrates on a specific employee issue, i.e. gender diversity. Board diversity and especially gender diversity is very topical recently. For example, the 'Corporate Governance Inquiry' underlines a positive connection between the gender diversity of boards and board performance and points out an increase of the number of women on boards from 12.5% in 2010 to 26.1 % in 2015.[113] The Inquiry recommended companies ensuring that women are encouraged and equipped to progress to executive director posts. Firms would also need to communicate how they achieve these goals.[114] Moreover, the aim of the current Hampton-Alexander Review is to build on the work of the Davies Review[115] to increase the number of women on FTSE 350 to 33% by 2020, with an important new focus aimed at improving the representation of women in leadership positions of FTSE 350 companies.[116]

Variable 8 refers to s 414C (8) (c) CA 2006, which includes specific requirements with regard to the gender diversity in the company. Contrary to the employee or environmental matters and social, community and human rights issues, disclosure on gender diversity is mandatory and does not work on 'comply or explain basis.'[117] A breakdown showing at the end of the financial year not only the number of persons of each sex who were directors of the company, the number of persons of each sex who were senior managers of the company (other than directors), but also the number of persons of each sex who were employees of the company, resulted in a '2' score (i.e. a full disclosure according to the legislation). A company received '1' if some (but not all) information indicated above was given, and finally '0' if there was no information regarding gender diversity.

Again, in 2015 the data were available for 98 and in 2016 for 100 companies. Although *Scottish Mortgage Investment Trust plc* did not have any employees in both years, they scored '1'

[113] House of Commons BEIS, *Corporate Governance Inquiry,* paras. 120 and 121 (Third Report of Session 2016-2017, March 2017) <https://publications.parliament.uk/pa/cm201617/cmselect/cmbeis/702/702.pdf> accessed 30 July 2017.
[114] ibid para. 125.
[115] Which set the voluntary target of 25% women on the boards of FTSE 100 companies by the end of 2015. This target was achieved.
[116] Hampton-Alexander Review, *FTSE Women Leaders – Initial Report* 10 (8 November 2016) <www.gov.uk/government/publications/ftse-women-leaders-hampton-alexander-review> accessed 30 July 2017.
[117] Compare ss 414C (7) (b) and 414C (8) (c) CA 2006.

against this variable as the information about board members was provided. As illustrated in Table 12, the levels of compliance were very high in both years (in 2015, the mean was 1.90 and the standard deviation 0.303 and in 2016 the results were 1.89 and 0.313 respectively). The most common area of omission was the lack of the number of senior managers working in the company and in few cases; only the number of all managers was given.

Table 12: Gender diversity in 2015 and 2016 (Variable 8)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure (‘0’)	-	-	-	-
Disclosure (‘1’)	10	11	+1	-
Maximum disclosure (‘2’)	88	87	-1	2

Despite the statutory explanation in s 414C (9) CA 2006, which defines a ‘senior manager’ as a person who has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and is an employee of the company, it seems that some companies were struggling with this term. Whilst it is much easier to define an employee or board member, the meaning of a senior manager might be indeed more difficult to grasp or interpreted in a different way by the companies. This issue was also raised by the ‘Corporate Governance Inquiry,’ which recommended that the Government should, in consultation with business, consider how best to clarify or supplement the definition of ‘senior managers’ to achieve a more consistent, meaningful concept.[118] The Hampton-Alexander Review – cited in the Inquiry – highlighted difficulties with defining this term, which in turn assesses the gender diversity of senior managers more problematic.[119] This leads to the conclusion that despite the high compliance rates articulated by this empirical study, assessment of gender diversity in a company might not be accurate.

Variable 9: Social or community matters

The next variable is derived from s 414C (7) (b) (ii) and analyses disclosure of social and community considerations in the strategic reports. If the report contained no information about social or community matters, it received a ‘0’ score, any information (minimum reporting) amounted to ‘1’ and a full disclosure, including information about any policies of the company in relation to social or community matters and the effectiveness of these policies, resulted in a ‘2’ score. As the line between social and community matters is not clear cut, providing information on either social or community issues was sufficient to receive ‘1’ or the highest score.

In 2015, there was no data regarding social or community matters for *ConvaTec Group plc* and *Paddy Power Betfair plc*. Considering the remaining companies, the quality of disclosure with

[118] House of Commons BEIS, supra n 113, para. 123, 124.
[119] Hampton-Alexander Review, supra n 116, 11.

regard to social and community matters is shown in Table 13. The results in 2016 were considerably better this time – in 2015, the mean was 1.80 and the standard deviation 0.428, whilst in 2016 the results were 1.91 and 0.319.

Table 13: Social or community matters in 2015 and 2016 (Variable 9)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure (‘0’)	1	1	-	-
Disclosure (‘1’)	18	6	-12	1
Maximum disclosure (‘2’)	79	91	+12	1

To conclude, compliance is very good regarding community and social matters. The study of strategic reports shows that the companies are disclosing information on various issues. For instance: community investments and development programmes, charitable programmes, social campaigns organised maximising value for society, ‘Helping to make our society safer’ and ‘Safer young drivers’ programmes, other companies are helping vulnerable customers or improving financial education. All in all, the quality and depth of disclosure in this aspect is very impressive, especially the amount of case studies and real life stories. Perhaps the only shortcoming of the current social & community reporting is the lack of a clear structure with some repetition in this regard. Reporting on social & community matters and other non-financial issues could be better integrated into the strategic report and separate guidelines – covering all non-financial issues and forward looking approach – could help achieving this goal.

Variable 10: Human rights issues

Consideration of the human rights issues is the last non-financial issue to be scrutinised. Similarly to variable 9, this variable is also based on s 414C (7) (b) (ii). In order to study disclosure of this particular subject, social & community and human rights matters were analysed separately. This is also in line with the new provisions on strategic reporting – s 414CB (1) CA 2006 lists social matters and respect for human rights separately. Again, based on the legislation, no information amounted to a ‘0’ and minimum reporting (i.e. any information on human rights) to a ‘1’ score. Assuming a more detailed account was given – including information about any policies of the company in relation to the human rights issues and the effectiveness of these policies, a ‘2’ was given. The index of missing data in both years is the same as with regard to the social & community issues. Keeping in mind high compliance rates with regard to the previous variable, disclosure on human rights issues is disappointing (see Table 14). The mean in 2015 was 1.56 and in 2016 1.62 and the standard deviation was one of the highest (0.516 in 2015 and 0.506 in 2016), which indicates that the data points were more spread out.

Table 14: Human rights issues in 2015 and 2016 (Variable 10)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure (‘0’)	1	1	-	-
Disclosure (‘1’)	41	35	-6	1
Maximum disclosure (‘2’)	56	62	+6	1

To conclude, lower compliance rates with regard to human rights matters indicate that the companies are struggling with reporting in this field or are treating it as a part of the social & community disclosure. Meanwhile, human rights considerations have a broader meaning – not only they are important at the social or community level, but their respecting is also vital within the company, i.e. from the employees’ perspective. Hence, human rights issues should be considered with greater diligence in the reports.

Variable 11: Explanation of non-compliance (quality of non-compliance)

The aim of variable 11 was to analyse the instances and quality of non-compliance with regard to the non-financial issues. This variable is derived from s 414C(7) (b) CA 2006 and it epitomises the ‘comply or explain’ rule. It requires the company to either report on environmental matters (including the impact of the company’s business on the environment), the company's employees, and social, community and human rights issues or state which of those kinds of information it does not contain. It is worth underlining that neither forward looking orientation, GHG emissions nor gender diversity is included here.

If there was one or more omissions with regard to the points mentioned above and the report did not mention it, the result was ‘1.’ However, if the report identified one or more omissions and stated which of those kinds of information it does not contain, including a clear and reasoned explanation for the company’s not doing so, the company received ‘2.’ Otherwise, the score was ‘0’. Hence, a ‘0’ score was not negatively associated this time. It was awarded when the company provided all required information and there were no instances of non-compliance. Again in 2015, there was no data for *ConvaTec Group plc* and *Paddy Power Betfair plc*. Overall, as shown in Table 15, the standards of disclosure are very high and it is truly impressive that 97 companies in 2015 and 99 in 2016 made a full disclosure on non-financial issues. Only *Scottish Mortgage Investment Trust plc* was awarded ‘2’ in both years as they did not provide information regarding greenhouse gas emissions, the interests of the company’s employees, social, community and human rights issues. However, they explained that this information was not given as the company had no employees and all of the company’s activities was outsourced to third parties. The mean was 0.02 in 2015 and 0.02 in 2016 and the standard deviation was among the lowest: 0.201 in 2015 and 0.199 in 2016.

Table 15: Explanation of non-compliance (quality of non-compliance) in 2015 and 2016 (Variable 11)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
All required information provided ('0')	97	97	-	2
One or more omissions, without justification ('1')	-	-	-	-
One or more omissions, with justification ('2')	1	1	-	-

Variable 12: Quality of non-financial reporting

The purpose of this general variable was to study whether companies are only adhering to minimum reporting requirements (as specified in s 414C (7) and (8) CA 2006) or whether they are also providing additional non-financial information. Hence, if the report only contained information about environmental matters, the company's employees, social, community and human rights issues and gender diversity (minimum reporting) the score was '1'. If more information on non-financial reporting was included, for example: regarding the need to foster the company's business relationships with suppliers, customers and others, the desirability of the company maintaining a reputation for high standards of business conduct, the need to act fairly as between members of the company,[120] the company received a '2' score. However, if additional information was provided, but not all information required by s 414C (7) and (8) CA 2006 was given; the score was only '1.' Otherwise, the result was '0.' The index of missing data is the same as in the variable above. The mean was 1.89 in 2015 and 1.87 in 2016, whilst the standard deviation was 0.316 in 2015 and 0.336 in 2016. The results were as follows.

Table 16: Quality of non-financial reporting in 2015 and 2016 (Variable 12)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No disclosure ('0')	-	-	-	-
Disclosure ('1')	10	12	+2	-
Some additional information, but the company did not report on all matters specified in s 414C (7) and (8) CA 2006 ('1')	1	1	-	-
Maximum disclosure ('2')	87	85	-2	2

The quality of non-financial reporting is unexpectedly high, amounting even to a super compliance or over compliance, since in both 2015 and 2016, 87 companies provided in-depth, voluntary, additional non-financial information. The most popular areas of additional disclosure were: customer service,

[120] These examples are derived from s 172(1) (c), (e), (f) CA 2006.

helping vulnerable customers, patient and customer safety, increasing quality of service, relationships with suppliers, ensuring fair outcomes/ethical conduct, trust and integrity, transparency in clinical trial data, anti-bribery and corruption, pensions and savings. Hence, themes/topics listed in s 172(1) (c), (e), (f) CA 2006 and not mentioned in the strategic report provisions – like relationships with customers, suppliers and high standards of business conduct – were often subject to disclosure. This is clearly an example of good practice and it shows that some companies are a step ahead of the current legislation, i.e. they have already noticed the links between duty to promote the success of the company and strategic reporting. Also, some companies included information on anti-bribery and corruption issues, now required by s 414CB CA 2006.

Variable 13: Transparency of non-financial reporting

The last variable analyses transparency of non-financial reporting by the FTSE 100 companies. During the empirical research the authors observed that vital non-financial information and often additional, voluntary information is disclosed not only in the strategic reports or annual reports in general, but in additional reports (these reports had different names, for instance: Sustainability Update, Corporate Responsibility Report, Responsible Investment Reports, Environmental, Social and Governance Guidance, Citizenship Data Supplement, Environmental Action Plan, Responsible Business Supplement, Annual Responsibility Review, Responsible Investment Brochure) or on the company's website. As such disclosure made in the additional reports or on the website is still effective, hence, all these sources were analysed by the authors too. Variable 13 was only applicable, if additional CSR/sustainability reports exist and its purpose was to scrutinise whether the existence of these additional reports is properly acknowledged in the strategic report. Through this variable, the authors rewarded the companies making clear links to these separate sources of disclosure. If the strategic report made clear links to the disclosure in the other CSR report/reports (i.e. clear references to the additional report when analysing specific issues – for instance, environmental matters, numerous links to various websites, or the combination of both), a '2' score was given. However, the score was only '1' if the other CSR report was just mentioned in the strategic report (i.e. just one or few general references to the separate report or company's website, for example at the beginning of the strategic report, without a clear connection to any specific issue) and '0' was given if the additional report exists, but it was not mentioned.

As explained above, this variable was only applicable, if there was an additional report. In 2015, 73 companies produced additional sustainability reports and there was no data for 27 companies (including *ConvaTec Group plc* and *Paddy Power Betfair plc*, which did not have a legal obligation to produce strategic report in 2015). In 2016, the results were 75 and 25 respectively. As illustrated below, the results regarding transparency of non-financial reporting are mixed.

Table 17: Transparency of non-financial reporting in 2015 and 2016 (Variable 13)

Score	Balanced panel (98 companies)			Additional two companies 2016
	2015	2016	change	
No additional report	25	23	-2	2
No disclosure (‘0’)	3	3	-	-
Disclosure (‘1’)	24	16	-8	-
Maximum disclosure (‘2’)	46	56	+10	-

The mean for this variable was 1.5890 in 2015 and 1.7067 in 2016. The results regarding transparency of non-financial reporting were the most diverse among all variables (standard deviation in 2015 was 0.57338 and in 2016 0.53960).

To summarise the comments on variable 13, the empirical research shows examples of good practice regarding transparency of non-financial reporting: 46 companies in 2015 and 56 in 2016 made in their strategic reports clear connections to the other reports disclosing non-financial information. Many companies made several links to various websites or additional reports. As a consequence, the additional reports were on many occasions well integrated in the strategic reports (see e.g. the strategic reports issued by *BP plc*). Moreover, some companies were extremely diligent regarding non-financial reporting – i.e. they produced several additional reports or very long sustainability reports (100 pages and more). On the other hand, it is argued that the potential of additional reports is currently not fully used by the companies. There is still scope for improvement regarding the transparency of non-financial reporting in the UK, as 27 companies in 2015 and 19 in 2016 made no connection or mentioned the other report only broadly. On several occasions, these additional reports were very difficult to find.

However, the main conclusion after the analysis of all available reports is that the existence of these additional reports seems to be counter-productive. The repetition of information in the strategic reports and additional CSR reports is not rare, and it is often time consuming and challenging to analyse the company’s policies on a given non-financial matter, as the study of several reports and the company website is necessary. Further, without doubt, the production of a separate report on environmental or social matters might be beneficial from an investor or stakeholders perspective: however, the amount and diversity of these additional reports indicate that a consistent approach to non-financial reporting and sustainability is lacking and that companies are struggling with the definition of sustainability. This study provides empirical evidence that some companies are not thinking about non-financial reporting in a comprehensive manner, concentrating in their additional reports only on one or a few issues relevant from their company’s perspective. As Villiers correctly pointed out, this partly explains why corporate reports often fail to provide the full story in a concise manner.[121] It seems that integrated reporting – i.e. production of one report tailored not only towards shareholders, but also

[121] *Corporate Governance and Reporting: Summary,* 3, Charlotte Villiers (7 June 2017) <www.purposeofcorporation.org/summary-cass_corporate-reporting.pdf> accessed 11 August 2017.

stakeholders, with a clearly explained definition of sustainability/sustainable development – would improve transparency of corporate reporting and it would make it more efficient and definitely cheaper.

Cross-tabulation examples

After a detailed study of single variables, this cross-tabulation exercise analyses whether transparency of reporting (variable 13) is linked firstly, with disclosure of the information on the interests of employees (variable 7) and secondly, environmental considerations (variable 5). The aim of this section is to determine whether there is a clear connection between the disclosure made in the strategic report and the other CSR reports, on the one hand, with the quality of reporting on employee and environmental issues, on the other hand.

73 companies produced additional sustainability/CSR reports in 2015 and 75 in 2016 and only these companies were analysed in this exercise. Table 18 below shows the relationship between transparency of reporting and disclosure of employee matters in 2015 and 2016. With regard to 2015, there were three cases where the other CSR report existed but was not mentioned and within this number only one report contained basic information and two reports included a fuller description regarding the interests of employees. Among 24 companies, which just mentioned the existence of the separate CSR report, only one company provided minimum information about employees and 23 companies provided a fuller account. Finally, among 46 companies that made clear links to the additional sustainability report, only one included basic information and the remaining 45 companies scored ‘2’.

The results in 2016 were not very dissimilar. Among three cases where additional CSR reports existed, but were not mentioned in the strategic report, one company included only minimum information on employees and two others made a more detailed disclosure. 16 companies which just mentioned the other report scored ‘2’ against employee considerations. Finally, 55 out 56 companies which made clear links to other reports provided a fuller description of employee issues.

Table 18: Cross-tabulation of transparency of reporting and the interests of employees in 2015 (73 companies) and 2016 (75 companies)

Transparancy	2015 There is information about employees	2015 In addition, policies are included	2016 There is information about employees	2016 In addition, policies are included	Change There is information about employees	Change In addition, policies are included
Other report exists, but it is not mentioned	1 33.3%	2 66.7%	1 33.3%	2 66.7%	-	-
Other report just mentioned	1 4.2%	23 95.8%	0 0.0%	16 100%	-1	-7
Clear links to other report	1 2.2%	45 97.8%	1 1.85%	55 98.2%	-	+10
Total Count % within Transparency	3 4.1%	70 95.9%	2 2.7%	73 97.3%	-1	+3

Moving now to the relationship between transparency of reporting and disclosure of environmental matters, the results of this exercise are presented in Table 19 below. In both years, three companies did not acknowledge the existence of additional reports in their strategic report. In 2015, all three companies received a '2' score and in 2016 one company was awarded '1' and the other two were given '2.' The second category to be analysed, concerns the cases were the other CSR reports where only mentioned in the strategic reports. With regard to 2015, in 22 cases out of 24 the companies provided a fuller description of environmental issues and in 2016, 15 out of 16 companies received a '2' score. Finally, regarding the cases where the strategic report made clear links to the other sustainability/CSR reports, almost all companies in both years were rewarded for the comprehensive disclosure (in 2015 – 40 companies out of 46 and in 2016 – 54 out of 56).

All in all, it is evident that regarding the link between transparency of reporting and interests of the employees or environmental considerations, even where the other reports just mentioned or did not mention these issues at all, in the majority of cases the companies scored '2'. This suggests that already strategic reports are providing comprehensive and in depth non-financial information and the additional reports do not add much to the quality of non-financial reporting. Although, certainly, such reports might be a very good source of information regarding non-financial issues.

Table 19: Cross-tabulation of transparency of reporting and environmental matters in 2015 (73 companies) and 2016 (75 companies)

Transparancy	2015 There is information about environmental matters	2015 In addition, policies are included	2016 There is information about environmental matters	2016 In addition, policies are included	Change There is information about environmental matters	Change In addition, policies are included
Other report exists, but it is not mentioned	0 0.0%	3 100.0%	1 33.3%	2 66.7%	+1	-1
Other report just mentioned	2 8.3%	22 91.7%	1 6.3%	15 93.8%	-1	-7
Clear links to other report	6 13.0%	40 87%	2 3.6%	54 96.4%	-4	+14
Total Count % within Transparency	8 11.0%	65 89.0%	4 5.3%	71 94.7%	-4	+6

Aggregate of industry specific patterns

The current section analyses some industry-specific patterns regarding strategic reporting. Four sectors were chosen to provide diversity in terms of their operating environment, i.e.: financial services & banks (24 companies), supermarkets (3 companies), mining (7 companies) and pharmaceutical companies (4), (38 companies in total). The purpose of this section is to scrutinise whether the results across variables and sectors were similar or dissimilar and which sector produced the most consistent scores. In this section, five variables were selected to test compliance in different areas: variable 1 (The role and objective of the strategic report) and variable 4 (A forward looking orientation) were chosen as they produced the lowest results. Further, variable 8 (Gender diversity) and variable 9 (Social or community matters) are scrutinised here as representatives of non-financial issues and finally, variable 12 – a general variable on quality of non-financial reporting – is considered. There were no instances of missing data.

Firstly, with regard to the role and objective of the strategic report (variable 1), the results across the sectors are almost identical. Apart from St James's Place plc – a financial services company – which scored '2' in both years, the other companies received a '1' score – i.e. they did not make an explicit reference to s 172 CA in their strategic reports. Secondly, the results are more diversified regarding variable 4, however, the scores are still reasonably low. The highest number of a fuller description of a forward looking orientation is to be found in the strategic reports of the companies from the financial sector. Across the sectors pharmaceutical companies improved their results in 2016 (slightly) and in general, the most common result was '1.' The breakdown of full disclosure in each sector for variable 4 is presented in the table below.

Table 20: Maximum value ('2') for 'forward looking orientation' (Variable 4)

Sector / number of companies	Absolute number and percentage of companies in sector		Change 2015-2016
	2015	2016	
Financial / 24	10 = 41.7%	9 = 37.5%	-1
Mining / 7	2 = 28.6%	1 = 14.3%	-1
Pharmaceutical / 4	1 = 25%	2 = 50%	+1
Supermarkets / 3	0 = 0%	0 = 0%	-

Moving now to variable 8 (Gender diversity), in general, the quality of disclosure was extremely high. The worst results were noticed in the mining sector. In 2015, 42.9% of companies (3 out of 7) provided some, but not all required information. However, in 2016 the scores in this sector were already considerably higher – only one company received a '1' score and the other six provided all required information. In the financial sector in both years only 8.3% of the companies (2 out of 24) scored '1' whilst all pharmaceutical companies and supermarkets included a full breakdown of required information.

In comparison to the gender diversity variable, the levels of compliance are not as impressive with regard to the social and community matters – variable 9, but still reasonably high (most of the companies received the maximum score) as shown in Table 21.

Table 21: Maximum value ('2') for 'Social and community matters' (Variable 9)

Sector / number of companies	Absolute number and percentage of companies in sector		Change 2015-2016
	2015	2016	
Financial / 24	19 = 79.2%	20 = 83.3%	+1
Mining / 7	7 = 100%	7 = 100%	-
Pharmaceutical / 4	3 = 75%	4 = 100%	+1
Supermarkets / 3	0 = 0%	2 = 66.6%	+2

The last variable to be analysed in this section concerns the quality of non-financial reporting. The disclosure levels in all sectors were very high (most of the companies scored '2') and consistent in both years. All pharmaceutical companies scored '2' against this variable. In both years under review, 22 financial services companies (91.7%) provided not only minimum, but also additional, voluntary non-financial information. Further, two out of three supermarkets (66.7%) received a '2' score in 2015 and 2016. Finally, 57.1% of the mining companies (4 out of 7) in 2015 and 71.4% (5 out 7) in 2016 were given the maximum score.

To conclude, the results regarding five variables in four different sectors are very similar. In all four sectors, most of the companies scored '1' against variables 1 and 4. With regard to the other three variables - variable 8 (Gender diversity), variable 9 (Social or community matters) and variable 12 (Quality of non-financial reporting) – the most common result was '2'. The scores are also consistent in both years under review – i.e. some improvements or lower scores in the consecutive year can be observed, however, in general the changes are not drastic. It is difficult to state unequivocally which sector under review is 'the best,' as there were some vivid differences in the number of companies in particular sectors – i.e. 24 companies from the financial sector, seven mining companies, but only three supermarkets and four pharmaceutical companies. Further, as it was mentioned above, the scores in all sectors are not very dissimilar. Overall, the analysis of two reports per company facilitated the creation of a longitudinal survey, which tracked changes within the reports. However, in order to produce more conclusive results regarding any industry/sector specific patterns over time, the analysis of the strategic reports from two consecutive years seems to be insufficient. Therefore, these authors are planning to conduct further research and analyse 2017 and 2018 reports in the future.

V. Conclusions

This first empirical review of strategic reporting in the UK used a method involving compliance coding to collect data of appropriate range and depth on compliance with the relevant statutory provisions on the strategic report, but especially the interests of employees, customers, suppliers, environmental considerations, social, community and human rights bodies. The significance of this research is based on its breadth and depth – i.e. collection of 2600 observations and the analysis of strategic reports and other sustainability reports of the FTSE 100 companies in 2015 and 2016. The study specifically concentrated on two issues. First, its aim was to provide concrete evidence on compliance with the provisions of a strategic report, especially the extent to which non-financial issues are considered by the companies. Secondly, it evaluated the type and quality of information received by stakeholders, from the company, based on the strategic report.

On compliance, the main conclusion of this empirical research is that compliance with the provisions of the strategic report is very high, amounting even to super or over-compliance. Such a high standard of disclosure is surprising, especially taking into consideration the mainly 'comply or explain' nature of non-financial reporting. The logic of 'comply or explain' is that it permits flexibility, yet this has not been the outcome in this instance. Only three variables produced low or very low compliance rates. The worst results were achieved against variable 1 – the role and objective of the strategic report. Since there is no legal duty to refer to s 172 CA in the strategic report these low results could indicate a weak connection between strategic reporting and the duty to promote the success of the company. The second worst result was produced against a forward looking orientation variable (variable 4). Thirdly, in comparison to the other non-financial variables, the disclosure rates for variable 10 on human rights issues were relatively low.

With regard to the other variables, the quality of disclosure was high or extremely high. Scores against variables 2 and 3 (focusing on the description of the company's strategy and business model &

review of the company's business and the principal risks and uncertainties facing the company) were particularly high. In addition, the remaining non-financial variables in the strategic report (i.e. regarding environmental matters, GHG emissions, employee considerations, gender diversity and social & community matters) produced very good results. The disclosure rates regarding GHG emissions were the highest. The second best result involved employee considerations. The compliance rates regarding three other non-financial variables were also very impressive.

It is worth considering the reasons for these surprisingly high disclosure levels, especially regarding non-financial considerations. It is argued here that this super compliance could be a result of various factors (or a combination of them). First, the companies could be genuinely interested in providing comprehensive answers, as non-financial considerations are important from the company's perspective or there might be an actual and strong recognition of stakeholder interests (however, this is a very optimistic perspective). Secondly, diligent non-financial reporting could be purely an effective marketing tool. The companies might be aware that investors, financial institutions and stakeholders are also relying on strategic reports or ESG reports in their assessment of the companies and by comparison with companies from the same sector.[122] However, it is worth highlighting that the sustainability language does not always guarantee the sustainable approach and could be exactly an indication of misleading marketing, greenwashing[123] or effective reporting skills. The high disclosure rates and over compliance could also be a consequence of a 'tick-the-box' exercise or corporate managers disclosing only information showing the corporation in a favourable light.[124] Finally, another conclusion, based on the results of this empirical study, could be that over compliance is used as a strategy to pre-empt stakeholders being directly represented in company decision-making (e.g. through board membership). On that reading, disclosure is a more acceptable solution than direct representation.

Turning now to the type and quality of information transferred from the company to stakeholders, in general, there is data for each company for both years, with an exception of two companies in 2015. Secondly, there are only a few instances of missing data most notably connected to variable 13 (transparency of reporting), which did not apply to all companies. Further, only *Scottish Mortgage Investment Trust plc* received a '0' score in 2015 and 2016 for the lack of information regarding greenhouse gas emissions, the interests of the company's employees, social and community and finally human rights issues, otherwise the companies provided at least minimum information.

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[122] Betty Moy Huber and Michael Comstock, *ESG Reports and Ratings: What They Are, Why They Matter* (27 July 2017) <https://corpgov.law.harvard.edu/2017/07/27/esg-reports-and-ratings-what-they-are-why-they-matter/> accessed 14 August 2017.

[123] Beate Sjåfjell, *Dismantling the Legal Myth of Shareholder Primacy: The Corporation as a Sustainable Market Actor*, 12-13 (February 2017) University of Oslo Faculty of Law Research Paper No 2017-03 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2912141> accessed 14 August 2017.

[124] Barnali Choudhury, *Social Disclosure* 13(1) Barkley Business Law Journal 185, 187-188, 197 (2016).

Moreover, the empirical results confirm the high quality of information transferred to stakeholders. Especially, variable 11 (Explanation/quality of non-compliance) confirms very high standards of non-financial reporting in the UK. Secondly, variable 12 (Quality of non-financial reporting) shows that 87 companies in 2015 and 88 in 2016 not only adhered to minimum reporting requirements, but also included additional, voluntary non-financial information. Finally, variable 13, discussing transparency of non-financial reporting, shows many examples of good practice in this context. Many companies made clear connections in their strategic reports to the other existing sustainability reports and some companies were extremely diligent regarding non-financial reporting. On the other hand, there is still scope for improvement regarding the transparency of non-financial reporting in the UK, as the links with other reports were not very clear with regard to some companies and on several occasions, these additional reports were very difficult to find.

VI. The way forward

The quality and transparency of non-financial reporting in the UK is impressive and the empirical research shows many examples of good practice but there is still room for improvement. It seems that currently a holistic approach to strategic reporting is lacking. The strategic report is addressed to shareholders and stakeholders considerations are only of secondary importance. The recent developments in the UK aimed at strengthening the link between s 172 CA and the interests of stakeholders are acknowledged here. Nevertheless, the strategic report could be used to demonstrate compliance with s 172 CA 2006, ideally by putting a stronger emphasis on consideration of stakeholders' interests (this could be done by incorporating all factors listed in s 172 into s 414C) rather than only concentrating on shareholders' interests. To ensure high quality reporting, similar guidance to the Environmental Guidelines would be useful on other non-financial issues and forward looking orientation, even if the level of compliance is already very high. This proposal was also popular among the respondents to the Green Paper, i.e. a number of respondents suggested that much could be achieved through the sharing of good practice or more detailed guidance from the FRC on what the strategic report should contain.[125]

Further, a full integration of financial and non-financial information for the purpose of strategic reporting is required to provide a more holistic picture of the company. This empirical research suggests that the production of various additional non-financial reports could be counter-productive. The repetition of information in the strategic reports and additional CSR reports is not rare and it is often time consuming and challenging to analyse the company's policies on a given non-financial matter, as the study of several reports is necessary. Without doubt, the production of a separate report on environmental or social matters might be beneficial from an investors or a

[125] BEIS, *Corporate Governance Reform: The Government Response to the Green Paper Consultation*, supra n 26, para. 2.22.

stakeholders perspective; however, the amount and diversity of these additional reports indicate that a consistent approach to non-financial reporting is lacking and the companies are struggling with the definition of sustainability. It seems that integrated reporting – i.e. production of one report tailored not only towards shareholders, but also stakeholders, with a clearly explained definition of sustainability/sustainable development – would improve transparency of corporate reporting and it would make it more efficient and definitely cheaper.

The two research questions posed in this study concentrated on compliance with the provisions of the strategic report, especially the extent to which ESG issues are considered by the companies and the type and quality of information received by stakeholders. This empirical study clearly shows that the companies are producing vast amounts of non-financial information in their strategic and additional sustainability reports. However, this research does not provide clear evidence on whether compliance with the strategic report requirement results in a better informed stakeholder base or whether it facilitates more effective interaction between stakeholders and companies. In order to answer this question, Stage 2 of the study (i.e. interviews with selected stakeholders) is essential. The interviews are an ideal tool to collect qualitative data on the value of strategic reports for stakeholders. They will allow us to analyse whether stakeholders are actually receiving relevant and quality information. Moreover, they will allow us to assess the extent to which strategic reporting forms a basis for stakeholder engagement.

Finally, the initial analysis of two reports per company conducted in this paper facilitates the creation of a longitudinal survey, which tracks changes within the reports over time. In order to produce more conclusive results regarding any patterns over time, the authors are planning to conduct further research and to analyse 2017 and 2018 reports in the near future. This future study will also allow us to evaluate the new provisions introduced by Directive 2014/95/EU, which are applicable to 2017 and 2018 reports.

Appendix I: FTSE100

(*The list of companies as of 17 May 2017*)

Financial services Property/investment/insurance companies/Banks[126] 1. 3i Group plc 2. Hammerson plc 3. Intu Properties plc 4. Land Securities Group plc 5. The British Land Company plc 6. Schroders Plc 7. Scottish Mortgage Investment Trust plc 8. Hargreaves Lansdown plc 9. Admiral Group plc 10. Aviva plc 11. Direct Line Insurance plc 12. Legal & General Group plc 13. London Stock Exchange Group plc 14. Old Mutual plc 15. Standard Life plc 16. Provident Financial plc 17. Prudential plc 18. RSA Insurance Group plc 19. St James's Place plc 20. Standard Chartered plc 21. Barclays plc 22. HSBC Holdings plc 23. Lloyds Banking Group plc 24. RBS Group plc	**Mining** 25. Anglo American plc 26. Antofagasta Holdings plc 27. BHP Biliton plc 28. Fresnillo plc 29. Glencore plc 30. Randgold Resources Ld 31. Rio Tinto plc
Consumer products/manufacturing 32. Coca-cola HBC AG 33. Diageo plc 34. Kingfisher plc 35. Associated British Foods plc 36. Marks and Spencer plc 37. Next plc 38. Burberry Group plc 39. Reckitt Benckiser Group plc 40. Unilever plc 41. Mondi plc 42. Smurfit Kappa Group plc	**Services/ Business services** 43. Bunzl plc 44. Compass Group plc 45. Ashtead Group plc 46. Rentokil Initial plc 47. Intertek Group plc 48. DCC plc 49. Royal Mail plc 50. WPP plc 51. Experian plc 52. Relx Group plc 53. Worldpay Group plc
Software/Information Technology 54. Micro Focus International plc 55. Sage Group plc	**Supermarkets** 56. Tesco plc 57. Sainsbury (J) plc 58. WM Morrison Supermarkets plc
Chemicals 59. Croda International plc 60. Johnson Matthey plc	**Pharmaceuticals** 61. AstraZeneca plc 62. GlaxoSmithKline plc 63. Hikma Pharmaceuticals plc 64. Shire plc
Medical devices/Hospital Management 65. ConvaTec Group plc 66. Mediclinic International plc 67. Smith and Nephew plc	**Military/Defence/Security/ Engineering** 68. BAE Systems plc 69. Babcock International Group plc 70. GKN plc 71. Rolls-Royce Holdings plc 72. Smiths Group plc

[126] Please note that the division of companies suggested in this Appendix is subjective.

Housebuilding 73. Barratt Developments plc 74. Taylor Wimpey plc 75. Persimmon plc	**Building materials** 76. CRH plc 77. Wolseley plc
Oil & Gas 78. BP plc 79. Royal Dutch Shell plc	**Energy/Electricity/Gas utility** 80. Centrica plc 81. National Grid plc 82. SSE plc
Water Supply 83. Severn Trent plc 84. United Utilities Group PLC	**Tobacco** 85. British American Tobacco plc 86. Imperial Brands plc
Telecommunication 87. BT Group plc 88. Vodafone Group plc	**Hospitality/Tourism/Travel/Hotels/Leisure** 89. Carnival plc 90. InterContinental Hotels Group plc 91. Merlin Entertainments plc 92. Paddy Power Betfair plc 93. TUI AG 94. Whitbread plc
Airlines 95. Easy jet plc 96. International Consolidated Airlines Group SA	**Publishing/Knowledge** 97. Informa plc 98. Pearson plc
Media 99. ITV plc 100. Sky plc	

Appendix II – Coding for 2015 & 2016

	2015													2016												
	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13
1	1	2	2	2	2	2	2	2	2	1	0	2	1	1	2	2	1	2	2	2	2	2	2	0	2	2
2	1	2	2	1	1	2	2	2	1	1	0	2	1	1	2	2	1	2	2	2	2	2	1	0	2	-
3	1	2	2	1	2	2	2	2	2	2	0	2	-	1	2	2	1	2	2	2	2	2	2	0	2	2
4	1	2	2	2	2	2	2	2	2	2	0	2	2	1	2	2	2	2	2	2	2	2	2	0	2	2
5	1	2	2	2	2	2	2	2	2	1	0	2	2	1	2	2	2	2	2	2	2	2	1	0	2	2
6	1	2	2	1	2	2	2	2	2	1	0	2	0	1	2	2	1	2	2	2	2	2	1	0	2	1
7	1	1	2	2	1	0	0	1	0	0	2	1	-	1	1	2	2	1	0	0	1	0	0	2	1	-
8	1	2	2	1	2	2	2	2	2	1	0	2	-	1	2	2	1	2	2	2	2	2	1	0	2	-
9	1	2	2	1	2	2	2	2	2	1	0	2	1	1	2	2	1	2	2	2	2	2	1	0	2	1
10	1	2	2	2	2	2	2	2	2	2	0	2	-	1	2	2	2	2	2	2	2	2	2	0	2	-
11	1	2	2	2	2	2	1	2	2	1	0	2	-	1	2	2	1	1	2	1	2	2	1	0	2	-
12	1	2	2	1	2	2	2	2	2	1	0	2	1	1	2	2	1	1	2	2	2	2	1	0	2	1
13	1	2	2	1	2	2	2	2	1	1	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
14	1	2	2	1	2	1	1	2	1	1	0	2	0	1	2	2	1	1	2	1	2	1	1	0	2	0
15	1	1	2	1	1	1	2	2	2	2	0	2	2	1	2	2	2	2	2	2	2	2	2	0	2	2
16	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
17	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	1
18	1	2	2	2	2	2	2	2	2	2	0	2	2	1	2	2	2	2	2	2	2	2	2	0	2	2
19	2	2	2	1	2	2	2	1	2	1	0	1	-	2	2	2	2	2	2	2	1	2	1	0	1	-
20	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
21	1	2	2	2	2	2	2	2	2	2	0	2	1	1	2	2	1	2	2	2	2	2	2	0	2	2
22	1	2	2	2	2	2	2	2	2	2	0	2	-	1	2	2	2	2	2	2	2	2	2	0	2	0
23	1	2	2	1	2	2	2	2	1	1	0	2	2	1	2	2	1	2	2	2	2	1	1	0	2	2
24	1	2	2	2	1	2	2	2	2	2	0	2	-	1	2	2	2	2	2	2	2	1	2	0	2	2
25	1	2	2	1	2	2	2	1	2	2	0	1	2	1	2	2	1	2	2	2	2	2	2	0	2	2
26	1	2	2	2	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
27	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
28	1	2	2	1	2	2	2	1	2	2	0	1	-	1	2	2	1	2	2	2	2	2	2	0	1	-
29	1	2	2	1	2	2	2	1	2	2	0	1	2	1	2	2	1	1	2	2	1	2	2	0	1	-
30	1	2	2	2	2	2	2	2	2	2	0	2	2	1	2	2	2	2	2	2	2	2	2	0	2	2
31	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
32	1	2	2	1	2	1	2	2	2	2	0	2	-	1	2	2	2	2	2	2	2	2	2	0	2	-
33	1	2	2	1	2	2	2	2	2	1	0	2	2	1	2	1	2	2	2	2	2	2	1	0	2	2
34	1	2	2	1	2	2	2	2	2	2	0	2	1	1	2	2	1	2	2	2	2	2	2	0	2	2
35	1	2	2	1	2	2	2	1	2	2	0	1	2	1	2	2	1	2	2	2	1	2	2	0	1	2
36	1	2	2	2	2	2	1	2	2	2	0	2	2	1	2	2	2	2	2	2	2	2	2	0	2	2
37	1	2	2	1	2	2	2	2	2	2	0	2	1	1	2	2	2	2	2	2	2	2	2	0	2	2
38	1	2	2	1	2	2	2	2	1	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	-
39	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
40	1	2	2	2	2	2	2	2	2	2	0	2	1	1	2	2	2	2	2	2	2	2	2	0	2	2
41	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
42	1	2	2	1	2	2	2	1	2	2	0	1	2	1	2	2	1	2	2	2	1	2	2	0	1	2
43	1	2	2	1	2	2	2	2	2	1	0	2	1	1	2	2	1	2	2	2	2	2	1	0	2	1
44	1	2	2	1	2	2	1	2	1	1	0	2	1	1	2	2	1	2	2	1	2	1	1	0	2	2
45	1	2	2	1	1	2	2	2	2	2	0	2	-	1	2	2	1	2	2	2	2	2	1	0	2	-
46	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
47	1	2	2	2	1	2	2	2	2	1	0	2	-	1	2	2	1	2	2	2	2	2	1	0	2	-
48	1	2	2	1	2	2	2	2	1	1	0	2	-	1	2	2	1	2	2	2	1	2	1	0	1	-
49	2	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
50	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2

	2015													2016												
	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13
51	1	2	2	1	1	2	2	2	2	1	0	2	2	1	2	2	1	2	2	2	1	2	1	0	1	2
52	1	2	2	1	2	2	2	2	2	2	0	2	2	1	2	2	1	2	2	2	2	2	2	0	2	2
53	1	2	2	1	1	2	2	2	1	1	0	2	-	1	2	2	1	2	2	2	2	2	1	0	2	-
54	1	1	2	1	2	2	1	2	2	1	0	2	-	1	1	2	1	2	2	2	2	2	1	0	2	2
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