



UNIT 8.2: ASSESSMENT PROBLEMS IN NFIR ANALYSIS

Objective

At the beginning of any analysis of social reports, it is important to be aware of the problems that may arise during the analysis. The most common problems are described below.

In a first step, the following material groups the problems by categories. In a second step, recommendations are formulated on how the analyst should deal with these problems if necessary.

1. Categories of problems

- a) National approaches towards the systematic analysis of social reports do not exist
- b) Difficulties in obtaining data from NFIR or identifying the data source
- c) The NFIR is of poor readability and the information is not easy to comprehend
- d) The information in the NFIR is incomplete regarding some aspects
- e) Difficulties to evaluate the data in the NFIR
- f) Other problems

a) National approaches towards the systematic analysis of social reports do not exist

The first difficulty for the analyst is the lack of knowledge or overview of analytical methods used elsewhere. The survey among the experts involved in the CENOFIA project revealed that there is no generally accepted procedure for the analysis and evaluation of sustainability reports in any of the respective countries. Initiatives by the respective national governments to achieve standards for the analysis of sustainability reports are not known.

In practice, however, in all participating countries there is a wide range of analytical methods used to assess the quality of sustainability reports:

- Comparative analyses of sustainability reports of selected companies (e.g. listed companies) prepared by international management consultancies (e.g. KPMG and EY) are the most common method of comparison, although the evaluation criteria on which the analysis is based are not always documented.



- Comparative analyses of sustainability reports by research and consulting companies on behalf of government agencies or (as in Germany, for example) trade union institutions.
- In some countries there is an unknown number of analyses of individual sustainability reports by NGOs (e.g. environmental initiatives, development aid groups, etc.), which are mostly concentrated on individual aspects.

Two procedures for the analysis of sustainability reports have gained greater importance in Spain and Germany, each of which was initiated on behalf of ministries responsible for CSR and already have a certain tradition:

- In Spain, the "Observatorio de RSC" has been publishing an annual comparative analysis of the sustainability reports of the "IBEX 35 companies" since 2004.
- In Germany, the "Institut für ökologische Wirtschaftsforschung e.V." has been publishing a comparative analysis of the sustainability reports of around 150 companies every second year since 1994 in the form of a ranking on behalf of the Federal Ministry of Labor.

In both cases, the evaluation criteria used are relatively constant over time and are published on the respective homepage.

b) Difficulties in obtaining data from NFIR or identifying the data source

- The analyst has no access to a printed version of NFIR
 - a. company is not willing to deliver printed reports to analysts
 - b. there does not exist any printed report but the NFIR is online available
- The NFIR is available online, but without a download option.
- The NFIR is available online, but it is not clear, whether this is the latest version.
- Parts of the report are shifted to other documents or other homepages that do not provide a possibility for download.
- Existence of outsourced parts of the report, but it is unclear to which period they refer, i.e. whether they can be regarded as the source of data for the annual sustainability report.
- Some of the information is provided in other reports (e.g. annual shareholders report) and these reports are not accessible.

c) The NFIR is of poor readability and the information is not easy to comprehend

- The company does not present the NFIR based on a planned, regular and known calendar
- The information reported is not clear or consistent
- The report contains a number of abbreviations that are not explained in the report itself (or only at the end).
- Information relevant for the analysis of the report is packaged in animations or videos, the information content of which can only be reconstructed after multiple repetition.



d) The information in the NFIR is incomplete regarding some aspects

- There is no information regarding the chosen reporting framework
- The report does not contain a description of the materiality process / lacks a materiality matrix
- The report does not provide a list of stakeholder groups relevant to the company and no / incomplete information on how the process of involving the stakeholders is structured by the company.
- The report does not contain a description of all aspects of the main risks and the management concepts related to them
- Criteria for choosing specific KPI are not explained in the report, consequently they cannot be assessed properly
- Definitions of KPIs are not disclosed by the company, consequently there is no comparability of data with other NFIR
- Not all aspects regarding single KPIs are described
- Negative impacts are not / hardly mentioned in the report

e) Difficulties to evaluate the data in the NFIR

- The scope is not complete (no coverage of daughter companies, supply chain...), consequently there is no comparability of data with other NFIR.
- The report contains ambiguities regarding the importance of specific stakeholder groups in presenting the stakeholder engagement process.
- NFIR materiality is defined in an incomplete way so the company impact can not be assessed properly.
- Although risks are identified systematically in the company and presented in the report, there is no certainty that all material risks have been included (for example, the risks from refusal to work due to growing dissatisfaction of important employee groups with the company's personnel policy).
- Positive as well as negative impacts of corporate policy on employees, society and the environment are collected systematically and presented in the report, however, some relevant impacts have are excluded (for example, the effects of constantly targeted tax avoidance strategies in certain countries on their economic and social development).
- Chosen KPI are not comparable with others NFIR.
- The company has changed definitions of KPIs. There is no subsequent calculation of past data based on the new definition. Consequently, there is no comparability of data over time.
- Lack of reliability (no external verification, company with little or no transparency)
- Impossibility of transforming qualitative into quantitative assessments, which would allow to give objectivity to the results, facilitate the comparability of data and allow the monitoring of their evolution over time.



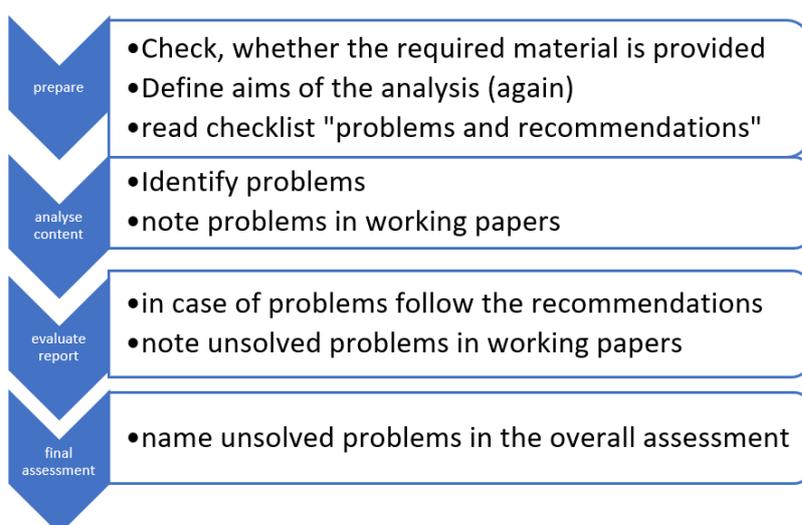
f) Other problems

- The national legal framework regarding NFI reporting does not define strict standards for report production.
- The national legal framework regarding NFI reporting does not define any KPI for report production.
- The analyst does not have access to information more than the NFIR itself and therefore cannot assess its reliability.
- The analyst does not have enough previous knowledge on some specific items addressed in the report.

1. Recommendations on how to deal with assessment problems

In order to be able to deal sensibly with the problems described in the analysis of social reports and to implement the corresponding recommendations, the following sequence of work steps / **process plan** is proposed

- the required material is provided
- the aims of the analysis are defined (again)
- The description of possible problems in the analysis of social reports as well as the recommendations for solving these problems are available to the analyst form of a checklist.
- Problems that may arise during the analysis are checked to see if they are listed and described in the list of problems in the analysis (checklist). They are also noted in the analyst's working papers, as is the problem-solving approach chosen by the analyst.
- Problems not to be solved by the analyst are documented in the working papers and named in the final overall evaluation of the social report.





Classification of assessment problems in NFIR analysis

Box Recommendations	
Problems with gathering data from the NFIR	Recommendations for solving problems
Analyst has no access to printed version of NFIR	Download of the NFIR from the Internet and printout
The NFIR is available online, but without a download option	Print screen/screenshot of the report to save it
The NFIR is available online, but it is not clear, whether this is the latest version	<p>Companies covered by the EU Directive 2014/95/EC are unlikely to encounter this problem. According to the national transposition laws, they are obliged to keep an online published report available on their homepage for 10 years.</p> <p>For companies that are not covered by the EU Directive, the above obligation does not apply.</p> <p>If there is uncertainty in these cases as to whether the online version actually refers to the reporting year, the analyst should mark this as a deficit in the final assessment of the report quality.</p>
Parts of the report are shifted to other documents or other homepages that do not provide a possibility for download.	If necessary, the analyst should print these outsourced parts of the report if a download is possible. If this is not possible, the analyst can mark this as a deficit in the final evaluation of the report quality.



<p>Existence of outsourced parts of the report, but it is unclear to which period they refer, i.e. whether they can be regarded as the source of data for the annual sustainability report.</p>	<p>Companies covered by the EU Directive 2014/95/EC are unlikely to encounter this problem. According to the national transposition laws, they are obliged to keep an online published report available on their homepage for 10 years. This also applies to parts of the report that have been moved to other homepages.</p>
<p>Some of the information is provided in other reports (e.g. annual shareholders report) and these reports are not accessible.</p>	<p>Companies covered by the EU Directive 2014/95/EC are unlikely to encounter this problem. Should this nevertheless be the case, the analyst can indicate this as a deficit in the final evaluation of the report quality.</p>
<p>Poor readability, poor comprehensibility</p>	<p>Recommendations for solving problems</p>
<p>The company does not present the NFIR based on a planned, regular and known calendar</p>	<p>If this is the case, the analyst should indicate or reprimand this as a deficit in the final assessment of the report quality.</p>
<p>The information reported is not clear or consistent</p>	<p>By using the tools provided in the CENOFIA project, the analyst can systematically collect and evaluate the data from the NFIR. If this is not sufficient to classify the information provided in the report, the analyst should mark this as a deficit in the final evaluation of the report quality.</p>
<p>The report contains a number of abbreviations that are not explained in the report itself (or only at the end).</p>	<p>The analyst should mark this as a deficit in the final evaluation of the report quality.</p>
<p>Information relevant for the analysis of the report is packaged in animations or videos, the information content of which can only be reconstructed after multiple repetition.</p>	<p>If it is not enough to classify the information by watching the video several times, the analyst should mark this as a deficit in the final evaluation of the report quality.</p>



Incomplete information	Recommendations for solving problems
There is no information regarding the chosen reporting framework	When using the analysis sheet "Report Profile " in the CENOFIA tool, the analyst systematically works out any existing deficits in order to make an assessment based on them. In addition, the analyst can mark the non-naming of a reporting framework as a deficit or reprimand it in the final assessment of report quality.
The report does not contain a description of the materiality process / lacks a materiality matrix	When using the analysis sheet "Materiality" of the CENOFIA tool, the analyst systematically identifies any existing deficits in order to carry out an assessment based on them. In addition, the analyst can identify serious deficits in the final evaluation of the report quality.
The report does not provide a list of stakeholder groups relevant to the company and no / incomplete information on how the process of involving the stakeholders is structured by the company.	When using the analysis sheet "Stakeholder" of the CENOFIA tool, the analyst systematically identifies any existing deficits in order to make an assessment based on them. In addition, the analyst can identify serious deficits in the final evaluation of the report quality.
The report does not contain a description of all aspects of the main risks and the management concepts related to them	When using the analysis sheet "Management Concepts" of the CENOFIA tool, the analyst systematically identifies any existing deficits in order to make an assessment based on them. In addition, the analyst can identify serious deficits in the final evaluation of the report quality.
Criteria for choosing specific KPI are not explained in the report, consequently they cannot be assessed properly	Compare provided KPIs with KPIs according to the "Global Reporting Initiative" GRI using the analysis sheet "GRI Indicators" of the CENOFIA tool.
Definitions of KPIs are not disclosed by the company, consequently there is no comparability of data with other NFIR	When using the analysis sheet "GRI Indicators" of the CENOFIA tool, possible differences in the definition of KPIs are identified.



Not all aspects regarding single KPIs are described	Compare the disclosure of single KPIs with the requirements for each indicator according to GRI and mark all omissions as deficits.
Negative impacts are not / hardly mentioned in the report	When using the analysis sheet "Management Concepts" of the CENOFIA tool, the analyst systematically identifies any existing deficits in order to make an assessment based on them. In addition, the analyst can identify serious deficits in the final evaluation of the report quality.
difficulties to evaluate the data in the NFIR	Recommendations for solving problems
The scope is not complete (no coverage of daughter companies, supply chain...), consequently there is no comparability of data with other NFIR.	When using the analysis sheet "Report Profile" of the CENOFIA tool, the analyst systematically identifies any deficits that may exist in order to carry out an assessment based on them.
The report contains ambiguities regarding the importance of specific stakeholder groups in presenting the stakeholder engagement process.	As far as the analysis sheet "Stakeholder" does not cover this issue, the analyst should present and evaluate an obviously inappropriate naming or non-naming of certain stakeholders as tendentious.
NFIR materiality is defined in an incomplete way so the company impact can not be assessed properly.	If the analysis sheet "Materiality" does not cover this issue, the analyst should present and evaluate a manifestly inappropriate naming or not naming of certain aspects.
Although risks are identified systematically in the company and presented in the report, there is no certainty that all material risks have been included (for example, the risks from refusal to work due to growing dissatisfaction of important employee groups with the company's personnel policy).	If necessary, the analyst should identify undesignated but obviously existing risks and characterize them as "designated by the company as non-existent".



<p>Positive as well as negative impacts of corporate policy on employees, society and the environment are collected systematically and presented in the report, however, some relevant impacts have are excluded (for example, the effects of constantly targeted tax avoidance strategies in certain countries on their economic and social development).</p>	<p>If necessary, the analyst should identify unnamed but obviously existing impacts and characterize them as "not mentioned by the company".</p>
<p>Chosen KPI are not comparable with others NFIR</p>	<p>The KPIs, if available in NFIR, are compared with the KPIs according to GRI.</p>
<p>The company has changed definitions of KPIs. There is no subsequent calculation of past data based on the new definition. Consequently, there is no comparability of data over time.</p>	<p>The KPIs, if available in NFIR, are compared with the KPIs according to GRI.</p>
<p>Lack of reliability (no external verification, company with little or no transparency)</p>	<p>For companies that fall under Directive 2014/95/EU, there is generally no obligation for the auditor to verify the truthfulness of the individual information provided by the NFIR. The analysis sheet "Report Profile" is used to identify this.</p>
<p>Impossibility of transforming qualitative into quantitative assessments, which would allow to give objectivity to the results, facilitate the comparability of data and allow the monitoring of their evolution over time.</p>	<p>No recommendation is given. As far as the tools in CENOFIA are based on the criterion "completeness", the survey results are comparable with those from other companies, also over time.</p>



Other problems	Recommendations for solving problems
The national legal framework regarding NFI reporting does not define strict standards for report production.	In accordance with Directive 2014/95/EU, the Member States have the option of making reporting standards mandatory for companies, but there is no obligation to do so. There is therefore nothing that can be done about the freedom of companies to choose reporting standards. The majority of companies, however, follow GRI. It is therefore justified in principle to compare every NFIR with the principles and criteria of GRI if necessary. In CENOFIA, this is realized by the analysis sheet "GRI Indicators".
The national legal framework regarding NFI reporting does not define any KPI for report production.	As far as possible, the KPIs are compared with the KPIs according to GRI, see analysis sheet "GRI Indicators".
The analyst does not have access to information more than the NFIR itself and therefore cannot assess its reliability.	The analysts is encouraged to find and compare other sources of information regarding the company's activities, e.g. media articles, reports abd statements by NGOs ...
The analyst does not have enough previous knowledge on some specific items addressed in the report	In these cases, it is recommended to either shorten the analysis in this respect or to make use of external expertise.



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