



TRAINER NOTES UNIT 2.2: KEY CONCEPTS AND DEFINITIONS IN NFIR

1. Objective

The PowerPoint presentations for unit 2.2 “Key concepts and definitions in NFIR” aims at introducing some of the key concepts related to non - financial information, so that students know the scope of it and how they should be interpreted and analyzed.

When talking about key concepts, we refer to those elements on which the non-financial information must be constructed and to which the non-financial information must respond.

2. Description of contents

Below key concepts to address in this training session are briefly presented

a) *Corporate social responsibility: impact of companies on society*

This part focuses on the key concept **impacts of companies**, which is at the core of NFIR. Social responsibility of companies derives from the impacts that their activities and decisions cause on society and the environment. Therefore, the first key issues are related to the identification of their impacts, the magnitude and significance of them. This is an essential element, given that NFIR should allow obtaining a clear vision on which impacts have been determined as being the most important and how companies have determined them.

Impacts can be positive and negative, but the NFIR should be balanced. In this sense, issues such as green washing or the social action of companies to respond to these impacts are some of the risks that the analyst must be able to discern.

In this context, it is necessary to address the other key element of the definition of social responsibility: how companies effect on society, firstly from a global perspective, so that the analyst can assess whether the information contained allows obtaining a real understanding of that impact on society.

The concept of stakeholders, another key element that will be addressed below, can distort the information provided by companies in their reports to a certain extent, with the result that impacts on society - in general- are not well reflected because they focus too much on certain group of stakeholders (e.g. shareholders or investor).

Therefore, it is important that the analyst is able to analyze the information contained in the reports from the perspective of society in general, taking into account their needs and expectations as a whole and assessing how the company integrates the social,



environmental and ethics concerns of the society in its management and performance by:

- creating shared value for all
- identifying, preventing and mitigating its possible adverse consequences

b) Materiality

The second key concept determines largely the information that should be provided in a NFIR.

This information is defined as **materiality or material information**. It is a decisive and crucial element. In short, the analyst must be able to assess, at least globally, whether the company reports on those issues on which it should report. For this, it must be assessed in what way the company determines its "materiality". This is a concept key, since the company can understand materiality as the important topics for its own sustainability, but avoiding taking into account the global sustainability. As a matter of substance, analyst must assess if materiality is balanced between these two aspects (company's sustainability and global sustainability).

c) Stakeholders

In addition to their impacts on society as a whole, social responsibility of companies is determined by their impact on people or groups of interest that may be affected by their decisions and behaviors, by their activity and performance or by their products and services.

In this context, the information contained in the NFIR should be aimed at responding to the needs and expectations of its **stakeholders**. Therefore, the key issues linked to this term will be those related to how the company has identified its stakeholders and their representatives, how it has identified its needs and expectations, what is the relationship with its stakeholders, how the stakeholders' participation system works and how the information provided answers these questions.

d) Key performance indicators (KPI)

Understanding **key performance indicators (KPI)** is fundamental for the correct assimilation of the contents of the training.

As established in Directive 2014/95 / EC, NFIR must contain significant descriptions and data based on KPI that allow to understand the evolution, results, situation and impact of companies' activities.



Well focused and addressed, KPI are a very useful tool for companies when presenting information, also for stakeholders, analysts, etc. when assessing this information. But they must also comply with a series of rules or criteria because, otherwise, the information they provide or the interpretation that is made of it can lead to errors, gaps, distortions, etc. Directive 2014/95, its transpositions to national laws and indicators from international standards give to KPI a wide margin of interpretation. Because of this regulatory ambiguity, analyst must be able to point out the shortcomings of presented KPI.

e) *Value chain*

Impacts of a company on society can be derived from the direct performance of its activities, its products or its services, but they can also be associated with products, services or relationships with its suppliers, contractors, buyers, consumers, etc. This is known as the **value chain** of the company. Value chain is another concept that must be addressed in any analysis, because it allows us to ponder how far the company assumes its responsibility. Recognition of and reporting about value chain in NFIR is a clear proof of due diligence and transparency from companies. A good example would be if the company were to provide an outline or drawing of its value chain.



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