

Non-Financial Report and Social Corporate Responsibility



Economic globalization has brought important changes in business activities at international level. Many international enterprises have developed their activities and have diversified their business scope due to new economic agreements that have opened companies to new markets. In many cases this diversification has triggered a delocalization of their production centres and, in some sectors, has allowed them to develop their activities in other countries. The globalization has facilitated the implementation of new technologies and companies take advantage of the global market to reduce production costs and optimize their profits.

Globalization has brought an increasing concern about the sustainability of economic growth, care for the environment and respect for human and social rights. These concerns, commonly accepted and respected by EU companies in their activities inside of the European Union (EU), are sometimes not respected when such companies do business abroad. For this reason, the EU has developed a regulatory framework to follow up the behaviour of its companies abroad, having in mind that the EU does not have the competence to legislate beyond its borders. However, the EU has the competence to decide which products are allowed on its market according to European standards.

The Non-Financial Reporting Directive

While the financial information of the companies operating abroad is included in the EU's Transparency Directive, other non-financial information like the respect for Human Rights and the environment are included in the Non-Financial Reporting Directive. The non-financial Reporting Directive came into practice at the end of 2016. The first reports under the Directive are expected in the second part of 2018. It is relevant to say that the Non-Financial Reporting Directive obliges the Member States to assure respect of non-financial obligations. But the Directive does not bear directly on the companies. This implies that transnational companies often escape the control of governments because they operate in foreign countries in a complex structure of branches and subsidiaries. Transnational groups excuse themselves from disclosing certain information about their subsidiaries to the Member States because they are subject to legislation of foreign countries where they operate and where the EU does not have authority.

This scenario allows corporations to operate without strict control over their subsidiaries. The latter are difficult to sue in developing countries where citizens have poor access to justice.

Some corporations violate national and international legislation with impunity as it is difficult to bring these abuses to court. In recent years, Civil Society organizations have denounced these practices and brought them to media attention but they are always fighting against the power of the multinationals which are sometimes protected by corrupt governments.

It is a fact that international corporations operating in developing countries are given priority to develop their business for the sake of profits. But these activities should not be developed at the expense of the natural resources of developing countries. Often, corporations take advantage of developing countries that have a weak legal framework for protecting the environment or they choose countries with low wages that allow them to optimize their profits. It means that, with little investment and favourable economic agreements, the European corporations operating abroad forget their social responsibility towards the local communities where they operate. Accountability for non-financial aspects is not only a duty of transparency that makes investors, workers, consumers and society in general aware of the responsible management by companies; it is also a legal and ethical obligation.

The new Directive 2014/95 establishes new requirements for European companies to provide information annually about issues related to the environment, social & labour rights, Human Rights, corruption and bribery. However, the EU has lost an opportunity to have more demanding legislation regarding the behaviour of European companies that assures a commitment to sustainable development in poor countries. The Directive does not provide a mechanism of control and gives Member States flexibility to transpose the Directive into National Law.

Another limitation of the Directive is its narrow scope of application. Only large companies of at least 500 employees are subject to this legislation. The Business lobbies have pressurised the EU to limit the number of corporations obliged to present this non-financial report, as well as limiting the content of the reports.

Corporate Justice is not only a matter of due diligence of companies but also concerns the ethical responsibility to obtain sustainable growth and respect for all people and the environment. Management must assure integral development for all, with special attention to those whose health and social rights are affected by their activities.

European Companies should also include in their reports on operations abroad the measures they adopt regarding the environment, how they are going to restore it when they finish their activities and how they are going to make up for damage caused by their activities. Just think about activities like fishery, mining, oil exploitation, the chemical industry or large-scale farming.

AEFJN considers that all transnational enterprises with significant profits should be obliged to present this report regardless of the number of employees and especially those companies whose operations have an impact on the environment and the well-being of the communities where they are located.



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