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Press Release

GBP Monitor in January: Sustainable Companies Are Not More Honest than Others When It Comes to Financial Reporting

Since this year, many companies are obliged to publish their key sustainability figures in the same way they publish their financial information. But how do companies deal with the non-financial ESG figures which include environmental and social aspects as well as governance? The latest report of the German Business Panel (GBP) shows that more than a quarter of these companies exercise accounting discretion, this means they use the legal room for maneuver to present their results in a more positive way.

In January 2023, the new EU Sustainability Reporting Directive entered into force and since this year, the directive also applies to Germany. The directive imposes requirements for climate and environmental protection, social justice, and corporate governance (ESG) on companies. The goal is to give a company's sustainability information the same priority as its financial information. It is known that many companies use the room for maneuver when it comes to financial reporting for accounting policy purposes. The January report of the GBP provides information on whether a high level of sustainability commitment is also reflected in a company's accounting policy. Are sustainable companies more honest?

The results of the GBP survey suggest that this is not the case. Companies focused on ESG measures are just as likely to pursue an accounting policy than other companies (27.7 percent compared to 25.5 percent). Specifically, they use leeway to reduce their profits for tax reasons or to increase their profits for their communication with business partners. "ESG requirements influence the long-term economic performance and thus also the balance sheet. It is no surprise that companies use the legal room for maneuver allowed to make their results look better," says Professor Dr. Jannis Bischof, who is the head of the project.

If a company is committed to sustainability, this does not mean that this company will be more honest in its reporting. On the contrary: If companies are forced to implement ESG measures due to market pressures of banks and suppliers, and ESG is not an integral part of the companies' strategy, companies will use accounting discretion more frequently. 43.6 percent of the companies, which implement ESG measures due to external market pressure, exercise accounting discretion in an opportunistic way. From the companies, which consider ESG measures to be part of their company values, only 25.2 percent choose to do so.

“The non-financial key numbers, such as the carbon footprint or social measures, cannot be verified in an objective way and are also subject to evaluations and estimations of the management. In light of the large share of sustainable companies actively implementing an accounting policy, it is obvious that the ESG figures that are now published should also be evaluated with caution and be checked for distortions,” says Bischof.

The tendency to use accounting discretion also depends on the size of the company: With 36 percent, medium-sized and large companies have the largest share among the companies implementing an accounting policy. Analyzing the results per sector, it becomes clear that the construction industry is most prone to exercising an accounting policy (34.6 percent).

The report also shows that the business indicators significantly deteriorated at the end of last year, contrary to the forecasts. On average, companies estimate that their profits will decline by 2.6 percent, as compared to the previous year.

The complete report on company trends in January 2024 (“GBP-Monitor: Unternehmenstrends im January 2024”) can be found here:

https://www.accounting-for-transparency.de/wp-content/uploads/2024/01/gbp_monitor_2024_01.pdf

Further information on the GBP monitoring report

The German Business Panel interviews more than 800 companies per month on the economic situation in Germany and collects data on 1) any expected changes in revenue, profit and investments, 2) economic decisions, 3) the expected shutdown rate in the sector, and 4) the satisfaction with the economic policy. Furthermore, GBP reports on particularly relevant questions once per month.

Background information on the German Business Panel

The GBP is the long-term survey panel of the trans-regional Collaborative Research Centre “Accounting for Transparency” (www.accounting-for-transparency.de). The Collaborative Research Center (CRC) “TRR 266 Accounting for Transparency” was established in July 2019. In May 2023, the German Research Foundation (DFG) approved the extension of four additional years. It is the first CRC with a focus on business administration. More than 100 researchers from the following nine universities are involved in the CRC: Paderborn University (host university), Humboldt-Universität zu Berlin, University of Mannheim, researchers of Ludwig-Maximilians-Universität München, Goethe University Frankfurt am Main, Frankfurt School of Finance & Management, WHU - Otto Beisheim School of Management and University of Cologne. The researchers examine how accounting and taxation affect the transparency of companies and how regulation and firm transparency impact our economy and society. The CRC is funded with approx. EUR 18 million.

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