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CRISIS MANAGEMENT AND SAFETY FORESIGHT IN  
FOREST-BASED SECTOR AND SMES OPERATING IN THE  
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## **DIGITALIZATION OF THE CORPORATE REPORTING IN EUROPE - EVIDENCE FROM BULGARIAN WOOD BASED INDUSTRY**

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**Abstract:** In the conditions of digital transformation, change of business models and more requirements to the transparency and accuracy of disclosed information, the corporate reporting - financial and non-financial - still adheres to the paper format. The introduced requirement for European public companies to use the European Single Electronic Financial Reporting Format (ESEF) aims to increase the analytical qualities of the disclosed information. The main thesis we share is that the introduction of ESEF will allow a wide range of users to use the reports, extracting from them the information they need, and the digitalization of reporting can enable managers to focus on specific risks that determine the value of the business. Arguments regarding the digitalization of non-financial reporting in the context of the lack of a uniform framework and standards for disclosure are also considered. Bulgarian public enterprises from wood based industry - public and non-public, were studied, and the results of the study significantly support our thesis.

**Keywords:** digital reporting, ESEF, Bulgarian wood based companies

### **1. INTRODUCTION**

The digitalization of business processes in the economy in the last few years is developing at a very high speed. As a result of the digital revolution, the way many companies and even entire industries operate has changed. The specialized literature talks about the change of traditional business models and the emergence of the so-called. digital business models. A WEF report states that in this new world, analogue companies - large, successful companies before the digital revolution - may feel like they are being "hunted" by all parties. (World Economic Forum, 2016) In the context of this economic reality, the need for adequate, timely, clear and verifiable corporate information is becoming increasingly acute. In the conditions of digital transformation, change of business models and more requirements to the transparency and accuracy of the disclosed information, corporate reporting - financial and non-financial - continues to adhere to the paper format. In response to these challenges, a requirement has been introduced for European public companies to use the European Electronic Financial Reporting Format (ESEF), which is based on improving the analytical quality of the information reported.

The purpose of this study is to perform a critical analysis of the conditions for implementation and regulation of the European Single Electronic Financial Reporting Format (ESEF), as well as to examine the experience of Bulgarian wood based companies in applying the introduced regulatory requirements and on this basis to formulate substantiated conclusions and recommendations. The scope of the study includes the four largest companies in the industry in question, one of which is a public company and has implemented ESEF. The financial statements of these companies for 2020 and 2021 have been analyzed and the reports of non-public companies will be considered only as a benchmark to highlight the differences between

the traditional paper financial statements and the European Single Electronic Financial Reporting Format.

## **2. OVERVIEW OF THE EXISTING REQUIREMENTS**

The idea of using the European Single Electronic Format dates back 16 years. This idea was first introduced in accordance with the requirements of Article 4 (7) of Directive 2004/109 / EC of 15 December 2004. Its purpose is to harmonize transparency requirements with regard to information provided by companies whose securities are traded on a regulated market (also known as the Transparency Directive). In 2013, the Transparency Directive was amended, stating that a harmonized electronic reporting format would be very useful for publishers, investors and competent authorities, as it would facilitate reporting and contribute to the accessibility, analysis and comparability of financial statements. Thus, in practice, Directive 2013/50 / EU stipulates that all annual financial statements of issuers whose securities are admitted to trading on regulated markets in the European Union must be prepared in a single electronic reporting format as of 1 January. 2020 (EU, 2013, p. Par.26) In connection with these amendments, Commission Delegated Regulation (EU) 2018/815, known as the European Single Electronic Format Regulation, was issued, introducing general rules on format of the annual financial statements, as well as specific rules concerning the marking of the financial statements included in them.

In the Bulgarian legal framework, these requirements are applicable to companies whose securities are traded on the Bulgarian Stock Exchange and have been transposed through amendments to the Public Offering of Securities Act, according to which after January 1, 2021 issuers must prepare their annual financial statements for the activity in a single electronic reporting format. According to the requirements of the Directive and Delegated Regulation 2018/815, all public companies that prepare separate financial statements must submit it to the Financial Supervision Commission in XHTML format. The "single statement" presented in this new format should include both the financial statement and the activity report, the corporate governance statement, the non-financial statement, the government payment statement, the remuneration policy implementation report and other legally required documents.

The introduced ESEF is a new format that all issuers of securities in the EU must use in preparing their annual financial statements. In purely technical terms, this means that individual ESEF financial statements must be prepared using the eXtensible HyperText Markup Language (XHTML), and consolidated IFRS financial statements must be marked with XBRL tags. In fact, XHTML is an extensible hypertext markup language that is part of the XML markup language family. (ESMA, 2019)

Extensible Business Reporting Language (XBRL) was proposed by Charles Hoffman in 1998 (Financial Reporting Council, 2017) and has been increasingly used in the last decade in the disclosure of readable financial information. According to a study by Accountancy Europe, the main advantage of the new format is the freely available XBRL data, which has the potential to increase transparency and accessibility while reducing the cost of accessing the data. (Accountancy Europe, 2019) XBRL and its growing use for publishing financial information do not change the basics of the financial accounting concept, but only the ways in which the information is disclosed and the degree of disclosure. (Marinova & Atanasov, 2012) The following main characteristics can be pointed out in relation to the published individual reports,

the reports in the ESEF, which in our opinion can also be considered as advantages of this format:

- ✓ The report should be easy to read, view and organize and be able to open with standard Internet browsers such as Chrome, Firefox, Edge, etc .;
- ✓ The submitted report should allow for free search by text, keyword or parts of it;
- ✓ The ESEF report must make it possible to copy parts of it, including photographs if necessary.

In addition to the requirements for presentation in XHTML format, all companies that prepare consolidated financial statements must submit it to the Financial Supervision Commission and tagged with iXBRL tags in accordance with the ESEF taxonomy. XBRL is a machine-readable extensible language, and its use involves the application of taxonomy to convert human-readable text to machine-readable format. The taxonomy provided under IFRS is an approved taxonomy developed for the marking of disclosed IFRS data. Companies whose securities are traded on the BSE and prepare consolidated financial statements as of 31.12.2021 must also comply with the requirement that both the four main parts of the financial statements are subject to marking with iXBRL tags (Statement of financial position, Statement of comprehensive income, Statement of Equity and Statement of Cash Flows) and other, mainly informational parts of the financial statements.

According to Troshani and Rowbottom, digital corporate reporting describes the process by which corporate reports on paper are transformed and presented in machine-readable digital format. They point out that digital corporate reporting can be distinguished from 'electronic reporting', which presents traditional corporate paper reports in electronic formats (eg PDF, HTML) (Troshani & Rowbottom, 2021). Therefore, they believe that in "true" digital corporate reporting, information is assigned or "tagged" with contextual meaning to enable computers to have some "understanding" of what is being reported. This allows users to easily retrieve whatever reporting information they want, in any layout and for different companies.

Another study states that digital corporate reports can be visually presented in human-readable formats that depict traditional corporate reports. This capability can be achieved by using iXBRL (Inline XBRL), which structures internal digital corporate reports using XBRL tags, but also facilitates the presentation of digital reports in ways that seek to replicate paper report formats ( for example in HTML). (Troshani, et al., 2015)

One of the main criticisms of the digitalization of financial statements is found in the publication of Rowbottom et al. Their study of the IFRS digitization project highlights how digitalisation has disrupted corporate reporting and details the effects of requiring a taxonomy that allocates contextual metadata to all corporate disclosures. (Rowbottom, et al., 2021) They analyze how IFRS-based reporting will be affected by the development of a taxonomy that seeks to refine all accounting disclosures. It is important to note that the results of the study by Rowbottom et al. describe in detail how standard-setters seek to reduce the impact of digitalisation by modeling the taxonomy only on disclosures explicitly required by accounting standards. This in turn means that certain disclosures will not be part of the ESEF if they are not part of the established IFRS taxonomy.

We should also point out that the single European electronic format must also be applied to the non-financial information disclosed by companies. There are different opinions in the literature on the issue of its effectiveness in this case. According to Bertolacci et al. the advantages of using XBRL are the same as in financial reporting: the ability to develop rigorous

sustainability indicators that increase comparability and reduce costs; more accurate and reliable data management and real-time reporting to internal and external stakeholders. (Bartolacci, et al., 2021) La Torre et al. consider that in addition to the advantages of using XBRL in integrated reporting, the need to codify sector-specific information should be taken into account so that efforts can be made to develop specific extensions of the taxonomy in the development of XBRL taxonomy for integrated reporting. (La Torre, et al., 2018) This statement corresponds to our understanding that the application of ESEF to the non-financial statement prepared by companies at this stage, when there is no requirement for a uniform format for reporting non-financial information raises a number of questions about what data companies will choose to mark in their non-financial statements and how comparable the information will be between companies.

According to a study by Deloitte, among 613 financial managers, 48% of their time is spent preparing and updating reports and only 18% in communicating information with business and stakeholders. (Morganti, et al., 2018) Our view is that despite these shortcomings, ESEF is a step towards reversing these percentages in favor of communicating financial information, which is crucial for the business success of companies.

### **3. ESEF - THE EXPERIENCE OF BULGARIAN WOOD BASED ENTERPRISES**

We analyzed the annual financial statements of the four largest companies in the wood based industry in Bulgaria - Fazerles, Kronospan Bulgaria, Kastamonu Bulgaria and Welde Bulgaria. Only one of these companies is a public company whose shares are traded on the Bulgarian Stock Exchange and this company has an obligation to prepare its financial statements under the new ESEF. The scope of the companies in question is determined on the basis of the principle that "big players reveal more", as their stakeholders are more, with a different profile and seek more information.

Popova and Georgieva point out that good practices related to the use of digital technologies have been implemented in the Bulgarian wood based and forest industry (Popova & Georgieva, 2019). This suggests that the introduction of the new electronic reporting format (ESEF) should not be problem for companies in this sector, given the advantages that this electronic format provides companies in communicating financial and non-financial information with stakeholders. Marinova-Kostova & Kostov share a similar view, pointing out that the modern industrial enterprise must take advantage of all technological innovations that can increase its efficiency (Marinova-Kostova & Kostov, 2021). Our results showed that despite the fact that ESEF is not expensive to implement none of the non-public companies have voluntarily accepted the ESEF in its practice.

Table 1. ESEF characteristics based on Annual Financial Reports of Bulgarian Wood Based Enterprises

<b>Enterprise</b>	<b>Freely readable, clear and tidy and can be opened with standard internet browsers</b>	<b>Allow for free search by text, keyword or parts of it</b>	<b>Allow copying parts of ESEF, including photographs if necessary</b>
Enterprise 1	Yes	Yes	Yes

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(public)			
Enterprise 2 (non-public)	No	No	No
Enterprise 3 (non-public)	No	No	No
Enterprise 4 (non-public)	No	No	No

Source: 2020 and 2021 Annual Financial Statements of the surveyed companies

As a result of the study, the following summaries and conclusions can be made:

- ✓ Only one company has submitted its annual financial statements in a readable format with the ability to copy, search and open via a standard Internet browser. This company is public and has used the ESEF format;
- ✓ The reports of non-public companies are published as „scanned copies“, which does not allow users to freely search, copy and save text or part of the report;
- ✓ Although some companies are non-public and do not have to use the ESEF format, they can present their financial statements in the so-called readable PDF, which will also allow searching for text and copying it, but with different formatting. They did not use this opportunity;
- ✓ The only public company that used ESEF for 2021 has also published its reports in previous years in „scanned copy“ format without the ability to search, copy, mark, etc., which leads to the conclusion that a single access point to the financial statements of companies.

### **CONCLUSION**

The results of our study show that companies in the wood-based industry in Bulgaria publish all required financial information according to applicable law, but in a format that makes it difficult to use and analyze by stakeholders as only public companies use the ESEF format.

The ever-increasing demands on the information that corporate reporting produces today also determine the key characteristics that corporate reporting must possess in order to meet the growing demands of consumers: to be integrated - including financial and related non-financial information, related to business; to have a high degree of interactivity and to be as close as possible to real time in order to offer adequate and timely information about the business. All these requirements could be realized through the digitalization of corporate reporting for all industries (incl. wood based), but in a way that does not violate the basic principles of financial disclosure set out in IFRS.

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