Non-financial Reporting. Conceptual Framework, Regulation and Practice

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1 Introduction

Non-financial reporting has developed significantly in the past four decades although in emerging and post-transition countries (such as Poland) it remains at the very early stage of development. It originated from CSR and environmental disclosure to provide a complex communication to various stakeholders. In its current version non-financial reporting is evolving towards integrated reporting that delivers a complete picture of company multidimensional performance and reveals interdependencies between business, society and environment. It also exemplifies the advanced corporate communication to numerous groups of stakeholders and constitutes a strategic response to social, cultural, institutional and regulatory pressures. Non-financial disclosure is perceived as a systemic progress of assessing company performance beyond traditional financial reporting emphasizing its long-term impact and strategic development. With a set of measures and guidelines non-financial reporting adds to the operationalization of the CSR and sustainability concepts and assures standards for a comparative companies' assessment.

The development of non-financial disclosure increases transparency, improves implementation of sustainability principles and enhances company accountability and legitimacy in the relations with various constituencies (Eccles et al. 2011; Fernandez-Feijoo et al. 2014). Yet, as studies reveal the quality, content and assurance of non-financial reporting is to large extent determined by institutional environment and significantly embedded in business practice.

In recent years non-financial reporting has developed from CSR and environmental communication to sustainability disclosure towards integrated reporting

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(Higgins and Coffey 2016). From a narrative description of social issues such as employee rights, community issues and environmental matters of resource use and waste management, non-financial reporting has evolved into strategic communication. Reports integrate company capitals, cover social and environmental concerns, provide assessment of company impact and accountability of organizational performance and examine multidimensional performance within the strategic development.

With growing interest in non-financial reporting there is still a gap in the understanding of the patterns of its adoption, effectiveness and efficiency (de Villiers et al. 2014b). Existing studies fail also to explain how non-financial reporting contributes to the implementation of CSR. We would like to add to the literature indicating the role of non-financial reporting in the implementation of CSR principles addressing the existing literature to the case of Poland. Specifically, we draw upon the development of non-financial disclosure pointing at its link with CSR and sustainability concepts. In addition, we discuss the practice of non-financial reporting in Poland revealing results of a research on the popularity of non-financial disclosure on the sample of listed companies.

The remainder of this chapter is as follows. In the first section we present the concept of non-financial reporting discussing its origins, motivations for and benefits of its adoption. The second section addresses standards of non-financial reporting referring to its quality and assurance. In the third section we discuss the practice of non-financial reporting in Poland using the existing studies as well as presenting the result of empirical analysis conducted on the sample of companies listed on the Warsaw Stock Exchange between years 2010–2014. Final remarks are presented in the discussion and conclusion section.

2 The Concept of Non-financial Reporting

2.1 Definition and Origins

The term of non-financial reporting refers to the voluntary, solicited or mandatory disclosure of social, economic and governance information of a company. It is defined as “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large” (Gray et al. 1987, ix as quoted in Kotonen 2009). It is viewed as the important innovation in the disclosure of company operation and performance providing a multidimensional picture of its social and environmental impact. The existing literature and corporate reports adopt a number of different phrases for non-financial reporting (Kotonen 2009) such as CSR reporting (Tschopp and Huefner 2015), social and environmental reporting (Moneva and Cuellar 2009), sustainability reporting (Steurer and Konrad 2009; Hahn and Kühnen 2013; KPMG 2016), ESG standards, social accounting (Owen and Swift 2001), social and environmental disclosure (Deegan 2002), sustainability disclosure (Joseph and Taplin

2011; Deloitte 2016), social auditing (Gray 2000), social review (O'Dwyer and Owen 2005). Non-financial reporting is placed in the theoretical framework of corporate social responsibility, stakeholder management, triple bottom line and sustainability (Skouloudis et al. 2009; Thorne et al. 2014). In recent years scholars adopted also signaling theory (Deegan 2002) and neo-institutional and legitimacy perspectives (Thorne et al. 2014) to study the practice of non-financial reporting in the organizational and environmental contexts. Conceptually non-financial reporting is perceived as

1. a corporate response to stakeholder pressure resulting in the changing paradigm for business role in economy and society (Manetti and Toccafondi 2012; Fernandez-Feijoo et al. 2014),
2. the operationalization of sustainable business/sustainable development (Mio and Venturelli 2013) and
3. the reaction of accounting practice to develop formal ways in order to capture the value of intangible assets (Gray 2010), representing "enlightened" version of shareholder theory that assumes there is growing number of social and environmental factors that influence firm's ability to create value in the long term, and they should be addressed by the managers in their strategies and reporting.

First, the emergence of non-financial reporting mirrors the fundamental change in the strategic goal of business shifting from the shareholder value focus towards the concept of creating shared value (Crane and Matten 2007). With the dominance of the principal-agent theory and value based management framework (Vermalen 2009) companies were expected to increase its share price to assure return on investment for shareholders (Lazonick and O'Sullivan 1997; Vogel 2005). The growing awareness of limitations of financial performance measures as well as the increased stakeholder activism and regulatory pressure gave rise to the development of concepts such as corporate social responsibility and sustainable development/ business (Aluchna and Mikołajczyk 2016). Non-financial reporting represents a practical case of active engagement by stakeholders to improve the content and assurance of corporate disclosure (Manetti 2011; Manetti and Toccafondi 2012; Fernandez-Feijoo et al. 2014). A wider framework to assess performance was meant to capture the complete company impact (Strumińska-Kutra and Woźniczko 2010; Kemper and Martin 2011) and to develop the criteria and indicators to measure company success with respect to the social and environmental performance (Mayer 2002).

Second, while CSR and sustainable development promote environmental protection, lowering ecological footprint, implementation of resource-efficient and low emission technologies, adoption of standards for customer safety and employee rights (Geels 2011), the concepts failed to develop a clear framework to measure company progress in these areas. The gap was partially filled by the CSR/sustainability indexes and ratings, yet it is the frameworks of non-financial reporting to offer standards for assessing the social and environmental performance. In this sense non-financial reporting constitutes a transition from financially focused short-term thinking to long-term sustainable value-based business philosophy (Ballou et al. 2012;

Beattie and Smith 2013). It provides a set of measures to operationalize and assess sustainable development (Mio and Venturelli 2013).

Third, non-financial reporting, especially in the form of integrated reporting offers an operationalization of measuring value, which is omitted in the traditional financial reports. It uses the Global Reporting Initiative (GRI) framework to categorize the nonfinancial information by reference to the six categories of non-financial capital including economic, environment, labor, human rights, product responsibility, and society indicators (Milne and Gray 2013) and aims at showing interdependencies between them and firms value. Thus, non-financial reporting is viewed as the extension of corporate disclosure beyond traditional financial information (Gray and Bebbington 2000; Tregidga and Milne 2006; Gray 2010) capable to capture the dynamics of intangible value.

2.2 Motivations and Benefits

The idea of voluntary non-financial disclosure is driven by a number of systemic reasons, which are to address the shortcomings of conventional corporate communication with stakeholders. As noted by Kotonen (2009) and Graham et al. (2005) the adoption of non-financial reporting (1) promotes transparent and complete disclosure of company operation, (2) reduces information risk of the company valuation and (3) mitigates deficiencies of mandatory reporting.

Existing studies examine the contextual factors, organizational determinants (Adams and McNicholas 2007; Fifka 2013; de Villiers et al. 2014a; Waris et al. 2017) and effects (Fifka 2013; Ioannou and Serafeim 2014) of the adoption of non-financial reporting. They look at the variable of the adoption, extent and quality of non-financial reporting and indicate numerous quantitative and qualitative benefits for the company.

While the first companies started to publish sustainability reports 30 years ago (Higgins and Coffey 2016), the number of reports rose significantly in the twenty-first century. The review of existing studies by Hahn and Kühnen (2013) indicate that in general companies adopting non-financial tend to be larger. While the measures of social and environmental performance reveal mixed results, the variables of financial performance and ownership structure are found to be statistically insignificant for the adoption, extent and quality of sustainability reporting (Hahn and Kühnen 2013). Referring to external determinants media exposure indicates positive links with the adoption, extent and quality of non-financial reporting. Also sector affiliation plays a positive role for extent and quality of non-financial disclosure, yet for its adoption studies reveal indifferent results. Specifically, since firms with higher impacts on the environment respond to higher stakeholder pressures for transparency, companies operating in the environmentally sensitive industries such mining, oil and gas extraction, paper manufacturing, chemical manufacturing belong to those most frequently issuing non-financial reports (Fernandez-Feijoo et al. 2014; Lock and Seele 2016; Stacchezzini et al. 2016).

The adoption of non-financial reporting is believed to be positively viewed by stakeholders and shareholders and have a positive impact on company performance and value. The existing literature draws upon investor reaction and variation of financial results for companies, which introduced sustainability/CSR disclosure. As suggested by Boiral (2013: 1040) “voluntary disclosure (. . .) makes it possible for a firm to inform stakeholders of the organization’s sustainability performance, to distinguish itself from poor-performing competitors, and to increase its reputation by shedding light on hard-to-imitate sustainability strategies”. Additionally some authors (Eccles et al. 2014; Serafeim 2014) argue that investors are increasingly interested in environmental, social and governance performance metrics and policies when making investment decisions, but they consider sustainable information as more reliable and relevant if its disclosed in an integrated report.

Yet, the existing studies still deliver mixed evidence regarding the benefits of non-financial disclosure (Berthelot et al. 2012). While Healy and Palepu (2001) indicate the positive impact of non-financial reporting for corporate profitability, a negative effect of non-financial reporting on performance was noted by McWilliams and Siegel (2000). In their recent study Xu and Liu (2017) observed on the sample of Chinese firms that share price volatility after CSR disclosure is lower than before CSR disclosure and that stock liquidity significantly improves after CSR disclosure. Both trends are non-linear. Moreover, however, share price volatility increases first and then decreases. Additionally, by dividing CSR disclosure into economic (hard) disclosure and generic (soft) disclosure, they find that the reduction in information asymmetry is higher for economic disclosure than CSR disclosure. The research shows different market reaction to the issuance of the reports revealing positive (Schadewitz and Niskala 2010) or no significant effect (Guidry and Patten 2010). Some companies, including those operating in U.S., Canada, China, India and Korea, “remain skeptical about the importance of sustainability in their strategies, to some extent exacerbated by the short-term nature of their capital markets” (Eccles and Serafeim 2011: 80–81). Studies also note that non-financial reporting appears to be not important to investors (Solomon and Solomon 2006; Berthelot et al. 2012) and does not meet their expectations (Murray et al. 2006; Cormier and Magnan 2007; Moneva and Cuellar 2009).

Companies adopting non-financial reporting may also experience the indirect effect of benefits, which are qualitative in nature. In general introducing non-financial reporting is seen as a progress in the way to communicate company information to stakeholder (Moravcikova et al. 2015) and as the mean to increase transparency (Deloitte 2016). It can also represent a strategic reaction to competitive environment (McWilliams and Siegel 2000) addressing changing stakeholder expectations and the need to provide a complete assessment of company operation. In addition, non-financial reporting serves as the evidence to document company engagement and performance in social and environmental aspects of its core business operation and improves company image and reputation (Bebbington et al. 2008; Boiral 2013). While providing non-financial information often results from pressure and facilitates dialog with various entities (Fernandez-Feijoo et al. 2014), it can also be an effective

tool to manage powerful stakeholders and control the national environmental agenda (Kotonen 2009).

Increasing transparency with non-financial reporting allows to increase accountability to investors signaling the company openness to communicate its performance. It attains legitimacy amongst various constituencies with whom the company cooperates and in this way it allows to reduce external costs (Caron and Turcotte 2009; Ballou et al. 2006a, b; Thorne et al. 2014). In the perspective of neo-institutional theory (Meyer and Rowan 1977; DiMaggio and Powell 1983; Mizruchi and Fein 1999) it is defined as an element of organizational isomorphism. The companies' ability to survive and to grow is determined to large extent by how well they conform to rules, norms and belief systems prevalent in their operating environment (Wild and van Staden 2013). Hence, even if the company has no marginal return from sustainability practices and integrated reporting, it might still decide to engage in these activities as a result of regulation or social pressure, creating differences among countries produced by the demand for sustainability (Fernandez-Feijoo et al. 2015; Nazari et al. 2015). Finally, it can integrate business community (Moon 2002), add to the emergence of new standards and improve their adoption.

3 Reporting Practice

3.1 Standards

Companies adopt the framework of non-financial reporting addressing stakeholder expectations (Matten and Moon 2008; Milne and Gray 2013; Eccles et al. 2014; Fernandez-Feijoo et al. 2014). For years CSR and sustainability disclosure was based on voluntary basis and the adoption of different reporting standards (Searcy and Buslovich 2014). The most often used guidelines include:

- The standards published by the Global Reporting Initiative (GRI) (Searcy and Buslovich 2014; Zimara and Eidam 2015; Lock and Seele 2016; GRI 2017)
- The standards by International Integrated Reporting Council (IIRC 2017)
- The standards of International Petroleum Industry Environmental Conservation Association (IPIECA), which supports reporting in entities operating in oil and gas industry (KPMG 2016; IPIECA 2016)

Global Reporting Initiative (GRI) as independent organization helps understand the consequences of their business on sustainability issues location (GRI 2017) and offers internationally the most prominent and most widely used principles and standards for non-financial data disclosure (Clayton et al. 2015). More precisely, the GRI provides standards on sustainability reporting and disclosure, which helps businesses, governments, and other entities to make better decisions regarding sustainability issues (GRI 2017). The core guidelines of GRI are also supported by sector- and country-specific additions (Searcy and Buslovich 2014; GRI 2017). It

has been designed to encourage organizations to take into consideration the whole impact of their operations.

GRI introduces ten Reporting Principles, which are fundamental to achieving high quality sustainability reporting. An organization is required to apply the Reporting Principles if it wants to claim that its sustainability report has been prepared in accordance with the GRI Standards. The principles are divided into two groups (GRI 2016):

1. Principles for defining report content including stakeholder inclusiveness, sustainability context, materiality and completeness
2. Principles for defining report quality including accuracy, balance, clarity, comparability, reliability and timeliness

Regarding the external assurance for sustainability report, it advised, but not required in order to make a claim that a report has been prepared in accordance with the GRI Standards (GRI 2016).

GRI's sustainability accounting approach is based on the Elkington's (1997) triple bottom line (TBL) concept (or three pillars theory—People, Planet, Profit) (Robins 2006). TBL adds to the traditional, economic bottom line two other balance sheets focusing on the conservation of social, natural and economic capitals, giving them equal importance. The framework, however, by using three separate bottom lines, fails to track interconnections between the various types of capitals and is more focused on disclosing decreases in these capitals rather than on value creation (Adams 2015). Additionally, as the GRI standards became more complex and started to cover a broad range of social, environmental and governance issues, sustainability reports compiled in accordance with them also became more complex, lengthy and detailed, hindering identification of linkages between different policies and practices (de Villiers et al. 2014b).

The most recent significant global development in the area of non-financial reporting is the formation of the International Integrated Reporting Council (IIRC), coalition of regulators, investors, companies, standard setters, accountants and NGOs, that calls calls for a reorientation of the focus of corporate reporting from short-term, backward-looking financial information to forward-looking, connected and strategic information that discusses an organization's ability to generate value over time (Adams and Simnett 2011). The goal of integrated reporting movement is to overcome one of the major weaknesses of financial and sustainability reporting (Lodhia 2015) that fail to provide stakeholders with information on interdependencies between various areas of company's operations (Clayton et al. 2015). In its framework (International IR Framework) published in 2013 IIRC defines integrated report as "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC 2013: 7). It is built around the notion of value that is generated from six categories of capital, not necessarily owned by the company: financial, manufactured, intellectual, human, social and relationship, and natural (IIRC 2013). "In essence, integrated reporting is

a hybrid practice that spans between the different worlds of financial reporting and sustainability reporting" (van Bommel 2014: 1158).

The IIRC's framework (IIRC 2013: 16–23) provides seven guiding principles underpinning preparation and defining the content and form of an integrated report:

1. Strategic focus and future orientation—an integrated report should provide insight into the organization's strategy, how it creates value and how it effects particular capitals
2. Connectivity of information—an integrated report should present the holistic picture of the company's value creation process
3. Stakeholder relationships—an integrated report should provide information on how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests
4. Materiality—an integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term
5. Conciseness—an integrated report should be concise
6. Reliability and completeness—an integrated report should include all material matters, both positive and negative
7. Consistency and comparability—the information in an integrated report should be presented in a consistent way, enabling comparison with other organizations

The content of the integrated report, according to IIRC's template (IIRC 2013: 24–32), should include eight elements:

1. Organizational overview and external environment
2. Governance structure and how it supports organization's ability to create value in different time perspectives
3. Organization's business model
4. Risks and opportunities affecting the organization's ability to create value and how the organization is dealing with them
5. Future-oriented information regarding strategy and resource allocation
6. Performance related to strategic objectives and impact on the capitals;
7. Outlook, i.e. challenges and uncertainties that the organization is likely to face and their potential implications for its business model and future performance
8. Basis of preparation and presentation of the report's content

However, as being principle-based, the IIRC's framework does not provide companies with any specific tools for non-financial and financial data integrated disclosure. Similarly to GRI framework, non-financial data third-party assurance is viewed by IIRC as a fundamental mechanism enhancing credibility and reliability of integrated reports, however it is not required (IIRC 2014). High level of integrated reports external assurance is difficult to obtain because of the lack of audit regulations and KPIs, and possible high costs of such audits (Oprisor 2015). Other challenges relate to the time frame of integrated reports, namely assuring future-oriented information (Huggins et al. 2015). To address these challenges IIRC (2014) encourages discussion concerning development of specific assurance standards.

3.2 Assurance

The concept of non-financial disclosure is shared by the domains of sustainability/CSR and stakeholder management as well as accounting and reporting. According to Kotonen (2009) non-financial reporting practice needs to be based on the following assumptions: accounts are to be formal and need to be prepared by an organization. In addition, reports are centered around certain areas of activities or ethical issues which may have a significant impact on the natural environment, employees, consumers and products as well as local and international communicates. Finally, it is assumed that reports are published and communicated to internal and external constituencies of the organization.

The voluntary character of non-financial disclosure provides a lot of flexibility and discrepancy to reporting companies. Thus, with the growing number of reports, their quality emerged as an issue to be studied and analyzed. While the "early voluntary reporting of supplementary information tended to emphasize narrative discussion on selected environmental, community and employee matters within the conventional annual report to shareholders" (Milne and Gray 2013: 17), a significant progress was achieved with the formulation and adoption of the non-financial disclosure as mentioned in the previous section. The concept of credibility understood "as a multilayer construct long CSR and communication theories" (Lock and Seele 2016: 186) addresses the issues of reports content and quality. It is based on the central argument of validity of communication and requires four main characteristics of the reports (Lock and Seele 2016; Moravcikova et al. 2015):

- Truth of the statements made
- Sincerity understood as truthfulness
- Appropriateness viewed as the rightness of the message in its context where sender and recipient agree on the communication
- Understandability defined as intelligibility or comprehensibility of the message

In addition, the report needs to be complete with respect to the segments and dimensions of business operations and the geographical scope. It should provide complete information about the major areas that of the organization's impact on society and the environment (Moravcikova et al. 2015). The report is also expected to be of certain significant which is translated in the use of quantitative and qualitative indicators to assess its social responsibility.

As it was discussed above with respect to the adoption, extent and quality of non-financial disclosure, the assurance of reporting remains contextual and is determined by a number of factors such as the use of formal standards, the number of adopted guidelines, the number of application levels (materiality matters), the report length, the company size, the experience of reporting, the country regulation and the sector of operation (Lock and Seele 2016). The assurance of non-financial reporting can be naturally increased by the adoption of interdependent external auditor which is found more frequent in the case of companies which document stronger stakeholder orientation (Simnett et al. 2009).

3.3 Limitations and Criticism

Existing studies indicate that despite growing business interests in the adoption of CSR and sustainability and the increase of number of non-financial disclosure, the quality of the reports and the motivation of reporting rise significant concerns (Moneva et al. 2006; Gray 2010). Analyses reveal "stressed the opacity of sustainability reports, their questionable connection with the firm's real situation, and their often superficial nature" (Boiral 2013: 1040). Specifically, Boiral (2013) enumerates three main pleas to the practice of non-financial reporting which include: the growing disconnectivity between reality and its representations, the control and manipulation of information and the influence exerted by the proliferation of misleading images.

Companies appear to be driven by instrumental and legitimacy motivations, which represents "business interests rather than a genuine concern for transparency and accountability" (Boiral 2013: 1040). "Externally available disclosures reflect a pragmatic approach to legitimacy, as the disclosures produced satisfy the perceived needs of specific stakeholder groups" (Dumay et al. 2015: 4). Companies tend to manipulate data following the strategy of cherry picking when they report progress or positive information, follow optimistic rhetoric, while omitting data of their negative impact on society and environment (Dumay et al. 2015). The overload of information in large reports hinder the its quality, communication and transparency (Fernandez-Feijoo et al. 2014). Instead the reports are viewed as camouflage for the unsustainable nature of some of the activities (Moneva et al. 2006; Gray 2010; Boiral 2013).

In result, non-financial reports are viewed by many as the glossy product of self-admiration (Porter and Kramer 2006) isolated from the organization as a whole (Brown-Liburd and Zamora 2015) and "merely exacerbating the already overwhelming amount of disclosure provided without adding any further insight" (Adams and Simnett 2011: 294). They lack credibility (Dando and Swift 2003), remain pseudo transparent (Coombs and Holladay 2013) and pursue company greenwashing (Seele and Lock 2015).

Some authors (Adams and Simnett 2011; Eccles and Krzus 2010) argue that the shortcomings of the non-financial disclosure can be tackled with the introduction of integrated reporting that represents an opportunity for improving transparency, governance and decision making for organizations of all types. Burritt (2012: 391) states that "if integrated reporting is both required and successfully adopted throughout the world (. . .) environmental performance accountability (. . .) would no longer be a subservient supplement to the main financial accounts and reports in the way that environmental and sustainability reporting have emerged until now". Others, however, acknowledge that integrated reporting concept, at least the one developed by IIRC, does not satisfy the needs of broad stakeholder groups, as it suffers from lack of integration between financial and non-financial metrics (Atkins et al. 2015). The IIRC's framework is constructed around notion of value to investors and not value to society (Thomson 2015) and guides companies

to address only those social and environmental effects of business operations that have material impact on their ability to create value (Flower 2015). It has been criticized for business case framing, one-sided approach to assessing and reporting on sustainability issues and serving the interests of finance capital far more than wider public (Brown and Dillard 2014).

4 Non-financial Reporting in Poland

4.1 Practice in the 2005–2016

Poland with its characteristics of post-socialist economy lags in term of CSR/sustainability implementation behind the EU leaders (Steurer and Konrad 2009). While in line with the economy transition the environmental and social standards have significantly improved over the last 20 years, the dominance of coal in the energy production, insufficient legal enforcement and lower social awareness and understanding for CSR and sustainability places Poland amongst the emerging economies.

The concept of non-financial reporting has been evolving in Poland since 2005 when the first CSR report was published. The studies of non-financial disclosure carried out by different NGOs indicate that:

- of 69 companies which participated in the Ranking of Responsible Firms by Gazeta Prawna, 27 (39.1%) published a report, including 20 firms reporting in accordance with GRI standards, 7 adopting an external independent audit (Mikulska and Michalczuk 2014)
- of 500 companies ranked by Polityka magazine 136 firms provided information on their CSR engagement, including 24, which revealed their impact on social and economic and natural environment in the form of publicly available report prepared in accordance with internationally accepted standards (e.g. GRI or others) (Mikulska and Michalczuk 2014)
- over 10 years in sum 317 reports were published. The reports in vast majority followed GRI standards—67% reports in the 10-year period jumping to 78% reports for the last 5 years (2011–2016) (CSRInfo 2017)

In addition to GRI Polish companies adopt the guidelines of UN Global Compact, PN-ISO 26000:2012, Guidelines for multinational corporations and Carbon Disclosure Project (CSRInfo 2017). The leaders of non-financial disclosure include Bank Millennium, PKN ORLEN, Coca Cola HBC Polska, Grupa LOTOS, Orange Polska and Kompania Piwowarska. The breakdown of reporting companies by sector and by organization type is presented in Table 1.

As shown in Table 1 companies dominate as the issuers of non-financial reports recruiting mostly from industries of significant environmental impact (oil, energy) or highly regulated sectors (banking). Referring to the form of the report Polish companies publish CSR/environmental reports, integrated reports (e.g. LOTOS), interactive

Table 1 The breakdown of companies reporting non-financial information (number of reports, 2005–2016)

Reporting by sector	Reporting by organization type
Oil industry—40	Companies—110
Banking sector—38	Business organizations—2
Food industry—37	Foundations—4
Energy sector—29	City—1
Transportation and logistics—22	University—1
Service sector—20	Associations—1
Health care sector—19	
Retail—14	
Construction—12	
Telecommunication—11	
Natural resources extraction—10	

Source: CSRInfo (2017)

reports (e.g. PwC, Schenker) or reports in the form of an audiobook (Danone) (Mikulska and Michalczuk 2014).

Currently we observe a significant literature gap on non-financial reporting in Poland. The literature review indicates there is a limited number of analysis on the role and impact of CSR but the area of non-financial reporting remains significantly neglected. The gap is most likely caused by relatively small corporate activity in this field. Thus there is no evidence to discuss determinants of non-financial reporting or its impact on financial performance.

In coming years a significant improvement in the scope and quality of non-financial and diversity reporting by Polish companies is expected in the reaction to the regulation by the European Parliament and Council—Directive 2014/95/EU as the amendment of directive 2013/34/EU (EC; European Parliament 2014). The regulation applies to companies of significant public relevance that hire more than 500 employees, local companies based in the EU and foreign companies traded on the EU stock markets, which have a balance sheet total of at least €20 million or a net turnover of at least €40 million. Non-financial directive addresses listed companies, credit institutions, insurance companies and all other organizations designated by an EU member state as such due to their size or the nature of their business (EC 2014). Companies need to disclose the information on environmental impact, social and employee aspects, anti-corruption and bribery matters, as well as governance issues (EC 2014; Aluchna and Mikołajczyk 2016). This information should either be integrated in the annual management report or be prepared as a separate sustainability report.

Since the Non-Financial Reporting (NFR) requires affected companies in the European Union to disclose an annual non-financial statement in 2018, first reports will cover fiscal year of 2017 and will be published around June–August 2018 making it a historical date for non-financial reporting.

4.2 *The Empirical Analysis. Goals, Sample and Methodology*

The goal of the research was to identify the popularity of non-financial reporting amongst Polish listed companies. Specifically, we analyze how many companies listed on the Warsaw Stock Exchange published a CSR/sustainability or environmental report and how many of them were integrated reports and were covered by an external independent audit. The sample covers the whole population of listed firms. Since the concept of CSR was introduced at the Polish stock market in 2009 with the formulation of RESPECT, the CSR Index, we included data for 2010–2014. The data on general information (sector of operation, ownership structure, financial performance) was retrieved from IQ Capital base. The information on issuance of non-financial reports was collected by hand from companies' websites.

For the purpose of the study we formulated the following research questions:

1. What is the popularity of non-financial in Poland by companies?
2. What is the dynamics of non-financial reporting in Poland by listed companies in recent years?
3. What is the popularity/frequency of non-financial reports in Poland by listed companies with respect to:

   CSR/environmental reports.
   Inclusion in the RESPECT index.
   External audit of non-financial reports.
   Integrated reports.
   Other forms of non-financial disclosure—e.g. CSR/environmental communication on corporate/investor relations website

4. What is the characteristics of companies, which issue non-financial reports with respect to:

   Capitalization and size.
   Sector of operation (financial versus non-financial sector).
   Financial performance (Q, net income, ROA, dividend yield).
   Ownership structure (ownership concentration, free float, ownership by industry investors, financial investors and state).

The research was conducted between May and August 2017. The descriptive analysis was carried out with the use of standard MS Office Excel software.

4.3 *Results and Discussion*

First, we examined the popularity of non-financial reporting. Of the whole population of companies listed on the Warsaw Stock Exchange estimated at between 385 firms in 2010 and 472 firms in 2014 non-financial reports were issued by 17, 19,

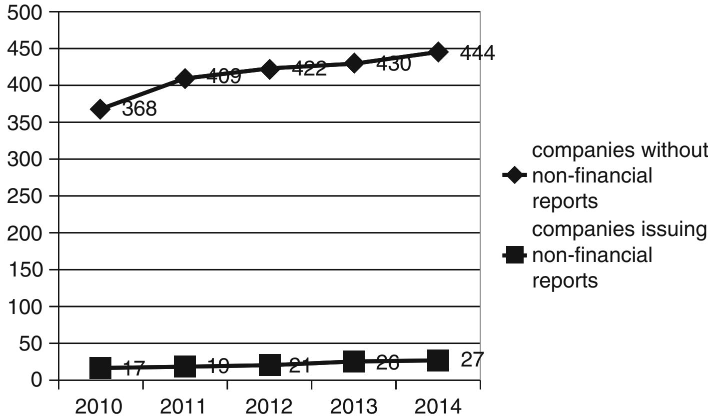

Fig. 1 Non-financial reporting in Poland (number of listed companies, 2010–2014)

Table 2 Types of non-financial disclosure (number of listed companies, 2010–2014)

Type of report (no. of companies)	2010	2011	2012	2013	2014
CSR/environmental report	17	19	21	26	27
CSR report audited	2	5	7	11	10
Integrated report	1	1	1	5	6
Other CSR communication	80	88	92	93	97
Respect index[a]	17	21	20	20	23

[a]Number of companies included in Respect index

21, 26 and 27 in 2010, 2011, 2012, 2013 and 2014 respectively. The data is presented in Fig. 1.

The data indicates a slight increase in number, from 17 companies reporting in 2010 to 27 reporting in 2014. This means an increase from 4.6% of companies in 2010 to 6% in 2014.Yet, the non-financial reporting has still remained marginal over the analyzed period.

We also examined the frequency of non-financial reports in Poland by listed companies with respect to different types of disclosure. The data is revealed in Table 2.

As shown on Table 2 non-financial disclosure includes the issuance of CSR/environmental report, issuance of integrated report and CSR communication on the corporate website. While the publication of integrated reports remains marginal, the communication on the corporate website appear to be the most popular type of non-financial disclosure. In addition, the external and independent audit was carried out only in the case of 10–37% non-financial reports. Table 2 reveals also the number of companies included in Respect Index which itself represents certain engagement in sustainability, however not all RESPECT companies publish a non-financial report.

Table 3 Companies reporting non-financial information versus companies not reporting non-financial information (selected characteristics, 2010–2014)

	Companies without non-financial reports	Companies issuing non-financial reports
General information		
Market cap (average)	248.33	3064.41
Assets (average)	749.08	8168.03
Financial sector (no/yes)	185	30
Financial performance		
Q (average)	1.15	0.58
Net income (average)	21.72	299.28
ROA (average)	−0.07	0.04
Dividend yield (average)	0.19	1.09
Ownership structure		
First largest shareholder (average stake)	39.56	49,061
Free float (average)	22.96	15,65,927,273
Industry investors (average stake)	54.16	54.62
Financial institutions (average stake)	22.87	29.72
State (average stake)	0.82	21.59

Finally, we compared the characteristics of companies reporting non-financial information versus companies not reporting non-financial information with respect to general information, financial performance and ownership structure as presented in Table 3.

The analysis indicates that companies reporting non-financial information versus companies not reporting non-financial information are:

- Larger, both in terms of market cap and assets
- Are likely to operate in the financial sector
- Perform better as measured by net income, ROA and dividend payout and reveal lower Q
- Characterized with stronger ownership concentration and lower free float
- Characterized with larger stake by financial institutions
- Characterized with larger stake by the state

Numbers leave no doubt—non-financial reporting has become a mainstream practice among world's largest companies. Among 100 largest companies in Americas, Europe, Africa and Middle East, and Asia Pacific 77%, 74%, 53%, 79% respectively were publishing sustainability report in 2015 (KPMG 2016). In many regions non-financial disclosure is becoming mandatory. Among 71 countries studied by KPMG (2016) 80% have introduced some form of regulatory sustainability reporting instrument, one third of which apply exclusively to large listed companies. Still, however, there are territories, like Poland, where non-financial

reporting remains marginal practice of few largest and most successful corporations. It is hoped that regulation introducing mandatory disclosure of non-financial data will mainstream sustainability and its reporting in Polish companies and capital market. However Brown and Dillard (2014) suggest that overcoming shortcomings of the dominating accounting model is not just the matter of introduction of regulations. With no fundamental rethink of accounting theory, policy and practice mandatory non-financial disclosure will only institutionalize neo-liberal logic in social and environmental reporting. Despite the increasing regulatory initiatives for sustainability reporting around the world, the practice is still largely criticized either for being merely a box-ticking exercise providing investors and other stakeholders with hard to read documents overloaded with disconnected information or for being simply a lie or window dressing (Atkins et al. 2015; van Bommel 2014).

In the language of neo-institutional theory we would say that sustainability reporting is strongly institutionalized in many markets. In response to institutional pressures (new laws, but also stakeholder expectations) organization implement new practice. DiMaggio and Powell (1983) argue that in search for legitimacy (social fitness) organizations structure themselves according to the characteristics of the environment they operate in. This facilitates institutional isomorphism among organizations—the growing similarity of organizations in a given field resulting from "competition for political and institutional legitimacy as well as market position" (Mizruchi and Fein 1999: 657). However, as argued by Meyer and Rowan (1977) in their study on organization myth and ceremony, companies, for the purpose of attaining legitimacy within their environments, are prone to create some formal structures, implement new practices and construct stories about their actions that on the one hand correspond to socially prescribed dictates about what organization should do (Mizruchi and Fein 1999: 656), but on the other, are decoupled from actual business operation (Meyer and Rowan 1977). Empirical evidence on the poor quality of the majority of sustainability reports published worldwide suggests that this mechanism was also present in the institutionalization process of non-financial disclosure. Neo-institutional theory provides further explanation for this state of affairs. There are three mechanisms of isomorphic organizational change: coercive, mimetic and normative isomorphism. Coercive isomorphism constrained by the owners of firm resources results from formal and informal pressures of other organizations upon which the firm is dependent. Mimetic isomorphism is a result of uncertainty that encourages organization to model themselves intentionally or unintentionally (through influence of consultants and employees hired from other companies) on more legitimate or successful peers. Finally, the normative isomorphism is driven by the similar education (graduate and postgraduate) of professionals and strengthened by their interactions within growing professional networks, across which new models diffuse rapidly. DiMaggio and Powell (1983) note that while the three types of isomorphic pressures often intermingle, they may lead to different outcomes.

Some authors (Scott 1987; Tolbert and Zucker 1983) argue that coercive institutional power foster rather superficial changes in the organizational structures and practices, encouraging only formal introduction of changes (Meyer and Rowan 1977).

Therefore, we argue that regulatory coercion will drive diffusion of non-financial disclosure among Polish companies, but only on a minimum and shallow level. Similar outcome is to be produced by diffusion through mimetic isomorphism mechanisms. Under the conditions of uncertainty, which is increased by growing expectations and power of different stakeholder groups, as well as accelerating globalization processes and resource scarcity, companies imitate structures and practices that have proven to be successful in other organizations (Mizruchi and Fein 1999). Indeed, it has been argued that while adopting sustainability reporting many companies desire to make sure either that they did not fall behind the competition on CSR grounds or to take a leadership role (Boiral 2013). Another source of mimetic isomorphism is the growth of CSR consulting industry promoting CSR standards, codes of best practice and management systems. In other words diffusion driven by mimetic isomorphism means that companies implement sustainability reporting only because "everybody else does it" without taking into consideration actual benefits that this practice might have on company's effectiveness if its incorporated into the core business model. Although the lack of reporting standards, especially those for integrated disclosure, is one of the major obstacles for further development in this area, if the diffusion is based solely on this mechanism, it will lead to situation where sustainability reporting is limited to blind compliance with standards.

Our analysis reveals that the practice of non-financial reporting in Poland remains at the very early stage of development. Amongst listed companies which naturally are in the public spotlight and often represent large firms only 6% issue non-financial report. As long as we observes a slight increase in the analyzed period, the numbers are still very low. The overall communication is implemented by approximately 20% of analyzed companies which suggests a potential for an improvement. Yet, however such communication does not follow standards of non-financial disclosure and may be used by companies to report only positive information or data they wish to disclose, not necessarily required variables on environment and social impact.

We argue that virtual change in this area and true integration of sustainability reporting with business practice in Polish companies (and in general) is possible only from within organizations through normative isomorphism mechanism—the process that corresponds with value infusion (Selznik 1957). Creation of ethical and sustainable organizational cultures is driven by values of managers and owners, who believe that the engagement in social and environmental activity and taking responsibility by the company for its overall impact is simply the right thing to do. CSR and sustainability need to be "taken-for-granted" and set the most obvious and natural way to conduct business operations (Berger and Luckmann 1967). For this to happen it is not enough to introduce regulations and create accounting standards (which of course will be needed for operationalization of the new business philosophy). What is needed is the change in mindset of accounting and management practitioners that can be initiated only through proper sustainable education.

In response to the growing awareness on the role of business in society and the criticism of the neoliberal doctrine dominance, institutions of higher education have expanded sustainability in their curricula (Sherif 2015). Poland is no exception here. However, many universities still face challenge related to the petrification of the

so-called hidden curriculum in management educational programs (Blasco 2012). Hidden curriculum is a subtext message to the students about what actually is important and matters, what is serious business problem and what is merely marginal topic. Thus, adding CSR or sustainability courses to the program without reframing of already existing courses and changing the way university itself is managed, will be simply inefficient or even detrimental. “Hence, the major challenge regarding sustainability education in management schools results from the necessity of redesigning educational approach as a whole, redefining the existing, petrified concepts of business’ goals and practice” (Dembek and Roszkowska-Menkes 2018). Overcoming this challenge and initiating virtual change in corporate reporting practices in Poland requires multi-stakeholder co-operation between regulators, professional associations, business, NGOs and broad academic community representing various economic disciplines. A potentially promising movement is the declaration signed by 23 Polish universities to promote the concept of CSR (Ministry of Science and Higher Education 2017).

5 Conclusion

Conceptually non-financial disclosure has been based on stakeholder theory and sustainable development, and has offered a framework for their operationalization. The most recent development in this area represented by integrated reporting incorporates also shareholder perspective and calls for the reconciliation of shareholder and stakeholder theory (Eccles et al. 2014). The motivations to implement non-financial reporting vary and include compliance with new regulations, addressing shareholders and other stakeholders expectations for transparency, pursuit of legitimacy, competition with other companies, but also support for strategic management. However, empirical studies on benefits of sustainability reporting provide inconsistent results. Yet, non-financial reporting is slowly becoming a mainstream practice with growing number of companies disclosing ESG data and increasing regulatory effort worldwide. Poland, where only 27 out of 444 companies listed on the Warsaw Stock Exchange main market published a CSR or environmental report in 2014, lags far behind the rest of Europe. While it is hoped that new mandatory reporting rules in EU (Directive 2014/95/EU) will force more companies to disclose non-financial information, the questions on how to encourage them to move from minimum compliance to strategic approach to sustainability reporting and how to ensure high quality of such disclosure still remain open.

We believe that our paper contributes to the understanding of non-financial reporting in countries which lag behind in the field of sustainability disclosure and partially fills the literature gap on Poland. Our analysis reveals some limitations—corporate disclosure is a long process. Companies disclose their performance of the given year and issue the reports by July or August the following year. The collection and analysis of data require additional time what hinders the fast capturing of trends and dynamic of non-financial disclosure. The future direction for research should

encompass a longer period of time and focus on the identification of stimulators and inhibitors of non-financial reporting in the form of regression models.

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