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Nonfinancial Reporting: Theoretical and Empirical Evidence

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Abstract

Nonfinancial reporting (NFR) is a relatively new topic in the business practice; it evolved a couple of decades ago. Initially, NFR was mostly disclosed on a voluntary basis. Because of deeper awareness regarding climate change and environmental challenges, as well as pressure from investors, customers, and competition, nonfinancial reporting developed from a voluntary to a mandatory highly standardized practice. This research sought to address the following questions: How understanding of business value creation determines business reporting? How sustainability approach manifests on the company level? What is nonfinancial reporting and why should companies care about it? What are the motivations and benefits for companies and for whom do they publish sustainability reports? What about experiences in public sector? How contemporary concepts of green, circular, and zero-waste economy influence business reporting? Which open questions do organizations face on the path of sustainability reporting? This study contributes to the discussion on NFR and stimulates paradigm shift from profitability toward sustainability as adopting a holistic perspective, respecting people and the planet. This research stimulates business community to invest time and energy into sustainability reporting and encourages scholars to explore new ways of business reporting and therefore contributes to our knowledge and well-being.

Keywords: business value creation, shareholder, stakeholder, business reporting, green and sustainable business, contingency approach

1. Introduction

Since human activities have transformed the biosphere, leading to global climate change, biodiversity loss, and various types of pollution, green and sustainable business has been developed to support management in the face of new challenges. Decision-makers outside and inside the company need business reports because they provide information on the business activity of a company. The system of business reporting includes financial and nonfinancial reports that are interrelated and aim to provide an integrative and comprehensive overview of the business activities of a company, their results, and consequences for people and the environment.

Financial reporting on the business performance of companies was introduced several decades ago, after which it developed through diverse stages as voluntary reporting, mandatory reporting, and highly standardized reporting. Financial reporting reflects on the financial aspects of business activities. It includes a few

basic financial statements: balance sheet, profit and loss account, cash flow statement, statement of changes in equity, and notes to the financial statements. The statements also complement each other, reflect monetary values, and refer to a specific time period, most often, annual or semiannual.

But the modern business economy, however, faces more comprehensive demands for nonfinancial reporting, which includes reporting on social and ecological aspects of business, i.e., sustainable business practice or sustainability. Business sustainability is often defined as the triple bottom line management, a process in which companies manage their financial, social, and ecological risks, threats, and opportunities. These three impacts are often called “Profit, People, and the Planet” or 3P—a syntagma introduced by Elkington in 1994. The concept of Corporate Social Responsibility (CSR) is being increasingly replaced by another concept, Holistic Corporate Responsibility (HCR). The trend of sustainability reporting is on the rise, but the tools are still being developed. Analyses of corporate responsibility reports in the world demonstrate a sharp increase: from 26 reports in 1992 to 5593 reports in 2010 to 9500 in 2015 [1]. Sustainable business success is constructed gradually by achieving ecological standards above the usual norms, forming value creation chains in a sustainable manner, developing eco-friendly products and services, introducing new business models, and opening new markets.

Sustainability business reporting is known under different names such as sustainability reporting, integrated reporting, and nonfinancial reporting. Global reporting initiative and triple bottom line are principles and standards that encompass reporting on business, social, and ecological activities, which have recently gained more importance and are applied increasingly. In general, sustainability information has to be perceived as credible and reliable to be meaningful and reduce information asymmetries. As a costly signal, assurance helps increase transparency and trust in the assured information [2].

Instruments of sustainability reporting include principles, guidelines, standards, and methods. Major organizations adopted the following guidelines: GRI sustainability reporting guidelines, United Nations Global Compact (UNGC), UN guidelines for business and human rights, OECD guidelines, ISO 26000 guidelines of the International Organization for Standardization, and the Tripartite Declaration of the International Labour Organization. Newer guidelines are presented through Integrated Reporting of the International Integrated Reporting Council (IIRC) that concisely communicate on how organizational strategy, management, success, and progress lead to value creation in the short, medium, and long term. GRI and IIRC cooperate as strategic partners.

The importance of nonfinancial reporting increases: more and more companies follow principles of sustainable development and sustainable business and provide NFR as well. In December 2014, the European Parliament adopted the Directive 2014/95/EU about nonfinancial reporting. Since January 1, 2017, companies of public interest with 500 or more employees have been including a nonfinancial statement in the management report. Nonfinancial reporting encompasses environmental and social aspects, the area of employee and human rights, anticorruption, and bribery measures, and it outlines its own business model, outcomes, and policy risks on the issues mentioned, as well as the variety of policies implemented by management and supervisory bodies [3].

This trend of making nonfinancial reporting a company’s obligation raises the following questions: What is nonfinancial reporting and why should companies care about it? Why would companies invest an additional effort and report on social and ecological aspects of their business activity? What are the motivations and benefits for companies and for whom do they publish sustainability reports? How understanding of business value creation determines business reporting? How

sustainability approach manifests on the company level? What about experiences in public sector? How contemporary concepts of green, circular, and zero-waste economy influence business reporting? Which open questions do organizations face on the path of sustainability reporting?

Regarding the abovementioned, the aim of this study is to provide a contribution to the discussion of NFR, since NFR is a relatively new topic in the business practice and is still insufficiently explored due to its tools that are still being developed. The study objectives are to stimulate paradigm shift from profitability toward sustainability as adopting a holistic perspective, respecting people and the planet. As well, this research stimulates business community to invest time and energy into sustainability reporting and encourages scholars to explore new ways of business reporting and therefore contributes to overall world knowledge and well-being.

This study may be of interest to all stakeholders: management, owners and employees as internal stakeholders, and investors, customers, supply chain, insurers, trade unions, media, and local community as external stakeholders. Besides business community, this study may be of interest to academic community stimulating new national and international research projects and acquiring/developing new perspectives.

This chapter is organized as follows: The first part presents a context and a need for NFR: The purpose of the company and business value creation is a wider frame for business reports. Changes in business context and in understanding business purpose through sustainability approach lead to changes in business reports as well. The following section examines nonfinancial reports from business practice, their motives, stimulus and benefits, and stakeholders who are interested in NFR. In this part, sustainability reporting in the public sector is also explored. The third part addresses challenges of nonfinancial reporting, followed by a discussion. Lastly, conclusion provides resume, contribution, research limitation, and suggestions for future research.

2. Business value creation

2.1 Financial value creation and financial reporting

Value creation is often emphasized as the most important business objective. There are two different concepts of value creation in business, depending on the perspective of parties involved in value allocation [4]. Creating shareholder value is a concept according to which a company should only satisfy the interests of its owners achieving attractive financial returns in the short and long run. According to that concept, the enterprise is most commonly understood as an investment project with a pronounced financial aspect of activity, and business performance in that concept is most commonly measured by profitability or latterly economic value added (EVA) as the main indicator of success. Value-based management is a concept of a company's value based on discounted future cash flow.

For decades, it was thought that the main goal of the company is to make profit and to increase its financial value. Profitability is the primary goal of all business ventures [5]. A strong influence on today's understanding of profitability was made by the American economist and Nobel Prize winner Milton Friedman (1970), who wrote that "The social responsibility of business is to increase its profits" [6]. This attitude has resulted in the focus on profit and profitability, neglecting the way profit is generated as well as neglecting the consequences of such perspective focus. Profit has been, and often still is, accepted as the main business goal that has to be maximized.

Financial reporting on the business performance of companies was introduced a few more decades ago, after which it developed through several few stages as voluntary reporting, mandatory reporting, and highly standardized reporting. Financial reporting has a long history. In different parts of the world, the first financial statements were published as early as at the end of the nineteenth century. The intention to clearly outline and compare financial statements led to the passing of Generally Accepted Accounting Principles (GAAP, 1933), which provided a set of basic guidelines [7]. After World War II, as economic integration occurred and capital started to travel over national borders, it became necessary to harmonize financial statements internationally (IASC, 1973; IASB, 2001) and to devise *International Financial Reporting Standards* (IFRS, 2002). In order to improve cooperation in the international application of reporting standards, the *Accounting Standards Advisory Forum* was established (ASAF, 2013) [8]. The development of the economy and reporting standards as well as the development of international investments led to the development of financial auditing, certification, and testing of financial statements based on the international auditing standards (GAAS, IAASB, and ISAs). Financial statements reflect the financial position of the company and business performance, and they provide present accounting information. This arguably narrow view is powerfully reinforced by financial accounting systems that were well adapted to the industrial economy but were inadequate in the information economy [9].

Focus on financial value and financial goal is a predominantly short-time and a very narrow understanding of business fundamentals. It ignores the ways of achieving it and all the consequences for people and the planet: the search for profitability maximization justifies depletion of natural resources, water, air, soil, light, as well as noise, electromagnetic and other types of pollution, loss of biodiversity, and climate change and it ignores human rights and income inequality. It is necessary to change the current business paradigm and to employ a wider perspective that takes into account human rights and environmental issues.

2.2 Business context changes: sustainability approach

Our planet could be seen as our billion stars hotel; we are called to behave as properly and well-educated guests, and as responsible guests, we have to respect and care about our hotel and leave it in the best condition for future visitors. There is a well-known 7th Generation Principle based on an ancient Iroquois philosophy that says the following: “In our every deliberation, we must consider the impact of our decisions on the next seven generations.” [10] Models and theories of business traditionally have been silent on the subject of the environment. Silence, however, is no longer an option in the face of society’s recognition of the potential cost that environmental damage may have on corporate profits [11].

Business context changes and therefore it requires business to change. The contingency approach is a management theory based on the idea that there is no single best way to manage; the most appropriate style of management is dependent on the context of the situation. Effective organizations must tailor their planning, organizing, leading, and controlling to their particular circumstances. Contingency theory is beneficial to organizations because of the potential for learning from specific situations and using these lessons to influence future management of the same or similar situations. The ability to adapt to external pressures and changes is also an advantage. The leaders must then work to integrate all these facets into a solution that is most appropriate for a specific circumstance [12].

In fact, we are facing the change from economies of scale, over economies of scope to economies of soul [6]. Actually, a soul economy is not a very new perspective. Tracing a seismic shift in American social thought, Sklansky (2002) wrote

the book “Soul’s Economy: Market Society and Selfhood in American Thought, 1820–1920” offering a new synthesis of the intellectual transformation entailed in the rise of industrial capitalism. As early as in 1922, Rudolf Steiner wrote the book “Soul Economy, Body, Soul, and Spirit in Waldorf Education,” trying to integrate material and immaterial perspectives.

Modern developments in the economy and society are marked by two phenomena: companies are becoming bigger and more powerful while social pressure for responsible business is becoming more pronounced. This unhealthy power in corporate hands results in ecological destruction, the loss of civil freedom, the erosion of democracy, and community disintegration [13]. According to the results of a research study [14], among 100 largest economies in the world, 51 are corporations and 49 are countries! Companies are more powerful than ever, and with power comes their responsibility for their own behavior toward people, the community, and the environment. A short-term focus on profit is detrimental for all [15], and it is necessary to establish balance between monetary and nonmonetary business objectives as well as between short-term, medium-term, and long-term goals. Sustainability reporting has its role here as it encompasses not only economic effects of the business activity of a company but also the effects on people, general community, nature, and the environment [16].

Even though it seems to us that sustainability is a modern concept and problem, the first requirements for sustainable business activity date back several centuries. Hans Carl von Carlowitz (1645–1714) is considered to be the founder of the sustainability principle. In his work *Sylvicultura oeconomica* from 1713, he demanded, due to the crisis in raw materials (wood), that one should only lumber so many trees as can be grown by reforestation and planting. This was the demand of ‘sustainable’ usage and sustainable forest management soon caught as a professional term. This principle from forestry gave rise to the motto ‘to live off the interest, not the capital’ [17]. The growing identification of sustainability as both a process and a goal ensures long-term human well-being [18]. Moreover, sustainability approach is important not only for human well-being, but for the well-being of other beings, and the planet itself.

The contemporary terms of sustainability and sustainable development were coined in the early 1970s. The foundation of the definition of sustainability is the Brundtland report according to which sustainable development is that development which “...meets the needs of the present without compromising the ability of future generations to meet their own needs” [19]. In other words, the goal is improved better quality of life for everyone now, and for the generations to come. That is why modern business conditions demand a change in the dominant paradigm—from a reductionist focus on profit, toward a holistic perspective and a balance between economic, social, and ecological aspects of company’s business accountability [20].

The modern business economy, however, faces ever clearer demands for non-financial reporting, which includes reporting on social and ecological aspects of business, i.e., sustainable business practices or sustainability. Former separation of economic, social, and environmental development is no longer acceptable anymore.

2.3 Nonfinancial value creation and nonfinancial reporting

Creating value for stakeholders is a broad concept that harmonizes different interests of particular stakeholder groups simultaneously. The company is considered an element of the environment so that this concept represents the foundation of sustainable business. According to that concept, business performance is viewed as a function of balance between economic, social, and ecological aspects of business activity. There is no doubt that companies do their business activities in an environment where there are numerous interrelations and relationships.

Therefore, a company should not be viewed solely as an instrument of the owner, but as an organizational unity with influence on several groups that should function in symbiosis with one another [21]. Business performance should therefore be assessed based on the company's economic performance, environmental quality, and social justice [22].

The stakeholder theory proposes that the company should aim to satisfy the interests and needs of its stakeholders, as opposed to merely focusing on maximizing profit for the owners. The stakeholder theory implies that companies have the obligation to individuals and groups within and outside of companies, including owners, employees, customers, suppliers, creditors, and the wider community. The stakeholder concept was first used in 1963 in the internal memorandum at the Stanford Research Institute. According to that concept, the stakeholders are those groups without whose support the organization would cease to exist. Freeman advocates the ethical principle according to which the concept of corporate responsibility implies responsibility to all stakeholders [23]. Freeman is considered the father of stakeholder theory, which explains that stakeholders are individuals and groups affected by, or affecting, directly or indirectly, policies, activities, and decisions of the company. In that context, a company needs to create value for its stakeholders balancing their demands in decision-making and defining priorities. The stakeholder theory has become a dominant paradigm of corporate social responsibility and sustainability [24]. Moreover, the quality of relationship with stakeholders and the capacity to create long-term value are two sides of the same coin [25].

There is a consensus nowadays that financial statements can no longer be sufficient when it comes to business reporting because they do not reflect the entire business activity of a company. The information in financial statements reflects only short-term monetary aspects of business, but does not provide insight into environmental, social, and managerial aspects of business, which are, in the long term, much more important. Nonfinancial reporting is a 'must' in the modern economy for different groups of the general public as it reflects the responsibility of a company to conduct business activities in a sustainable way. On the basis of a sample of 200 senior executive managers across the world, and according to the results of a study conducted by The Economist, 87% of respondents agree that sustainability will become more important over the next 3 years [26]. Fifty-seven percent of respondents say that their firms use sustainability reporting as a basis for new business strategies. The results show that 49% of respondents report progress in meeting their environmental sustainability goals and 53% report progress toward social sustainability. There is growing evidence that sustainability reporting increases in significance. According to the results of KPMG from 2008, almost 80% of the world's largest 250 enterprises report on sustainability [26].

Sustainability report [27] is a report that provides information on economic, environmental, social, and managerial aspects of a company's performance. Sustainability reporting is a new task. Integrated report merges information on sustainability together with traditional financial information in a single report. It offers a comprehensive picture of value creation viewed across time [28]. The International Integrated Reporting Council (IIRC) defines an integrated report as one that 'brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates' [29]. In the case of nonassured sustainability information, integrated reporting positively affected professional investors' evaluation of a firm's sustainability performance, resulted in a higher weighting of this information, and led to higher investment-related judgments [2].

It is important to notice that only the reports that include all three dimensions of sustainability simultaneously can truly be referred to as 'sustainability reports,'

unlike one-dimensional reports that only cover isolated aspects of sustainability. In that sense, the so-called sustainability reports often exclude important aspects of business activity, especially the economic aspects that are usually presented in a separate annual report [30]. The nonfinancial report provides stakeholders with an important and comprehensive overview of the position and characteristics of a company's business activity. In a nutshell, the common core of all these reports is their focus on social and ecological aspect of a company's business activity. While sustainability reports and nonfinancial reports can be disclosed autonomously, an integrated report represents a single report that includes not only social and ecological but also economic aspects. In that sense, integrated reports are comprehensive, reflecting a holistic perspective on business activity.

From a microperspective, studies indicate that firm size, growth opportunities, profitability, gender diversity on the board, or the assurance of nonfinancial reports positively correlate with the adoption of integrated reporting. From a macroperspective, several country-level determinants, such the legal system, value system, and the intensity of market coordination, have been considered as potential determinants [2].

Recent research results indicate that the integration of sustainability and financial information did not lead to an improved acquisition of this type of information. However, the integration increased professional investors' potential access to sustainability information, because readers could not entirely opt out of encountering sustainability information during their information processing. This in itself remains an important objective of integrated reporting because, as our experiment indicated, a substantial number of professional investors showed no interest in the separate sustainability report.

In December 2014, the European Parliament adopted the 2014/95/EU Directive on nonfinancial reporting [3]. This Directive is part of a broader initiative of the European Union regarding corporate social responsibility, which includes a consistent approach to reporting and supporting smart, sustainable, and inclusive growth under Europe 2020 objectives. Since January 1, 2017, this Directive has made nonfinancial reporting in the entire European Union mandatory for public interest entities employing more than 500 people. According to the Directive, the disclosure of nonfinancial information is central for combining long-term profitability with social justice and environmental protection. Nonfinancial reporting includes ecological aspects, social and employee-related matters, respect for human rights, anticorruption measures, description of the business model, outcomes and risks of the policies on the above issues, and the diversity policy applied by the management and supervisory bodies.

3. Experiences from business practice

3.1 Motives and stimulus

There are different international and national initiatives for promoting sustainability reporting: Global Reporting Initiative's, European Commission and the European Parliament, and many other organizations. Firms disclose corporate social responsibility information for two main reasons: (1) to conform to societal expectations and thereby ensure continued access to resources, such as capital, customer support, and so on and (2) to provide additional information that allows capital market participants to more accurately assess firms' financial prospects and risk profiles, potentially leading to higher share prices and higher firm values [31]. These two broad reasons for disclosure can be further explored using, respectively,

legitimacy theory and agency theory. Legitimacy theory encapsulates the idea that firms have to conform to societal norms in order to prosper [32], whereas agency theory focuses on explaining the motivations and actions of both agents (i.e., managers) and principals (i.e., investors) [33].

The question of motivation is a question of purpose and true meaning of sustainability reporting. Maybe it is legitimate to ask the following question: “Why would companies invest an additional effort and report on social and ecological aspects of their business activity?” [34]. Indeed, there are many reasons, arguments, and theories on corporate social responsibility, which go beyond companies’ financial responsibility to shareholders. These reasons include a new level of consciousness, growing and visible pressure of the environment, lack of policies in the protection of the public good, and material risks, including the risk to reputation. Corporate social responsibility undoubtedly helps some companies to find new opportunities of value creation to ensure permanent business. These companies set their goals publicly and take into account serious global problems such as climate change to distinguish themselves from less responsible companies [35]. Other similar companies were simply set up by visionary entrepreneurs with social responsibility as their foundation [36].

Sustainability reporting has significant internal and external benefits. Internal benefits include the following [37]:

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and nonfinancial performance
- Influencing long-term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social, and governance failures
- Comparing performance internally, and between organizations and sectors

External benefits include the following [37]:

- Mitigating—or reversing—negative environmental, social, and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand the organization’s true value, and tangible and intangible assets
- Demonstrating how the organization influences and is influenced by expectations about sustainable development

According to the results of a survey conducted by The Economist among 1254 executive managers in the world in 2007, the biggest benefits from adopting sustainable practices were reported in the following areas [38]:

1. Ability to attract new customer base/retain existing one: 37%
2. Improved shareholder value: 34%
3. Increased profitability: 31%
4. Ability to identify and manage reputational risks: 29%
5. Better quality products and processes: 28%
6. Ability to attract best-quality employees: 26%
7. Improved relations with regulators/legislators: 19%
8. Greater attractiveness to investors as a whole: 17%

The results of this survey have shown that only 4% of respondents did not adopt sustainable practices, and only 6% of respondents expected no benefits in that relation. The same study asked the respondents to rank the importance of sustainability-related goals at their firms and 57% mentioned environmental footprint of products, 52% mentioned improved energy efficiency, 51% mentioned developing new products to help reduce social and environmental problems, and finally, 50% said improving the impact of operations on surrounding local communities and 50% said improving the impact of operations on surrounding environments. Communicating their organizations' performance on sustainability to investors and stakeholders was among top long-term benefits (61%). It is considered that customers and the government have a key impact on the introduction and adoption of sustainability practices, while within the organization, the biggest responsibility is on the CEO (33%) and company's board (26%). Of course, it is also interesting to explore the most significant impediments to achieving more sustainability objectives. The following barriers are the most significant: the fear that sustainable business practice will increase business costs in relation to competition (40%); difficulties devising useful targets, measures, and controls to entrench sustainability in the organization (36%); and problems aligning social and environmental efforts with financial ones (31%). The final conclusion is that today's leading companies align their business strategy with social and ecological needs. According to Mark Kramer, founder of FSG, "It used to be easy to say that you cannot do anything because of competitive pressures. You can no longer argue that it is impossible for business to do this because many have. [39]" Both the European Commission and the European Parliament have been actively promoting NFR, not only for the benefit of society but also as a means to improve the competitiveness and innovation of businesses in the European Union [40].

International comparison in sustainability reporting widens perspectives and provides new knowledge. Factors that influence sustainability reporting are corporate characteristics, general context factors, country-specific impact factors, and internal factors [41]. A comprehensive research study on sustainability reporting in 11 Central and Eastern Europe and 2 Western Europe countries provides significant contribution to theory and practice. According to this study, economic development, globalization level, civil society, cultural differences, and regional patterns are examined as the determinants of sustainability reporting [42].

The quality of NFR practices was investigated in Poland and Romania prior to the European Directive's adoption. The authors found that prior regulation, local institutional characteristics, ownership, industry, and auditors have an impact on the

quality of disclosures. Poland experienced a higher extent of voluntary reporting, but Romania faced prior regulatory demands for nonfinancial reporting. The authors suggested that the overall disclosure score is higher for Romania, which provides support for the importance of regulations to strengthen the spread and quality of NFR [43].

A report from the European Sustainable Development Network characterizes Poland as a country that integrated CSR into national strategy documents [44]. There is a growing recognition in Poland of the notion that a business must be responsible like any other party and play an active and positive role in society [43]. Responsible Business Forum, operating since 2000, is the first nongovernmental organization in Poland that provides in-depth focus on the CSR issues [45]. On the other hand, the social reports issued in Romania were not considered credible. Also, the general information regarding the environmental impact included in the annual reports is coined as 'incomplete and irrelevant to users and mostly generic' [43].

Authors also identify proof of stakeholder pressure as an institutional factor of NFR, in the case of trade unions, and establish that pressures from the community or society at large are not yet a determinant institutional factor in Poland and Romania. For the Romanian subsample, authors notice a relationship between company size and quality of disclosures. The content of the Polish reports indicates that reporters' experience and the presence and use of voluntary reporting standards and guidance have a positive influence on the quality of reports [43].

The sustainability reporting practices of Turkish nonfinancial companies show that the main factors influencing sustainability reporting are listing on the Corporate Governance Index (CGI), having a sustainability committee, the type of industry, the size of the company, and profitability, whereas leverage is not [46].

The research study of 500 largest European firms found that firms are more predisposed to disclose more CSR information in countries with better investor protection, higher levels of democracy, more effective government services, higher quality regulations, more press freedom, and a lower commitment to environmental policies. Authors' analysis of the association of different levels of CSR disclosure with share prices indicates that a high level of CSR disclosure is associated with higher share prices, whereas a low level of CSR disclosure in sensitive industries is associated with lower share prices—compared to no disclosure [47].

Market participants find CSR disclosures more informative in countries where investors are in a better position to voice their concerns and where there is better regulation and more effective government implementation of regulations [47].

Firms in countries that show a greater commitment to an environmental agenda could be more likely to disclose more CSR information to reflect the local social concerns and to respond to higher levels of stakeholder pressure to provide information. However, in more environmentally committed countries, CSR-related issues are more likely to lead to negative financial consequences and managers may fear that additional CSR disclosure will play into the hands of potential litigants. For example, the 2010 Gulf of Mexico oil spill cost BP billions of dollars [47].

Firms are likely to disclose higher levels of CSR information if they are larger, are more profitable, have high book-to-market firms, are more leveraged, use older equipment, spend more on capital, and operate in environmentally sensitive industries [47]. If they belong to environmentally sensitive industries, they tend to provide more comprehensive social and environmental disclosure regarding the impact produced by their business to reduce the potential concern by the communities in which they are rooted and to gain respect on the market and thus legitimize their actions [48]. As it is shown, motives for sustainable NFR and CSR reporting vary; determinants and incentives differ as well.

Organizations have the freedom to choose the standards of reporting. They can develop their own standards of NFR as well. Since these standards are currently

evolving, competing, and converging in some aspects [49], the analysis by Hales et al. provides useful insights and synthesis of developments in external reporting standards for corporate sustainability performance [50]. GRI estimates to have information on about half of all reports applying its guidelines [51]. The GRI's publicly accessible registry currently lists 13,528 organizations, 53,098 reports, and 31,991 GRI reports [52].

3.2 For whom: investors, customers, employees, and other stakeholders

In recent years, it has become increasingly common for companies to disclose information about their nonfinancial performance and to engage in sustainability reporting alongside traditional financial reporting [2]. Among such powerful stakeholders identified as influencing NFR are governments, nongovernmental organizations, multinational companies, regulatory agencies, the EU Global Reporting Initiative, auditors, shareholders, and the media [43]. Investors are the key addressees of such reporting, and there is initial evidence that they consider nonfinancial information value relevant [53].

According to the research, the interests of investors, customers, and employees are common subjects of studies [54]. As for investors, studies explored what investors are interested in when it comes to nonfinancial reporting. Findings suggest that 64.5% investors regularly assess ecological and social aspects of business, but only 35.5% conduct a modest analysis of these aspects or conduct no analysis at all [55]. The 2014 PwC survey shows that 61% of US investors are not satisfied with the company's published information on sustainable development [56].

Customers also show great interest in sustainability, and recent data on customer trends are clear in that respect [57]:

- 72% of customers are interested in learning what companies are doing in terms of sustainability and “going green.”
- 75% of customers would more likely purchase products and services from companies that are making a great effort to adopt environmentally conscious practices.
- 82% of consumers are more likely to purchase a product that demonstrates a company's corporate social responsibility initiatives than one that does not.
- 93% of Americans reported having done something to conserve energy in their household in the past year.

According to the same study, the younger generation shows an even stronger trend of green consumption.

Employees are also very important stakeholders. Many future employees use ecological policies to measure corporate values. In 2007, it was reported that 92% of students and entry-level workers were seeking an environment-friendly company for employment [58]. According to SHRM 2011 survey [3], 89% of organizations assessed the importance of sustainable strategy as “important” or “very important” in creating a positive employer who attracts talents. Regarding future employees, there is an interesting survey result: 70% of millennial job seekers said that a firm's community image is an important determinate in job selection. It is obviously apparent that sustainability message and image have an impact on attracting the best talent [59]. When companies were asked to rank three most important stakeholders in their sustainability initiatives, employees ranked second with 22% of

replies, after consumers who ranked first with 37% replies, while owners ranked third with 15% of replies [60].

It is worthy to note that sustainability reporting is no ‘magic tool’ simultaneously fulfilling communication and management functions; instead, attempts to reach all audiences with a single document are doomed to fail, ushering in ‘jack-of-all-trades—master of none’ [51]. Simply calling for integrated, high-frequency, high-complexity reporting is misguided as there are trade-offs between conciseness and completeness [61]. Nevertheless, there are positive effects of integrated reporting on the effectiveness of sustainability management, thus creating long-term firm value [62].

3.3 Sustainability reports in the public sector

In the private sector, both financial and sustainability reports are usually published annually, strengthening the case for their integration, although this is not mandatory. Many local governments in Germany issue sustainability reports at multiyear intervals [63]. Sustainability reporting is on the rise throughout the public sector. International frameworks such as the United Nations Sustainable Development Goals (specifically SDG target 12.6) call for increased reporting by all types of institutions [51].

France recently mandated all municipalities with more than 50,000 inhabitants to periodically produce sustainability reports [64]. A study about sustainability reporting by local governments investigated in Amsterdam, Basel, Dublin, Freiburg, Nuremberg, and Zurich suggests that sustainability reporting can benefit organizational change, management, and communication yet also lead to ‘fatigue’ and discontinuation [51]. Commitment to sustainability reporting is a vital step toward creating ‘vibrant cities’ [65]. The six analyzed ‘early adopters’ all initiated sustainability reporting voluntarily. Over the years, each deliberately made different major design choices. Zurich started with sustainability reporting in 2004, Basel and Amsterdam in 2005, Nuremberg in 2009, and Dublin in 2010 [51].

The analysis of content quality showed a mixed picture. Most reports addressed questions of context, public policies, organizational performance, and outlook to some degree. In Zurich, switching from multiyear to annual reports brought reduced coverage of context and outlook issues. Freiburg’s report stands out since it pays detailed attention to (select) public policies and organizational performance, while lacking city-level outcome indicators—a context feature common to most sustainability reports. From one edition to another, reports usually discuss long-term trends through a set of indicators (ranging from 21 in Basel to over 100 in Nürnberg). In addition to such continuity in monitoring, Nürnberg’s reports contain changing focus themes (e.g., ‘education’) [51].

For the dissemination of reports, all local governments recently used websites and social media. Usually, this involves making reports available for download (with Dublin’s not existing in print); only Zurich visualizes its data on a dedicated dashboard [51].

The disclosures are required to be made in the form of a nonfinancial statement or of a nonfinancial report and to include a brief description of the entity’s business model and its policies in relation to environmental, social, and employee matters, respect for human rights, procedures to counteract corruption and bribery and their outcomes, risks and risk management related to those matters, and nonfinancial key performance indicators [43].

4. Challenges of nonfinancial reporting

Nonfinancial reporting is a relatively new task for companies and is connected with few open questions. Some of them are general challenges caused by general framework change; some of them are more specific.

Paradigm shift in our perceiving finds its reflection in economy and business. Green economy and green business, circular economy, and zero-waste economy are new perspectives on the path to sustainable business with new requirements toward companies. Green is more than just a color. It is a way of doing business and a way of life, which respects and maintains balance in the environment. Green strategies that respond to increased consumer interest are green products, recycled/refurbished products, and the green process—green strategies do matter to eco-consumers and industry reports indicate that this group is growing quickly [66].

Green economy is the way to reduce environmental risks and ecological scarcities; it is low carbon, resource efficient, and socially inclusive [67]. It is a system of economic activities related to the production, distribution, and consumption of goods and services that result in improved human well-being over the long term, while not exposing future generations to significant environmental risks or ecological scarcities [68]. Green economy is described as an economy in which economic growth and environmental responsibility work together in a mutually reinforcing fashion while supporting progress on social development [69]. It presents an attractive framework to deliver more resource efficient, lower carbon, less environmentally damaging, more socially inclusive societies [70]. Moreover, it is suggested that proper measurement of the green economy needs to move beyond GDP as the central measure of progress and to better track the ‘transformational green economy.’ Bhutan’s Gross National Happiness Index, developed from the 33 indicators in the next domains: psychological well-being, health, education, time use, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards, is example of innovative and sustainable measurement of national progress. Introduced by Bhutan with support from 68 member states, UN adopted in 2011 a General Assembly Resolution, calling for a ‘holistic approach to development’ [71]. Green Economy from EU Commission Perspectives encompasses seven dimensions that ensure the path to sustainable business [72]. Thus, new paradigm is not only a talk; it is a walk as well.

Circular economy is the next general challenging perspective; it aims to redefine growth, focusing on positive society-wide benefits. It entails gradually decoupling economic activity from the consumption of finite resources, and designing waste out of the system. Underpinned by a transition to renewable energy sources, the circular model builds economic, natural, and social capital. It is based on three principles [73]:

- Design out waste and pollution
- Keep products and materials in use
- Regenerate natural systems

On March 4, 2019, the European Commission adopted a comprehensive report on the implementation of the Circular Economy Action Plan. The report presents the main achievements under the Action Plan and sketches out future challenges to shaping our economy and paving the way toward a climate-neutral, circular economy where pressure on natural and freshwater resources as well as ecosystems is minimized [74]. Zero-waste economy is also one dimension of paradigm shift. The objectives are to recycle more and create less waste and to recover materials rather than waste them. To minimize waste means to reuse it, to recycle it for further use, and to recover energy [75].

The next open question deals with research studies in this area. An increasing number of companies that decide to disclose nonfinancial reports allow research to be conducted in that area as well. Since there are different standards and

guidelines for such reporting and companies are free to choose reporting standards, it is often difficult to collect and process data furthermore to compare different reports. There is a clear need to improve the comparability of the indicators disclosed in corporate sustainability reports, particularly among corporations in the same sector [76]. It should also be stressed that studies and findings obtained represent an encouragement to other companies in the process of disclosing nonfinancial reports.

The next question includes the type of data and information that are disclosed, the way the data are collected and processed, and the way they are presented—in a qualitative and/or quantitative form. IT support plays a very important role in that process because collecting data for NFR is often done manually, which makes the preparation of the documents harder and slower. The process of NFR is for every company the challenge to rethink and redesign business activities and to report about their effort in this area. Quantity of information is the challenge as well: ‘the more information there is in a report about individual, social, environmental, and economic impacts, policies, and practices, the greater is the likelihood of information overload for readers’ [77].

5. Discussion

Our environment changes: we are witnessing a climate change causing unexpected droughts and floods, glacial meltdowns, migrations of population, a drastic decrease in biodiversity, unlimited expansion, and growth of business, which contributes to the destruction of nature and animal habitats. The pollution of air, water, and soil, as well as light, noise, and electromagnetic pollution, is different forms of environmental pollution caused by human activity or, more precisely, caused by company activities. Therefore, companies today face great challenges because they can transform undesirable trends in the economy and society into socially and ecologically responsible creation of new activities and long-term jobs, inventions, and new methods of production and consumption. A growing number of companies publish their sustainability business reports. For some companies, this led to innovations, better risk management, new business opportunities, and an enhanced capacity to create value in the future. But the companies are not the only ones who publish the sustainability reports; sustainability business reports are on the rise throughout the public sector as well.

There are more and more stakeholders that influence on NFR like governments, nongovernmental organizations, multinational companies, regulatory agencies, the EU Global Reporting Initiative, auditors, shareholders, and the media. Specific questions with regard to NFR encompass standards of reporting, ways to measure the company’s sustainability efforts, type of data, and IT support. Since there are several different standards of NFR, every company has to choose one to follow or to create their own reporting standards, which is a complex task. On those standards, different factors will have their influence, and those are corporate characteristics, general context factors, country-specific impact factors, and internal factors, and, further, economic development, globalization level, civil society, cultural differences, and regional patterns.

Companies and nonprofit organizations are called to publish NFR for their stakeholders, especially for investors, customers, employees, and wider community. Published NFR is an argument in favor of organization’s sustainability orientation and responsibility for people and planet in creating long-term values.

6. Conclusions and suggestions

The aim of this study is to provide a contribution to the discussion of NFR. The purpose of the study is to stimulate companies on the path of sustainable business and sustainable reports that reflects their efforts in social and ecological business dimensions. The aim is also to stimulate wider research that could contribute to a shift in perspective from mechanistic to a holistic paradigm.

In the past, economic growth often seemed to depend on using up natural resources as though supplies were unlimited. The result is a 'resource crisis,' with a threat of shortages and rising prices. Today, growing numbers of citizens and economists are looking to different economic models, where wealth can be created without harming the environment. According to the European Commission, the Europe 2020 strategy emphasizes smart, sustainable, and inclusive growth as a way to overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity, and underpin a sustainable social market economy. Not only Europe, but the whole planet needs smart, sustainable, and inclusive growth.

The foundation of business is value creation. Creating financial value for owners is a widely accepted business goal measured with profit and communicated in financial reports. Because of changes in environment, more and more companies choose to create sustainable values for stakeholders and communicate it by nonfinancial or sustainable reports.

Dominant understanding of business value creation determinates business reporting: financial reports reflect monetary and short-term aspects of business value creation, which is only one dimension of business activities, important for shareholders. Nonfinancial reports discover existing social and environmental aspects of business activities and reflect nonmonetary and long-term values important for all stakeholders. They manifest sustainability approach on the business level. Nonfinancial reporting is still done on a voluntary basis, but from 2017, it was an obligation for EU companies with more than 500 employees or for companies of special public interest. They include ecological aspects, social and employee-related matters, respect for human rights, anticorruption measures, description of the business model, outcomes and risks of the policies on the above issues, and the diversity policy applied by the management and supervisory bodies.

Contemporary concepts of green, circular, and zero-waste economy influence business reporting and led companies to innovations, better risk management, new business opportunities, and an enhanced capacity to create value in the future. Every organization on the path of sustainability reporting meets general and specific open questions regarding NFR: implementation of contemporary sustainability concepts into business strategy, ways to measure company's sustainability efforts, type of data, and IT support are some of them. NFR is still in development; business experience is still insufficient.

This study contributes to the discussion on dominant business value creation and ways to measure and communicate it. It stresses the need for paradigm shift from mechanistic, monetary short-term view to holistic long-term view, and it points out the business responsibility for people and planet and for future generations. This research stimulates profit and nonprofit organizations to publish NFR pointed at their benefits and incentives. Scholars from academic community are encouraged to conduct further research to help organize and implement sustainability reporting.

6.1 Limitations and suggestions for future research

There are few limitations of this study. The first one is in the gap between growing number of research studies on NFR and their comparability, since the researcher observes different industries, sectors, countries, etc. and in this process uses different approaches. Another limitation is the obstacle to compare different reports since there are different standards and guidelines for such reporting and companies are free to choose their own reporting standards. The third limitation is the high level of generality regarding NFR, and it would be interesting to observe specific industries and their NFR habits. And the last one is the exclusive focus on the motives for NFR without analyzing whether they are financially oriented or they are the expression of a business model.

There are some suggestions and questions for future research on NFR: Does and how global and national culture influences sustainability reporting? Are there specific characteristics on NFR for branches, size of the organization, level of profitability, or gender diversity on the board? How can scholars encourage the implementation of NFR? Is there any connection with NFR in specific countries and their GDP? Do countries with higher level of GDP have a higher level of NFR?

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