

Derun, Ivan; Mysaka, Hanna; Skliaruk, Iryna

## Article

# Contextual research of strategic theories for non-financial reporting: A system-structural approach to formulating reporting principles

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# Contextual Research of Strategic Theories for Non-financial Reporting: A System-structural Approach to Formulating Reporting Principles

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Ivan Derun 

Taras Shevchenko National University of Kyiv, Department of Accounting and Audit, Ukraine

Hanna Mysaka 

Taras Shevchenko National University of Kyiv, Department of Accounting and Audit, Ukraine

Iryna Skliaruk 

Taras Shevchenko National University of Kyiv, Department of Accounting and Audit, Ukraine

## Abstract

The principles of non-financial reporting are a prerequisite for the harmonization of reporting standards and a guarantee of comparability of reporting indicators. A lack of a long-term and established practice in preparing non-financial reporting does not allow forming its principles as generally accepted rules for the preparation of reporting data. Therefore, the system of principles of non-financial reporting should be based on the results of scientific research on the theories of disclosure of non-financial information, including publications indexed in the SCOPUS. Based on the results of the bibliometric and linguistic analysis of the selected scientific publications, the correspondence was established between the content substance of the postulates of the most popular motivational theories of non-financial reporting (agency theory, institutional theory, legitimacy theory, stakeholder theory) and individual components of the mechanism of disclosure of non-financial information. The identified causal relationships allowed formalizing the principles of preparing non-financial statements and combining them into a coherent system that covers informational, legal, organizational and communicative aspects of the reporting mechanism and consists of such principles as: application of differentiated metrics; the predominance of substance over form; business accountability; access to information of public interest; reporting coherence; reporting preparation periodicity; full coverage; consistent and continuous disclosure. The formed system of principles of non-financial reporting comprehensively considers the peculiarities of the process of preparation of reporting data which mainly contains non-financial information. Therefore, its use as a basis for non-financial reporting standards will contribute to their harmonization and increase the comparability of reporting data.

## Keywords

Legitimacy Theory, Institutional Theory, Agency Theory, Non-financial Reporting, Stakeholder Theory, Principles of Non-financial Reporting

## JEL Classification

B41, M14, M40, Q56

## Introduction

Sporadically introduced numerous standards and initiatives for the preparation of non-financial reporting are characterized by the diversity of not only the sets of reporting indicators and approaches for their disclosure, but also by the target orientation of the reports. In turn, it prevents from harmonizing the existing systems of non-financial reporting and significantly reduces their value both for reporting entities and for the target groups of stakeholders.

Therefore, a driver for the further expansion of the practice of submitting non-financial statements will be not only the activation of the processes of its institutionalization, including at the EU level (The European Parliament and the Council of the European Union, 2014), but also the involvement of the IFRS Foundation in the development and implementation of new climate-related (International Sustainability Standards Board, 2021a) and sustainability-related (International Sustainability Standards Board, 2021b) disclosures. Given the successful experience of the IFRS Foundation in the development and implementation of financial reporting standards that are based on the

## Corresponding author:

Ivan Derun, Taras Shevchenko National University of Kyiv, Department of Accounting and Audit  
Email: derun@knu.ua

principles (rather than the rules), thereby simplifying the comparison of companies from different industries and countries by investors and creditors, it is quite likely that this concept will be also applied to the standardization of non-financial reporting. However, due to the lack of a large-scale applied basis which is provided by accounting to the principles of financial reporting, the mechanism of formation of the principles of non-financial reporting can hardly be identical.

As noted by Wójcik-Jurkiewicz and Sadowska (2018), the standards, codes, guidelines or recommendations of non-financial reporting that are most often used in business practice now declare the principles that relate to the presentation of an understandable, accurate, objective and complete information about the CSR key areas (ISO 26000:2010 Guidance on social responsibility), clear structure of the report (UN Global Compact, The Eco-Management and Audit Scheme (EMAS)), transparency of information (OECD), inclusion of stakeholders, materiality, and completeness (GRI). In fact, they coincide with the fundamental qualitative characteristics of useful financial information such as relevance and faithful representation, which are described in the Conceptual Framework for Financial Reporting (The International Accounting Standards Board, 2018). Without questioning the importance of defining such qualitative characteristics of useful non-financial information, it should be noted that these principles are formed because of the analysis of the processes of applied implementation of a certain phenomenon or event and represent the rules that explain certain aspects of its functioning in accordance with the established metrics and targets.

The lack of a long-term and established practice in preparing non-financial reporting did not prevent from the diversity of thematic directions and applied results of scientific research in this area. Therefore, in the process of standardizing non-financial reporting, it is recommended to use methodological studies as a source of determining "the best practice" designed to ensure the reliability of non-financial reporting and its perception by stakeholders precisely at the stage of defining the criteria and principles for ensuring and describing the quality of non-financial information (Kristensen and Westlund, 2003). Due to the application of a number of hypotheses that are based on theories formed in such fields of scientific knowledge as management, economic theory, law, sociology, etc., as well as the use of the inductive method to substantiate new assumptions and general judgments, the research on the motivation of business entities to reporting provides the integrity of understanding the uniqueness and multifacetedness of non-financial reporting as an attribute phenomenon of modern business management. Thus, it will be fully justified to take their results as the basis for forming the principles of this reporting.

The article consists of four parts. Part 1 is devoted to studying the features of motivational theories of disclosure of non-financial information and assessing the prospects of their use as a basis for the formation of the system of principles of non-financial reporting. Part 2 defines the research design and the methodology. Part 3 presents the main findings and discussion aspects. The final part contains the conclusions and suggestions for the future research.

## **Literature Review and Research Background**

Scientists are looking for the reasons explaining the disclosure of non-financial information by the companies about their activities mostly in seven "strategic theories": agency theory, institutional theory, legitimacy theory, theory of intergenerational equity, positive accounting theory, signalling (signaling (en-US)) theory, and stakeholder theory (Maama and Mkhize, 2020).

Advocates of the legitimacy theory note that business entities, when responding to the standard expectations of civil society regarding the compliance of their activities with the requests and needs of the majority of members of this society and increasing its common good, resort to the measures that are expected to be favourably evaluated by the majority of stakeholders (Deegan, 2014; Michelon et al., 2019; Zyznarska-Dworczak, 2018b; Silva, 2021). Non-financial reporting should inform stakeholders not only about such actions and initiatives of the reporting entity, but also about the consequences and risks of its activities for society and the environment (Deegan, 2019; Maama and Appiah, 2019; Bellucci et al., 2021). However, in practice, the disclosure of non-financial information about environmental and social aspects of their activities is used by the companies mainly for additional justification of organizational legitimacy and image improvement by presenting only their achievements in the relevant areas (Babiak and Trendafilova, 2011; O'Dwyer et al., 2011; Stolowy and Paugam, 2018; Patten, 2020).

The concept of sustainable development as a method to meet the needs of the current generation without harming future generations was formed under the direct influence of the idea of intergenerational equity, in the part related to a fair and responsible attitude to the use of resources (Spijkers, 2018). In this context, reporting on sustainable development is an important component of the system of conservation of both renewable and non-renewable resources, as it should ensure adequate informing of stakeholders about the efficiency of the company's use of such resources, a positive and negative impact of its activities on society and the environment, and the disclosure of potential environmental and social risks in the short, medium, and long term (Abeysekera, 2013). At the same time, some reporting entities, acting contrary to the principles of sustainable development and abusing the shortcomings of the system of voluntary preparation of non-financial reporting, use its publications as a communication tool for the strategy of legitimizing their activities in the mind of stakeholders to have an unimpeded

access to non-renewable resources (van Zyl, 2013).

According to the stakeholder theory, the company is considered as an open system that not only influences, but is also influenced by the external and internal environment, which is interpreted as a set of parties interested in its activities, whose interests and requirements must be taken into account and tried to satisfy, despite the fact that individual stakeholders may have diametrically opposed goals and interests or even compete with each other (Freeman, 2010). As a result, the company's development trajectory is shaped under the influence of the countervailing forces of their conflicting coalition, so the submission of non-financial reporting is associated with the need to provide stakeholders with information on the company in the process of decision-making (Owen, 2008; Dragu and Tiron-Tudor, 2014; Duran and Rodrigo, 2018). Due to this, in practice, in the disclosure of non-financial information the emphasis shifts towards the stakeholders which are regarded by the company as the most important for its survival and prosperity (including investors) focusing on the primary satisfaction of their requests and interests (Livesey, 2002; Deegan 2019; Dameri and Ferrando, 2022).

Due to a common base in the form of contract theory, three theories (agency theory, signalling theory, and positive accounting theory) offer complementary interpretations of the internal mechanisms of stimulating economic agents to prepare non-financial statements in the conditions of uneven access to information. The agency theory considers the disclosure of non-financial information as an important component of the moral risk management mechanism of the company management (in the status of agents) arising in their relations with the owners (in the status of principals) aimed at increasing trust between them by minimizing information asymmetry (Menicucci and Paolucci, 2018; Alfalah et al., 2022). Signalling theory is also focused on the problems of information asymmetry and interprets the disclosure of corporate non-financial reporting as a voluntary transmission by an agent of reliable information about its hidden characteristics (or qualities) to the principal to attract new investments and improve its reputation (Shehata, 2014; Zyznarska-Dworczak, 2018a). A key assumption of this theory lies in the fact that sending a signal is beneficial to the signaller. At the same time, to obtain the favour of the owners, managers may resort to the selective disclosure of information in favour of the company's achievements in the environmental and social areas, which in the absence of clear regulation of the content of such reporting will not contribute to the solution of the problem, but, in the contrary, it will deepen the problem of information asymmetry (Mio et al., 2020). The positive accounting theory regards the additional disclosure of non-financial information as a tool for gaining the approval of, first of all, regulatory bodies as a contribution of accounting services to the achievement of the general goal of maximizing the utility of the company. This disclosure is supposed to be carried out as part of corporate reporting, considering the requirements of accounting standards and the approved accounting policy, which is an integral part of the company as a set of internal and external contracts (Setyorini and Ishak, 2012). At the same time, researchers indicate the secondary nature of the arguments proposed by the positive accounting theory in relation to the legitimacy in terms of the companies' compliance with the contract with the community in which they operate. In general, this impugns the independence of this theory to justify the motives for disclosing non-financial information (Maama and Mkhize, 2020).

The drivers for voluntary disclosure of non-financial information by the companies are considered when justifying the obligation of the companies to prepare non-financial reporting. However, the formation of its logic and establishment of organizational practice takes place under the determining influence of the institutional theory (Hoffmann et al., 2018; Brower and Dacin, 2020; Carungu et al., 2021). Since the obligation to prepare non-financial reporting stems from the requirements of regulatory and legal acts, the reporting itself becomes a product of the coercive mechanism of institutional isomorphism, which is implemented in the interests of most stakeholders through the joint efforts of supranational and national institutions with an active involvement of professional and public organizations (Herold, 2018; Gao et al., 2019). The practical value of applying this theory also lies in the fact that its tools are aimed at forming clear rules for the preparation of non-financial reporting, which should ensure the comparability of its indicators and the introduction of responsibility for the completeness and reliability of reported data (Higgins et al., 2018; Kılıç et al., 2021). However, nowadays, the heterogeneity of the institutional environment and differences in the motives of reporting entities cause only excessive variability in the practice of sustainable development reports (Mahmood and Uddin, 2021).

The applied nature of both corporate reporting and accounting, which is closely related to it, historically determines the dominance of a pragmatic approach during the selection and application within their framework of those methods, rules, and procedures, which in the shortest possible time after the appearance of another problem in accounting and reporting practice are recognized as suitable for practical work by most specialists. However, the verification of the used methodological tools for compliance with any of the suggested hypotheses for solving this problem is usually either not carried out at all or its results are secondary and are not considered. At the same time, the observations over accounting and reporting practice and the study of the methods, rules and procedures used in it are not able to provide a comprehensive explanation of the nature and functions of non-financial reporting, since the theories formed on such a basis are detached from the context of the external economic and social environment where this reporting originated and is developing. Therefore, they do not contain the ideas necessary to substantiate the logical structure of achieving its goal and understanding the relationships with contiguous phenomena and events that are not contained in the initial descriptions. In turn, M. Weber assumed that it is the

establishment of adequate causal relationships that allows us to understand historical phenomena in their originality (Weber and Kalberg, 2013), thereby reducing the category of adequacy to one of the main methodological categories in his research.

In general, it can be concluded that most of the research on the motivation of disclosure of non-financial information is based on the analysis of the existing practice and inductive reasoning in favour of specific circumstances that encourage companies to submit non-financial reporting. However, only by observing the reporting practice where a pragmatic approach is mainly used, nowadays it does not seem to be possible to fully understand the nature of corporate reporting, moreover, to choose the optimal hypothesis with a high predictive power and the greatest degree of coverage of relevant aspects of reality for the formation of the system of principles of non-financial reporting. In turn, the multi-aspect nature of the reporting practice leads to the dispersion of the field of study. Therefore, its theorization takes place in the direction of the development of theories of specific nature, which successfully combine the results of observations, but they are not able to comprehensively explain this phenomenon and to predict its development trends.

The purpose of the article is to check the possibilities of using the results of scientific research on motivational theories of disclosure of non-financial information as a basis for the formation of a system of principles of non-financial reporting designed to promote the harmonization of reporting standards and to ensure the comparability of the indicators of this reporting in the conditions of the expansion of the global practice of its submission by economic entities on both a voluntary and mandatory basis.

## Research Design and Methodology

To achieve the purpose, the following methods, and techniques of the theory of knowledge are used in the article: bibliometric and linguistic analysis of scientific publications, analysis, synthesis, deduction, ascent from the abstract to the concrete, system-structural approach, and generalization. The bibliometric analysis applied to the scientific publications indexed in the SCOPUS devoted to the reasons for the disclosure of non-financial information about their activities by the companies allowed determining the most popular strategic theories of non-financial reporting as thematic guidelines for the formation of its principles. The use of such interdependent methods of cognition as analysis and synthesis provided the possibility of contextual research of the keywords in scientific publications selected based on the results of linguistic analysis in terms of establishing the correspondence between the semantic characteristics of research by each of the selected theories and the key functional aspects of the mechanism of disclosure of non-financial information. The methods of deduction and ascent from the abstract to the concrete ensured the adaptation of the content substance of each of the selected theories to the specifics of the practice of corporate reporting with subsequent formulation of specific principles of compiling non-financial reporting on this basis. Due to the use of the generalization method and the system-structural approach, the obtained results (as separate principles for the preparation of non-financial reporting) are combined into a coherent system that universalizes the process of standardization of non-financial reporting.

Within this study, an attempt was made to build a unified system of principles for the preparation of non-financial reporting through the combined application of the above-mentioned approaches in the following sequence: 1) definition of the key theories used to explain the reasons for the disclosure of non-financial information by the companies about their activities; 2) establishment of adequate connections between the postulates of individual theories and the emergence and further evolution of the phenomenon of non-financial reporting; 3) formalization of the identified causal relationships into the system of principles for preparing non-financial reporting.

## Results and Discussion

The general trends in the development of scientific research in a certain area are determined by the number of publications which are cited, thus proving their quality parameters and scientific impact. Therefore, to ensure an objective selection of the most common theories on information disclosure in non-financial reporting the tools of bibliometric analysis were used. Primary data for the bibliometric analysis was obtained on July 15, 2022, from the SCOPUS (Table 1) after cross-checking with the Web of Science Core Collection, the results of which showed that the coverage of the SCOPUS is better than that of the Web of Science Core Collection. Similar conclusions about the SCOPUS's larger journal coverage were also made by other authors, both in relation to social sciences and humanities in general (Mongeon & Paul-Hus, 2016) and in relation to studies of non-financial reporting (Turzo et al., 2022).

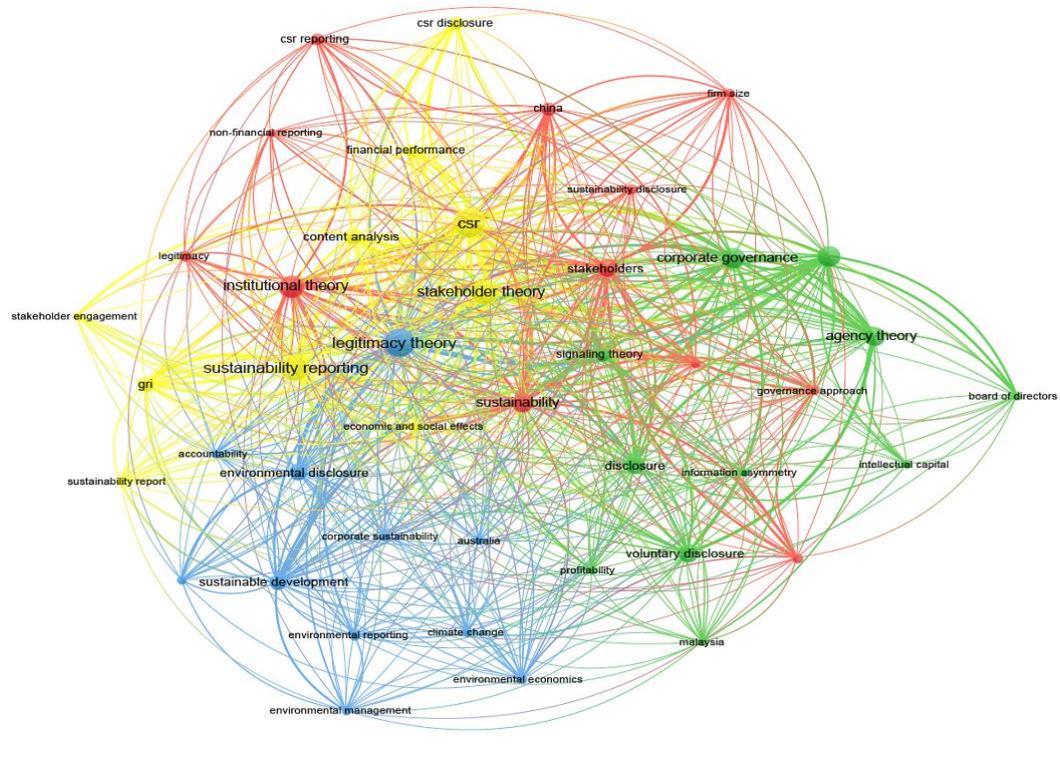
As can be seen from the data in Table 1, the legitimacy, stakeholder, institutional and agency theories are the most popular in research on the disclosure of information in non-financial reporting, which collectively account for 974 publications out of 1062 (over 91.7%) and 36,859 citations out of 38,989 (about 94.5%). Such a significant level of scientific and applied development of the above-mentioned four theories objectively indicates that their provisions and conclusions can be considered the most suitable for the formation of a unified system of principles of non-financial reporting.

**Table 1.** Criteria and parameters for selecting scientific articles devoted to the theories of information disclosure in non-financial reporting and placed in the SCOPUS as of July 15, 2022.

Theory name	Request form	Article publication period	Articles by request		Articles citation from column 4	
			number	specific weight (%)	number	specific weight (%)
Legitimacy theory	“legitimacy theory” AND*	1989-2022	334	31,45	17379	44,57
Stakeholder theory	“stakeholder theory” AND*	1997-2022	270	25,42	7089	18,18
Institutional theory	“institutional theory” AND*	2004-2022	202	19,02	7134	18,30
Agency theory	“agency theory” AND*	1995-2022	168	15,82	5257	13,48
Signaling theory	“signaling theory” AND*	2002-2022	82	7,72	2032	5,21
Positive accounting theory	“positive accounting theory” AND*	2007-2022	6	0,56	98	0,25
Theory of intergenerational equity	“intergenerational equity” AND*	x	0	0,00	0	0,00
Total			1062	100,00	38989	100,00

**Source:** designed by the authors using the tools of the SCOPUS. **Note:** \* – “corporate disclosure” OR “CSR reporting” OR “CSR disclosure” OR “environmental disclosure” OR “integrated reporting” OR “non-financial information” OR “non-financial reporting” OR “sustainability reporting” OR “sustainability disclosure” OR “voluntary disclosure”.

In order to identify the adequate connections between the selected theories and non-financial reporting, at the next stage of the research, a linguistic analysis of the selected 974 publications was carried out using VOSviewer and a preliminary combination of identical keywords that appeared in the singular and plural, abbreviations and phrases in the British and American English, as well as a shingle search option for keywords with at least 15 mentions. As a result of these actions, a sample of 44 keywords was formed, which was used to build a bibliographic map (Fig. 1) and clusters (Table 2) of the total set of selected terms.



**Fig. 1.** Bibliographic map of a sample of scientific articles devoted to the theories of information disclosure in non-financial reporting and indexed in the SCOPUS as of July 15, 2022.

**Source:** made by the authors using VOSviewer.

When studying the results of clustering of the formed sample of keywords in detail, it should be noted that each of the four selected strategic theories of disclosure of non-financial information was attributed to a separate cluster by VOSviewer automatically in compliance with the given algorithms, which are focused on determining the

thematic proximity of the terms mentioned in the analysed publications. It can be interpreted as a sign of the uniqueness of the thematic focus of the scientific publications which they are devoted to. The further analysis of the keywords that were included in each of the formed clusters allowed us to single out the most significant, in our opinion, semantic characteristics of non-financial reporting research within the publications for each of the selected theories.

**Table 2.** Content of keyword clusters.

Cluster color	Keywords
Red	China, corporate strategy, CSR reporting, firm size, governance approach, <b>institutional theory</b> , legitimacy, non-financial reporting, regression analysis, stakeholders, sustainability, sustainability disclosure
Green	<b>agency theory</b> , board of directors, corporate governance, disclosure, information asymmetry, integrated reporting, intellectual capital, Malaysia, profitability, signaling theory, voluntary disclosure
Blue	accountability, Australia, climate change, corporate sustainability, environmental disclosure, environmental economics, environmental management, environmental performance, environmental reporting, <b>legitimacy theory</b> , sustainable development
Yellow	content analysis, csr, csr disclosure, economic and social effects, financial performance, gri, stakeholder engagement, <b>stakeholder theory</b> , sustainability report, sustainability reporting

**Source:** made by the authors using VOSviewer. **Note:** At least 6 objects (keywords) are included in each cluster.

The selection of the most significant semantic characteristic for each of the selected theories was carried out in two successive stages. At the first stage, keywords were extracted within each cluster, which:

- were already used to draw a sample of publications (*CSR reporting, csr disclosure, environmental disclosure, integrated reporting, non-financial reporting, sustainability reporting, sustainability disclosure, voluntary disclosure* and are also close to them in terms of content – *csr, disclosure, environmental reporting, gri, sustainability report*);
- characterize the peculiarities of the analysed publications out of context of the study of non-financial reporting (*Australia, board of directors, China, content analysis, financial performance, firm size, intellectual capital, Malaysia, profitability, regression analysis*).

At the second stage, the keywords that remained in the clusters were analysed for their correspondence to the content of the selected theories. Thus, in the cluster of legitimacy theory, in our opinion, this characteristic is accountability, which correlates with the opinion of supporters of this theory that non-financial reporting should inform its users about the effects and risks of the reporting entity's activity to society and the environment. In the cluster of stakeholder theory, it is economic and social effects, because within this theory non-financial reporting must satisfy the requests of the stakeholders considered by the company important for its survival, while they may have diametrically opposed goals and interests. In the cluster of agency theory, it is information asymmetry, because this theory interprets the preparation of non-financial reporting as one of the mechanisms for minimizing uneven access to information. In the cluster of institutional theory, it is governance approach, since the toolkit of this theory is aimed at forming clear rules for the preparation of non-financial reporting, which should ensure the comparability of its indicators and eliminate the existing variability in the practice of sustainable development reports.

Considering the substantive essence of each of the selected theories, the identified characteristics provide grounds for delineating the functional aspects for the non-financial information disclosure mechanism and structuring on this basis a general list of potential principles for compiling non-financial reporting into a coherent system (Fig. 2).

The formalization of the implemented drivers of business entities to disclose non-financial information into a regulatory mechanism for the preparation of non-financial reporting takes place based on the legitimacy theory and can be outlined with such principles of legality of non-financial reporting as:

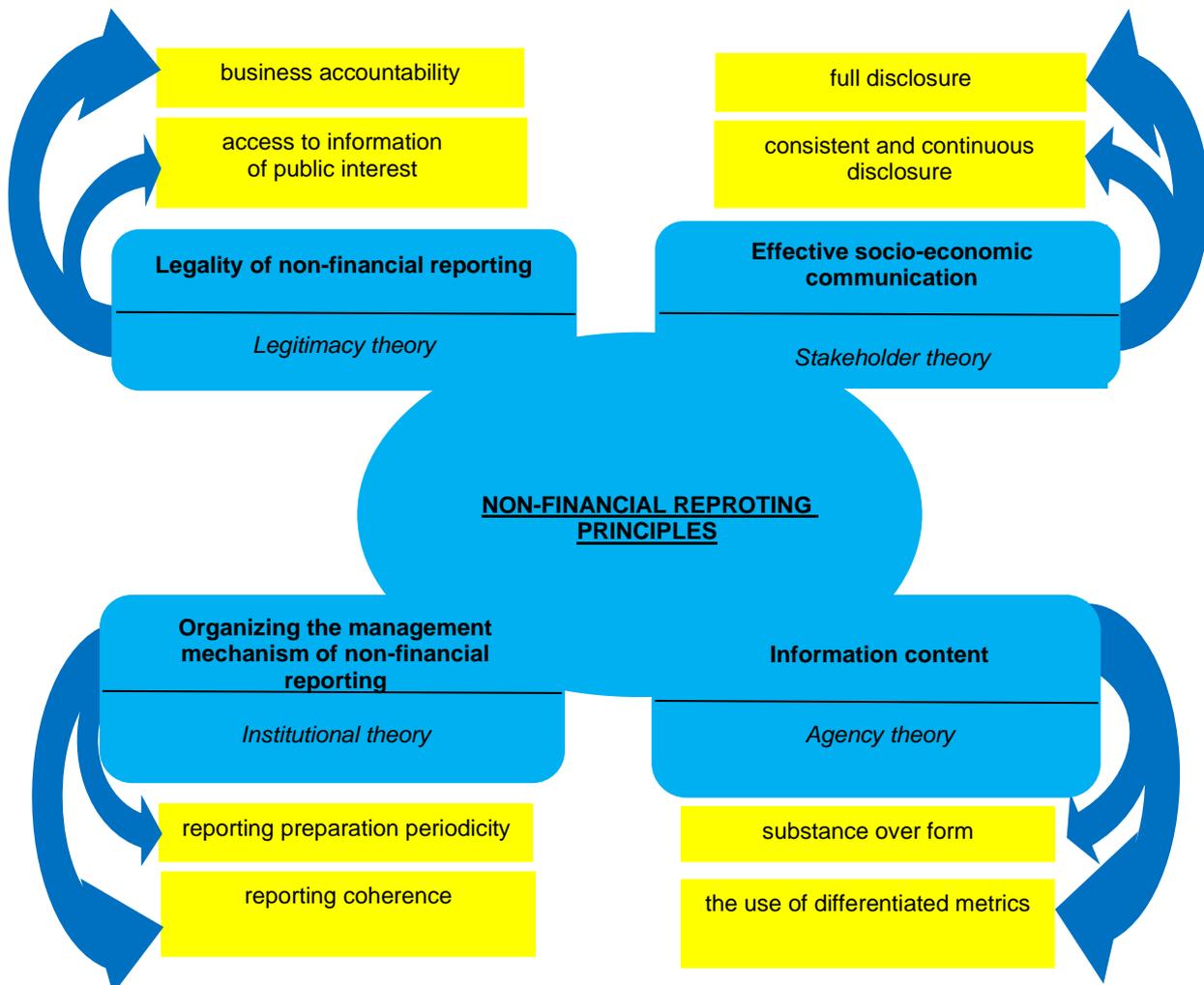
- business accountability – non-financial reporting is drawn up within the contract between the business entity and society, which expects that the activities conducted by this entity will meet the requirements and needs of the majority of its members and, as a result, increase its general good;
- access to information of public interest – non-financial reporting must meet the needs of a wide range of users who cannot put forward separate demands for a business entity to disclose information on the environmental safety and social responsibility of its business practices, as well as its compliance with the principles of sustainable development.

Since the stakeholders of the company may have diametrically opposed interests, the publication of non-financial reporting to meet their information needs in the process decision-making on the company should be based on the principles of effective socio-economic communication, which are supported by the ideas of the stakeholder theory:

- full disclosure – non-financial reporting must contain all information about actual and potential

consequences of economic activity that may affect decisions made by stakeholders on its basis;

- consistent and continuous disclosure – the application by the company for the preparation and submission of non-financial reporting of principles, methods and procedures on an unchanged basis and assumed that its activities will continue in the future.



**Fig. 2.** The system of principles for preparing non-financial reporting. **Source:** designed by the authors.

Minimization of information asymmetry through the preparation of non-financial reporting, as postulated by the agency theory, can be achieved only with a simultaneous solution of the problem of user trust in the reported content and should be implemented according to the principles of information content:

- substance over form – economic facts and events are reflected in non-financial reporting according to their substance, not only based on the legal form;
- the use of differentiated metrics – in non-financial reporting of the company, the metrics of the objects and their interrelations are used, which ensure the suitability of using this information to achieve the goals faced by the users in the process of decision-making about the company.

The homogenization of the organizational practice of preparing non-financial reporting with a simultaneous determination of its place in the governance system of the business entity occurs under the pressure of institutional isomorphism in the interests of most stakeholders and relative convenience for reporting entities, and it should be ensured by such principles of organizing the management mechanism of non-financial reporting as:

- reporting preparation periodicity – in order to make non-financial reporting the business entity's activities are divided into specific time periods;
- reporting coherence – a unified system of collecting and processing information in a qualitative and/or quantitative form about business performance, financial, social, and ecological risks, threats, opportunities of the reporting entity is used to prepare non-financial reporting.

The evolution of non-financial reporting is slowing down due to the inconsistency of the positions of numerous groups of stakeholders, each of which has its own vision of the direction of its further development implemented

by introducing incomparable standards for its preparation (Tschopp and Huefner, 2015). In turn, the harmonization of standards and recommendations for the preparation of non-financial reporting not only increases the general level of this reporting, but also contributes to the harmonization of sustainable business practices of the companies from different countries (Fortanier et al., 2011), which emphasizes the importance and necessity of its successful implementation in the near future.

The formation of the content of non-financial reporting in accordance with the principles of the largest project for its harmonization within the EU – the NFI Directive (The European Parliament and the Council of the European Union, 2014) provides for the companies full freedom of action in terms of the development of their own approaches to non-financial reporting if they indicate the reasons for this (the “comply or explain” principle) and in terms of the disclosure of information related to future events or matters under negotiation, provided that such an omission will not prevent a fair and balanced understanding of the company’s development, performance and position (the “safe harbour” principle). Breijer and Orij (2022) concluded that the regular publication of non-financial reporting within the implementation of such international projects as the NFI Directive is one of the ways to achieve comparability of its indicators, especially if reporting entities have similar intentions and the target audience which the reported content is aimed at to meet their information needs. However, Testarmata et al. (2020) consider this level of flexibility of the companies regarding the structure and format of disclosure of non-financial information to be excessive and regard it as the main drawback of the NFI Directive that may prevent the achievement of its goals in case of insufficient efforts made by reporting entities to consistently implement fair and sustainable business practices. Other principles-based standards, the AccountAbility’s AA1000 Series, have been similarly criticized. Their excessive openness to interpretation increases the risks of their selective application by the companies (Reider-Gordon, 2013). As a result, the appropriateness of principles-based standards used for non-financial reporting, as well as the principles themselves of non-financial reporting are being questioned.

The Corporate Sustainability Reporting Directive (CSRD) implemented on January 5, 2023, stopped de facto the development of the concept of non-financial information and non-financial reporting in the EU initiated by the NFI Directive. Within the CSRD, the concept of non-financial information, which according to many stakeholders is “inaccurate”, because it implies that the information in question has no financial relevance, is proposed to be replaced with the term “sustainability information” (The European Parliament & the Council of the European Union, 2022) and a simultaneous replacement of the term “non-financial reporting” with “sustainability reporting”. In our opinion, this indicates that the NFI Directive failed due to its focus on reporting entities, which were provided with a high level of flexibility regarding the structure and format of disclosure of non-financial information. Instead, the requests and interests of the stakeholders in such reporting were apparently considered so insufficiently that, as a result, they refused to accept the basic concept of the NFI Directive. The companies subject to the CSRD will have to report for the first time in financial year 2024, for reports published in 2025, according to European Sustainability Reporting Standards (ESRS). As follows from the structure of the First Set of draft ESRS (European Financial Reporting Advisory Group, 2022a), this system is based on ESG.

Another innovation within the transition to sustainability reporting that is worth paying attention to is double materiality, which is mentioned twice in the CSRD as a perspective (par. 29 and par. 39) and once as a principle (par. 37) (The European Parliament & the Council of the European Union, 2022). In the November version of Draft ESRS 1 General requirements, it is called a principle (European Financial Reporting Advisory Group, 2022b, part 3). At the same time, the CSRD interprets double materiality as “perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective» (The European Parliament & the Council of the European Union, 2022, par. 29), while in ESRS 1 General requirements it reads that “double materiality has two dimensions, namely: impact materiality and financial materiality” (European Financial Reporting Advisory Group, 2022b, par. 40). It is obvious that like in case with the qualitative characteristics of information (European Financial Reporting Advisory Group, 2022b, part 2), which are proposed to be applied to sustainability reporting indicators, double materiality originates from the qualitative characteristics of useful financial information defined by the Conceptual Framework for Financial Reporting (The International Accounting Standards Board, 2018), where materiality is understood as “an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report” (The International Accounting Standards Board, 2018). It is worth noting that relevance is recognized as a fundamental qualitative characteristic of both financial and sustainability information. Therefore, materiality – regardless of whether it is single (ordinary) or double – is only an aspect of it. Thus, it is necessary to state once again that the qualitative characteristics of useful information are being advanced under the principles, because of reporting preparation, while the actual basic principles of sustainability reporting, as a process of forming its indicators, currently remain undisclosed.

The viability and effectiveness of the practical application of principles-based reporting standards is proved by the successful experience of financial reporting, the evolution of which is a useful comparative tool for analysing the prospects for the further development of non-financial reporting due to their sufficient similarity (Tschopp and Huefner, 2015). However, in the process of standardization of non-financial reporting, a general trend is observed when its principles are understood as qualitative characteristics of useful information because of compiling this

reporting. With this approach, the initial prerequisites for its formation, which should be established by basic principles, remain undefined. So, in the future, it makes impossible to harmonize non-financial reporting. Considering the things mentioned above, we believe that the prospects of the application of principles-based standards for the preparation of non-financial reporting directly depend on the relevance of the selected principles for the peculiarities of the process of preparing reporting data that contains mainly non-financial information.

## Conclusion

Because the system of principles of non-financial reporting formed because of this study is based on the assets of the most popular motivational theories of its implementation, it comprehensively covers completely different functional aspects of the mechanism of disclosure of non-financial information. It will increase the transparency of the process of forming non-financial reporting, strengthen the trust of stakeholders, contribute to its harmonization and comparability of reporting indicators.

Since the combination of non-financial and financial data provides a strategic vision of the results of the company's activities and the trajectory of its further development (Esch et al., 2019), non-financial reporting owes its dissemination primarily to the active position of those business stakeholders which in the processes of decision-making found reporting data in the monetary terms only to be insufficient. The use of differentiated metrics for the appropriate display of objects of non-financial reporting is its key feature, which should ensure the informative content of such reporting and thereby guarantee its right to exist in the future. While the 'substance over form' principle is a basic prerequisite for achieving such a qualitative characteristic of non-financial information as materiality, the need to ensure it is emphasized not only in voluntary, but also in mandatory regulations for the preparation of non-financial reporting. Because it is the materiality of the data that determines its value for stakeholders, the degree of its achievement will be of decisive importance for further prospects of the development of non-financial reporting as a global information phenomenon in the modern business environment.

The importance of the principles of legality of non-financial reporting is proved by the results of empirical calculations and content analysis of sustainability reports, which indicate that the legal requirement to display additional non-financial information leads to increased awareness of all stakeholders, especially if its reliability is proved by the external audit (Mio et al., 2020; Di Vaio et al., 2022). Strengthening the role of national and supranational institutions in the regulation of non-financial reporting by introducing a requirement for its mandatory and regular disclosure (Monciardini et al., 2020) determines such an approach to the organization of the management mechanism of non-financial reporting, which stipulates its preparation and provision to stakeholders with the periodicity established for most public corporate reports. Under such conditions, collecting and processing the information necessary for the preparation of non-financial reporting should be organized by a business entity within the coherent reporting system (Kaminski, 2019). It will guarantee the possibility of consistent and continuous disclosure of reporting data, which is positively perceived by investors and reduces the cost of investing capital as an important prerequisite for further business prospects (Tanaka, 2014). In combination with the principle of full disclosure that improves the overall quality of information provided to users (Tsagas and Villiers, 2020), it will ensure a significant increase not only in the credibility of the published non-financial statements, but also in the effectiveness of socio-economic communication of the reporting entity, as it will demonstrate its informational openness and lack of focus on meeting the needs of individual groups of stakeholders.

The limitations of the study are due to:

- 1) the criteria and parameters of the sample made of 974 scientific articles devoted to the theories of information disclosure in non-financial reporting and placed in the SCOPUS as of July 15, 2022.
- 2) In particular, the search for articles for the sample was made under the influence of the authors' subjective assessment of the most widely known motivational theories and terminology used to indicate the types of non-financial reporting. The formation of the sample as of July 15, 2022, objectively limited its size, which, taking into account the relevance of this topic, could grow significantly at the moment;
- 3) algorithms of VOSviewer that was used for linguistic analysis of the selected publications, including the construction of keyword clusters and a bibliographic map of the sample of scientific articles. It is possible that the use of a different software could provide the results differing from those obtained;
- 4) the subjectivity of singling out the most significant semantic characteristics of the analysed publications and formulating on this basis the principles of non-financial reporting for each of the selected theories. This limitation is directly related to the previous one, since the semantic characteristics of scientific studies were determined by keyword clusters formed in VOSviewer.

Moreover, with the implementation of the CSRD in 2023, which is designed to replace the NFI Directive, and the development of the First Set of draft ESRS in the EU, a new stage started in the development of the system of disclosure of information by business entities on "the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment" (The European Commission, 2022).

Certainly, these innovations will give new impetus not only to the practice of non-financial reporting, but also to scientific research in this area. The developers of the set of draft ESRS for the updated sustainability reporting system understand the importance of establishing the reporting principles for its qualitative development, although under the currently singled out principle of double materiality they are promoting aspects of the relevance of information as one of its fundamental qualitative characteristics.

Without claiming to be complete or final in terms of the set of principles proposed by us, we aim to stimulate interest in this issue, the lack of progress on which also adversely affects the development of principles-based non-financial reporting standards.

Further research in this area can be aimed at:

- empirical verification of the suitability of the proposed principles of non-financial reporting to use them in the modern realities of its preparation;
- scientific research using a different software and different approaches to forming a sample of scientific publications devoted to the theories of information disclosure in non-financial reporting for the bibliographic and linguistic analysis;
- substantiating the principles based on the practical experience of preparing sustainability reporting as a process of forming its indicators, which would fully correspond to both fundamental and enhancing qualitative characteristics of information.

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