Introduction

1. Motivation

The growing threat of a global environmental and social crisis poses urgent challenges for accounting scientists, regulators and businesses to deal with future pessimistic scenarios. The latest edition of the Carrots and Sticks report (Van der Lugt et al., 2020) shows that the ESG (environmental, social and governance) agenda goes mainstream. This report, among others, highlights the growing prominence of mandatory non-financial disclosure requirements, ones introduced by regulatory and self-regulatory actors in the public and market spheres. It also documents that Europe dominates in the numbers of non-financial reporting provisions. Moreover, the KPMG Survey of Sustainability Reporting 2022 (KPMG, 2022) indicated a continuous growth of sustainable reporting rates across Europe between 2011 and 2022, and the largest increase in the last two years, likely influenced by pressure from regulators, investors as well as ESG analysts and consumers.

In recent years, capital market participants have increasingly been prioritising the importance of non-financial information in the decision-making process. Thus, it was essential to ensure mandatory disclosure by reporting organisations. The EU has made progress towards meeting the information needs of investors and other stakeholders regarding long-term risk of environmental and social issues. To this end, the EU issued Directive 2014/95/EU (the Directive) on the disclosure of non-financial and diversity information (European Union, 2014), referred to as the Non-Financial Reporting Directive (NFRD). It also published Guidelines 2017/C215/01 on non-financial reporting (European Commission, 2017) with Supplement 2019/C 209/01 on reporting climate-related information (European Commission, 2019). According to the Directive, large companies (exceeding 500 employees) having headquarters in Member States are required to provide a series of ESG statements. Companies were expected to comply with the disclosure requirements of the locally transposed laws by 2018.

The pressure on companies to be more transparent is expected to grow with more regulatory action on the horizon, such as the Corporate Sustainability Reporting Directive (CSRD) and new mandatory standards, called the European Sustainability Reporting Standards (ESRS), which significantly and unprecedentedly extend the existing non-financial reporting requirements in the EU from 2024 onwards.

The present reporting obligation at the European level, as well as the global trend of mandatory ESG reporting, increases the need for a better understanding of its consequences and opens up new perspectives for research. Understanding the potential changes in the quantity and quality of disclosed information due to the implementation of regulations may be crucial not only for academics but also for practitioners and legislators when developing new or reviewing and updating the existing regulations, including those undertaken by the European Commission and by the governments of individual member states.

As Korca and Costa (2021) argue, the need for a longitudinal analysis that determines the actual impact of Directive 2014/95/EU on non-financial disclosures remains. Moreover, the authors suggest that future research in this avenue should consider the contextual factors and employ appropriate theoretical approaches in order to interpret the Directive's diverse effects.

Therefore, this monograph attempts to answer the above calls building a theoretical framework from complementary theories, such as legitimacy theory, stakeholder theory and institutional theory, and focusing on the non-financial reporting shift from voluntary to mandatory in a six-year period. It aims to examine whether the mandatory non-financial reporting under the Directive, as well as other relevant determinants, has an impact on the quantity and quality of disclosure practices in Poland, a country that has transposed the Directive into national law with the Accounting Act (AA, 2016).

Focusing on Poland, which belongs to the region of Central and Eastern Europe (CEE), was justified for the following reasons. First, as Albu et al. (2021) note, more research is needed on the formation of the social and environmental reporting field in economies outside the West, and especially in CEE countries. These countries have a unique institutional context, which is likely to shape reporting practices, because they faced a dramatic transition from the communist ideology to the free market economy. Second, in CEE countries, the sustainability reporting rates are clearly lower than in Western European countries. However, since 2017, possibly due to the NFRD institutional changes, this gap has been shrinking as reporting rates in Eastern Europe have increased significantly, while growth has slowed down in Western Europe (KPMG, 2020). Third, Matuszak and Różańska (2021) note that companies subject to the NFRD in Poland are the largest setting in the CEE region. Therefore, the authors recommend their analysis in order to draw conclusions relevant for the rest of the region. Forth, the Polish setting is, as Zarzycka and Krasodomska (2022) believe, not only interesting but also relatively unexplored.

2. Content

Throughout ten chapters of this book, we refer to non-financial reporting and we ask how the Directive has shaped the quantity and the quality of specific information disclosed by Polish listed companies and assess its effectiveness as a regulatory instrument.

In chapter 1, we explore the effect of the Directive on the disclosure of sustainability aspects in the description of business models and the quantity and quality of relevant non-financial key performance indicators (KPIs). Our findings show that despite a significant improvement after the introduction of the Directive, strategic sustainability issues both affected by and influencing a company are still scarcely disclosed in business model descriptions. Furthermore, we have found that the percentage of companies disclosing at least one non-financial KPI anchored to the company's business model increased significantly in the period after the introduction of the Directive. We have also documented a general reduction in the average number of non-financial KPIs and a decrease in their overall quality after the implementation of the Directive.

In chapter 2, we investigate the extent of non-financial disclosure related to policies and their outcomes and its determinants that refer to regulatory changes as well as to skills and competencies of companies in sustainability reporting. Our examination shows that the extent of non-financial disclosure related to policies and their outcomes is significantly better than before the implementation of the Directive. Furthermore, we have found that such aspects as the Directive enforcement, company experience in sustainability reporting and company membership in a risky industry are significant determinants of non-financial policy-related disclosure.

In chapter 3, we study both the extent and determinants of non-financial disclosure related to risks and their management. Following the results, it may be stated that the extent of non-financial disclosure related to risks and their management is significantly better than before the implementation of the Directive. Moreover, we have found that such aspects as the Directive implementation, company experience in sustainability reporting and company membership in a risky industry are significant determinants of non-financial risk-related disclosure.

In chapter 4, we examine both the role of primary (investors, creditors, consumers and employees) and secondary (environment, regulators that require mandatory environmental disclosure under the Directive and standard setters) stakeholder groups on the company's environmental disclosure. The findings show that the extent of the environmental disclosure is significantly affected by the demands of stakeholder groups. Among primary stakeholder groups, only customers exert a strong influence on environmental disclosure. As for secondary stakeholder groups, the environment, regulators and standard setters all greatly influence environmental disclosure practices.

In chapter 5, we investigate the role of primary (investors, creditors, consumers and employees) and secondary (environment, regulators that require mandatory environmental disclosure under the Directive and standard setters) stakeholder groups on the company's employee-related disclosure. We have documented that the extent of the employee-related disclosure is significantly affected by the demands of stakeholder groups. Among primary stakeholder groups, only customers exert a strong influence on employee-related disclosure. As for secondary stakeholder groups, the environment, regulators and standard setters all greatly influence employee-related disclosure practices.

In chapter 6, we explore human rights reporting practices by looking at both the extent of disclosure and the coercive determinants of that extent, in particular the potential pressure from the regulator that requires mandatory disclosure under the Directive. According to the results, the Directive enforcement is associated with the extent of human rights disclosure. Furthermore, inclusion in the Respect Index is positively related to human rights reporting, while the UN Global Compact participation did not turn out to influence on human rights reporting.

In chapter 7, we examine anti-corruption reporting practices by looking at both the extent of disclosure and the coercive determinants of that extent, in particular the potential pressure from the regulator that requires mandatory disclosure under the Directive. Our examination shows that the Directive enforcement has significantly increased the extent of anti-corruption disclosure. Surprisingly, such aspects as inclusion in the Respect Index, government ownership and foreign ownership are not significant determinants of anti-corruption reporting.

In chapter 8, we investigate corporate community involvement disclosures by looking at both the extent and the coercive determinants of that extent, in particular the potential pressure from the regulator that requires mandatory CCID under the Directive. The results show that the Directive enforcement is associated with the extent of corporate community involvement disclosure. However, the study has found no significant support for the relationship between community pressure and corporate community involvement disclosure.

In chapter 9, we investigate whether making non-financial disclosures obligatory affects their materiality. According to the results, the materiality of non-financial disclosure has increased over the years under analysis. Moreover, the implementation of the Directive has positively influenced the materiality of non-financial information.

In chapter 10, we examine the differences in the reliability of non-financial disclosure over the period surrounding the implementation of the Directive. We have documented that the reliability of non-financial disclosure has significantly increased over the years under analysis. Furthermore, the implementation of the Directive has positively influenced the reliability of non-financial information.

3. Innovation in the subject

Overall, this research monograph contributes to the ongoing debate on the effects of mandatory ESG regulations (such as the NFRD) on non-financial reporting and the influence of the Directive on promoting sustainable development.

More specifically, this book contributes to the sustainability accounting literature in several different ways. It enriches the literature on non-financial reporting by providing self-constructed non-financial disclosure indexes based on the requirements of the Directive. It contributes to the understanding of the role of the Directive and other relevant variables in non-financial disclosure related to business model, key performance indicators, policies and their outcomes, risks and their management, environmental and employee disclosure, human rights and anti-corruption disclosure as well as community involvement disclosure. In particular, it contributes to the understanding of the role of secondary stakeholders in environmental and employee-related disclosure. It also presents the role of accounting as an impetus for companies to diminish their detrimental social consequences and the contribution of accounting to the struggle against corruption. Additionally, it depicts the role of accounting in promoting human rights and effective enforcement of corporate responsibility for respecting human rights. Thus, it expands knowledge about three specific subsets of non-financial reporting, namely community involvement disclosure, anti-corruption disclosure and human rights disclosure. Furthermore, it sheds new light on the matters of strategic sustainability in business model disclosure and the corresponding non-financial KPIs, which, to the best of our knowledge, have not been investigated before. Moreover, it provides novel evidence about non-financial risk-related disclosure that has been scarcely examined so far. It also contributes to the understanding of the impact of the Directive on the materiality and reliability of those disclosures. It has important implications for policymakers, as it reveals that companies have responded positively to the regulator's pressure by increasing non-financial disclosure in all studied content items and across all thematic aspects. It also reveals that mandatory regulations form a crucial instrument in improving the materiality and reliability of non-financial disclosure. Our research suggests that, due to the Directive implementation, stakeholders will be provided with more non-financial information that is more material and more reliable. Thus, the quantitative research conducted in the Polish setting confirms the relatively high effectiveness of the Directive in the three-year period from its implementation in terms of the quantity and quality of the required disclosure. Therefore, this study supports the legitimacy theory and its relationship to stakeholders and institutional theories, according to which, public expectations of companies change through the issuance of mandatory regulations for non-financial reporting, and companies are expected to follow “norms” to maintain their legitimacy.

To sum up, the novelty of this publication lies in the following: (1) it disentangles the quantity of non-financial disclosure into five thematic aspects (environment, employees, human rights, anti-corruption and community involvement) and six content items (business model, non-financial KPIs, policies — including due diligence processes implemented and outcomes of these policies, principal risks and managing these risks) and develops individual non-financial indices in the cross-section of these dimensions, taking into account the requirements of the Directive; (2) it focuses on the rarely examined specific subsets of non-financial reporting, for example, anti-corruption, human rights, community involvement and risk-related disclosure; (3) it disaggregates the quality of non-financial disclosure into materiality and reliability and develops self-constructed indices applying the non-financial reporting regime introduced by the Directive and EU Guidelines; (4) it is the first study to test the effectiveness of the Directive, comprehensively taking into account the quantity and quality of disclosures over such a long period of time — three years before and three years after the implementation of the Directive; (5) it explores the relevant determinants of non-financial disclosure, including company characteristics (size, profitability, leverage, industry), corporate governance measures (state ownership, foreign ownership, CSR committee), primary stakeholders (investors, creditors, consumers and employees), secondary stakeholders (environment, regulators, standard setters, e.g., GRI and NFIS), experience in sustainability, stand-alone sustainability reports, external assurance, international presence, public expectations, participation in the UN Global Compact as well as inclusion in the Respect Index.

4. Audience

This monograph is an attempt to contribute to the new but currently dynamically developing direction of basic research in the discipline of "economics and finance" concerning non-financial reporting. The publication has an international reach and is targeted at a wide range of users. The authors recommend this publication primarily to academics around the world, but also to university lecturers, PhD students and other students, as well as persons interested in sustainable development, corporate social responsibility and non-financial disclosure in the broadly understood corporate reporting, hoping that it will prove useful in their scientific work and professional practice.

Due to the range of non-financial issues, the monograph is also addressed to capital market participants, especially investors who make investment decisions and look for material and reliable non-financial information which enables risk assessment. It is also intended for the managerial staff of companies that are subject to the current mandatory regulations as well as those that will be subject to non-financial reporting in the future (from 2024).

By establishing the effectiveness of mandatory regulations on non-financial reporting, the monograph is addressed to legislators aiming to revise their requirements as well as to extend and update them in the future (such as the European Commission). The authors also recommend the monograph to authorities that operate in countries outside Europe and consider the introduction of similar regulations aimed at increasing the ESG disclosure.

5. Compliance with the interests of the Poznań University of Economics and Business and regulations related to the evaluation of scientific activity

Finally, the authors would like to emphasise that this publication is in line with the interest of the Poznań University of Economics and Business (PUEB) and compliant with the regulations related to the evaluation of scientific activity.

First, the research field of ESG reporting in this monograph is part of one of the "Key Research Areas of the Poznań University of Economics and Business for 2022–2024", namely "Sustainable and resilient economy".

Second, it is consistent with its mission and vision, and is corresponding to all three strategic goals of the PUEB Strategy.

With regard to the PUEB mission, the publication is based on the principle of responsibility for the quality of scientific research and may set trends in scientific research related to non-financial reporting.

In line with the PUEB vision, the publication contributes to global economic knowledge on non-financial reporting and contributes to social progress in line with the goals of sustainable development.

This publication implements strategic goal number 1 of the PUEB Strategy "Improving the quality of scientific research and education", as it contributes to acquiring the best possible category (A+ or A) in the evaluation of scientific activity. Firstly, as a research monograph published in the PUEB Press within the scientific discipline of "economics and finance", it scores points under the first evaluation criterion. Secondly, it can win points under the third evaluation criterion, because this publication has a potentially significant social impact. The benefits that can be achieved thanks to it include:

- improving and extending the scope of mandatory regulations on non-financial reporting,
- motivating companies to the actual implementation of processes, measuring and improving performance in the ESG area,
- addressing the expectations of investors by providing more material and reliable ESG disclosures, enabling them to make appropriate risk assessment and strategic investor decisions,
- redirecting financial capital to companies which address key economic and social challenges.

This, in turn, can translate into real social benefits, such as: helping to fight climate change, improving the safety and health of employees, increasing the quality of life of the local community, promotion of human rights and effective enforcement of business responsibility for respecting human rights and struggling against corruption. It should also translate into building a competitive, innovative, climate-neutral, fair and inclusive economy.

This publication aims to achieve goal number 2 of the PUEB Strategy "Enhancing usefulness and attractiveness of PUEB for internal and external stakeholders based on sustainable development goals" by selecting and carrying out research that is compatible with sustainable development of society and the economy.

This publication also meets strategic goal number 3 of the PUEB Strategy "Strengthening international position of PUEB", because it increases the recognition of PUEB's academic staff in the international dimension (abroad).

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