

**Non-financial reporting as sustainable development innovation. The perspective of neo-institutional theory**

Maria Aluchna, Ph.D., [maria.aluchna@sgh.waw.pl](mailto:maria.aluchna@sgh.waw.pl)

Associate Professor, Department of Management Theory, Warsaw School of Economics

Maria Roszkowska-Menkes, Ph.D., [maria.roszkowska-menkes@sgh.waw.pl](mailto:maria.roszkowska-menkes@sgh.waw.pl)

Assistant Professor, Department of Management Theory, Warsaw School of Economics

## **Abstract:**

**Introduction:** Non-financial reporting has developed significantly in the past four decades. It originated from CSR and environmental disclosure to provide a complex communication to various stakeholders. In its current version non-financial reporting is evolving towards integrated reporting that delivers a complete picture of company multidimensional performance and reveals interdependencies between business, society and environment. It also exemplifies the advanced corporate communication to numerous groups of stakeholders and constitutes a strategic response to social, cultural, institutional and regulatory pressures. Non-financial disclosure is perceived as one of the most important innovations in sustainable development which allows to operationalize its principles and supports its implementation in the organizational context.

**Literature review:** The paper aims to identify organizational responses to institutional change which is exemplified by the new regulations on non-financial reporting introduced by 2014/95/EU Directive. According to the neo-institutional theory (Meyer and Rowan, 1977; Deephouse, 1996; Roberts and Greenwood, 1997) organizations have different motivations in their reactions to changes in the environment.

**Methodology:** In the conceptual paper we offer a framework of companies modes in reaction to the institutional change exemplified by the new regulation on non-financial reporting introduced in 2014/95/EU Directive. We propose that these different reactions in the form of reporting quality may be explained by a number of organizational attributes and environmental characteristics.

**Results:** Organizations implement the rules on non-financial reporting using various strategies – some view this regulation as an opportunity for development and dialogue with stakeholders, some treat the rules instrumentally to gain legitimacy of their constituencies, others perceive new law as additional costs and regulatory obligations which hinder the core activity. Introducing the rules of 2014/95/EU Directive companies undergo different isomorphic mechanisms including coercive, mimetic and normative mechanisms (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999).

**Implications and value:** We develop the framework of organizational responses by Oliver (1991) which may include acquiescence, compromise, avoidance, defiance and manipulation. We add that these responses may be explained by different motivations which derive from numerous

organizational attributes such as firm size, ownership structure, financial performance, market position and environment characteristics including competitor structure (market shares, concentration, industry regulations, market growth, unionization rate, sectorial impact on the natural environment (pollution) and society. According to the concept of path dependence the company reaction to institutional change and adopted strategy is also the result of its historical activity.

**Keywords:** non-financial reporting, sustainability/ CSR disclosure, sustainability innovation, 2014/95/EU Directive, neo-institutional theory