INTEGRATION OF NON-FINANCIAL INFORMATION INTO CORPORATE REPORTING: A THEORETICAL PERSPECTIVE

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ABSTRACT

Firms are adopting integrated reporting (IR), despite been voluntary in many countries. Meanwhile, the disclosure of these additional non-financial information (NFI) requires economic, human and capital resources. The question posed is: why do firms spend time and resources to provide information that is not mandated by any standard or law? This study, through a theoretical perspective examines why firms provide voluntary non-financial information. The study adopted a critical literature review research approach. The findings of various studies on IR/NFI disclosure were critically reviewed to identify areas of consensus and areas of peculiarity. The study found that the legitimacy, institutional, signalling and inter-generational equity theories explain the IR practice of manufacturing, mining, petroleum and pharmaceutical industries, whose activities are perceived to have a negative impact on the society and the environment. On the other hand, firms in a service and trading industry, which are perceived to have a little negative impact on the environment and society are shaped by stakeholder, signalling, institutional and agency theories. Besides, strategic theories like legitimacy, institutional, signalling, agency, and inter-generational equity theories explain the integration of NFI into corporate reporting by firms in capital markets or countries that are heavily regulated. This study makes a unique contribution to the literature on corporate reporting, which is in its embryonic stage by identifying and contextualising the various theories underpinning the integration of non-financial information into corporate reporting.

Keywords: Non-financial Information, Corporate Reporting, Legitimacy Theory, Stakeholder Theory, Agency Theory, Signalling Theory, Institutional Theory.

JEL Classification: M41

INTRODUCTION

Since the turn of the century, an increasing emphasis is placed on separate ethical, environmental and social sustainability reporting such that firms are anticipated to obtain the integration of non-financial information (NFI) in their annual reports (Amel-Zadeh & Sarafeim, 2017). This integration is viewed as critical if firms are to include accountability to stakeholders into their core operations in a meaningful way (Kilic & Kuzey, 2018). This places a huge responsibility on corporate firms and accountants because of the complexity of handling a variety of users who require almost an unlimited range of information to make a decision. This is because there are several events that are potentially significant to different users. In addition, information needs are likely to be contradictory among different users.

One issue that is yet to be addressed in the field of integrated reporting (IR) is lack of standards to guide these firms on the set of non-financial information to include in their annual reports and how to report them. In addition, the disclosure of non-financial information by firms is voluntary in many countries. Meanwhile, the disclosure of these additional non-financial information requires additional economic, human and capital resources as well as exposing firms to litigation risk. It thus stands to reason that companies would avoid these extra costs unless there are expected quantifiable benefits. Besides, the inclusion of non-financial information exposes the activities of a firm to more scrutiny, and thus, some firms will be unwilling to report them. However, a number of companies have started to include non-financial information in their reporting practice (van Zyl, 2013; Ackers & Eccles, 2015; Mensah et al., 2017).

The question posed is: why do these companies spend time and resources to provide information that is not mandated by any standard or law? Besides, it is not known why firms include non-financial information in their annual reports. Answers can be found to these questions in two different ways. Both theories and empirical research methods can be used to find answers to this question (Omran & Ramdhony, 2015 and Kilic & Kuzey, 2018). In this paper, the theoretical aspect is explored to provide possible reasons why firms provide voluntary non-financial information despite its associated cost and strategic implications. This study is significant because, there are little efforts to identify and synthesise the various theories that drive the adoption of IR by firms. Since the field of IR is relatively young and evolving, there is the need to provide the theories that explain the inclusion of NFI (integrated reporting) by firms. The role of these theories needs to be situated in prospects in some form of realistic framework, which must then be subjected to analysis. The understanding of these theories of IR will broaden the understanding of why firms and organisations adopt IR. Moving forward, it also serves as a guide to firms on the adoption of IR. This study thus critically reviews the theories of non-financial information disclosure by firms and organisations.

THE CONCEPT OF INTEGRATED REPORTING

Integrated reporting, is a reporting practice that relates to the relationship between a firm and its physical environment and society, inclusive of disclosures on economic, community involvement, natural environment, human and intellectual capital, governance practice, risks, energy and product safety (Van Zyl, 2013; de Villiers et al., 2017). Therefore, IR provides non-financial information in the annual reports of a firm that offers investors and other users of corporate information the ability to influence the actions of a company. Burke and Clark (2016) argue that investors and investment professionals demand more integrated information, that is, the information they can rely on, clearly related to the business model, to the value creation of a firm and risk management. Some good sides of integrated reporting as reported by previous research are that it: takes account of past, present, and future information; links economic/financial and non-financial information; targets several stakeholders; provides succinct and material information and guarantees transparency of information (de Villiers et al., 2017).

The conceptual origin of integrated reporting is traced to two distinct bodies: the King Report on Governance for South African firms (King III) and the International Integrated Reporting Council (IIRC) in the United Kingdom (Abeysekera, 2013). The ambitious long term vision of IIRC for corporate reporting is to find ourselves in a world where integrated thinking and integrated management are implanted within the conventional business practice in the private and public sectors, assisted by integrated reporting as a corporate norm (IIRC, 2013). It is envisioned that the cycle of integrated reporting and integrated thinking will result in the productive and efficient allocation of capital, which will act as forces for financial sustainability and stability. An Integrated Reporting Framework (IRF) was subsequently launched to provide guidelines for the adoption and implementation of integrated reporting in 2013. The speed of the development of the framework is a testimony to the meteoric rise of integrated reporting and the increasing global visibility and the importance of IIRC (van Zyl, 2013).

As has been indicated, the Integrated Reporting Framework does not contain any obligatory disclosure requirements for integrated reports. The personal perspective of each firm in reporting its value creation process is thus respected. This means that firms are at liberty to integrate any form of non-financial information about value creation they deem fit to communicate to users. However, the framework offers some basic concepts: the value creation for shareholders and other stakeholders and the process of creating the value. The practice of integrated reporting in the field of corporate reporting can be situated along with financial reporting, governance, intellectual capital reporting, environmental reporting and social reporting (Abeysekera, 2013). The framework thus encourages companies to strategically approach the effects of these components on them.

METHODOLOGY

This study is a critical literature review. Thus an exploratory study technique was adopted using existing literature. Specifically, the study undertook a critical literature review of one hundred and twenty-nine (129) studies on the non-financial information reporting. The continental distribution of the literature reviewed comprises thirty-nine (39) from Africa; thirty-seven (37) from Asia and Australia; twenty-eight (28) from Europe and twenty-five (25) from both South and North America. A desktop analysis was adopted using existing literature of similar themes. These studies were reviewed using thematic analysis and the findings belonging to similar themes were grouped and analysed together.

ANALYSIS AND DISCUSSIONS

Literature provides that seven theories can be used to explain why firms engage in non-financial information disclosure. These theories include legitimacy theory; stakeholder theory; signalling theory; agency theory; positive accounting theory; institutional theory and intergenerational equity theory. The following section discusses the various theories within the framework of integrated reporting.

Legitimacy Theory

Several researchers such as Deegan & Rankin (1996), Branco & Rodrigues (2006), Wong (2011), Ghosh (2015) and Maama & Appiah (2019) have applied legitimacy theory to scrutinise the practices of non-financial information disclosure among companies. The legitimacy theory emerges from the realisation that the support firms obtain from society is important for their growth, image, and sustainability. To obtain and maintain such supports, these firms and organisations voluntarily provide certain non-financial information as a persuasive tool to enable the community to see their existence and activities as legitimate, genuine, supportive and appropriate (Maama & Appiah, 2019). This suggests that the legitimacy theory directly depends on the concept of social contract, which emphasises an organisation's dependence on its environment, the different expectations of society and an organisation's attempt to rationalise its presence in society through the legitimisation of its activities (Newson & Deegan, 2002).

Legitimacy here implies that firms normally strive to be seen to be responsible. As a result, Cormier & Gordon (2001) provided four strategies of legitimacy adopted by companies: to educate society about the purpose of the organisation; to change the perception of society concerning the company's activities; to distract or manipulate the attention of society, and to change the expectations of society. This implies that firms are inclined to disclose information about their activities, especially those involving social and environmental elements when society demands them to do so. Accordingly, advocates of non-financial information disclosures put forward transparency, communication, and accountability as the main reasons for firms to engage in CSR and environmentally friendly activities (Wong, 2011; Ghosh, 2015 and Mensah et al., 2017). The growing number of studies on legitimacy theory suggests that NFI disclosure is mostly an avenue to achieve the objectives of an organisation.

The findings in existing studies appear to indicate a legitimating purpose of NFI disclosure. Hogner (1982) conducted an early study of the extent of non-financial information disclosure of a US company for over 80 years. The study revealed that the disparity in disclosures might be connected to changing expectations from the constituents of society. In an examination of the variations in the non-financial information disclosure policies adopted by Australian firms in the era of established environmental prosecutions, Deegan & Rankin (1996) found that prosecuted firms made disclosures of more positive environmental information in the year they were prosecuted than any other years. Comparing them to firms that were not prosecuted, the authors found that those firms also disclosed more positive social and environmental information, possibly to divert attention from their environmental crimes. A similar observation was made by Bae Choi, Lee & Psaros (2013) to the effect that the tendency to disclose environmental and social information is also linked to the general attention society placed on the reporting companies.

Similarly, the attention by the media, particularly, may also lead to increased non-financial information disclosure (Deegan et al., 2002). In a study of large Australian companies over an extended period, Deegan et al. (2002) found a positive relationship between media attention and NFI disclosure. Therefore, it is submitted that the media can be a source of information that can be relied upon. In Canada, Magness (2006) studied the non-financial information disclosure of forty-four (44) companies and found that organisations that relied more on communication through press releases were inclined to disclose more environmental information voluntarily. This finding corroborates the findings of extant studies on the media's ability to focus on the concern of society on corporate environmental performance, which increases ESG disclosures (Brown & Dillard, 2014). In more recent studies, Plumlee et al. (2015) established that firms disclosed more information on responsible business practices as a response to increased media scrutiny. In Ghana, Mensah et al. (2017) found that manufacturing firms that are noted to have more negative environmental impacts disclosed more positive ESG information in their annual reports while Ackah & Lamptey (2017) found that banks in Ghana disclosed more social responsibility information than environmental information.

Some studies on IR have, however revealed that the disclosure of NFI cannot be explained satisfactorily by the application of legitimacy theory. For instance, Campbell et al. (2003) conducted a longitudinal study of UK companies spanning over 20 years and ironically, legitimacy theory was not considered adequate in explaining non-financial information disclosure. Similarly, Wilmshurst & Frost (2000) conducted a study concerning chief financial officers and found partial support for the applicability of legitimacy theory. However, Campbell et al. (2003) argue that the perception of the size of firms' legitimacy gap also affects the volume of disclosures, which is a matter of perception accuracy. The authors maintain that a relatively low level of NFI disclosure could be credited to a firm being a poor judge of society's opinion of it.

The mixed evidence presented above may be an indication that a legitimacy theoretical viewpoint may not be adequate in explaining NFI disclosure. However, the weight of the evidence suggests that the legitimacy theory relates to motivation to be involved in corporate social responsibility and environmentally friendly activities and reporting. This has led to more non-financial information disclosures in recent years. If increased reporting is a way to attain increased accountability, this could have ended in augmented accountability. What is more, the concept of accomplishing legitimacy with particular stakeholders is worthwhile when scrutinising NFI disclosure from the perspective of the managerial stakeholder.

Stakeholder Theory

Stakeholder theory acknowledges that diverse stakeholder groups have varied opinions on how a firm should be managed (Kamla & Rammal, 2013). As the name suggests, the stakeholder theory involves stakeholders (Deegan & Rankin, 1996; Maama & Appiah, 2019) consisting individuals, a group of people, institutions or organisations who are involved with a firm in a legitimate capacity (Andon et al., 2015). This suggests that there are perspectives of multiple key stakeholders, involving investing, campaigning and procuring stakeholders (Carroll, 1991). Carroll (1991) maintains that a natural right exists between the concept of environmental or social responsibility and the stakeholders of a firm. This is reflected by the fact that the concept of a stakeholder personalises social and environmental responsibilities by identifying the particular groups or individuals that firms must consider in its corporate non-financial information disclosure orientation. In a review study on non-financial information disclosures, Owen (2008) observed a scantiness of studies scrutinising stakeholders' perspectives on this phenomenon. Owen (2008) and Ioana & Adriana (2014) contend that, as stakeholders use reliable and relevant NFI to help them make decisions, it is essential for firms and organisations to provide this information to help in their decision-making process.

Deegan (2019) note that corporate environmental and social responsibilities, as well as reporting, can be examined by reviewing the choices made at a firm or organisational level to meet the expectations of important stakeholders. From this perspective, the authors contend that there is no requirement on whether information must be made available to whom, or what kind of information ought to be provided. However, corporate information disclosures or reporting is viewed as a means by which companies meet the needs of stakeholders who are regarded as key to the continued survival and existence of the organisation. In affirming that further academic inquiry must be undertaken to develop theories for integrated reporting, Ullmann (1985) proposed that strategic stance in light of the power of stakeholders provides a foundation for companies to attend to the demands for non-financial information disclosure.

Moreover, since a firm has many stakeholders, the non-financial information disclosure cannot be observed as valuable if it is not focused on the needs of all the stakeholders upon whom the accounting organisation has an impact (Shauki, 2011; Wong, 2011). This emphasises that the needs and preferences of stakeholders regarding NFI disclosure are important. Other studies such as Neu et al. (1998), Maama & Appiah (2019) and Deegan (2019) also hold the view that NFI disclosure is managed by firms strategically. Deegan (2019), for instance, suggests that stakeholder groups should be managed concerning the interest of the firm, and the more pivotal the stakeholder is to the firm, the more effort will be undertaken to manage the relationship. This view is consistent with Livesey's (2002) view that organisations may change their non-financial information disclosure practice according to their perceptions of stakeholders' power.

Another perspective is that the stakeholder theory can be divided into two major categories: ethical and managerial (Hamid & Atan, 2011). The ethical category suggests that stakeholders deserve to be treated justly and equitably (Hamid & Atan, 2011). However, the managerial category implies that stakeholders must be managed for the organisations to thrive. The managerial aspect responds to stakeholders' needs based on the power they can exert on the organisation (Deegan, 2002). It is obvious that, although it may be fair and ethical, implementing a stakeholder approach to non-financial information disclosure is by no means an easy and simple step to take, and it might constitute a daily challenge for managers and accountants. What is clear here is that both the legitimacy and stakeholder theories are neither separate nor competing. However, they are closely related, and they could be used to complement each other.

Signalling Theory

According to the signalling theory, there is a perceived information gap between management and shareholders. As a result, shareholders might suspect that all the necessary information is not being released by the management. This would lead to information assymentry between management and investors. As a result, investors would be hesitant to invest more in a firm because the information needed to take a decision is not available. The signalling theory addresses this information asymmetry existing between two parties when the source of the asymmetry is the information quality or the intention of the information (Correa-Ruiz, 2013; Su et al., 2016). In this context, the quality of the information relates to the extent to which a party discloses its unobservable attributes in return for a premium from the other party (Correa-Ruiz, 2013).

However, the intention of information is the reduction or elimination of probable moral hazards that emanate from the actions of a firm. Motivated by these insights, the signalling theory has been used by management and accounting researchers to explain the reasons for the adoption of IR and the potential benefits associated with the adoption of good governance as well as environmental and socially responsible practices and the reporting of these. There is evidence to suggests that companies that adopt environmentally and socially acceptable practices can reduce the challenges of information asymmetry between themselves and their stakeholders and consequently improve financial performance (Su et al., 2016).

The original idea of the signalling theory related to information asymmetry in the labour market and financial information (Amir & Lev, 1996). However, prior studies suggest that the inclusion of NFI in the reporting practice of a firm is a voluntary action embraced by companies that is beyond the narrow remit of the technical, economic and legal requirements of an entity (Su et al., 2016). Therefore, firms use non-financial information to signal the aspects that are overlooked by stakeholders, such as customers, suppliers and employees. More significantly, Barnett & Salomon (2012) argue that these stakeholders cherish the unobserved attributes that the NFI disclosure practices embody. This line of argument assumes that integrated reporting has a similar signalling effect across varied institutional environments (Ioannou & Serafeim, 2012). Given the wide diversity of corporate investments globally, the effectiveness of integrated reporting as a tool for mitigating information asymmetry may be changed when communicated to diverse institutional environments (Ioannou & Serafeim, 2012). The suggestion here is that the strength of the signal may vary for different institutional environments.

It can be observed from the foregoing discussion that integrated reporting may be used as a signal that provides additional non-financial information to relevant stakeholders, particularly in emerging markets. However, for a quality signal to be achieved, the integrated reporting practice must satisfy two conditions (Omram & Ramdhony, 2015). Firstly, low performing firms need more resources and effort to embrace integrated reporting as opposed to high performing firms. The second condition is that the benefits for companies to adopt integrated reporting is enough to compensate for the costs for high performing firms. This is because firms incur both explicit monetary costs and implicit management costs as well as litigation risk through the adoption and practice of IR. Thus, it can be observed that the signalling theory is conceived in terms of management aiming to influence the behaviour and actions of stakeholders, which does not make it different from both the legitimacy and stakeholder theories.

Agency Theory

The agency theory hypothesises that the separation between the owners and managers of firms has generated a problem, especially when their interests are incompatible. This incompatibility of interest emerges because management sometimes prefers to maximise their personal financial interest, even if it is at the detriment of owners (Sayekti, 2015). The foregone quandary is called the principal-agent or agency problem. The agency problem is normally the focus of investors and other stakeholders, and management attempt to manage this situation when managing the strategic decision of a firm (Maama et al., 2019). Management sometimes attempts to avoid the perceived agency problem by providing non-financial information to portray them as accountable. This eventually increases the confidence of investors, attracts more capital and increases the price of the shares of the company (Omran & Ramdhony, 2015).

Some studies provide evidence to support the notion that the agency theory encourages management to provide additional NFI to stakeholders, even when the disclosure is against their personal interest (Deegan, 2002). Schulze et al. (2003) are of the opinion that the agency problem brings about huge agency costs, and there is a need for shareholders to monitor and reduce these costs. Thus, shareholders demand extra information, particularly non-financial information from management to prevent them from pursuing their personal interest at the expense of that of shareholders. Hodge et al. (2009) and Pflugrath et al. (2011) also express the view that, when there is an agency problem, managers attempt to seek the favour and support of stakeholders through the provision of additional non-financial information.

Positive Accounting Theory

Positive accounting theory (PAT), also known as political cost theory, has been proposed to explain the reasons behind the disclosure of NFI by firms. The PAT was developed by Watts and Zimmerman (1978). It must be understood that the original papers of PAT by Watts & Zimmerman (1978) was meant to provide information to obtain favours from the regulatory authorities. Their subsequent book entitled, “Positive Accounting Theory” in 1978 and the review of their earlier works in 1990 show that their original work in 1978 referred to the provision of social responsibility information, which is one component of integrated reporting.

The assumption behind Watts & Zimmerman's (1978) PAT is that firms ordinarily would act to maximise their utility and as a result, management would lobby accounting standards-based egoism. Watts & Zimmerman (1990) maintain that, for management to succeed in this pursuit, they identify factors that are likely to be central to their lobbying behaviour, of which the key part is to provide ESG information to be seen as responsible.

According to the positive accounting theory, a firm is described as a collection or nexus of contracts (Velte & Stawinoga, 2017). These contracts are important for obtaining the cooperation of self-seeking individuals (Velte & Stawinoga, 2017). For instance, in a firm, there are contracts with managers, shareholders/investors, suppliers, customers, employees, and the community. Therefore, contracts enable individual parties to behave in a way that will maximise the wealth of shareholders. In doing so, there will be contracting costs connected to the contract, particularly negotiation, performance monitoring, and evaluation costs. Because of this, positive accounting theory postulates that companies will always seek to maximise the contracting costs, which will influence the policies adopted that comprise accounting policies (Graffikin, 2007). The main idea behind this is that a firm is a nexus of contracts and accounting methods form an essential part of this set of contracts.

The foregoing discussion is consistent with the objective of PAT as provided by Watts and Zimmerman's (1986), which is to describe, explain and predict the accounting practices of the managers of firms. Therefore, companies publish information such as ethical, governance, social and environmental information to influence the behaviour of certain categories of individuals. After the development of PAT by Watts & Zimmerman (1990), many other studies (Graffikin, 2007; Velte & Stawinoga, 2017) have attempted to provide evidence for positive accounting theory as an explanation for the disclosure of NFI. In addition, studies have attempted to use this theory to explain the inclusion of various types of voluntary NFI (Milne, 2002).

However, researchers, particularly Kabir (2007) and Yusoff et al. (2015) disagree with the underlying arguments of positive accounting theory because of the fundamental assumptions of this theoretical framework. Thus, Yusoff et al. (2015) suggest that positive accounting theory is not about what reporting should be. Instead, it is about what reporting is. Similarly, Gray et al. (1995) agree with the many critics of the positive accounting theory and thus refused to subject it into serious analysis because they believe it to be meaningless. However, the authors partially agree that their position was a heretic, based on no empirical support. Based on this, however, and as a foundation for justifying why companies make non-financial information disclosures, the explanation of positive accounting theory cannot be dismissed easily. The explanation is based on empirical evidence that is mostly similar to that used to support other theories for non-financial information disclosures, especially legitimacy theory, that Gray et al. (1995) appear to find more acceptable. As Cong et al. (2014) note, prior studies have demonstrated that a strong relationship exists between information disclosure, firm size, and the type of industry.

The relationship between firms' size and NFI disclosure appears to be robust empirically. These results are claimed to support legitimacy theory in addition to favouring positive accounting theory (Deegan & Rankin, 1996). Additionally, Lemon & Cahan (1997) observe a pattern that public variables, such as the size and industry classification of firms, are significant in explaining positive accounting theory, while variables relating to profitability such as return on assets (ROA) and return on equity (ROE) are not. It can, however, be observed that the arguments offered by positive accounting theory regarding the adoption of integrated reporting support legitimacy theory, which postulates that companies must satisfy an implied contract with the community in which it operates. This means that positive accounting theory in itself cannot be used as an independent theory in justifying why firms include NFI in their corporate reports. It is important to put forward that if positive accounting theory can be accepted as a basis for this justification, then a more rigorous enquiry of the arguments is needed. However, there is not much available, up-to-date empirical evidence to explain this.

Institutional Theory

Companies may agree on the form of NFI to disclose owing to institutional pressures to follow the practice of their peers and because accounting symbolises a particular form of institutionalised exercise within organisations (Ramdhony, 2015). This suggests that institutional theory may explain the reason why firms in a certain area or sector may display analogous features (Horvat & Korošec, 2015). In addition, institutional theory can be used to explain accounting rule choice (Carpenter & Feroz, 2001). The idea is that institutional theory adds to a clear understanding of the accounting practices of companies and society of which they are part (Hoque & Alam, 1999). This is because, companies may have to establish their conformity with and adherence to the expectations, customs, and principles of the members of society to obtain the backing of society, and thus achieve legitimacy (Owen, 2013).

Similar to the stakeholder theory and the legitimacy theory, the institutional theory postulates that firms will adopt a specific behaviour to obtain access to resources and support from key stakeholders (Deegan, 2019). Another key point is that institutional theory is related to the concept of isomorphism (coercive and mimetic) (Greenwood & Hinings, 1996; Ramdhony, 2015). Institutional theory has traditionally been used to examine how organisations conform to isomorphic pressure to gain legitimacy to enhance their survival rate (Deegan, 2019). Isomorphism is defined as a situation where firms are pressured to be identical to their peers (Plumlee et al., 2015).

In scrutinising the external reporting practices of organisations as part of institutional practice, it is important to be aware that eventually, firms strive for a state of legitimacy and societal support (Rahaman et al., 2004; Deegan, 2019). In a study conducted in the UK, Collison et al. (2009) found that firms cherish being included as members of the FTSE4Good index because of ‘peer group pressure’. Moreover, to be included in the index, firms are required to disclose non-financial information. In another study in Bangladesh, Islam & Deegan (2008) found that pressures and forces from multinational consumers had forced local clothing suppliers to initiate organisational communication to dismiss the concerns of unacceptable labour practices. Similarly, to secure funds from international bodies like the World Bank, developing countries may be required to embrace certain accounting and reporting practices as required by the World Bank (Neu & Ocampo, 2007). Therefore, the institutional theory suggests that firms would adopt integrated reporting because on particular factors, including the institutions within which they operate.

The Theory of Intergenerational Equity

The rate of usage of natural resources is one and a half times more than the rate of their replacement (van Zyl, 2013). As a result, increasingly, there is a growing concern that the world cannot provide sufficient resources for the sustained survival of humankind. Some of these resources (like coal, oil, gas, and uranium) are exhaustible and non-renewable, and thus cannot be replaced once they are used up (Abeysekera, 2013). However, other resources such as water, soil, wood, air, and sunlight are renewable and can be replaced as they are used. Although not much can be done with the resources that are non-renewable, steps need to be taken to preserve renewable resources for sustained human survival (Wild & van Staden, 2013). Simply put, renewable resources ought to be employed for sustainable development (Cong et al., 2014; Deegan, 2019). Due to this observation, the term “sustainable development” was developed by the United Nations in the year 1987. It is, therefore, necessary that companies report on how they use these particular resources so that future generations will not be disadvantaged. The above notion of the use of resources across generations is part of the theory of intergenerational equity.

In other words, intergenerational equity is the idea of the present generation benefiting from the available resources without compromising the ability of the next generation to do so. This suggests that the activities of some firms, especially those in the mining, oil, gas and the general exploration industry cannot be termed as sustainable because most of their activities deplete natural resources without replacing them for the benefit of the next generation. The critical question is, does it mean that the present generation must leave these non-renewable resources for our children? The paradox is that our children may also be told to leave the resources for their children. This suggests that it is not possible for some firms to be sustainable in a strict sense of the term. However, there must be efforts to make sure that future generations are not disadvantaged. To clear this paradox, intergenerational equity must be viewed as the use of resources fairly so that no generation is disadvantaged at the expense of another. The key activity to ensure intergenerational equity is through corporate reporting (Abeysekera, 2013).

Contrary to the preceding, Watson (2015) contends that since profit-driven organisations have to stay alive to sanction sustainability, their economic sphere takes precedence. Therefore, these firms may act contrary to the concept of sustainability owing to the signals of the market (e.g. pricing, taxation, subsidies, and state regulations) that makes such actions profitable and rational. The question then is: how does the accounting profession ensure intergenerational equity in the use of resources? The answer is that firms should provide adequate information on how the principle of intergenerational equity is ensured. Thus, many firms use intergenerational equity as a strategic tool to appear legitimate in the minds of stakeholders (van Zyl, 2013). This ensures that these firms have continued access to resources.

Even though there may be compulsory reporting responsibilities for these companies on their financial performance, the regulations and legal rules have up to now not placed obligatory responsibilities on these firms to account for resources beyond those that have financial implications (Abeysekera, 2013). It can be noted that some of these resources are used at no cost to profit-driven companies because the market system has not been able to impose monetary value on them. In Ghana, for instance, the effects of water pollution on human beings, animals and plants are not fully costed into the water price of companies. Another case in point is the use of child labour for cheaper production (e.g. fishing and cocoa farming) is not fully costed as the purchase of raw materials by organisations.

Discussion

The analysis has revealed that firms disclose non-financial information for predisposition purpose. That is, these firms disclose voluntary non-financial information to influence behaviour and actions. For instance, the obvious reason for the inclusion of non-financial information among firms was to achieve legitimacy and signal the market to influence the cost of capital and attract extra resources. Prior literature suggests that companies use non-financial information disclosure to manage their image. The analyses have revealed that these firms try to achieve these strategic objectives by reporting information that puts them in positive lights. For instance, as De Villiers & van Staden (2011) found, firms with a long-term environmental reputation adopt three basic strategies concerning non-financial information disclosure. These strategies include disclosure of more positive environmental information in their annual reports; disclosure of non-financial information to target shareholders, lenders and other investors; and the explanation that the effects of these disclosures on cash flow will not be too much and further provides information on actions taken to prevent future occurrences. All these actions are consistent with the theories of legitimacy, signalling, intergenerational equity and institutional.

Similarly, the evidence support that firms disclose non-financial information for legitimacy, institutional, intergenerational equity and signalling purposes (De Villiers & Marques, 2016). The evidence shows that firms are likely to make more non-financial information disclosures in countries with robust investment protection, enhanced democracy, effective government structures and more press freedom. Besides, the literature showed that firms with specific characteristics disclose more non-financial information. These characteristics include firms with larger assets and revenue, firms in environmentally and socially sensitive industries, more profitable firms, highly geared firms and firms that spend high on capital expenditure. These disclosures are underpinned by legitimacy, signalling, institutional and intergenerational equity theories.

Studying the corporate social and environmental disclosures of the leading one hundred (100) companies in Australia from 1967 to 1977, Trotman (1979) established that disclosures increased across time. Trotman expounded that the rise in disclosures was a strategy to improve public image and also to obtain public acceptance. Consistent with the findings of Trotman (1979), Deegan & Rankin (1996) observed that businesses seem hesitant to provide any information within their annual reports about any adverse environmental and social consequences of their operations. This was particularly prevalent with both prosecuted firms and firms that had never been prosecuted. The authors found that the companies that had been prosecuted provided substantially more positive environmental and social disclosures than their colleagues that had not been prosecuted. This finding aligns with the opinion that companies that have been indicted consider that there is a necessity to counter bad and adverse information of their prosecution with more positive and favourable news relating to their environmental activities. These findings appear to suggest that firms have the trust that there is the need to legitimise the existence of their activities in the form of enhanced disclosure of good or positive environmental and social news.

Again, somewhere in north-western Africa, Ramdhony (2015) examined non-financial information disclosure practice by Mauritian commercial banks. Findings revealed that banks with higher visibility disclosed more social responsibility information which confirms that the signalling, legitimacy and stakeholder theories are explanations for non-financial information disclosure by Mauritian banks. Similarly, legitimacy theory explains the non-financial information disclosures of firms in India as found by Goswami (2014) that the majority of the Indian companies reported positive environmental initiative in their annual report. Similarly, prior studies provide evidence that companies use non-financial information to manage their image. Thus, firms will be hesitant to disclose social, environmental and governance information that provides a bad reflection on their image unless it is demanded by law or it is in the public domain (known already). If the information is already known, the strategy adopted by firms is to manage the situation with the disclosure of more positive information. Similarly, it is observed that firms are more careful with powerful stakeholders concerning the kind of non-financial information released.

CONCLUSION

Many theories shape the integration of NFI into corporate reporting: legitimacy, institutional, institutional, intergenerational equity and agency theories. These theories are context and jurisdiction-specific; that is, firms from different countries and different industries adopt integrated reporting practices which are distinct from other firms in different countries or industries. For instance, the integrated reporting practice of manufacturing, mining, petroleum and pharmaceutical industry, whose activities are perceived to have a negative impact on the society and the environment are shaped by legitimacy, institutional, signalling and intergenerational equity theories. However, firms in the service and trading industry, which are perceived to have a little negative impact on the environment and society are influenced by stakeholder, signalling, institutional and agency theories. Additionally, the integration of NFI into corporate reporting by firms in capital markets or countries that are heavily regulated are influenced by strategic theories like legitimacy, institutional, signalling, agency and intergenerational equity theories. A major limitation of this study is the lack of empirical evidence to confirm the application of these theories in various contexts. Therefore, the study suggests that further studies must be conducted to empirically examine the factors that influence the NFI reporting practices of firms.

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