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# Sustainability Reporting Conception, International Approaches and Double Materiality in Action

Chiara Mio · Marisa Agostini  
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# Sustainability Reporting

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# ABBREVIATIONS

CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DA	Dialogic Accounting
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
NFI	Non-Financial Information
NFRD	Non-Financial Reporting Directive
SME (SMEs)	Small and Medium-sized Enterprise (Small and Medium-sized Enterprises)

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# Introduction

**Abstract** This chapter provides a general introduction to sustainability reporting and non-financial disclosure and outlines the book's objectives, benefits, and target audiences. It initiates with a discussion on the role and significance of sustainability reporting within the broader landscape of corporate reporting. The goals of the book are then articulated, emphasizing its dual focus on regulatory aspects and the academic discourse, as well as its particular emphasis on materiality. Subsequently, the section discusses how the book can be a valuable resource for scholars, researchers, students, companies, and practitioners to achieve a deeper understanding of the intricate dynamics within sustainability reporting and its ever-evolving regulatory landscape. The section concludes by briefly outlining the book's structure and the content of each chapter.

**Keywords** Sustainability reporting · Non-financial disclosure · Sustainability accounting · Corporate reporting

Sustainability accounting and reporting have emerged as central topics in both corporate practice and academic discourse. In light of urgent social and environmental issues, such as climate change and social inequality, companies are increasingly expected to take responsibility for their social

and environmental impacts and to consider how these issues can significantly affect their business. Sustainability accounting and reporting act as essential tools for companies to manage and monitor these impacts, providing stakeholders with assurance that sustainability concerns are being effectively addressed. Moreover, the landscape of sustainability reporting is evolving rapidly, with a rising number of companies participating, an expansion of topics to be disclosed, and the introduction of new standards and regulations.

The motivation and the rationale of this book move from three main premises.

The first premise is that, although traditional financial accounting is a valuable tool for companies and stakeholders, it fails to provide a comprehensive and reliable overview of a company's potential for growth and development, the process of value creation, and its overall performance. To be relevant, accounting should provide users with the information they need to achieve an in-depth understanding of firm value, where "value" should be conceived as both effective and potential, as both created and destroyed, and both from a financial and non-financial point of view (social, environmental, relational, intellectual, etc.). For this reason, academics and practitioners have pointed out the shortcomings of financial accounting information and indicators, because they tend to focus on the ability of the firm to maximize shareholder value in the short term. In other terms, financial accounting proves to be, at least partially, inadequate if confronted with more recent understandings of the purpose of the firm, which is to create value for all stakeholders (and not only shareholders) in order to support sustainable development. Therefore, stakeholders increasingly demand information to understand and assess the process of (stakeholder) value creation in order to decide whether to establish (or continue) business relationship with a firm. Faced with the pressure to be accountable for how they create value for all stakeholders, firms are expected to disclose information covering the different perspectives from which the process of stakeholder value creation can be observed and measured, which correspond to the three pillars of sustainability: economic, environmental, and social. In the last decades, sustainability reporting, i.e., the practice to disclose sustainability-related impacts, risks, and opportunities to uncover the process of stakeholder value creation, has become an established corporate reporting practice, although with different degrees of importance depending on the size and

the institutional context of companies. The KPMG Survey of Sustainability Reporting (KPMG, 2022) shows that the 96% of the world's 250 largest companies by revenue report on sustainability or ESG matters in 2022, while the rate of reporting was 35% at the beginning of 2000s.

The second premise of this book is that the regulation of sustainability reporting is undergoing profound transformations that are radically changing the nature of this practice and how it is approached by companies. In contrast to the well-established and regulated realm of financial accounting and reporting, sustainability reporting has traditionally been characterized by a more loosely structured context, where companies had the autonomy to decide, at their discretion, the nature and extent of non-financial information to disclose. Driven by stakeholder demands to be provided with more reliable, comparable, and relevant non-financial information, the practice of sustainability reporting has been increasingly regulated. This regulation has taken two main forms. On the one hand, several voluntary frameworks and standards of sustainability reporting have been developed by dedicated standard-setter bodies, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and, more recently, the International Sustainability Standards Board (ISSB) under the auspices of the IFRS Foundation. The lack of convergence among these frameworks contributes to aggravate the complexity of the field. On the other hand, the European Union has been the precursor in mandatory regulation in the field of sustainability reporting, requiring certain companies to prepare and publish a sustainability report. Mandatory sustainability reporting was introduced by the EU Non-Financial Reporting Directive (NFRD, 2014) that has been recently reviewed by the EU Corporate Sustainability Reporting Directive (CSRD, 2022).

The third premise is that the ever-increasing importance of sustainability reporting and the deep transformations taking place in the regulatory landscape carry significant implications for all the actors involved in this domain. Principally, businesses and practitioners face the challenge to navigate an environment marked by continual evolution. The escalating demand for non-financial information has made sustainability reporting a pivotal determinant in shaping the quality of firm relationships with stakeholders (e.g., customers, suppliers, investors, lenders, governments, NGOs, etc.) which, in turn, can influence the overall success and longevity of a business. Furthermore, many businesses find themselves in the position of having to engage in sustainability reporting for the first time or

to introduce significant changes in light of the new regulatory frameworks. Additionally, academics and scholars are in the midst of a complex and ever-changing subject. The field of sustainability reporting not only presents challenges but also offers a plethora of opportunities for research. Navigating through this dynamic landscape requires a keen understanding of the latest developments and emerging trends, making it a stimulating and demanding area of academic exploration. Lastly, accounting students, as future professionals in this field, need reliable and well-structured guidance to approach and comprehend the multifaceted changes occurring in the realm of sustainability reporting.

Based on these premises, the overall purpose of this book is to provide a comprehensive overview of the evolution, the state-of-the-art, and the future directions of sustainability reporting. To achieve this overall purpose, the book is guided by three specific and interconnected aims. First, the book aims to investigate the evolution of sustainability reporting regulation (i.e., the shift from a voluntary to a mandatory approach) and to explore the variety of frameworks and standards, normative sources and regulatory initiatives aimed at promoting and standardizing sustainability reporting at the international level. Second, the book aims to provide a systematic review of academic literature on sustainability reporting and non-financial disclosure to consolidate existing knowledge in the field and suggest directions for future developments. Third, the book examines the concept of materiality in sustainability reporting and provides an empirical analysis of the quantity and quality of materiality disclosures in sustainability reporting across the globe.

Overall, the book aspires to be a comprehensive and reader-friendly guide, offering insights into the past, present, and future of sustainability reporting and its regulatory landscape. The book aims to bridge the gap between theoretical insights and practical implications by approaching the topic of sustainability reporting from academic and professional perspectives. This dual perspective enhances the book's accessibility, making it equally beneficial for academic scholars exploring the intricacies of sustainability reporting and companies and practitioners navigating the regulatory changes.

To achieve its purposes the book is organized into four main chapters.

Chapter 2 provides an introduction to sustainability reporting, by presenting the process of reporting, building on the hierarchical staged process model (Deegan & Unerman, 2011). According to this model, the

sustainability reporting process includes five stages, which involve decisions related to the following issues: (1) Why does the entity disclose sustainability information? (2) Who are the stakeholders to whom the sustainability report is directed? (3) What information and issues should be included in the sustainability report? (4) How should the sustainability report be prepared? (5) Should the sustainability report be assured?

Chapter 3 explores the historical evolution and current landscape of sustainability reporting regulation. The first part deals with the origins, drivers, and initial development of non-financial disclosure and sustainability reporting in order to explain why these practices have become increasingly important over the years. The chapter discusses how the concept of corporate value creation has been redefined to find a balance between economic growth and non-financial concerns, taking into account the interests of all stakeholders (not only shareholders). The stakeholder-oriented approach and the process of stakeholder value creation have gained prominence in the development of corporate strategies, influencing the type of information companies are expected to disclose. Subsequently, the chapter explores the evolution and the state-of-the-art in the regulation of sustainability reporting across the globe. In turn, realizing the importance of the issue, many regulatory bodies have put companies under pressure to operate according to sustainable principles and criteria and to adequately monitor this behavior. A special focus in the chapter is paid to the European Union's transition from a voluntary to a mandatory approach to sustainability reporting. The chapter presents the actions through which the European Commission (EC) initially encouraged companies to disclose non-financial information on a voluntary basis (using recommendations and communications without any binding effect), before moving to legislation (i.e., the NFRD and CSRD) marking the transition to mandatory sustainability reporting. Furthermore, the chapter explores the peculiarities of the market-driven regulatory context in the USA and investigates other significant international settings (UK, Australia, New Zealand India, Asia, and South Africa). This analysis offers insights into the diversity of regulatory frameworks shaping non-financial disclosure and sustainability reporting across the globe.

Chapter 4 offers a systematic review of the literature on non-financial disclosure and sustainability reporting. This chapter contributes to broaden our understanding of non-financial disclosure and sustainability reporting by examining its historical evolution, categorizing existing

knowledge into different research streams, providing a descriptive analysis of the literature in this field, and bringing to the forefront the most recent empirical findings regarding the drivers and consequences of sustainability reporting. The review shows how literature has emphasized the importance of NFI's quality and transparency to boost stakeholder trust (Aureli et al., 2019; La Torre et al., 2018) and that a particular focus in the academic debate is placed on the role of regulation in compelling businesses to enhance transparency on sustainability matters. Although some research indicates that regulation is not always an effective means to change corporate behaviors and practices (Bebbington et al., 2012; Luque-Vilchez & Larrinaga, 2016), some attempts have been made (especially across European Union) through the issuance of mandatory requirements for sustainability reporting. Therefore, literature has discussed the coexistence of mandatory and voluntary disclosure and the associated issues (Bold, 2017; Delbard, 2008; Doshi et al., 2013; Martin-Sardesai & Guthrie, 2019), highlighting the ambiguous status of sustainability reporting, which is now considered mandatory in nature (CSRD, 2022), but still voluntary in terms of being driven by stakeholders' expectations (O'Donovan, 2002) and firm characteristics (Clarkson et al., 2008). By systematically reconstructing the academic debate, the book not only captures the current state of knowledge on sustainability reporting but also serves as a guide for developments, identifying largely unexplored research areas and questions that are still seeking answers.

Chapter 5 focuses on the principle of materiality, recognizing its significance in shaping the nature and content of sustainability reports. First, this chapter explores the roots of materiality in financial accounting, before moving to examine how this concept has evolved and adapted to the specific needs of sustainability reporting. Subsequently, the chapter investigates the variety of materiality approaches (i.e., impact materiality, financial materiality, double materiality, and dynamic materiality) adopted in the most important sustainability reporting frameworks and standards. Finally, the chapter concludes with an empirical analysis that investigates the level of corporate disclosure regarding the principle of materiality and the materiality assessment process. Utilizing a sample of companies within the EURO STOXX 50 and the S&P 50, we assessed the extent to which companies communicate the use of the materiality principle and provide details on the materiality assessment process in their sustainability reporting. Through this approach, the chapter aims to provide a comprehensive overview of materiality, intertwining its historical evolution with



its current manifestations in the context of sustainability reporting. The special focus that this book dedicates to the issue of materiality is motivated by its role as an overarching principle in sustainability reporting. The selected approach to materiality is closely linked to the objective and function that are attributed to sustainability reporting, which can range from an ethical interpretation (impact materiality) to a more strategic vision (financial materiality). Furthermore, the approach to materiality affects the target audience of the report, which can be identified solely as investors (financial materiality) or include all categories of stakeholders (impact and double materiality). How materiality is interpreted, then, influences the entire architecture of the reporting framework and impacts the information and KPIs it requires to report. Being such an overarching sustainability reporting principle, sustainability materiality can be seen as a lens through which the convergence/divergence between the variety of regulatory and normative sustainability reporting frameworks and standards can be examined and the key differences and commonalities can be identified.

The **final section** offers concluding remarks that summarize key insights and contributions to research and practice. This section discusses the primary benefits of the book, its contributions to understanding sustainability reporting, and the implications for research and practice. It also acknowledges the limitations of our research and provides suggestions for future research directions.

The book caters to diverse audiences, spanning both academic and business contexts. In the academic realm, the book stands as a valuable resource for scholars, researchers, and students, fostering a deeper understanding of the intricate dynamics within sustainability reporting and its ever-evolving regulatory landscape, while also opening avenues for future developments.

In the business context, the book addresses the needs of companies at various stages of engagement with sustainability. For those just entering the sustainability arena, it serves as a foundational guide, elucidating the motivations and benefits of high-quality sustainability reporting and offering practical insights into the international best practices to prepare a sustainability report. For companies already well-versed in sustainability, the book acts as a strategic tool, keeping them informed about the ongoing regulatory changes and positioning them to navigate challenges and to capitalize on existing opportunities in the dynamic realm

of sustainability reporting. In essence, the book caters to a diverse corporate audience, making it an indispensable resource for those taking their initial steps into sustainability reporting and a reliable tool for companies aiming to stay at the forefront of developments. Its readability and comprehensive approach make it a valuable asset, bridging the knowledge gap and empowering companies to navigate the complex landscape of sustainability with confidence and foresight.

By bridging the academic-business divide, the book fosters a holistic understanding of sustainability reporting. Its dual focus ensures that it contributes both to the academic discourse and to the practical knowledge required by businesses aiming to integrate sustainability effectively into their operations and reporting practices.

This book plays a pivotal role in nurturing a comprehensive understanding of sustainability reporting, connecting the theoretical insights of academia with the pragmatic needs of businesses striving to effectively incorporate sustainability into their reporting practices.

The dual focus of the book is instrumental in ensuring a well-rounded contribution to both academia and practice and positions the book as a valuable resource, not just for academics seeking theoretical depth but also for businesses navigating the practical challenges of sustainability reporting.

Within the academic sphere, this book assumes a pivotal role as a valuable resource tailored to the needs of scholars, researchers, and students. It systematically engages with the academic discourse surrounding sustainability reporting and regulation, offering a comprehensive overview of the field's evolutionary trajectory and its current status. In the corporate sphere, this book is designed to meet the varied requirements of companies in different phases of their sustainability journey. For those newly venturing into sustainability, the book serves as a fundamental guide. It not only sheds light on the reasons and advantages of undertaking sustainability reporting but also offers practical insights into crafting reports in line with global best practices. For companies already familiar with sustainability practices, the book functions as a strategic instrument. It not only keeps them updated on the latest regulatory initiatives but also positions them to effectively navigate challenges and capitalize on emerging opportunities. By staying proactive in understanding the dynamic regulatory landscape, these companies are not just prepared to face future challenges but also to identify and leverage existing opportunities in the dynamic field of sustainability reporting.

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