

Sustainability reporting trends

Yuliia Serpeninova¹, Milos Tumpach²

¹ University of Economics in Bratislava
Faculty of Business Informatics, Department of Accounting and Auditing
Dolnozemska cesta 1/b, 852 35 Bratislava 5, Slovak Republic

E-mail: yuliia.serpeninova@euba.sk

² University of Economics in Bratislava
Faculty of Business Informatics, Department of Accounting and Auditing
Dolnozemska cesta 1/b, 852 35 Bratislava 5, Slovak Republic

E-mail: milos.tumpach@euba.sk

Abstract: *The purpose of the study is to highlight the existing problematic aspects of the sustainability reporting implementation, as well as to systematize future directions for the development of such reporting based on the analysis of reports of key world players developers of reporting standards and companies responsible for the provision of services for the compilation and verification of reporting. Despite the existence of different views, the main common trends in the development of sustainability reporting are defined as follows: volume reduction; digitization; targeting of various stakeholders (primarily capital providers); expansion of indicators and reporting in terms of achieving targeted values; focus on achieving indicators of sustainable development.*

Keywords: *sustainable development, sustainability reporting, reporting standards.*

JEL codes: M480

1 Introduction

The existing concept of financial reporting is aimed mostly at the retrospective presentation of financial information, without paying attention to the assessment of activity risks, strategic directions of development, social and environmental aspects of activity, sustainable development, etc. Publishing information about the company's efforts in solving social and environmental challenges creates a positive image improves business reputation, brings additional evidence of reliability and sustainable business development. In this regard, the approach of forming sustainability reporting is being actively implemented in global practice, serving as a mean of additional disclosure of information about business performance. This ideology significantly expands the possibilities of accounting reporting, improves its quality and ability to reflect factors that have a significant impact on the further development of business. In addition, this reporting model serves as an additional tool of protecting human rights and strengthens the oversight function of society.

2 Methodology and Data

The study of sustainability reporting trends was carried out based on the analysis of the reports of key world players developers of reporting standards and companies responsible for the provision of services for the compilation and verification of reporting. Examples of important initiatives aimed at encouraging international discussion of the future of sustainability reporting include the following:

- the project of the International Integrated Reporting Council (IIRC) "Corporate Reporting Dialogue (CRD);
- project of the Global Reporting Initiative (GRI) "Reporting 2025";
- analytical reports of the Association of Chartered Certified Accountants (ACCA);
- analytical reports of the "Big Four" companies (in particular, the KPMG Survey of Sustainability Reporting; PwC's Annual Review of Reporting Practices in the FTSE 350) and others.

3 Results and Discussion

Research on the concept of sustainability reporting has been actively carried out over the past decade. A lot of scholars problematize how corporates' transparency, disclosure and strategy contribute to the United Nations Sustainable Development Goals (SDGs) (Silva, 2021; Calabrese et al., 2021; Makarenko et al., 2018; Vasilieva et al., 2017). Some authors explore sustainability reporting and its link with SDGs based on a particular sphere, for example, in banking system (Khan et al., 2021); in higher education (Caputo et al., 2021); in mining and energy companies (Boiral et al., 2019); in public sector (Domingues et al., 2017) etc. Other scholars focused their studies on legislative regulation of sustainability reporting (Doni et al., 2020; Manes-Rossi et al., 2018). O'Dwyer & Unerman (2020) analyse sustainability accounting from the perspective of TCFD reporting (Task Force on Climate-related Financial Disclosures). Hassan et al. (2020) question sustainability reporting in terms of assurance and disclosure. Adams & Abhayawansa (2022) investigate the link between different sustainability reporting concepts in terms of its changes during the COVID-19 pandemic.

Despite the active discussion of sustainability reporting in scientific circles, it is worth noting that this concept is at a stage of development, characterized by dynamic transformations in the understanding of its essence and purpose. This determines the need for further research in the direction of systematization of sustainability reporting trends.

Thus, an example of establishing a global dialogue between different institutions regarding the further development of sustainability reporting is the IIRC initiative "Dialogue on corporate reporting" (CRD), which aims to promote coherence, consistency, and comparability between existing approaches to the preparation of sustainability reporting. This project is designed to create a platform for communication regarding directions of development, content, and assessment of the current state of reporting, standards and relevant requirements for its preparation; identifying practical means by which relevant approaches, standards and requirements can be harmonized.

Within the framework of the project "Reporting 2025", analytical materials "Sustainability and Reporting Trends in 2025: Preparing for the Future" (GRI, 2015) were published, which outline the following in terms of general trends in the development of sustainability reporting:

- companies will demonstrate their active commitment to a sustainable future through reporting, which must clearly explain the companies' contribution to solving real societal problems;
- the connection between the issues of sustainable development and the business model of companies will become stronger, which will be achieved to a large extent with the help of regulated and unregulated formats of information disclosure;
- disclosure of information in reporting will take place with increasing importance of ethical values;
- reports are expected to be shorter and relevant, but sufficient to explain the context;
- strengthening the fight against disinformation by ensuring a balance between accurate data that can be confirmed and their contextual description.

In terms of the reporting format, the following development trends are indicated (GRI, 2015):

- reporting will be digital and in real time;
- information on effectiveness and impact will become much more accessible thanks to the use of modern software;
- in order to ensure the informativeness, the expansion of the system of indicators is envisaged;
- reporting will be focused on the ability of companies to create value for society;

- reporting will demonstrate a proactive commitment to achieving sustainable development;
- reporting will be in an integrated format, which involves combining financial and non-financial indicators of companies' activities in one format.

Based on the results of the KPMG Survey of Sustainability Reporting 2020, an overview of global trends in the development of such reporting was also carried out (The KPMG Survey, 2020):

- The European Union is updating the EU Directive on non-financial reporting and is considering the possibility of developing non-financial reporting standards;
- The World Economic Forum released its report on general indicators (21 indicators) and related reporting for sustainable value creation;
- Five key non-financial reporting organizations (GRI, SASB, IIRC, CDSB, CDP) announced their intention to work together to develop integrated corporate reporting;
- The IFRS Foundation received strong support from other organizations for the creation of the concept of global non-financial reporting.

According to PwC's Annual Review of Reporting Practices in the FTSE 350 (PwC's annual review, 2020), 74% of analysed companies mentioned at least one of the concepts of non-financial reporting in their reporting: GRI, SASB, SDGs; only 30% of companies integrated environmental, social, and corporate governance (ESG) into the business strategy. Such trends indicate a significant growth of ESG initiatives and their reflection in sustainability reporting, however, insufficient incorporation of these concepts into business strategy.

The ACCA analytical reports (ACCA report, 2020) reviewed the current state and trends of sustainable development in terms of integrated reporting for a four-year period (2016-2019):

- positive dynamics of the publication of integrated reporting in general, and wider recognition of the Integrated Reporting Framework <IR> in particular;
- in the reports prepared according to the <IR> concept, the number of references to other reporting standards, frameworks or protocols is increasing. In particular, the most widely referenced is the GRI concept, as well as two reporting systems that have been developed recently: the recommendations of the TCFD and UN's SDGs;
- unlike the general trend of corporate reporting, sustainability reports become shorter or more concise over time;
- most reports define the target audience, which is evenly distributed between providers of financial capital and other stakeholders, which determines the content of integrated reporting;
- based on an expert assessment, a decline in the quality of integrated reporting over the past four years has been noticed.

Based on the analysis of general trends in the development of sustainability reporting, they could be structured as follows (Table 1).

Table 1 Sustainability reporting trends

Direction	Trends
Methodological	<ul style="list-style-type: none"> - unification and standardization of sustainability reporting forms; - strengthening of ethical standards and transparency of the information presented in the report; - focus on achieving indicators of sustainable development; - development of standards taking into account industry specifics; - reducing the volume of reports; - reporting in terms of the set target values of KPIs;

Technical and organisational	<ul style="list-style-type: none"> - digitalization of the process of preparation and publication of reports in order to expand analytical capabilities, reduce time spent and meet the needs of various users; - incorporation of requirements for sustainability reporting into the system of regulatory and legal support at the national level; - certification of specialists responsible for sustainability reporting preparation;
Institutional	<ul style="list-style-type: none"> - distribution of influence spheres and establishment of dialogue between key organizations in the field of standardisation aimed at unification and consistency between existing reporting concepts; - adaptation of institutional support at the national level in accordance with international requirements;

Conclusions

The existence of a large number of standards and initiatives for the formation of non-financial reporting causes a number of problems of a theoretical, methodical, technical, organizational and institutional nature.

The analysis of global trends in the development of sustainability reporting allows to assert that convergence processes are taking place and a transition is gradually being made from competition for the distribution of spheres of influence between key organizations in the field of standards development to the establishment of a dialogue between them with the aim of unification, standardization and consistency between existing reporting concepts. On the other hand, there is a trend towards the development of sustainability reporting taking into account industry specifics, which determines the need to develop industry standards.

References

- ACCA Professional insight report. (2020). Insights into integrated reporting 4.0: The story so far. 19 May 2020. 33 p. Retrieved from: <https://www.accaglobal.com/uk/en/professional-insights/global-profession/Integrated-reporting-4.html>
- Adams, C., Abhayawansa, S. (2022). Connecting the COVID-19 pandemic, environmental, social and governance (ESG) investing and calls for 'harmonisation' of sustainability reporting. *Critical Perspectives in Accounting*. Vol. 82, DOI: 10.1016/j.cpa.2021.102309
- Boiral, O; Heras-Saizarbitoria, I; Brotherton, MC. (2019). Assessing and Improving the Quality of Sustainability Reports: The Auditors' Perspective. *Journal of Business Ethics*. Vol. 155, No. 3. DOI: 10.1007/s10551-017-3516-4
- Calabrese, A; Costa, R; Gastaldi, M; Ghiron, NL; Montalvan, RAV. (2021). Implications for Sustainable Development Goals: A framework to assess company disclosure in sustainability reporting. *Journal of Cleaner Production*. Vol. 319, DOI: 10.1016/j.jclepro.2021.128624
- Caputo, F; Ligorio, L; Pizzi, S. (2021). The Contribution of Higher Education Institutions to the SDGs-An Evaluation of Sustainability Reporting Practices. *Administrative Sciences*. Vol. 11, No. 3. DOI: 10.3390/admsci11030097
- Domingues, AR; Lozano, R; Ceulemans, K; Ramos, TB. (2017). Sustainability reporting in public sector organisations: Exploring the relation between the reporting process and organisational change management for sustainability. *Journal of Environmental Management*. Vol. 192, No. . DOI: 10.1016/j.jenvman.2017.01.074
- Doni, F; Martini, SB; Corvino, A; Mazzoni, M. (2020). Voluntary versus mandatory non-financial disclosure EU Directive 95/2014 and sustainability reporting practices based on empirical evidence from Italy. *Meditari Accounting Research*. Vol. 28, No. 5. DOI: 10.1108/MEDAR-12-2018-0423
- GRI's Reporting 2025 Project: First Analysis Paper. (2015). Sustainability and Reporting Trends in 2025: Preparing for the Future. May. 2015. Retrieved from:

<https://www.globalreporting.org/resourcelibrary/Sustainability-and-Reporting-Trends-in-2025-1.pdf>.

Hassan, A; Elamer, AA; Fletcher, M; Sobhan, N. (2020). Voluntary assurance of sustainability reporting: evidence from an emerging economy. *Accounting Research Journal*. Vol. 33, No. 2. DOI: 10.1108/ARJ-10-2018-0169

Khan, HZ; Bose, S; Mollik, A; Harun, H. (2021). Green washing or authentic effort? An empirical investigation of the quality of sustainability reporting by banks. *Accounting Auditing & Accountability Journal*. Vol. 34, No. 2. DOI: 10.1108/AAAJ-01-2018-3330

Manes-Rossi, F; Tiron-Tudor, A; Nicolo, G; Zanellato, G. (2018). Ensuring More Sustainable Reporting in Europe Using Non-Financial Disclosure-De Facto and De Jure Evidence. *Sustainability*. Vol. 10, No. 4. DOI: 10.3390/su10041162

O'Dwyer, B; Unerman, J. (2020). Shifting the focus of sustainability accounting from impacts to risks and dependencies: researching the transformative potential of TCFD reporting. *Accounting Auditing & Accountability Journal*. Vol. 33, No. 5. DOI: 10.1108/AAAJ-02-2020-4445

PwC's Annual Review of Reporting Practices in the FTSE 350. (2021). Reporting on a changing world. Retrieved from: <https://www.pwc.co.uk/audit/assets/pdf/reporting-on-a-changing-world.pdf>

Silva, S. (2021). Corporate contributions to the Sustainable Development Goals: An empirical analysis informed by legitimacy theory. *Journal of Cleaner Production*. Vol. 292, DOI: 10.1016/j.jclepro.2021.125962

The KPMG Survey of Sustainability Reporting. (2020). The time has come. Retrieved from: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

Макаренко, І. О., Серпенінова, Ю. С., Погоріла, К. В. (2018) Інституційне забезпечення фінансування сталого розвитку у світлі мультистейкхолдерського підходу: європейський досвід та українські перспективи. *Agricultural and Resource Economics*. Vol. 4. № 2.

Васильєва, Т.А., Макаренко, І.О. (2017) Сучасні інновації у складанні і поданні корпоративної звітності. *Маркетинг і менеджмент інновацій*. №1. <http://doi.org/10.21272/mmi.2017.1-10>