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The Challenges of Accounting and the Role of Social Pressure in Sustainability Reporting

A Reflection from the Main Trends

Amélia Maria Martins Pires [1]* and Fernando José Peixinho de Araújo Rodrigues [2],

[1] Instituto Politécnico de Bragança, UNIAG; amelia@ipb.pt
[2] Instituto Politécnico de Bragança; peixinho@ipb.pt
* Corresponding author

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Abstract: The most recent reporting proposals tend to consider information that is not eminently financial. A trend that has been encouraged since the awareness that the decision-making process should take into consideration environmental, social, and corporate governance factors and that has been helping companies internalize that their responsibilities to society go beyond their economic and legal obligations. A trend that would eventually lead different organizations to work hard to offer regulations capable of guiding the process of preparing and disclosing the required information, but which, by becoming mandatory only for certain types of companies, would end up including mostly voluntary reporting practices and with an information capacity clearly below expectations. It is in this context that this study is developed, with the main purpose of presenting a reflection on the main reporting trends, although particularly focused on corporate sustainability reporting, to identify challenges and the role that accounting and social pressure may be called upon to play. The results point to a low adherence and to the non-consolidation of the different proposals that have emerged, presenting the option for non-binding reporting practice as the main justification for the main criticisms and for the fact that, so far, a fully instituted reporting model has not been achieved at this level. Also allow us to anticipate that the main difficulty has to do with the little attention and concern that companies have dedicated to these matters, which will only be overcome as the market judge's corporate performance at this level, benefiting investments with economically favorable expectations once their environmental and social impacts are weighed.

Keywords: accounting; decision-make-process; social pressure; sustainability reporting; social and corporate responsibility.

1 Introduction

Recent changes, fundamentally centered on the present century, have created a new context that has awakened society to other issues, posed new challenges and influenced the way companies are managed and relate to society.

In this new context, companies are beginning to want to show signs of change and to show greater concern with the information they prepare and disclose, and even to manifest greater care with how they communicate and what they communicate (Carini et al., 2018; Matuszak & Różańska, 2017). In this regard, much of the research that has been developed over the last decades has been questioning the ability and usefulness of financial reporting, fundamentally because it continues to be presented in a generic way and ignores the expectations of stakeholders with specific needs. In the face of increasingly uncertain circumstances, which have been changing public opinion and creating an environment that tends to urge companies to adopt a strategy that is simultaneously advantageous for them and for all parties involved, possibly translated into a paradigm shift that leaves behind the idea of profit as the sole objective in order to very actively advocate for better social and environmental conditions and within which profit remains possible (Romão et al., 2018), social and environmental concerns that are legitimately expected to be incorporated into investors' actions gain relevance and where the market, pressured by public opinion, should also show signs, albeit faint, of wanting to negatively assess the perception of a material risk of bad behavior, rewarding the most responsible companies and penalizing the non-compliant ones. Consequently, we are witnessing the emergence of new concepts, such as Corporate Social Responsibility (CSR), under which companies undertake, albeit voluntarily, to contribute to a more balanced world with a future, and reporting trends fueled by the proliferation of the enactment of regulations for the disclosure of relevant information on the different dimensions of company activity, particularly in countries belonging to the Organization for Economic Cooperation and Development (OECD) (CGMA, 2014).

In fact, as the awareness that business decisions should consider environmental, social and corporate governance factors has grown, the concern with sustainability itself has grown in society and, in response, there has been a growing trend towards the disclosure of non-financial information (IIRC, 2018; 2014; 2013; 2011). In effect, different organizations have been presenting guidelines for their disclosure and many countries are making significant efforts towards contributing to their success (Ernest & Young, 2014). Nevertheless, and even though the implementation of accounting practices within the social and environmental scope started in the mid-20th century (Eugénio et al., 2010), the lack of an obligation to do so and the lack of particularly adequate regulations to guide how to do so have been presented as justification as to why it has not evolved as expected. The disclosure of this type of information is still mostly based on voluntary practices and "soft law" (Carini et al., 2018; Romão et al., 2018), a reason pointed out for the low adherence (Pistoni et al., 2018) and the little commitment shown by companies (De Villiers et al., 2017; De Villiers & Sharma, 2017), translated into generic disclosures (Diouf & Boiral, 2017) and of questionable quality (Diez-Cañamero et al., 2020). It is in this context that this research is developed, with the objective of presenting a reflection based on the main reporting trends, although with a particular focus on sustainability reporting, identifying challenges and the role that accounting and social pressure may be called upon to play.

To address this issue, in addition to this introduction and the respective conclusions, limitations and lines of future research, the paper is divided into three major sections. The first section discusses the emergence of concepts, with particular emphasis on CSR. A second one to offer a retrospective view on the proliferation of regulations and guidelines for sustainability reporting, sufficiently able to allow us to reflect on the main developments and difficulties encountered, as a support or leverage for the third and final section, which will seek to identify challenges, how to respond to them and what role accounting and social pressure may be called to play.

2 Corporate Social Responsibility: A Look at the Concept and its connections

Corporate sustainability, understood as a set of tools and instruments that companies can use to reduce or eliminate negative impacts on society, is based on the principle of the appropriate use of economic, social and environmental resources to ensure that such resources are not exhausted by current generations. The emergence of new conceptual frameworks, along with society's growing concern for environmental and social issues, has led companies to implement, within their business practices, CSR initiatives with the aim of ensuring that their operations and activities are carried out to generate maximum benefit with minimum negative impact (Elkington, 2007). To achieve this goal, the need to consider a more comprehensive approach that includes all stakeholders has been advocated (Elkington, 2004), causing CSR to evolve to incorporate the interests of society into corporate activity, avoiding negative impacts and creating positive benefits, until it is consolidated in the set of actions aimed at protecting and improving (Carroll, 2015). The emphasis is thus now placed on the process of creating value for the community without creating any kind of constraint on the creation of shareholder value, orienting the activities of companies to society in general and not only to the shareholder (Freeman & Durytriyet, 2017).

Considering that sustainable development does not happen spontaneously and is only achieved once a full understanding of the phenomenon is reached, its existence presupposes a holistic combination of a set of factors that integrate the dimensions of economic prosperity, environmental quality and social equity, together with the governance dimension, which is the one that supports sustainable development and includes the political, institutional and sustainability management perspectives. Understanding CSR requires a broad and complete vision of the system and is particularly focused on the scope of what should be the role of companies in society (Davis, 1973), and thus their major concern should be, even if voluntarily, to integrate social, environmental and corporate concerns into business activities (Enquist et al., 2006). From this perspective, sustainability depends on the existence of an integral understanding of the phenomenon, which is considered assured when the institutional pillars, formed by the 3Ps - Profits, Planet and People, are associated with the institutional dimension (Vieira, 2019), as illustrated in figure 1.

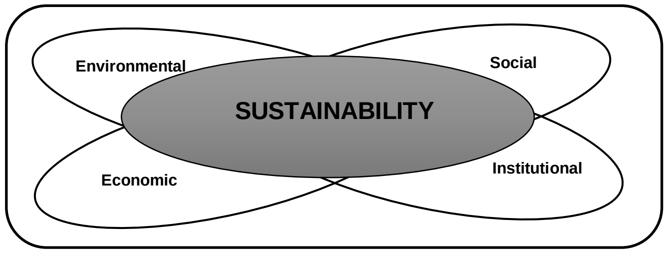

Figure 1. Dimensions of sustainability. Source: Adapted from Vieira (2019).

Thus, sustainability is considered achieved when the threshold of a process that starts with the investor showing that he is not only interested in investing in companies with a favorable economic expectation, but also taking into consideration the environmental and social impacts generated by the companies' operations and activities (Escrig-Olmedo et al., 2019). As achieving the goal of sustainability requires a broad vision and the justification of companies' actions within the framework of the creation of economic, social and environmental value for all stakeholders (Freeman, 2010) , we have seen the introduction of non-financial indicators in the reporting framework, an example of which are the Corporate Sustainability Systems (CSS), a tool closely linked to CSR and which has found in the financial market one of its great drivers (Diez-Cañamero et al, 2020), and, as a result, by emerging from the field of action of rating and rating agencies and companies to provide the service (Escrig-Olmedo et al., 2019). The very rapid growth that they would eventually register generated problematic and paradoxical situations, with companies not obtaining the same results in all the SSCs in which they participated (Rodríguez-Fernández, 2007), transforming this tool into a heterogeneous and chaotic universe of instruments of diverse nature, of which the different indices, ratings and rankings are an example (Diez-Cañamero et al., 2020).

3 The Sustainability Report: Main Advances and Difficulties Encountered

The need to stimulate a more sustainable economy, more socially responsible companies and a more inclusive society has triggered changes, in the relationship between companies and stakeholders, a new business vision and, with them, a decision-making process focused on the medium and long term. A commitment, between companies and society, to promote the implementation of a strategy to create sustainability value that presupposes the existence of a reporting structure adjusted (Romão et al., 2018), necessarily broader to start including indicators with the capacity to help measure such effects in the medium and long term (Bonsón & Bednárova, 2015). In this context, a process of reflection on institutionalized practices (EU, 2014) is being initiated , of which we highlight the role played by the EC which, with the publication of Directive 2014/95/EU, initiated the mandatory disclosure of non-financial information, and the initiatives of the Global Reporting Initiative (GRI), an organization founded in Boston (USA) in 1997, with the mission of promoting the disclosure of non-financial information as a way for companies to make public their economic, environmental and social impacts and, in this way, their contributions to the goal of sustainable development (GRI, 2020). To this end, it began in 2000 the production of the GRI standards, which would eventually be classified as the best guidance to follow (Lock & Seele, 2016) and a reference for the preparation of the Sustainability Report (SR) (KPMG, 2017; 2015), the preferred modality assumed by companies for this type of report (Fernández- Gago et al, 2018), allowing the dissemination of information of a non-financial nature previously only disclosed in the annual report (Brooks & Oikonomou, 2018).

The availability of guidelines widely accepted worldwide, including the GRI standards, would eventually contribute to the adoption of more sustainable practices (Vigneau et al., 2015), improvement of their quality and credibility (Lock & Seele, 2016; Vigneau et al., 2015) and standardization, insofar as, until then, the preparation of these reports was based on structures not globally accepted (Kuzey & Uyar, 2017). However, the high level of detail proposed by the standard GRI would eventually translate into difficulties of interpretation (De Villiers et al., 2017), limiting the ability of the information thus disclosed to help stakeholders identify their actions and, in particular, their impacts and substantially reducing their success (Michelon et al., 2015). These difficulties led GRI and the Accounting for Sustainability Project (A4S), two of the reference organizations in the field of sustainability, to create, in 2010, the International Integrated Reporting Council (IIRC), a further attempt to offer a reporting framework based on interconnected and universally accepted parameters (IIRC, 2018), materialized in the Integrated Report (IR) (Romero et al, 2018), to which companies, in an attempt to become credible (Dumay & Dai, 2017; Truant et al., 2017; Galante & Cerne, 2017), are beginning to adhere (Maqbool & Bakr, 2019) , disclosing information beyond what is legally required (Habbash et al., 2016) and viewing the voluntary disclosure process not as an add-on (Carini et al., 2018) but as an essential element of their communication policy (Matuszak & Różańska, 2017). Notwithstanding the efforts, these practices would end up registering low adherence and would translate into rather generic disclosures that are not very relevant for the analysis of the long-term performance of organizations (Diouf & Boiral, 2017). The little concern in establishing relationships between the different levels of performance and their impact on the social and environmental plan in the medium and long term (De Villiers et al., 2017; De Villiers & Sharma, 2017) would end up justifying the criticisms that have been arriving (Diouf & Boiral, 2017; Safari & Areeb, 2020). Thus, and although the proliferation of tools to measure corporate sustainability and performance has presented a certain parallel with the increase in the concerns expressed by society towards social and environmental issues (De Villiers et al., 2017), the truth is that the path chosen for making this information available has been based, fundamentally, in non-binding guidelines, limiting its capacity to assume itself as an instrument for the consolidation of this type of report (Flower, 2015). Thus, and although reporting is a need for companies and an obligation to the social group in which they are included, the option for mostly voluntary and "soft law" practices (Romão et al., 2018), not only justifies the low adherence but also the little objectivity and impartiality of the information thus made available (Diez-Cañamero et al., 2020), removing its ability to impose itself and reach the stage of maturity that was intended to be reached (Pistoni et al., 2018).

4 Contributions of Accounting and Social Pressure Towards the Goal of Corporate Sustainability Reporting

The reality today is frankly marked by adverse circumstances that may compromise stability and that do not allow ignoring the need to anticipate negative scenarios, which raise important questions for the long-term prospects of companies and for the investor and that have been pressing the production of regulations capable of ensuring a reliable, consistent, comparable disclosure process (Gulluscio et al., 2020) and compatible with the needs of (re)configuration of investment portfolios (Bolton et al., 2020). An environment where the relationships that are established between companies and society go in the direction of seeking to identify the creation of value for the community at large and not only for the shareholder (Freeman & Durytriyet, 2017), only compatible with a reporting model with the ability to inform and engage stakeholders, generate trust, stimulate organizational development and support in decision-making processes (GRI, 2020).

In fact, the probability of the occurrence of extreme events that may compromise the normal functioning of organizations, produce changes in the perception of the value of certain assets and put into perspective a variety of risks of a diverse nature that must be countered is growing. In a context with these characteristics, to allow accounting to continue to be seen as a simple business language and, fundamentally, to allow the communication process to be carried out incorporating mainly information of a financial nature, besides being paradoxical, would be incongruous as it would be in contradiction with a natural and social world that is clearly under threat. In turn, considering that society and the economy are not independent realms, accounting, due to its nature and capacity to capture the effects of people's behaviors and their actions on the organization and society (Carnagie et al., 2021), should go beyond the objective of providing financial information to the owners of capital (Gray et al, 1996) and be used in the preservation and conservation of the planet (Carnegie, 2019; Dumay & Guthrie, 2019). To view it in this way is to assume that it can be used as a tool for action and change, influencing people's behavior towards the most critical issues that set the agenda (Pelger & Spieβ, 2017), making use of its full potential to help produce a fairer and less threatened society. However, as sustainability will only be ensured when an integral vision of the phenomenon is achieved (Vieira, 2019), as we sought to illustrate in Figure 1, the challenge of sustainability reporting not only requires an interdisciplinary approach but also forces to rethink the governance structures of institutions and to foster actions according to collective interests (Compiglio et al., 2018), something that accounting alone will not be able to meet. Thus, and under the motto that what is not defined cannot be measured, what is not measured cannot be improved and what is not improved will always be degraded (Diez-Cañamero et al., 2020), we have been witnessing a very directed work in the field of accounting, carried out by prestigious organizations that, due to their ability to influence, have sought to respond with a reporting structure that is as comprehensive as it is reliable, consistent and comparable (Gulluscio et al., 2020), even starting to talk about climate or climate change accounting, and not only to disclose the process of adaptation of economic agents to climate change, but of a deeper solution (Bolton et al., 2020). In this context, the creation of the International Sustainability Standards Board (ISSB), an initiative of the European Financial Reporting Advisory Group (EFRAG) and the International Financial Reporting Standards Foundation (IFRS), to develop IFRS Standards for the disclosure of information on corporate sustainability performance, and the Corporate Sustainability Reporting Directive (CSRD), a directive drafted by EFRAG and published in April 2021 to usher in a new era for sustainability reporting in the EU, stand out. While the decision to put the ISSB in cooperation with the IASB in the development of IFRS Standards is a good sign for the financial markets and the entry into force of the CSRD, expected on 1 January 2023, will oblige all large and listed companies in the EU to disclose and obtain external assurance on a range of environmental, social and corporate governance matters (EYGE, 2021), the need remains for these matters to be truly embraced as important and impacting on market value. Notwithstanding the contributions of new regulations, these need to be accompanied by behavioral changes that influence collective interests (Compiglio et al., 2018). As the market leaves no room for disinterested behavior, even if the option for a non-binding path can be used to justify the low adherence and/or the reduced capacity of the information that has been disclosed, the lesser concern that has been attributed to it can only be overcome as the market internalizes the relevance of these risks and their material impact on the value of companies. In view of the "dictatorship" of the markets, it will be social pressure that will force companies to adopt more sustainable behaviors, even if voluntarily, so that either the market "internalizes" the costs of sustainability, judging the performance of companies at this level, or any regulation will be easily ignored.

In effect, and although the production of targeted legislation is certainly a truly effective way, if not the most effective, in such a globalized market and with so many interdependencies, implementing it in certain jurisdictions will not fail to be seen as an obligation that will work as a context cost in relation to competitors located in other latitudes and where it is not mandatory. In this sense, social pressure will generate the necessary market incentives to achieve more responsible behavior. A necessarily slow process that involves using public opinion as the great market incentive, creating a feeling that values and pressures companies to adopt the best practices and to make public, through disclosure, whether or not they are complying.

When the investor shows that he is not only interested in investing in companies with a favorable economic expectation, but also taking into consideration the environmental and social impacts generated by business operations and activities (Escrig-Olmedo et al., 2019), that is, when the market operates on the basis of a kind of penalizing "reputational" ranking where tendentially no one will want to stay, then the goal can be considered achieved.

Faced with increasingly uncertain circumstances and an environment that tends to urge companies to adopt a strategy that is both a win-win for them and for all parties involved (Romão et al., 2018), the goal of sustainability reporting is a challenge that is dependent on the existence of an integral vision of the phenomenon (Vieira, 2019) and that leads to a multi- and interdisciplinary approach (Campiglio et al., 2018). In this particular, social pressure will play a contribution that will surely be more effective than any legislative action. Therefore, the path towards the goal of sustainability reporting is made by giving prevalence to voluntary behavior and not by using the imposition route, a solution that does not invalidate the practice of adequate accounting procedures, quite the opposite.

5 Conclusion

We recall that this study was developed with the objective of presenting a reflection from the main reporting trends, with particular emphasis on sustainability reporting, to identify challenges and the role that accounting and social pressure may be called upon to play. The analysis carried out has led to the conclusion that the corporate sustainability dimension has gained increasing relative importance (IIRC, 2018; 2014; 2013; 2011), which includes the understanding of concepts such as CSR, and that the organizational environment has been undergoing significant changes and pressures, which have been producing impacts at various levels and creating new needs, whose satisfaction depends on the existence of a broad understanding of what should be the role of business in society (Davis, 1973) and that, in this particular case, involves assuming the need to integrate social, environmental and corporate concerns into business activities (Enquist et al., 2006), whose action should be evaluated within the scope of economic, social and environmental value creation for all stakeholders (Freeman, 2010). The existence of this new vision determines the need to start considering indicators with the ability to help measure such effects and, with that, to the broadening of the reporting basis (Bonsón & Bednárova, 2015), determined by the need to meet the interests of society in general (Romão et al., 2018) and not only of investors. Achieving this goal depends on the understanding that the level of companies' responsibilities goes beyond their economic and legal obligations (Maqbool & Bakr, 2019; Matuszak & Różańska, 2017) and, fundamentally, when the investor expresses an unequivocal interest in investing in socially responsible companies (Escrig-Olmedo et al., 2019). Accordingly, the enactment of regulations for the preparation and disclosure of information that is not eminently financial is noted, albeit fundamentally in OECD countries (CGMA, 2014), which have worked hard to ensure their success (Ernest & Young, 2014). Globally ranked as a good guideline to follow (Lock & Seele, 2016) and vehicle for dissemination (Brook & Oikonomore, 2018) and implementation of environmental and social accounting practices (Eugénio et al., 2010), they have contributed to disclosure beyond what is legally required (Habbash et al., 2016) and to a significant growth of rating agencies, albeit with results falling short of expectations (Escrig-Olmedo et al., 2019). The nature of the regulations would eventually make disclosures mandatory only for certain companies (Bonson & Bednárová, 2015), which translated into low uptake (Pistoni et al, 2018), low commitment (De Villiers et al., 2017; De Villiers & Sharma, 2017) and in very generic and poorly linked disclosures (Demir et al., 2017; Diouf & Boiral, 2017), of dubious objectivity and impartiality (Diez-Cañamero et al., 2020).

Although the option for non-binding guidelines emerges as the main reason to justify the failure of the measures (Diouf & Boiral, 2017; Safari & Areeb, 2020; Romão et al., 2018), the fact that we still do not have a fully instituted reporting model may be related to the little attention and concern that has been dedicated to it and that will most likely only be overcome as we get the market to "internalize" the costs of sustainability, judging the performance of companies at this level and benefiting actors with responsible behaviors. While the production of targeted legislation is certainly a truly effective route, in a global and interdependent market, the signals will necessarily have to come from the market, with the investor expressing interest in investments with economically favorable expectations, weighted against the environmental and social impacts generated by these activities (Escrig-Olmedo et al., 2019). Let us say that the goal of sustainability reporting is a challenge that passes not only through accounting, but also through the existence of a complete vision (Vieira, 2019), dependent on a multi- and interdisciplinary approach (Campiglio et al., 2018) and where social pressure will play the most effective contribution. In this context, it is suggested, for future research, to complement this reflection by conducting a study that allows collecting information, possibly based on the application of a questionnaire survey to stakeholders, with particular emphasis on investors, in order to seek to understand what they value when (re)configuring their investment portfolios.

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