Accounting and Finance PhD Research Topic

Sustainability reporting standards, the materiality of non-financial information.

Associate Professor Simone Scagnelli

Abstract

Sustainability reporting standardization refers to the process of developing consistent guidelines for companies to report on their non-financial performance (ie. environmental, social, and governance - ESG). Standardisation can promote more transparency, comparability, and accountability, and in turn help building trust with stakeholders and drive sustainable business practices. There are several widely used sustainability reporting frameworks/standards, including the Global Re-porting Initiative (GRI), the Sustainability Accounting Standards Board (SASB, now ISSB), and the Carbon Disclosure Project (CDP) just to name the most adopted ones. Efforts to harmonize these standards have been ongoing for several years, with various initiatives aiming to align the different frameworks and create a common language to report non-financial sustainability performance. The most prominent effort is the merger between the SASB (American based) and IIRC with the IASB Foundation (European based) to create the International Sustainability Standards Board (ISSB) with the aim of mandating the adoption of their S1 and S2 (Climate change) standards in January 2024. The aim of this project is to explore the role of these new standards and the existing ones in enhancing the comparability and reliability of non-financial ESG information, investigate the effectiveness of promoting materiality (and double materiality) and stakeholder engagement, as well as identifying related challenges and opportunities across different industries and regions support the further policy-making in this area.

Further details

Sustainability reporting harmonization can help improve the materiality of reported information by promoting consistency and comparability in how companies report on their performance. When reporting standards and guidelines are harmonized and becomes “standardised”, companies can use a common framework to identify and prioritize their most material ESG issues, and report on them in a way that is consistent and comparable with their peers.

Materiality is a key concept in reporting that refers to the significance of information to drive decision-making. Material issues are those that have a direct or indirect impact on the company's ability to create value over the short, medium, or long term. Double materiality is a relatively new concept that expands the traditional understanding of materiality in sustainability reporting. It recognizes that ESG issues not only affect the company's business operations and financial performance (i.e., the first materiality), but also the broader economy, society, and environment (i.e., the second materiality). Therefore, companies need to consider and disclose the potential financial impact of ESG issues both on their own business and on the world at large. In practice, double materiality means that companies need to identify and prioritize the most significant ESG issues that are material to their business and their stakeholders, and report on them in a transparent and consistent manner. This can help investors, customers, employees, and other stakeholders make informed decisions about the company's sustainability performance and long-term viability.

Additionally, sustainability reporting frameworks often include requirements for companies to engage with stakeholders in order to identify and prioritize their most material ESG issues, and to report on their performance in addressing those issues. Accordingly, stakeholder engagement is the process of interacting and communicating with the main group of stakeholders, such as customers, investors, employees, suppliers, regulators, and communities and understand their needs, expectations, and perspectives, to incorporate them into decision-making processes.

This area of research lends itself to a variety of mixed methods approaches depending on the nature of the final research questions. The following indicative research questions arise from the outline above and form the initial basis of this PhD research project.

1. How effective are ISSB sustainability reporting standards, in promoting materiality and double materiality? What are the strengths and weaknesses of these standards, and how could they be improved?
2. What are the main challenges and opportunities for standardizing sustainability reporting practices across different industries and regions, and how do these factors affect the materiality of reported information? How can these challenges be overcome, and what are the implications for corporate sustainability reporting and disclosure?
3. How does sustainability reporting standardization influence stakeholder engagement and the identification and prioritization of material ESG issues? What are the key drivers and barriers to stakeholder engagement, and how ISSB standards facilitate or hinder this process?
4. What is the impact of sustainability reporting standardization on the comparability and reliability of non-financial information across different companies and sectors, and how does this affect investors' decision-making processes? How do alternative approaches to sustainability reporting and disclosure compare in terms of their impact on comparability and reliability?
5. How does sustainability reporting standardization affect corporate performance, stakeholder trust, and long-term value creation, and how do these factors vary across different industries and regions? What are the implications for corporate sustainability strategy and management, and how can sustainability reporting standards be leveraged to drive positive change?

These are just some examples of interesting research questions that relate to how sustainability reporting standardisation will improve materiality of non-financial information. A review of recent journal articles may suggest other interesting potential topics.

The following articles help provide a backdrop of the literature pertaining to this field.

Baumüller, J. & Sopp, K. (2022), Double materiality and the shift from non-financial to European sustainability reporting: review, outlook and implications, *Journal of Applied Accounting Research*, 23(1), 8-28

Bolton, P., Kacperczyk, M.T., Leuz, C., Ormazabal, G., Reichelstein, S. & Schoenmaker, D., (2021). Mandatory Corporate Carbon Disclosures and the Path to Net Zero. *Available at SSRN 3946031*.

Christensen, H.B., Hail, L. & Leuz, C., (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. *Review of Accounting Studies*, *26*(3), 1176-1248.

Eccles, R.G., Krzus, M.P., Rogers, J. & Serafeim, G. (2012), *The Need for Sector-Specific Materiality and Sustainability Reporting Standards*. *Journal of Applied Corporate Finance*, 24, 65-71.

Khan, M., Serafeim, G. & Yoon, A., (2016). Corporate sustainability: First evidence on materiality. *The accounting review*, *91*(6), 1697-1724.

Tschopp, D. & Nastanski, M., (2014). The harmonization and convergence of corporate social responsibility reporting standards. *Journal of business ethics*, *125*, 147-162.

Desired skills: Qualitative research, Quantitative research
Project Area: Accounting and Finance
Project level: PhD or MbR