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The multiverse of non-financial reporting regulation

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The multiverse of non-financial reporting regulation

Abstract

Although non-financial reporting (NFR) has been extensively explored in the accounting literature, most previous studies have focused on relevant issues in contexts where firms report their impact on society and the natural environment voluntarily. Despite the important role previous studies on voluntary NFR play in our understanding over of its role, processes and consequences, extant literature has provided limited evidence on (i) how NFR regulation affects (if at all) corporate reporting, (ii) whether such regulated reporting affects the users of corporate reports and, (iii) whether mandatory NFR has any “real effects” on how firms affect society and natural environment. This special issue attempts to enrich our understanding of the impact of NFR regulation with reference to the studies accepted for the special issue. In addition, this paper discusses key aspects of NFR regulation, provides an overview of the papers included in the special issue and proposes further axes of research in light of the continuing reforms in the NFR regulatory space; which we foresee to lead to a “multiverse” of NFR regulatory models and approaches.

1. Introduction

In recent years, the demand for organisational reporting and disclosure has mushroomed. In addition to their financial performance and position, companies are now expected to disclose the social, environmental, and relevant economic impacts of their operations, as well as their strategies and policies in relation to these impacts. Since this reporting practice refers to information which is not captured or emphasised within the mainstream and largely regulated framework of financial accounting and reporting, we have relied on the broad term of non-financial reporting (NFR) (Jackson et al., 2020; Stolowy & Paugam, 2018) to characterise such disclosures.

Due to its largely voluntary nature, NFR has been, to a significant extent, multifaceted and fragmented, although its quality has been improved over the last few years (Van der Lugt et al., 2020). Companies and organisations have adopted various definitions and conceptualisations, and consequently, have used different approaches in reporting their societal and environmental impact. Terms such as “Sustainability” “Corporate Social Responsibility - CSR” or “Environmental, Social and Governance – ESG” reporting are often used by companies to frame their reporting about, broadly speaking, their societal- and environmental-related activities, risks, opportunities and impacts. At the same time, various reporting approaches have been adopted by organisations across the world. These approaches differ substantially in their scope, breadth and focus. For instance, the CDP (formerly Carbon Disclosure Project) has historically had a rather narrow but in-depth focus on organisations’ carbon emissions, aimed at informing a wide range of stakeholders. Contrastingly, the US Sustainability Accounting

Standards Board (SASB) Standards have covered a much broader range of organisations' NFR themes and practices but are aimed at informing primarily capital market participants. Furthermore, for more than 20 years, the Global Reporting Initiative (GRI) has played a key role in the development of NFR (especially with a focus on stakeholders), although organisations that have adopted GRI Guidelines have tended to apply them at different levels. Distinctively, the Integrated Reporting (IR) framework, initiated in South Africa, has drawn on a multi-capital lens (financial, manufactured, intellectual, human, social and relationship and natural) arguing that an organisation's value creation process stems from the interactions of these different capitals and the development of an integrated thinking model; leading to a holistic form of reporting and accountability. These various reporting approaches, alongside a few other national models, have effectively led to a NFR "multiverse" where organisations provide aggregated or disaggregated, incomparable, incommensurable and, often, incomplete information with questionable relevance, reliability and understandability for the various users of these reports (Cho et al., 2012; Michelon et al., 2015). More importantly, we argue that this "multiverse" of voluntary NFR cannot lead to any "real positive effects" on society and the natural environment in that while NFR information may reveal "data", they do not often compel "action". To this end, organisations have been often criticised for using voluntary NFR as a greenwashing tool by emphasising their positive impacts, disclosing many ambitious commitments with little evidence of substantive engagement while concealing or minimising their harmful activities (Cho et al., 2012; Michelon et al., 2015; Testa et al., 2018). Even in relation to the incontrovertible evidence of climate change, organisations appear to engage in disclosures reflecting the multiple "discourses of climate delay" (Lamb et al., 2020) which hinder the case for substantive action.

Currently, and arguably with an eye on the climate emergency and the rise of social and economic inequality, we are witnessing an unprecedented movement across the world towards regulating NFR which aims at specifying the information that companies are required to disclose and hence alleviating long-standing issues of relevance, reliability, comparability, and greenwashing stemming from voluntary NFR (Lyon & Montgomery, 2015). The overarching motivation behind the current regulatory initiatives is associated with the need for higher quality NFR which will (i) lead to better informed capital markets; (ii) satisfy the various information needs of stakeholder groups and (iii) promote the adoption of socially and ecologically responsible activities (Jackson et al., 2020).

Although one of the main purposes of regulating NFR has been suggested to be the harmonisation of sustainability-related information, a review of the current developments

reveals a plethora of NFR regulations around the world. For instance, the European Union Corporate Sustainability Reporting Directive (EU CSRD)¹ which took effect in January 2023, aims at providing to stakeholders of large as well as small and medium sized listed firms consistent information relating to climate change and other sustainability matters. In parallel, the European Financial Reporting Advisory Group (EFRAG) has developed a draft of European Sustainability Reporting Standards (ESRS) that will be required by companies subject to the EU CSRD (EFRAG, 2021). The ESRS cover a wide range of sustainability-related issues ranging from climate change, biodiversity and circular economy to workforce and business conduct. At the same time, in November 2021, the IFRS Foundation formed the International Sustainability Standards Board (ISSB) whose purpose is to develop investor-oriented sustainability reporting standards (IFRS Foundation, 2021). In March 2022, the ISSB released two exposure drafts. The IFRS S1 refers to general requirements for sustainability-related financial disclosures and the IFRS S2 refers to climate-related disclosures. It should be noted that the ISSB Standards are built upon previous investor-oriented reporting approaches including the Task Force for Climate-related Financial Disclosures (TCFD), the Integrated Reporting Framework and the Sustainability Accounting Standards Board Standards (SASB). In this way, it aims at consolidating in one reporting framework different reporting approaches and harmonising financial-related sustainability disclosures across the world (IFRS, 2021). Further, countries within the Western world have already established sustainability reporting regulations for large organisations. For instance, large UK companies are required to disclose their energy use, carbon footprint and carbon emissions under the Streamlined Energy and Carbon Reporting (SECR) Policy (HM Government, 2019) and to publish an annual statement on activities that are relevant to slavery, servitude, forced or compulsory labour and human trafficking under the Modern Slavery Act (HM Government, 2021). In a similar vein, French companies (under the Grenelle I and Grenelle II Acts) have been required to disclose the environmental and social consequences of their activities for decades (Baboukardos, 2018).

In addition to initiatives in Western countries, we are witnessing various endeavours for regulating NFR in other parts of the world. For instance, the Chinese Human Rights Action Plan released in 2021 aims at introducing improved reporting regulation on firms' environmental and human rights activities (State Council of China, 2021). In the same year,

¹ The EU CSRD is the successor of the 2014 EU Non-financial reporting Directive (EU NFRD) which was passed in 2014 and required since 2018. The EU NFRD required large EU firms to disclose information about environmental, social, human rights, anti-corruption and bribery issues. Nevertheless, no clear guidance on how companies should report were provided (Cuomo et al., 2022).

amendments to the Companies Act 2013 in India require the top 1,000 listed firms based on market capitalisation to submit a business responsibility and sustainability report for the 2022-23 financial year onwards (KPMG, 2021). Finally, the Johannesburg Stock Exchange in South Africa has required listed firms to release an annual integrated report where information about a firm's financial and sustainability performance will be presented in an interconnected manner (Baboukardos & Rimmel, 2016).

The above overview of current developments in NFR regulation is by no means exhaustive, although these endeavours can be seen as some of the most important taking place today. Based on this overview, it can be argued that although we are moving towards a regulated NFR regime, the “multiverse” of NFR and of its regulation will persist. Despite the abundance of NFR regulations today, their impact on firms, users, society and the natural environment remains an open empirical question (Haji et al., 2023). Our special issue intends to contribute to this, rather underexplored, field of accounting literature and to deepen and broaden our understanding pertaining to (i) how organisations address NFR requirements to report on social or environmental information, (ii) how regulated NFR is perceived by users and, (iii) the effectiveness of NFR regulation in promoting socially responsible behaviours amongst organisations.

The five papers of the special issue cover a wide range of topics and provide useful and interesting empirical evidence about NFR regulation, as outlined in Section 3.

The rest of this paper is structured as follows. Section 2 discusses the role NFR regulation plays in capital markets, stakeholders' views and actions and companies' behaviour. Section 3 reviews the papers included in the special issue. Finally, section 4 concludes by highlighting the main future challenges of NFR regulation.

2. The role of NFR regulation

The following discussion intends to explore the current landscape of NFR regulation. Starting with an overview of the need for regulated corporate reporting, it proceeds to consider key issues of NFR regulation in relation to shareholders, stakeholders, and firms' behaviour. While not a complete review of the extant relevant literature,² it provides an overview of what we know thus far about the subject matter.

² Recent papers of Christensen et al. (2021) and Haji et al. (2023) provide excellent reviews of the extant literature.

2.1 The need for corporate reporting regulation

One of the main purposes of corporate reporting is to mitigate problems of information asymmetry arising between companies' insiders (i.e. executives) and outsiders (i.e. investors and other stakeholders). Insiders may use corporate reporting as a tool to form external users' perceptions about the company in a way that is beneficial for themselves and potentially harmful for outsiders (Beyer et al., 2010). In a voluntary reporting setting, companies may decide to disclose non-financial information which is beneficial for themselves and hence their quality, credibility and reliability are questionable (Christensen et al., 2021; Soobaroyen et al., 2023). At the same time, users of the corporate disclosures, conscious of insiders' incentives, may not see corporate reporting as a reliable source of communication imposing penalties on the firm, such as lower valuation or lower customer and employee loyalty. Although voluntary disclosures mitigate information asymmetry problems through the "unravelling result" mechanism (Milgrom, 1981), this is usually a suboptimal solution as firms are found to make less than full disclosure of their private information (Beattie & Smith, 2012; Beyer et al., 2010).

Corporate reporting regulation is suggested as a means of improving corporate reporting practice and alleviating failures of voluntary reporting (Beyer et al., 2010; Leuz & Wysocki, 2016). First, corporate reporting may create externalities caused by the difference between the net benefits of disclosure for an individual firm and the society (Scott, 2012). For instance, if some companies in a market/industry disclose information about their environmental impact that other companies do not, then the users of this disclosure may evaluate non-disclosing companies on the basis of information elicited by disclosing companies. Further, companies that do not disclose this information may be penalised for not providing the same disclosure (Campbell et al., 2003). Second, regulation leads to a reduction of transaction costs for all users regardless of their sophistication to "read between the lines" and their ability to collect information privately. More publicly available information makes it more difficult and costlier for sophisticated users with more available resources to gain an information advantage and consequently, it levels the playing field for all users (Leuz & Wysocki, 2016; Scott, 2012). Finally, reporting regulation reduces information processing costs for the benefit of all users (especially for those with fewer available resources) through a more homogeneous reporting environment which enhances the understandability and comparability of disclosures (Bewley, 2005; Kolk & Perego, 2010; Rankin et al., 2011; Sullivan & Gouldson, 2012). Thus, information economies of scale enable users to make more informed and accurate decisions about a company.

In addition to the above “economic rationale”, corporate reporting regulation can be seen as a means of making firms meet their social obligations. In this sense, corporate reporting shall satisfy the information needs of all stakeholders regardless of their ability to influence companies’ decisions (Freeman, 1984). By communicating the fulfilment of their social responsibilities, firms may deepen their relationship with their stakeholders and have a positive impact on the whole society. Furthermore, regulated corporate reporting is likely to raise awareness of the importance of the disclosed issues within society and, in turn, put pressure on companies to improve their behaviour in relation to these issues. As stakeholders become more aware of the importance of disclosed issues, they might be in a better position to put pressure on firms to alter their behaviour and act in a more responsible manner (Christensen et al., 2021). In turn, firms may become more transparent to reduce this societal pressure (Haji et al., 2023; Reid & Toffel, 2009) and avoid being negatively disciplined by their stakeholders (Jackson et al., 2020).

In addition to the potential positive effects of regulation, corporate reporting regulation can be also seen as an arena where various actors try to influence regulators for their own benefit. Hence, regulators are often captured by those who intend to regulate (Bushman & Landsman, 2010). Lobbying pressures during the regulation process are primarily made by the most powerful stakeholders (Reuter & Messner, 2015) whose “behind the scenes” activities may substantially differ from their public discourse (Cho et al., 2018). Consequently, the outcome of corporate reporting regulation is often based on social welfare trade-offs and it is not necessarily the first best outcome for society (Barth, 2006).

Based on the above discussion, corporate reporting regulation is expected to affect both users’ decision-making and companies’ actual behaviour. In the following sections, we discuss key findings of research on NFR regulation in relation to users’ (shareholders and stakeholders) perceptions as well as to real effects on firms’ behaviour.

2.2 NFR regulation and capital markets

Extant literature provides some interesting insights into the role of NFR regulation on capital markets. In a nutshell, these findings indicate that regulated non-financial disclosures are positively associated with firms’ market value, although capital markets are found to react (on average) negatively to announcements of regulation.

Most previous studies show that the announcement or implementation of new NFR regulation is perceived as negative news by investors. Chen et al. (2018) show that investors reacted negatively to the announcement of a CSR reporting mandate in China. Similarly,

Grewal et al. (2019) focus on three events related to the deliberations preceding the passage of the 2014 EU NFRD Directive and find that capital markets reacted negatively to these events. Further, Elayan et al. (2021) find a negative market reaction after the passage of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US, which requires firms to disclose information on human rights in relation to the mining of rare minerals in the eastern Democratic Republic of Congo and adjoining countries. Finally, although Cousins et al. (2020) find no significant market reaction in eight events preceding the passing of the UK Modern Slavery Act 2015, they show that price returns are negative for firms with higher slavery risk. This finding indicates that firms' pre-regulation activities are an important factor in investors' reaction to NFR regulation. Such cross-sectional heterogeneity is also evident in Grewal et al.'s (2019) study, finding that negative market reaction is primarily exhibited in firms with pre-regulation lower CSR-related disclosures and poorer CSR performance, and by Elayan et al. (2021) who show that negative market reactions are more pronounced for firms with ambiguous disclosures.

Although studies on the immediate response of capital markets to new NFR regulation indicate that investors perceive new regulation as negative news, research on the market valuation of regulated non-financial disclosures indicates that such disclosures are positively associated with firms' market values. Ioannou and Serafeim (2019) find that the introduction of NFR regulation in four countries (China, Denmark, Malaysia and South Africa) led to more and better CSR reporting which, in turn, led to higher valuation proxied by Tobin's Q. Baboukardos (2017) finds that after the amendments of the UK Companies Act in 2013, which requires listed firms to disclose their total carbon emissions, the association between share price and carbon emissions is still negative but weaker than in the period before the implementation of the regulation. He argues that these findings may be attributed to regulation providing an extra level of assurance for investors who, under the regulation, can rely more on firms' carbon reporting. A context of particular interest for NFR regulation is the Johannesburg Stock Exchange (JSE), where listed firms have been required to release an annual Integrated Report since 2010. A number of studies have examined the market valuation implications of this regulated NFR approach. Evidence suggests that, in this mandatory context, the quality of firms' non-financial disclosures is positively associated with firms' share prices (Caglio et al., 2020; Lee & Yeo, 2016) and this is primarily driven by lower bid-ask spreads (Barth et al., 2017).

Finally, a few studies have examined the association between regulated non-financial disclosures and risk. Matsumura et al. (2022) show that US firms' cost of equity is negatively

associated with their decision to disclose their climate risk disclosures in Form 10-K. This is an interesting setting to examine this issue as firms are required to disclose climate risk-related information only if they believe that such information is material. The results indicate that investors have their own expectations of climate risk materiality and based on these expectations, they infer the reliability of firms' climate reporting decisions. The cost of equity under mandatory NFR has also been examined in South Africa. Zhou et al. (2017) find that integrated reports of high quality are associated with a lower cost of equity. Such findings emphasise the potentially beneficial role of NFR regulation on capital markets.

2.3 NFR regulation and stakeholders

Non-financial information has been found to have a significant influence on different stakeholder groups. Customers incorporate non-financial information in several decisions (Bhattacharya & Sen, 2004), such as their product responses (Brown & Dacin, 1997), their identification with a company (Sen & Bhattacharya, 2001), their loyalty and willingness to pay for products and services (Grimmer & Bingham, 2013; Habel et al., 2016) and their overall satisfaction with a company (Mithas et al., 2005). Customers derive higher satisfaction from products made by a socially responsible company, feeling more identified by the company and becoming more loyal to it (Bhattacharya & Sen, 2004). This loyalty, however, will turn into criticism and distrust if it is discovered that NFR is unsubstantiated, and when negative CSR incidents and irresponsibility are revealed (Siano et al., 2017; Skarmeas & Leonidou, 2013). NFR can prove important for customers as it helps them to benchmark a firm's CSR to the CSR of its competitors and undertake more efficient decisions (She, 2022). Customers are also key in facilitating the creation of NFR's real effects. If customers do not incorporate non-financial information into their purchase decisions, firms would lack incentives to alter their behaviour in relation to social responsibility. The more customers use this information, the more firms alter their behaviour and adopt more sustainable practices (She, 2022).

Suppliers also play a key role in a company's CSR. In recent years, a greater focus has been given to the role that CSR has in promoting more sustainable supply chains. Several companies are responding to customers' concerns for CSR by implementing programs within their suppliers aimed at ensuring that they act in a socially responsible manner with respect to social and environmental issues (Boyd et al., 2007). NFR is therefore key in managing firms' supply chain as it allows companies to be aware of the CSR practices adopted in their supply chains and undertake necessary actions (Kraft et al., 2020). Regulating NFR is thus likely to be beneficial and improve CSR practices along the supply chain. NFR regulation reduces the

acquisition costs of non-financial information for companies operating at different levels of the supply chain and provides them with the ability to set a reference point to benchmark their expectations on CSR (Christensen et al., 2021; She, 2022). The increase in information availability that follows NFR regulation facilitates the monitoring of firms' supply chain practices and is likely to result in an improvement in CSR performance for the suppliers that are underperforming (She, 2022).

NFR also helps firms to create strong relationships with their employees. Employees tend to value companies with better CSR performance. CSR practices enhance the reputation and attractiveness of a firm as an employer, broadening the hiring pool of potential employees (Turban & Greening, 1997). Firms that perform well non-financially are likely to attract more applicants for a job interview who are willing to accept a job offer for a lower rate because they value the CSR practices adopted (Greening & Turban, 2000). These positive perceptions help companies to attract and retain more talented employees (Bode et al., 2015). By contrast, firms that perform poorly non-financially need to provide additional compensation to attract and retain employees (Wang et al., 2021). Communication of non-financial information to employees is therefore key to increase the attractiveness of a company as a future employer, and employee loyalty and retention. It also increases employees' awareness of the importance of non-financial matters resulting in improved socially responsible behaviour (Armstrong, 1977). Regulated NFR on employee matters has been found beneficial for employees, with companies recording a significant decrease in employee injuries and safety violations after the introduction of a disclosure mandate (Chen et al., 2018; Christensen et al., 2017).

Finally, local communities and citizens are interested in knowing whether companies operating in their area are beneficial for the sustainable development of their local community. Therefore, local communities are interested in relevant NFR as it allows them to evaluate the contribution of local firms in sustainable development and to engage companies that are not acting responsibly. NFR regulation has been found to be beneficial for local communities. For instance, Chen et al. (2018) show that cities most impacted by a NFR disclosure mandate experienced a greater reduction in the amount of industrial wastewater discharge and the level of SO₂ emission after the implementation of the disclosure mandate.

2.4 Real effects of NFR regulation

One of the most important roles NFR is expected to play goes beyond the effect on users' decision making and is typically referred to as "real effects". This term defines the effects that NFR regulation (may) have on driving changes within the companies and, in turn, on society

and the natural environment companies operate in. In other words, NFR regulation may lead companies to change their resource allocation decisions (Kanodia & Sapra, 2016) regardless of whether this is an explicit aim of the regulation (Christensen et al., 2021). An emerging but growing number of empirical studies have examined the real effects of NFR regulations in terms of both intended and unintended consequences (Haji et al., 2023).

The studies that have investigated the intended consequences of NFR regulation have focused on real effects in terms of CSR activities, carbon emissions and employee injuries. Companies subject to NFR regulation have engaged with both social and environmental oriented practices after the introduction of an NFR mandate (e.g., Cuomo et al., 2022; Fiechter et al., 2022), particularly in terms of supply chain due diligence, human rights performance (She, 2022) and adoption of green innovations (Mbanyele et al., 2022; Ren et al., 2023). NFR regulation has also been found to affect the level of carbon emissions (Chen et al., 2018; Downar et al., 2021; Tomar, 2022). It is worth stressing, however, that, there is inconclusive evidence on whether improved carbon performance is achieved at the expense of financial performance (Chen et al., 2018), or not (Downar et al., 2021). Positive effects of NFR regulation have also been found in terms of a reduction in employee injuries and improvements in employee safety (Chen et al., 2018; Christensen et al., 2017). However, Christensen et al., (2017) also reported a decrease in employees' productivity after the introduction of NFR regulation.

The unintended effects of NFR regulation have been studied less extensively. Focusing on an NFR mandate on the use of "conflict minerals", the studies of Parker et al. (2016) and Parker and Vadheim (2017) documented negative humanitarian consequences (in terms of higher infant mortality and uprising of new conflicts) after the disclosure mandate. Other studies have investigated the implication of NFR regulation in terms of tax avoidance finding mixed evidence. Jiang et al. (2022) reported an increase in corporate tax avoidance after the introduction of a CSR disclosure mandate, whereas Lin et al. (2017) documented an increase in tax avoidance.

Although a number of studies have examined the real effects of NFR regulation, the evidence is still preliminary, rather inconclusive and focused on firm-level intended consequences. Very little is still known about the unintended consequences of NFR regulation and how NFR regulation can lead to improvements in the sustainable development of the society.

3. Overview of the papers included in the special issue

This special issue includes five articles that provide interesting insights into different aspects of NFR regulation from different contexts.

Most of the studies in this special issue (three out of the five) focus on the EU NFRD, issued in 2014 and implemented in 2018. Al Dosari et al. (2023), drawing on neo-institutional theory, investigate the mimetic, coercive, and normative effects produced by the EU NFRD in oil and gas companies operating inside and outside the EU. The findings reveal that the extent of non-financial disclosure provided by oil and gas firms increased significantly after the implementation of the EU NFRD, both in the EU and outside the EU, revealing a spill-over effect. They also reveal that the increase in the non-financial disclosures provided by non-EU firms is associated with the number of EU employees and the extent of EU operations of these firms. Bini et al. (2023) exploit the requirements introduced by the EU NFRD and the UK Companies Act to mobilise the business model concept as a framework to disclose non-financial information in firms' annual reports and investigate whether and to what extent preparers and users of non-financial information have a shared understanding of the business model concept and its role in reporting. By relying on the institutional reality perspective and using a survey and in-depth interviews, the study reveals a lack of widespread consensus around a specific definition of the concept of a business model, its constitutive elements, and its reporting function, suggesting that the business model remains a concept under social construction. By relying on resource dependence theory, Samani et al. (2023) investigate the impact EU NFRD and employee representation on the board of directors have on the extent and quality of employee-related disclosures provided by Swedish listed firms. Their findings show that both the EU NFRD and employee representation positively affect the extent and quality of employee-related disclosures. They also show that these disclosures are more precise and less uncertain when firms have employee representatives, although the level of uncertainty increases after the Directive implementation.

Huang et al. (2023) focus on the Greenhouse Gas Reporting Program (GHGRP) by the Environmental Protection Agency (EPA) in the US. Using the lenses of agency and stakeholder theories, the study examines whether the introduction of this regulation affected firms' environmental litigation risk. The study shows that the introduction of the GHGRP reduces corporate environmental litigation risks and that this effect is more pronounced in companies headquartered in cities with a large population, as firms face greater community stakeholder pressure. The study also shows that the enhanced corporate social responsibility in the post-

GHGRP periods serves as a channel for the lowered litigation risk and that GHGRP attracts more investors' attention, leading to worsened stock returns around the litigation.

Finally, Elmagrhi and Ntim (2023) focus on a 'soft' form of regulation which does not provide clear guidance about the content/format/structure of the disclosed information and how such mandates are unlikely to have a significant impact. By drawing from neoinstitutional theory, this paper investigates the extent and the determinants of nonfinancial reporting in UK higher education institutions (HEIs), by focusing on risk management practices. UKHEIs are required by the Office for Students to publish risk management information. Despite this, the findings of the study reveal a low level of risk disclosures among UK HEIs, which, however, tends to be higher in HEIs with better governance.

To sum up, the key takeaways from the papers published in this special issue are the following. First, NFR regulation is found to have favourable effects on the disclosure levels of firms subject to the regulation (Al Dosari et al., 2023; Samani et al., 2023) as well as on firms that are not subject to the regulation but operate in the same industry (Al Dosari et al., 2023). At the same time, however, preparers and users of NFR are sceptical about the introduction of strict and extensively regulated NFR (Bini et al., 2023). A potential reason for that could be the lack of widely accepted definitions and reporting functions. Taking these findings together, we argue that although NFR regulation may increase the quantity of provided information, there is a necessity for standard setters to provide clear guidelines over definition and measurement issues which will enhance the quality of NFR. This is also corroborated by Elmagrhi and Ntim (2023) who reveal an unwillingness of organisations to engage with NFR when clear reporting guidelines are not provided. Finally, we are witnessing some favourable real effects of NFR regulation as companies are found to reduce their litigation risk (and hence potentially improve their environmental performance) post-regulation (Huang et al., 2023).

To conclude, we need to stress that the papers of this special issue touch upon underexplored issues of NFR such as spill-over effects of NFR regulation, business model reporting, non-for-profit organisations' reporting practices, potential real effects of NFR regulation and, employee-related disclosures. These studies not only contribute to the extant literature but also raise areas for future research that are outlined in the following section.

4. Conclusions: Future challenges of NFR regulation

Since the inception of, and throughout, this special issue, it would be fair to say that there have been unprecedented global and systemic challenges. The Covid-19 pandemic has, in so many ways, revealed the vulnerabilities, precariousness and contradictions of mainstream social, economic and political systems (Gaia & Baboukardos, 2023). It has visibly brought to the fore the inter-connectivity and multiple impacts of economic, production, and human activity on a core, and undeniably personal, level (our own health and wellbeing), with further drastic consequences for marginalised groups and future generations. Yet, tackling Covid-19 and its consequences has also demonstrated the human capacity for adaptation, innovation, and responsiveness; something which has often been lacking with respect to long-standing global challenges, such as the environment, biodiversity preservation, social and economic inequality, human and employee rights, poor governance, and ethics.

Within this new context, it seems therefore apt to note the extensive and intensive developments in the non-financial reporting regulatory space, particularly flowing from the pressures brought about by the Task Force on Climate-Related Disclosures (TCFD), the impending publication of International Sustainability Standards Board (ISSB) pronouncements (S1 and S2) and more recently, the European Union's decision to mandate sustainability reporting on the basis of the soon-to-be issued European Sustainability Reporting Standards (ESRS) by the European Financial Reporting Advisory Group (EFRAG). While there is a clear "regulatory turn" with regards to non-financial reporting and indications of "convergence" amongst some of the mainstream sustainability reporting frameworks (notwithstanding the live debate about single and double materiality approaches), globally one can note a bumpier road ahead with the potential for a multiverse of national regulatory regimes and approaches to sustainability reporting, thereby in need for further research and investigation. For example, Haji et al. (2023) caution that there is little in the way of substantive change in CSR reporting quality post-regulation due to a tendency to engage in symbolic disclosure and "greenwashing". In this regard, we highlight eight broad areas for further research.

First, research on sustainability assurance (Baboukardos et al., 2021; Canning et al., 2019; Cohen & Simnett, 2015; Farooq & De Villiers, 2018; Hummel et al., 2019; Kolk & Perego, 2010; Michelon et al., 2019; O'Dwyer, 2011; O'Dwyer et al., 2011) has revealed the multiple approaches towards providing (largely) voluntary forms of assurance, which typically involves processes informed by financial audit methodologies contrasted to audit processes developed by non-accountants. Many studies (e.g. Birkey et al., 2016; Cho et al., 2014; Hummel et al., 2019; Kolk & Perego, 2010) have also tended to rely on published assurance statements to

examine their content and the factors underlying the companies' motivation to rely on sustainability assurance. Others have, however, focused on the processes underpinning the "creation" of the sustainability assurance methodology in audit firms revealing the pragmatic strategies and involvement of accountants and non-accountants (Canning et al., 2019). An important area of research would be how national (financial) audit regulators and other related agencies would establish professional expectations, certification, and registration when it comes to sustainability assurance. There is scope as well to explore, and contrast to, attempts by other regulators (e.g. responsible for monitoring climate change targets, gender pay gaps, human and employee rights; banking regulators) to influence or co-determine the nature of assurance and its reporting. Hence, it would be useful for researchers to draw on regulatory theories and prior work on accounting, audit and financial regulation to inform their analysis of how sustainability assurance will be overseen, and whether such assurance remains voluntary or mandatory.

Second, our selected articles and the volume of submissions to the special issue indicated a strong emphasis on Western contexts, particularly from the US, the UK, and continental Europe. Although there are notable developments in non-financial reporting regulation in other economically prominent settings (e.g. India, China, South Africa, Indonesia) leading to mandatory requirements to provide sustainability or corporate social responsibility reports, there has been far less interest from policymakers within the vast majority of the "Global South" nations; with the exception of TCFD for banking and frameworks for sensitive sectors (e.g. oil & gas; mining) that are largely targeted at multinational companies (e.g. Organisation for Economic Cooperation and Development guidelines for multinational enterprises). Similar to earlier developments in financial reporting and the eventual adoption of International Financial Reporting Standards (IFRS), there appears to be, anecdotally, a "wait and see" attitude with regard to sustainability reporting standards. As highlighted by Belal et al. (2013) and Hassan (2022), and recently typified by the impact of the pandemic and the war in Ukraine, many countries in the Global South experience more severely issues related to climate change, poverty, human rights violations, the "resource curse", child labour, corruption, and other forms of social, economic and resource exploitations. Institutional mechanisms, reflected in the exercise of the rule of law, regulatory enforcement, good governance, and openness/transparency, remain weak or are subverted to private interests. In addition, there is often a dearth of professionals and expertise in these countries, especially in enforcement and regulatory circles. As a result, countries in the Global South often become the site for "corporate unsustainability", for example when multinationals decide to base their polluting activities in

contexts where there is lax (or absent) environmental or employee regulation (Hassan, 2022). Further research could therefore aim to investigate how forms of sustainability assurance and regulation could operate in these different contexts, potentially by ensuring that multinational companies report (and are audited) on a disaggregated basis. In addition, and recognising the structural challenges of enforcement and regulation, and power differentials in the Global South, we encourage research on additional mechanisms, potentially community-driven or collaborative in nature, that would empower communities and citizens to provide a “complementary report” on corporate sustainability behaviours.

Third, the contemporary developments in sustainability reporting frameworks seem to give a heavy emphasis on the use of metrics with the intention of improving comparability and objectivity cross-sectionally and cross-nationally. The selection and use of metrics, however, sometimes implicitly conceive of standards and benchmarks in certain narrow ways. Thus, models and representations of sustainability are developed in light of a particular profile of a company, for instance in terms of size, governance, ownership and structure. This may cause metrics to lose their neutrality characteristics because they would tend to favour certain companies and settings relative to others. For example, the use of an “ESG framing” leads to a “metricisation” of sustainability reporting that ignores the contexts (Petrie et al., 2007) and diversity of organisations and their respective “business” models. An “ESG frame”, however well intended it might be, becomes a vehicle for its own metrics and does not foster a holistic form of accountability. Thus, they become devoid of any substantive meaning, except as a means to facilitate the accumulation and production of data points for comparing organisations; when in fact studies have revealed the subjective processes at play amongst ESG rating agencies and other related data providers (Boiral et al., 2020, 2021). Critical theories and qualitative approaches could be employed in future research to interrogate key assumptions that underline the construction of existing frameworks, the formulation of guidelines and their real impacts, particularly on marginalised constituencies.

Fourth, given the decision by EFRAG to embrace double materiality while the ISSB has adopted a single materiality approach to sustainability reporting (Adams & Mueller, 2022), future research could focus on the process and operationalisation of double-materiality principles and how this is reflected in corporate reporting. Increasingly, we argue there is a need to understand the organisational and governance processes within firms.

Fifth, while we note an increasing number of studies on the reporting implications of NFR regulation and the impact of firm- and country- level determinants on the extent of such reporting, one of the central considerations of these regulatory initiatives is to improve

sustainable development outcomes and/or to mitigate the detrimental effects for society, environment, biodiversity, and human beings. Therefore, there is an impetus to examine the “real effects” of NFR regulation, not just in terms of change and impact at the organisation level, but more whether this has translated into improved outcomes for society nationally and internationally (e.g. quality of livelihoods, biodiversity gain, enhanced human and employee rights, transition to net zero economies). The real effects of mandatory NFR are still unclear and mostly unexplored. Despite a growing number of studies that have recently investigated the real effects produced by mandatory reporting, more work is necessary to provide a full picture. The few studies that have investigated such real effects have either measured real effects in terms of CSR activities using rating agency scores (e.g. Cuomo et al., 2022; Fiechter et al., 2022) or focused on specific areas of CSR, such as climate change (e.g. Chen et al., 2018; Downar et al., 2021; Ren et al., 2020) and employees safety (e.g. Chen et al., 2018; Christensen et al., 2017) using more refined metrics. More studies are needed to investigate the real effects of regulation in other areas of CSR, such as biodiversity, modern slavery, human rights, and social inequalities. Moreover, whereas most studies have investigated the intended consequences of NFR, more work is needed to understand the possible unintended effects and how these can be prevented in the future.

Sixth, NFR regulation and the mandate of standards for sustainability reporting is likely to increase the amount and quality of non-financial information disclosed by companies. Currently, a common limitation faced by a wide number of empirical studies on CSR relates to the inability to evaluate, in a reliable way, how companies perform in different specific aspects of sustainable development, with most of the studies relying on rating agency metrics on more general CSR practices. If detailed standards are issued to regulate non-financial disclosure on overlooked but prominent areas of CSR, for instance biodiversity, future studies can exploit this regulation and fill the research gaps in these sustainability areas.

Seventh, although there is some preliminary evidence of the impact of NFR on the non-corporate context i.e. public sector organisations (Larrinaga et al., 2018) local government authorities (Gaia & Jones, 2017, 2019), and higher education institutions (Elmagrhi & Ntim, 2023), most of the extant literature on NFR regulation has focused on companies operating in the private sector. More studies are needed to investigate NFR regulation in public and third sector settings.

Finally, although a substantial number of previous studies have explored the economic consequences of NFR regulation (e.g. market valuation, cost of capital, market reactions, financial performance), the recently released exposure drafts of NFR (especially the IFRS S1

and S2 and the EU ESRS) are expected to affect reporting regulation, and hence reporting practice, globally in an unprecedented way. In the coming years, the adoption of the same regulated NFR standards will be the new reality. We have yet to see if and how these new regulated NFR standards will affect capital markets. Issues such as the reliability, completeness and comprehensiveness of NFR are expected to be determined by topics discussed previously in this section (such as assurance, single/double materiality, and content of required disclosures) which, in turn, may lead to capital market effects. Whether these issues would indeed affect firms' capital market valuation and investors' perception of firms' risk are open empirical topics. Further, and rather similarly to the IFRS literature, the same set of standards does not necessarily lead to convergence of reporting practices among countries. Cross-country differences stemming from the actual application of the new standards as well as from cultural, legal and economic development aspects of each country may lead to different capital market effects.

To sum up, the current developments on NFR regulation provide avenues for new research endeavours which will inform preparers, users, policymakers, public authorities, and standard setters on various aspects (as outlined above) of the new reporting reality. We concur that our special issue contributes to this emerging stream of literature and serves as a stepping-stone for future research on NFR.

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