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LEGITIMACY REVERBS OF MANDATORY REGULATIONS ON SUSTAINABILITY DISCLOSURE AT A WORLDWIDE LEVEL

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ABSTRACT

The purpose of this study is to significantly contribute to the arising debate about mandatory non-financial disclosure promoted at a Worldwide level, with specific focus on sustainability accounting and reporting. Indeed, in the last twenty years, accounting scholars and Social and Environmental researchers have deeply discussed the role of voluntary social and environmental disclosure and CSR, however, few of them have focused on the fact that, recently, several regulatory bodies have started requiring mandatory corporate disclosure in such areas. For instance, the European Parliament has issued the 2014/95/EU Directive on non-financial disclosure which mandates larger companies to adopt it by the end of 2016; in the US, from July 2011 the Sustainability Accounting Standards Board (SASB) is providing mandatory industry guidelines for the disclosure of sustainability issues in mandatory SEC companies' filings; in South Africa, the Johannesburg Stock Exchange required the adoption of integrated reporting from 2011; and several other Countries and Region have followed this trend. Even a Machiavellian approach in boosting the disclosure of non-financial information should be welcome, this globally smoothing change towards mandatory vs. voluntary approach arises new scenarios. In order to reduce the risk of "simulacrum" effect of the mandatory disclosure, emerging studies and predictive models are needed. The simulacrum effects means the risk that companies not well-aware of sustainability disclosures will produce reports that will be slight, unreal, or "vague semblance of something". Therefore is timely and important to provide a comprehensive analysis of the state of the art and the consequences of the adoption of mandatory sustainability reporting at a WorldWide level.

THEORETICAL BACKGROUND

In order to analyse the evolution of the topic, the article evaluates and discusses the underlying legitimacy process and the effect on the requirements that companies would have to follow for their mandatory sustainability disclosure. A legitimacy approach has been extensively used when discussing the development and adoption of sustainability accounting and reporting practices (Guthrie and Parker, 1989; Patten, 1992; Lindblom, 1994 O' Donovan, 2002; Deegan, 2002). Legitimacy theory argues that organisations can only continue to exist if the society in which they are based

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perceives them to be operating within a value system that is commensurate with the society's own value system (Gray *et al.,* 2009). Specifically, Lindblom (1994) identifies four legitimation strategies that organisation may employ when they face threats to their legitimacy: (i) educating their stakeholders; (ii) changing the stakeholders' perceptions of the issue; (iii) distracting or manipulating attention away from the issue of concern; and (iv) seeking to change external expectations about their performance. The uses of sustainability reporting can be interpreted as attempts to continue the legitimacy of the system rather than of individual organisations and the major sustainability accounting initiatives (i.e. Global Reporting Initiative, UN Global Compact, etc.) can be traced back to one or more of Lindblom's suggested legitimation strategies (Gray *et al.,* 2009). Indeed, the current trends in mandatory sustainability disclosure could be interpreted as attempts to maintain public perception of the importance of corporations, industries and the whole system improving overall living conditions and solving several environmental issues (Legendre *et al.*, 2013).

RESEARCH DESIGN

Our approach consists in providing a commentary on the fluid and dynamic evolution of the non-financial disclosure regulation at a WorldWide level. Two different levels of analysis have been identified, the first is a macro level and it refers to governance system mechanisms that legitimate the role of meta-organisations that are arising in such fields. For instance, the recent establishment of the SASB and the Global Sustainability Standards Board (GSSB) within the Global Reporting Initiative (GRI) framework, or, in addition, International Corporate Accountability Roundtable (ICAR), suggest a profound need of legitimacy. In that sense, the legitimation should probably exert a two-sided effect; as a matter of fact, a changing in the governance bodies of this supranational meta-organisations should reflect a need of a more structured organisational framework or, the answer to an impellent need of the external public to let the decisor world-wide licensed to operate and also recognised by financial accounting meta-organisations. The second level has a micro-focus onto the level where companies operate, and in this case, companies play the role of "users" of the guidelines, regulations and normative frameworks edited by meta-organisations (sometimes, also co-developed). Even in the past, companies used social and environmental reports in different way for different purposes as legitimisation tool, the introduction at legislative level of mandatory regulation on the disclosure of non-financial performances should discourage the "simulacrum" effect of social report. The study is shaped as discussion paper aimed to represent and discuss the macro level through the application of the methods of interviews that should enrich the narrative on the changes affecting the supranational governance of meta-organisations. The interviewees will be selected including top members of the meta-organisations with relevant decisions with open ended questions. Secondly, the micro level must

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require an in-depth methodology useful to highlight opportunities and threats represented by a legislative exogenous input. Nowadays, even in case of predictive studies (such for instance the work of Ioannou and Serafeim, 2014), the adoption of quantitative parameters should be premature. This study is preliminary and exploratory, the micro level will be analysed through the narrative of the users, intended as supranational association of companies and accounting boards.

ORIGINALITY/VALUE/IMPLICATION

It is timely and important to address the implications of mandatory non-financial reporting for governments and organisations and related stakeholders. Our analysis is useful for companies that have not already adopted social and environmental disclosure. Furthermore, the discussion of this new field of doctrine will have a dramatic effect on current research and teaching agenda of higher education institutions. Therefore,if the legitimacy need will be confirmed one of the main spillover will be represented by the need to early introduce in official higher education programmes the elements of sustainability disclosure within ordinary financial accounting courses.

Keywords*: Non-financial disclosure, mandatory sustainability reporting, Social and Environmental accounting and Reporting (SEAR).*

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