

**DEVELOPMENT OF SUSTAINABILITY REPORTING
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Abstract: Purpose – The purpose of this paper is to study the current “soup of letters”, that is different standard setters and frameworks on sustainability reporting.

Design/methodology/approach – This paper conducts a traditional literature review based on the studies investigating the development of sustainability reporting towards common standards.

Findings – Overall, we conclude that current insights of the comment letters on why global sustainability standards are required should be delivered; significant information and analyses on the contribution of setting up the coordinated action and demand-driven consultation for high quality and global sustainability standards should be provided, and academic collaboration relevance to meet the growing demand for sustainability reporting harmonization should be enhanced.

Research limitations/implications – Drawing upon literature from different fields enables a deeper understanding of the development of sustainability reporting towards common standards. Nevertheless, the content analysis of the comment letters are excluded and deserve further attention.

Originality/value – This paper discusses the need to have the sustainability reporting by presenting its historical development towards common standards and deliver current insights on why global sustainability standards are required for high quality sustainability standards to meet the growing demand for global harmonization.

Keywords: IFRS, Sustainability reporting, Common Standards.



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Introduction

Sustainability Reporting (SR) is a very broad discipline, ranging from jurisdictional requirements for companies to report against specific public policy objectives to investors' need for global comparability of sustainability-related financial disclosures. In the 21st Century, a shift in

reporting towards assured SR has given the corporations, as well as investors, lenders, and any stakeholder, a tool to report on how non-financial factors interact with financial ones and ultimately drive a corporation's value.

The industrialization is connected to the rise of the idea of sustainable development. As of the second half of the 19th century, Western societies discovered that their economic and industrial activities had a significant impact on the environment and the social balance. Several ecological and social crises took place in the world and rose awareness that a more sustainable model was needed. Some examples of the economic and social crises that shook the world in the twentieth century are (Youmatter, 2020):

- 1907: the American banking crisis
- 1923: the crisis of American hyperinflation
- 1929: the financial crisis of the 1930s begins
- 1968: the worldwide protests against bureaucratic elites
- 1973 and 1979: oil shocks
- 1982: the debt shock of developing countries

The beginnings of social, environmental, and SR are connected mainly to the dawn of the modern corporation. Nevertheless, its accounting, reporting, and standardization have been matured slowly. Throughout history, accountants have captured the economic world by establishing a broad range of financial and managerial accounting standards for external financial reporting. Similarly, sustainability accounting, reporting, and standardization are only within the nineteenth century, with corporate financing, that is the subfield of finance dealing with how corporations address funding sources, capital structuring, accounting, and investment decisions (Gokten, Ozerhan, & Gokten, 2020; Unerman, Laine, & Tregidga, 2021).

Overall, sustainability is based on a simple principle: Everything that we need for our survival and well-being depends, either directly or indirectly, on our natural environment. To pursue sustainability is to create and maintain the conditions under which humans and nature can exist in productive harmony to support present and future generations (EPA, 2021).

Its history and present state

Contrary to general opinion, environmental awareness did not begin with Rachel Carson's 1962 *Silent Spring*. Looking at a history of environmental issues, we have had a long legacy of environmental problems, many of which relate to human health. For instance, in 1306, Edward I of England forbade coal burning; in 1739, Benjamin Franklin petitioned the Pennsylvania Assembly to stop waste dumping in the Delaware River; In 1713 Hans Carl von Carlowitz published *Sylvicultura oeconomica*, a 400-page work on forestry, and his works influenced the ideas of John Muir, also so called "the Father of National Parks", founded the Sierra Club in 1892, and also focused on protecting

Yosemite National Park; Theodore Roosevelt was heavily influenced by John Muir, and during his presidency (1901-1909), created the United States Forest Service, established 150 national forests, 51 federal bird reserves, 4 national game reserves, 5 national parks, and 81 national monuments; after World War II, the U.N. held the very first conservation conference. SR phenomenon has been analysed from two theoretical approaches: (1) economic approach (divided into sub-divided the Theory of usefulness for investor decision-making and the Agency Theory or Positive Accounting Theory) and (2) socio-political approach (sub-divided into Economic Theory (ET), Legitimacy Theory (LT) and Stakeholder Theory (ST)). Some form of SR can be traced back to 1940's to the work of professor Theodore J. Kreps, who argued that the standard profit-loss accounting of companies was inadequate. The historical development of SR can be classified into three major periods and their sub-periods as follows (Gokten, Ozerhan, & Gokten, 2020):

- Pre-Standardization Period: 1962–1998
 - Root Period: 1962-1979
 - Theoretical Preparation Period: 1980–1988
 - Period of Emergence: 1989–1998
- Standardization (Institutionalization) Period: 1999– 2016
- Post-standardization: 2017 - present

2.1. Pre-Standardization Period: 1962–1998

2.1.1. Root Period: 1962-1979

In the root period, environmental threats emerged, and social-environmental awareness started to be developed, and the relationship between economic development and the environment began to be discussed. The major building blocks of the root period are the publication of the book “Silent Spring” by Rachel Carson in 1962 (American Chemical Society, 2012).

The Silent Spring seeded important new ideas in the public mind: that spraying chemicals to control insect populations can also kill birds that feed on dead or dying insects. That chemicals travel not only through the environment, but through food chains. Next, the “Limits of Growth Report” was published in 1972 by the MIT scientists led by Dennis Meadows (Times, 1972). The Limits to Growth is the nontechnical report of their findings.

After that, the “United Nations (UN) Environment Program” became operational after the 1972 UN Conference on the Environment in Stockholm, and the Stockholm Declaration, which contained 26 principles, placed environmental issues at the forefront of international concerns (United Nations, 1972).

2.1.2. Theoretical Preparation Period: 1980–1988

The period that theoretically reveals the need for sustainability reporting is based on the principle of sustainable development that became evident between 1980 and 1988. The building block of this period mainly covers three important actions, which are: (1) World Conservation Strategy

Report published in 1980; (2) World Commission on Environment and Development formed in 1983; and (3) Our Common Future Report issued in 1987, respectively (Gokten, Ozerhan, & Gokten, 2020).

First, the World Conservation Strategy of 1980 is the first international document on living resource conservation produced with inputs from governments, non-governmental organizations, and other experts. The report argues that for development to be sustainable, it should support conservation rather than hinder it (IUCN–UNEP–WWF, 1980).

Second, Javier Pérez de Cuéllar, Secretary-General of the United Nations, asked former Norwegian Prime Minister Gro Harlem Brundtland to initiate an institutional effort to focus on the relationship between environment and development. The General Assembly of the UNs, in its resolution 38/161 of 19 December 1983, *inter alia*, welcomed the establishment of a special commission that should make available a report on environment and the global problematique to the year 2000 and beyond, including proposed strategies for sustainable development (UN World Commission on Environment and Development, 1983).

2.1.3. Period of Emergence: 1989–1998

The first methodological tool that emerged in the idea of sustainability reporting is the concept of environmental accounting. Environmental reporting, which communicates to stakeholders the impacts of an enterprise's activities on the environment, became more important after the Exxon Valdez accident in 1989 (Gokten, Ozerhan, & Gokten, 2020).

First, On March 24, 1989, the Exxon Valdez hit the Bligh reef and dumped approximately 11 million gallons of crude oil into the pristine waters of Alaska's Prince William Sound.

Next, John Elkington, one of the leading sustainability experts in the world and founder of Sustainability agency, tried to measure sustainability in mid-1990s within a new framework of measuring corporate American performance. Standardization (Institutionalization) Period: 1999–2016

The first version of what was then the GRI Guidelines (G1) published in 2000, followed by G2 in 2002, G3 in 2006, and G4 in 2013, respectively. In 2016, GRI transitioned from providing guidelines to setting the first global standards for sustainability reporting – the GRI Standards. The Standards continue to be updated and added to, including new Topic Standards on Tax (2019) and Waste (2020) (GRI, 2022).

The main drivers for corporates to produce SRs can be given as (UN Environment Programme, 2019):

- Global context – environmental and social challenges
- Stakeholder pressure
- Increasing demands from investors
- Business performance

Several initiatives were undertaken to improve SR in the last 20 years, from the UN Conference on Environment and Development (UNCED) in 1992 and the World Summit on Sustainable Development (WSSD) in 2002. The most notable was the Global Reporting Initiative (GRI), which was launched first in 1997 as a pilot project

Sustainability reporting: : Chronical Development of the IFRS Foundation as of 2020

SR is a broad discipline, ranging from jurisdictional requirements for corporates to report against specific public policy objectives to investors' need for global comparability of sustainability-related financial disclosures. Its importance is derived from meeting the information needs of investors based on jurisdictional requirements for the corporations as stated.

According to the IFRS Foundation Trustee Teresa Ko (2020), the IFRS Foundation came about due to the global economic boom and the birth of multinational corporations following the Second World War.

Lobbying is an essential part of the International Accounting Standards Board (IASB) standard-setting process.

Similarly, the European Financial Reporting Advisory Group (EFRAG) a private association established in 2001 with the encouragement of the European Community (EC) to serve the public interest. It extended its mission in 2022 following the new role assigned to EFRAG in the proposal for a Corporate Sustainability Reporting Directive (CSRD) of 21 April 2021, providing Technical Advice to the EC in the form of fully prepared draft EU SR Standards and/or draft amendments to these Standards (EFRAG, n.d.) Oncioiu et al., 2020; Lavin & Montecinos-Pearce, 2021).

- UN Global Compact & 10 high-level principles without specific requirements,
- GRI & a comprehensive list of specific topics & general disclosures,
- International Integrated Reporting Council (IIRC) & general content of an integrated report without giving specific topics,
- Sustainability Accounting Standards Board (SASB) & high-level categories for specific sectors,
- Account Ability Institute (AAI) guidelines & reporting principles and not specific topics to report on.

Later the year 2022, the ISSB issues the final requirements to form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors in assessing enterprise value.

2.2. Sustainability reporting research and its future

GRI data (2020) shows that more and more companies in the world are making sustainability reports. These reports provide information on the company's sustainability performance aimed at stakeholders. Improving the quality and credibility of a sustainability report requires assurance from a competent and independent party (Al-Shaer & Zaman, 2019).

According to Meutia, Yaacob, & F. Kartasari (2021), the research on SR in the future should start looking at sustainability in:

- Public sector and SMEs,
- the perceptions of report makers in the context of sustainability reporting,
- the restatement of the SR report - the lack of reporting standards and ambiguous CFS guidelines (useful for ensuring the credibility of the report),

In addition to that, Hsiao, Villiers, Horner, & Oosthuizen (2022) identify the following areas, effects and linkages that have opportunities for further research:

- Institutional contexts beyond United States, Australia, China, United Kingdom and Italy.
- Organisational contexts in relation to public sector organisations, SMEs and not-for-profits.
- Internet-based communication forms such as websites and social media platforms.
- Interrelationships amongst sustainability accounting practices, such as how and the extent to which sustainability disclosure reflects internal processes and is used by management.
- Developing new theoretical frameworks or providing a broader explanation of the reasons for the conflicting results for the determinants and consequences of sustainability accounting.

2.2.1. Consultation paper and comment letters for sustainability reporting

The IFRS Foundation Trustees are required to undertake a strategy review every five years by the IFRS Foundation's Constitution. As part of that review there has been an accelerated focus on SR that resulted in the publication of a Consultation Paper on SR in September 2020. The comment period closed on 31 December 2020 (IFRS Foundation, 2020).

Insert table 1 here.

A total of 577 comments/feedbacks were collected from the corporates regarding the SR based on the feedbacks sought by the Consultation Paper. On April 2021, the IFRS Foundation Trustees issued the feedback statement on the consultation paper on SR (<https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf>). Respondents to the Consultation Paper included members of various stakeholder groups such as the policy and regulatory community, the accounting community, the environment, social, and governance (ESG) community, individuals and market participants. Their responses provided a truly global perspective, with responses being received from all geographic regions.

Overall, this Feedback Statement sets out in detail the most important matters raised in response to the Consultation Paper and the Trustees' views on those matters.

The responses indicated: (1) growing demand to improve the global consistency and comparability of sustainability reporting; (2) recognition that there is an urgent need for action and (3) widespread support for the IFRS Foundation to play a role in global sustainability reporting.

Insert Table 2 here.

Commissioner Hester M. Peirce from the US Securities and Exchange Commission submitted a comment letter responding to the IFRS Foundation's proposed amendments to its constitution that would make the creation of the ISSB possible. According to Ms. Peirce, the Foundation should avoid this venture (under the same umbrella as an established international accounting standard-setter, the IASB) into sustainability standard-setting because accounting and sustainability standards are fundamentally different from one another.

Similarly, The IFRS Council of Japan's comment was positive for the establishment of a new standard setting board for sustainability reporting, under the presumption that the IFRS Foundation will maintain its role and responsibility of improving capital market transparency and efficiency through high-quality standard-setting and will not affect resources (financial and human resources) related to the development of IFRS Standards.

Theoretical frameworks

Among the theories, a number of theoretical frameworks have been used to explain the motivations, trends and nature of Stakeholder Theory (SR) in both developed and developing countries. Most consider mainly external pressures and examine reporting as a response stakeholder or societal pressures, noting that firms try to legitimize their actions in the eyes of society as a whole, or in an attempt to manage stakeholder perceptions (Reuter & Messner, 2015).

Conclusion

Numerous sustainability standards have been developed in recent years to address issues of environmental quality, social equity, and economic prosperity of global production and trade practices. SR has cross cutting factors (positive approaches and constraints) according to international /bodies as below:

Positive approaches:

- The World Bank has been a long-term supporter of work to develop a single set of high-quality global accounting standards (IFRS Foundation, 2017).
- IFRS Standards adoption has largely been positive for listed companies (Australian Accounting Standards Board, 2016).
- IFRS was successful in creating a common accounting language for capital markets (European Commission, 2015).
- [The FSB] reiterated its support for...a single set of high quality global accounting standards (FSB declaration, 2015).
- We support continuing work to achieve convergence to a single set of high quality accounting standards (G20 leaders' declaration, 2012).

Several challenges and constraints have arisen from SR. Accordingly, the literature underlines how these difficulties are constantly evolving, increasing the complexity of business management.

Overall, we conclude that current insights of the comment letters on why global sustainability standards are required should be delivered; significant information and analyses on the contribution of setting up the coordinated action and demand-driven consultation for high quality and global sustainability standards should be provided, and academic collaboration relevance to meet the growing demand for sustainability reporting harmonization should be enhanced.

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