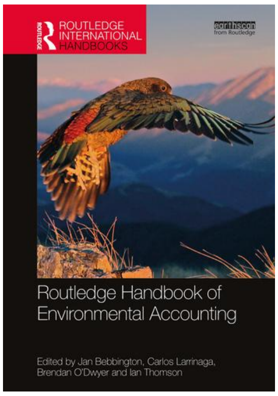

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NORM DEVELOPMENT IN ENVIRONMENTAL REPORTING

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Introduction

Environmental reporting (ER) has evolved significantly in the past three decades. From a virtually non-existent activity, most large and medium-sized corporations are now involved in some form of environmental disclosure. This expansion arises from different proposals and assessments made by stakeholders interested in increasing corporate transparency, in such a way that a form of ER has become a norm for a given set of organizations. However, as discussed in Chapter 8 of this handbook (see also Gray 2010), despite its institutionalization, ER still seems ill suited to make a real impact on sustainable development and concerns with the quality of such information remain high (Boiral 2013). This chapter takes stock of the literature on environmental accounting normativity and regulation, drawing extensively on Bebbington et al. (2012), to explain how this activity becomes a norm, what is entailed by the interplay between norms and regulation, the process that norm development entails, the different forms of normativity production and the actors involved.

The rest of this chapter addresses, first, the effectiveness of environmental accounting regulation and whether regulation affects ER practice by developing the notion of norms. Second, it considers ER regulation as an attempt to transform ER norms. This distinction between norms and regulation provides the basis for understanding the complexity of normativity production, addressing in turn the different forms of regulation, the diversity of actors intervening in norm development, and the problematization of the authority to regulate. Third, this chapter addresses the dynamics of normativity production. Finally, it concludes with some implications and research perspectives for the future direction of norm development in ER.

Environmental reporting norms

The literature on ER has often differentiated between voluntary and mandatory ER (e.g. Deegan and Shelly 2014; Schneider et al. 2018, Situ and Tilt 2018). Voluntary ER consists of discretionary disclosures made by companies with a variety of motivations, including the demand of different stakeholders (see, e.g., Cho and Patten 2007; Rodrigue et al. 2013; Cho et al. 2015). Conversely, there is no discretion when it comes to mandatory ER requirements arising from state regulation (Peters and Romi 2013).

However, beyond the two archetypes of voluntary and mandatory reporting, the literature has found a grey area where (i) the law does not always affect corporate practices and is not fully applied by organizations (Freedman and Stagliano 1998; Larrinaga et al. 2002; Criado-Jiménez et al. 2008; Peters and Romi 2013; Chauvey et al. 2015; Depoers and Jérôme 2017); and (ii) progressive ER disclosure norms have emerged from practice and have produced a convergence of expectations and practices around a recognized pattern of behavior, regardless of the absence of a direct reporting mandate (Bebbington et al. 2012; Larrinaga et al. 2020). For example, as mentioned above, without regulation, ER has become a norm for a given set of organizations.

What these findings suggest is that there are some ER norms that question not only the presumed discretion of some "voluntary" practices (sustainability reporting), but also the compulsion of other regulated activities. Bebbington et al. (2012) tried to make sense of this situation by characterizing the notions of regulation and normativity. In this regard, the terms "law" and "norms" express distinct concepts, even if they are most often used interchangeably. The law is viewed as a set of formal rules (e.g. directives or laws) and coercive pressures which may be "found, defined and labelled" (Brunnee and Toope 1997, p. 22; Edelman and Stryker 2005). As these authors explain, formal rules can, in principle, exert compliance independently from the context in which they are introduced and are supposed to work.

In contrast, norms refer to a convergence of expectations about recognized patterns of behavior (Bebbington et al. 2012; Larrinaga et al. 2020). This notion resonates with insights drawn from institutional sociology, implying that organizational dynamics are the result of social norms and beliefs to which managers comply to ensure organizational legitimacy and survival (Meyer and Rowan 1977; DiMaggio and Powell 1983). Corporate practices are then embedded in cognitive and normative frameworks beyond formal rules (Hopwood and Miller 1994). The norms that emerge in this context are, to some extent, collectively enacted and enforced by the regulated actors themselves (Brunsson et al. 2012).

Bebbington et al. (2012) used these insights to explore the notion of normativity, that is, the degree to which actors understand rules as binding. In their view, norms are not necessarily under government monopoly: they argue that formal legislation must be perceived by actors as appropriate and legitimate in order to be successfully implemented; but at the same time, these same qualities can also institutionalize informal guidelines. For instance, in their comparative study, Bebbington et al. (2012) showed that a Spanish law achieved less compliance than a voluntary standard developed informally by a combination of actors, events and ideas in the United Kingdom (UK).

While rule-making is traditionally associated with the coercive power of the state, to develop the notion of normativity, Bebbington et al. (2012) drew on broader conceptions of regulation developed in the fields of transnational regulation (Djelic and Sahlin-Andersson 2006; Bulkeley et al. 2012), where the authority to produce regulation and enforcement is problematic and a plurality of actors such as non-governmental organizations (NGOs), professional associations, expert groups, corporations and transnational organizations (Djelic and Sahlin-Andersson 2006; Eberlein et al. 2014) are embedded in rule issuing and monitoring (Hedmo et al. 2006). The International Accounting Standards Board (IASB), for example, has been studied as an example of non-law regime for financial reporting (Botzem and Quack 2006). Likewise, the Global Reporting Initiative (GRI) is a central actor in the regulation of ER (Boiral 2013; Levy et al. 2010). According to this organization's annual report, 75% of the world's largest companies follow its guidelines to shape their sustainability reports[1]. Ehnert et al. (2016) reported that 87% of Forbes 250 companies worldwide publish a sustainability or responsibility report (with 55% explicitly following the GRI guidelines).

In summary, in absence of formal regulation produced and enforced by the state, there is still a flow of ideas, proposals and guidelines that have produced different regimes (environmental, sustainability and integrated reporting) where expectations converge around recognized patterns of ER in such a way that those practices acquire normativity.

Environmental reporting regulation

A growing body of research focuses on the distinction between law and non-law system of rules and their ability to produce normativity (Bebbington et al. 2012; Chelli et al. 2016). Notwithstanding this distinction, the regulation produced and enforced by the state is not disappearing from the ER landscape, but rather its role, deriving from the circumstances described above, is increasingly complex. Regulation has been seen, both in theory and praxis, as a possible instrument to transform ER norms (Deegan 2002; Mobus 2005). In particular, given the flaws of much current ER activity (see above and Chapter 8), some scholars have suggested that governmental regulation is needed to increase corporate environmental transparency, as well as to enhance the quality of such information.

There is a growing trend towards ER regulation. As Table 10.1 shows for the case of Europe (see also Chapter 21), an increasing number of regulations are mandating European companies to disclose a wide array of environmental informations. Such a trend is reflected in Directive 2014/95/EU requiring member states to legislate on a range of non-financial and diversity information disclosures in the annual reports of companies exceeding 500 employees. Applicable since 2017, the Directive has been anticipated by countries, such as France, Spain, Sweden, Denmark and the UK (Fallan 2016), where national laws were introduced before the EU Directive (see Table 10.1).

Different observations emerge when ER norms and ER regulation are viewed together. First, the mechanisms that produce normativity have differences that can be captured by the distinction between hard law and soft law. The second observation concerns the plurality of actors participating in the production of normativity. Governments and states still produce rules and represent the single most important source of authority. However, together with the state, an increasing number of actors are operating in the soft law field, producing rules with varying degrees of normativity. Third, the authority of different actors plays an important role in legitimizing and stabilizing norms (Botzem and Dobusch 2012), that is, in producing normativity. Finally, the observation of ER norms and regulation suggests that normativity production is better conceived as a process whereby some innovations are gradually adopted by relavant actors and finally produce the convergence of practices around a set of expectations. At some point of its lifecycle, the norms (or maybe the innovations) can be codified into state rules, providing further support to the production of normativity. These observations are explored in the rest of the chapter.

Hard and soft law

Consistent with the idea that normativity has many sources, modes of regulation and compliance mechanisms are also quite diverse. The most significant trend in this respect is the rise of self-regulation and soft law (Mörth 2004; Djelic and Sahlin-Andersson 2006). Indeed, as previously observed, the environmental governance arena has gradually moved in recent decades from a regulatory system characterized by formal rules and the strong coercive power of the state (hard law), to rules that are legally non-binding, induced by international bodies (Botzem and Quack 2006; Brunsson et al. 2012; Voegtlin and Scherer 2017). Soft law is,

Table 10.1 Environmental regulation in Europe

Country	*Name*	*Year*	*Organizations involved*	*Disclosure requirements*	*Compliance*
Europe	Directive 2014/95/EU of non-financial information (article L. 225-102-1)	2014	Companies exceeding 500 employees and whose turnover and balance sheet exceed a fixed amount	Four categories of social and environmental information: social consequences, environmental consequences, human rights (only for listed companies) and the fight against corruption (only for listed companies)	Comply or explain principle
France	Law on Energy Transition for Green Growth (no 2015-992, article 225-105)	2015	Companies exceeding 500 employees and whose turnover and balance sheet exceed a fixed amount	Disclosure of the financial risks linked to the climate change as well as the measures adopted to mitigate them	
	Grenelle 2 law (no 2010-788 article 225)	2010	Companies exceeding 500 employees and whose turnover and balance sheet exceed a fixed amount	Disclosure of social and environmental information (42 topics)	- No penalties for non-compliance - Report assurance by an independent third-party organization - Comply or explain principle
	NRE law (no 2001-420, article 116)	2001	Companies exceeding 500 employees and whose turnover and balance sheet exceed a fixed amount	Disclosure of social and environmental information	No penalties for non-compliance

Spain	Sustainability Economy Law (no 2/2011, article 39)	2011	Companies exceeding 1,000 employees	Disclosure of a sustainability report	Report assurance by an independent third-party organization recommended
Denmark	Danish Act (no 1403)	2008	Companies exceeding 250 employees and whose turnover and balance sheet exceed a fixed amount	Revision of the rules in 2012: companies need to report on human rights and climate issues	Comply or explain principle
United Kingdom	Climate Change Act 2008	2008	Listed companies	Disclosure of greenhouse gas emissions	
	Company Act 2006	2006		Environmental information and consequences of the firm's activity	
Sweden	Swedish guidelines	2007	State-owned companies (partially or totally)	Disclosure based on GRI guidelines	Comply or explain principle
	Swedish environmental code	1998	Environmentally sensitive industries	Disclosure of a sustainability report	

Table 10.2 Main standards in environmental reporting

Main standards	*Focus*
World Business Council for Sustainable Development (WBCSD) – 1995	Improvement of economic, social and environmental performance.
Global Reporting Initiative (GRI) – 1997	Guidance on content of environmental reports. The last version of the GRI guidelines (G4) was published in 2013.
Institute of Social and Ethical Accountability (AA1000) – 1999	Process of social and ethical accountability, auditing and reporting.
Greenhouse Gas (GHG) protocol – 2001	Measurement and report of GHG emissions.
International Integrated Reporting Council (IIRC) – 2010	Integrated information that gathers financial and environmental information.
International Organization for Standardization (ISO 26000) – 2010	How organizations can communicate regarding their environmental responsibilities.
Sustainability Accounting Standards Board (SASB) – 2011	Dissemination of accounting standards.

singularly, characteristic of ER, and takes different forms, typically with the proposal of a set of general principles, guidelines, directives or codes of conduct, which are presented to the regulated population to cover an alleged need. Most often, those instruments are coupled with soft non-compliance consequences. Different guidelines have been proposed since the 1990s to "softly" regulate environmental, sustainability and integrated reporting. Those developments are outlined in Chapter 8. The GRI reporting guidelines is one key example of soft law, consisting of a reporting framework that was made available to companies interested in producing sustainability reports. It is an internationally recognized system that has led most of the world's largest organizations to consider ER as an essential part of their reporting practices without a formal legal requirement. However, sustainability reporting is regularly and informally monitored by GRI and other organizations (e.g. KPMG surveys), providing incentives for companies to comply with this instantiation of soft law. Table 10.2 presents some of the existing initiatives with implications for ER.

For Mörth (2004), the difference between hard and soft law lies essentially in the fact that soft law lacks sanctions for non-compliance and, consequently, legally binding character. In particular, soft law reflects a complex production process where many different actors are involved at various levels and in different ways. In this context, international bodies of different sorts (such as the GRI and IASB) can be characterized as highly influential rule-makers that regulate through soft law (Jacobsson and Sahlin-Andersson 2006). But in addition to them, other actors have the ability to modify, interpret and edit the soft rules and contribute to their construction. Because soft law needs to gain normativity, it is in such interactions between actors that common understanding develops and rules can achieve a "quasi-binding" character over time (Botzem and Dobusch 2012).

In practice, however, it is often difficult to unambiguously identify different sources of normativity (Bebbington et al. 2012; Djelic and Sahlin-Andersson 2006). For example, states and intergovernmental bodies often use soft law mechanisms to issue new regulations (e.g. eco-management and audit scheme – EMAS) (Delbard 2008). This is particularly the case in the

European directive which promotes a "comply or explain" principle and thus links regulation with soft law instruments. Much of the ER regulation in Table 10.1 addresses the characteristics and content of such reporting only superficially, omitting the more technical elements and externalizing them to soft law mechanisms developed by non-state third parties. The following section will extend the discussion of the participation of some of these actors in the development of ER norms in a soft law context.

A plurality of regulatory actors: state and non-state actors

The understanding of ER norms beyond the dichotomy between voluntary and mandatory ER requires an exploration of the grey area that lies in between, where different ideas, proposals and guidelines flow and, eventually, can produce norms or soft law, through the participation of a plurality of actors.

Regulatory actors can be characterized as state and non-state actors. The state (the legislative and executive) is constitutionally entitled to codify rules in the law and enforce them coercively in its jurisdiction. However, one of the characteristics of sustainability and environmental problems is that many issues resist being governed solely within the national borders (e.g. climate change). The alternative to state regulation is the regulation of ER by non-state actors (Gulbrandsen 2008; Bozanic et al. 2012; Eberlein et al. 2014). The discussion of soft law has illustrated how a plurality of actors, mainly non-state actors, play a role in the production of ER norms. Non-sate actors do not enjoy constitutional legitimacy to enforce the law coercively. Instead, they play different roles in normativity production that allow them to build a sort of authority (see below).

Four groups of non-state actors can be identified (Djelic and Sahlin-Andersson 2006; Hedmo et al. 2006; Hardy and Maguire 2008; Aldrich 2011; Bebbington et al. 2012). The role of institutional entrepreneurs, epistemic communities, carriers, regulators and organizations themselves in ER norms production is discussed here. To illustrate the various roles in the normativity process, examples are shown in Table 10.3.

First, epistemic communities refer to networks of professionals retaining appropriate knowledge and expertise in a given area, common beliefs about the causality between practices and problems and a claim of authority recognized by all, together with a normative agenda (Haas 1992). These communities, which can include academics and experts, play a role in shaping the generation of new ideas about reporting norms, as well as about strategies to develop those norms.

Table 10.3 The role of actors in the normativity process

	Generate ideas	*Innovate, translate or resist to ideas*	*Diffuse practices*	*Stabilize and enable the inscription of norms*
Actors	Epistemic communities	Institutional entrepreneurs	Carriers	Regulators and reporters
Examples	Academic and experts, think tanks	International initiatives (e.g. GRI)	Consultants, auditors and professional associations	Government and organizations

Second, institutional entrepreneurs are key for the emergence of norms. They are strongly involved in institutional networks, sharing distinct ideas about and developing a certain understanding of ER practices. Entrepreneurship entails the construction and exercise of power, struggle between multiple actors and the negotiation of diverging interests (Djelic and Sahlin-Andersson 2006; O'Sullivan and O'Dwyer 2009, 2015; Archel et al. 2011). Successful institutional entrepreneurs engage in different strategies to influence their institutional field through, for example, the construction of coalitions, lobbying for regulation or discursive action. The GRI, for example, is portrayed as the successful institutional entrepreneur of sustainability reporting (Levy et al. 2010).

Third, carriers refer to actors in a professional environment, that is, auditors, professional associations or consultants (Perego 2009) that can disseminate and influence practices in the organizational field. Carriers participate in processes of innovation and diffusion, proposing practices and interpretations that can tailor the norms to different contexts, thereby contributing to the generalization of particular shapes of the norms (Sahlin-Andersson and Engwall 2002; Scott 2008). For example, consultants and assurance providers can shape ER through their interaction with colleagues and information preparers (Bebbington et al. 2012; Larrinaga et al. 2020). Carriers are not innocuous because they actively interpret and edit the ideas and the practices they transport.

And finally, both governments (regulators) and organizations themselves (reporters) play a role in the constitution of norms. On the one hand, despite the soft nature of the regulation, the formation and legitimization of norms are not completely detached from the state (Archel et al. 2009, 2011; Botzem and Hofmann 2010). For example, by formally or informally endorsing different bodies, or by recognizing a non-state effort in a regulation or in a policy, the state can play a role in the formalization and stabilization of norms. On the other hand, Bebbington et al. (2012) contend that reporters themselves can influence aspects of the regulation and use their position to determine what parts of the norms deserve compliance or otherwise (Senn and Giordano-Spring 2020). Through their reporting practice, by adhering to some rules and resisting others (Johansen and Plenborg 2018) and serving as models to other companies, they actively shape reporting expectations.

Authority

It has been argued that the authority of different actors plays an important role in the production of normativity. Authority provides legitimacy and helps to stabilize norms; it contributes to the pace of normativity production and to the convergence of expectations. In traditional forms of regulation, there is an authoritative center (the state) that produces rules and directives that organizations must follow. In contrast, in soft law contexts, the authority of non-sate actors is exposed and needs to be continuously built.

The literature interested in the production of normativity in this area has generally been more interested in the distribution of power among the different actors. For example, Archel et al. (2011) found in their study that while civic actors lacked the power to promote social responsibility reforms in Spain, the corporate sector could deploy discursive resources and align with the state to subvert the radical potential of this reform. Levy et al. (2010) argued that the GRI transformed sustainability reporting through the construction of a coalition with powerful actors to avoid a confrontation with the industry, at the cost of relegating the most challenging aspects. In contrast, in their study of the Equator Principles, O'Sullivan and O'Dwyer (2015) contended that a group of NGOs were able to draw attention to the social and environmental consequences of the financial industry, paving the ground for the emergence of accountability norms that, although not radically transforming the industry, have meant a progression in its accountability.

Notwithstanding the manifest importance of the authority of actors (rule-makers), other authors also paid attention to how the characteristics of norms and the processes by which they are formed are important element of normativity (Bebbington et al. 2012; Senn and Giordano-Spring 2020). Accordingly, ER rules are more likely to become norms if they have institutional support (Brunnee and Toope 2000); ER rules do not emerge in a vacuum, but they are associated with other rules and are the result of gradual processes whose understanding requires paying attention to the origin of specific ER practices (Berger and Luckmann 1994; Bourdieu 1977). Following Bebbington et al. (2012), the perceived integration of the rules in a coherent normative framework, the existence of previous similar practice that can provide analogies or patterns to develop practice and, finally, the clarity of the rules, all these conditions provide institutional support to ER norms.

First, the perceived integration within the values of higher-level norms provides accounting rules with predictability (Johansen and Plenborg 2018). Coherence with the values and ideas of prevailing standards of practice reduces the ambiguity of the requirements and is conducive to the adoption of the reform. The association of non-financial reporting with the reporting financial framework (with considerations such as the qualitative characteristics of information and the establishment of the entity, and hence associated entity boundaries) provides analogies for implementing, for example, performance indicators or sustainability assurance. In this regard, the analogy of the GRI guidelines with financial reporting might have been an incentive for providing environmental disclosure and signaling adherence to established institutional logics or rules (Chelli et al. 2016).

Second, the existence of previous similar practice provides a template for the new practices and facilitates compliance. In the most obvious case, new ER regulation could simply codify practices around which social expectations have already converged. The EU Directive provides an empirical context to explore whether regulations (as defined in different countries) codify existing ER practice and how this has determined the level of compliance. But often new proposals are built over previous similar practices. Such is the case of sustainability reporting, which followed (and to some extent replaced) the template offered by ER in the 1990s (e.g. following EMAS, Hillary 1995).

Finally, the legal literature argues that normativity depends on rules that are precise and intelligible. Bebbington et al. (2012) described how a convoluted framework for environmental financial accounting made the distinction between environmental expenditures and liabilities unclear and provided space for the regulated companies to interpret the rule in a way that avoided the need to disclose liabilities (Senn 2018; see also Luque-Vílchez and Larrinaga 2016 and Johansen and Plenborg 2018 for further perspectives in this area).

Dynamics of normativity production

The production of normativity is usually conceived as a linear process. Evidence in this context suggests that patterns of emergence, diffusion and eventual norm internalization of ideas representing ER in practice depend on the dynamic interplay between the various institutional forces that enable and constrain organizations' activities (Matten and Moon 2008; Bebbington et al. 2012). The notion of the lifecycle of norms has been proposed to investigate the dynamics of norms and the participation of different actors (Brunnee and Toope 1997; Finnemore and Sikkink 1998). This notion, conceived as a process, is illustrated in Figure 10.1 with three stages: emergence, cascade and internalization.

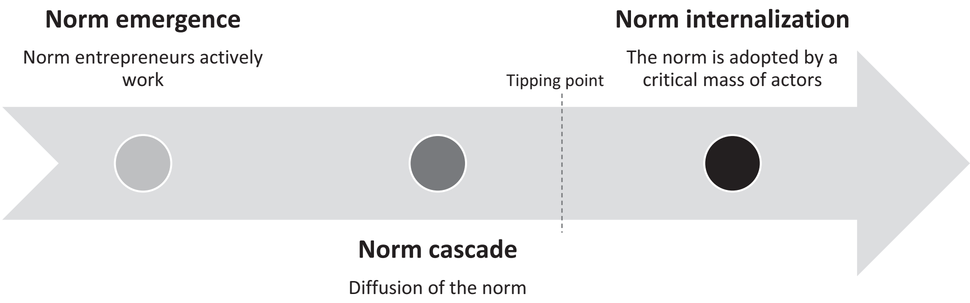

Figure 10.1 Dynamics of norms.

The early stages of the norm lifecycle are seen as a challenging process because new norms originate in a space characterized by innovation and by the assembly of shared meanings and understandings of emerging practices (Djelic and Quack 2008). Innovation is produced by the actions of institutional entrepreneurs advancing new ideas, solutions, and practices (Scott 2008, p. 126). This follows what Table 10.3 identified, that is, such actors innovate, translate or resist ideas and provide understanding about practices. In the case of the institutionalization of sustainability assurance, Larrinaga et al. (2020) have found that assurance providers without an accounting background have played a significant role in the earlier stages of the production of such norms.

Entrepreneurship is followed by the diffusion of the emerging practices, leading to a "tipping point" after which they "cascade" to a convergence toward defined structures and patterned practices (Djelic and Quack 2008). This perspective suggests that different pressures lead to the diffusion of these practices. Bebbington et al. (2012) found that the Association of Chartered Certified Accountants, through its ER awards, was conducive to the generalization of some ER practices in the UK in the 1990s. Larrinaga et al. (2020; see also O'Dwyer 2011 and Hummel et al. 2019 for further perspectives in this area) suggest that assurance providers play such a role in the institutionalization of sustainability assurance.

Finally, once a taken-for-granted status is attained, non-reporters feel a strong pressure to comply with the rules. The crucial change that takes place once the norm is internalized is that the practice depends less on external enforcement and incentives and more on beliefs over its legitimacy as discussed in the previous section (Finnemore and Sikkink 1998; Bebbington et al. 2012). This linear conception of a lifecycle might, however, portray a too simple model of normativity production. Considering the observations made in the previous sections about the institutional support of norms, Luque-Vílchez and Larrinaga (2016) studied a process of regulation in Spain that is more characteristic of the blurred space between voluntary and mandatory ER referred to earlier in this chapter.

The future of environmental reporting regulation

Regulation is asked, by both academics and practitioners, to transform ER, to enhance the quality of such information and to increase corporate transparency. Since the first calls for regulation, now, there is a clearer picture about what can voluntary and mandatory ER deliver. Any progressive proposal to regulate ER needs to bear in mind what we know about ER regulation.

A growing body of literature has studied different aspects of, and characterized, informal non-state ER norms. However, thick descriptions of the institutionalization process of, for example, sustainability reporting or integrated reporting are still missing. Likewise, the accomplishments of different initiatives and attempts to regulate (or influence) practice require further analysis. This includes those initiatives that are more invisible because they failed in their early stages and, consequently, did not produce any norm. Relatedly, it would be interesting to ascertain the reasons for, and the consequences of, the profusion of ER initiatives. Questions that arise in this context include the following: which is the role to play by the global accounting profession in the production/facilitation of normativity? To what extent the expansion of norms could lead to international/global homogeneity in terms of ER practices?

Although ER was the province of voluntary initiatives, this chapter showed how states are increasingly regulating this practice. State hard law is far from a natural phenomenon: it is the construction of a plurality of actors through a complex process. Although some students are exploring those processes to understand the normativity of hard law (again, it is important to remind the distinction between law and norms), further studies should investigate the diversity of these processes, with a view to make ER laws more progressive and more effective.

There is a profusion of voluntary initiatives and state regulations and, with them, an increasing grey area where it is increasingly difficult to ascertain whether a particular initiative conforms to the characteristics of hard or soft law; and whether it is produced by the state or non-state actors. For example, following the EU Directive 2014/95, different European countries have regulated non-financial reporting, relying on international guidelines (e.g. GRI) and on enforcement mechanisms (e.g. sustainability assurance) that are produced by non-state actors. The nature and consequences of this hybrid forms of ER regulation (see Hess 2008) are something that needs to be further researched.

Note

1 The data are from the GRI 2016–2017 annual report (p. 22). Available at : www.globalreporting.org/resourcelibrary/GRI%20Annual%20Report%2020162017.pdf.

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