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Re-building trust: Sustainability and non-financial reporting and the European Union regulation.

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Rebuilding trust: Sustainability and non-financial reporting, and the European Union regulation.

Abstract

Purpose: This paper introduces the special issue “Rebuilding trust: Sustainability and non-financial reporting, and the European Union regulation”. Inspired by the studies published in the special issue, we examine the concept of accountability within the context of the European Union Directive on non-financial disclosure (hereafter the EU Directive) to offer a critique and a novel perspective for future research into mandatory non-financial reporting (NFR) and to advance future practice and policy.

Methodology: We review the articles published in this special issue and other contemporary studies on the topic of NFR and the EU Directive.

Findings: Accountability is a fundamental concept for building trust in the corporate reporting context and emerges as a common topic linking contemporary studies on the EU Directive. While the EU Directive acknowledges the role of accountability in the reporting practice, we argue that regulation and practice on NFR needs to move away from an accounting-based conception of accountability to promote accountability-based accounting practices (Dillard and Vinnari, 2019). By analysing the links between trust, accountability and accounting and reporting, we claim the need to examine and rethink the inscription of interests into NFI and its materiality. Hence, we encourage research and practice to broaden mandatory NFR practice over the traditional boundaries of accountability, reporting and formal accounting systems.

Research and practical implications: Considering the challenges posed by the COVID-19 crisis, we call for further research to investigate the dialogical accountability underpinning NFR in practice to avoid the trap of focusing on accounting changes regardless of accountability. We advocate that what is needed is more timely NFI that develops a dialogue between companies, investors, national regulators, the EU and civil society, not more untimely standalone reporting that has most likely lost its relevance and materially by the time it is issued to users.

Originality: By highlighting accountability issues in the context of mandatory NFR and its linkages with trust, we lay out a case for moving the focus of research and practice from accounting-based regulations toward accountability-driven accounting change.

Keywords:
non-financial reporting; mandatory reporting; non-financial disclosure; accountability; dialogic; trust; double materiality

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1. Introduction

The European Union Directive 2104/95 on non-financial disclosure and diversity is changing the way large companies in Europe are reporting and disclosing their non-financial information (NFI) on economic, social and environmental issues. This regulation requires larger companies with more than 500 employees and public-interest entities to produce annual corporate reports with information on their social, environment, human rights and anti-corruption policies, risks and performance (European Union, 2014). Thus, since 2017, over 6,000 European companies have been required to produce annual non-financial statements to comply with national and supranational law.

The EU Directive is an attempt to harmonise and enhance economic, social and environmental reporting in the European States by establishing some minimal legal requirements for NFR and making it mandatory. However, there are several practical challenges for achieving the purpose of the EU Directive and translating that purpose into action (La Torre et al., 2018a). First, while the EU Directive assumes that mandatory reporting can increase transparency and corporate accountability, prior research demonstrates that more and compulsory information does not always mean better reporting and accountability (Cooper and Owen, 2007; Luque-Vilchez and Larrinaga, 2016). Second, the EU Directive and its reporting requirements are no exception to the above and are far from harmonising NFR and achieving the comparability of information in Europe (La Torre et al., 2018a).

As stated in the EU Directive, the primary rationale for establishing mandatory NFR practices in Europe is to rebuild trust with “investors and consumers” in business (European Union, 2014, p. 1). While trust has a collective cognitive base, it also depends on a leap of faith beyond the cognitive level (Seal and Vincent-Jones, 1997). Within the relationship between parties, accounting information can influence trust and vice-versa (Johansson and Baldvinsdottir, 2003). Trust may be seen as a fundamental social constituent of accounting (Seal and Vincent-Jones, 1997). Thus, as developing trust is a key purpose for regulating NFR, this novel context represents an opportunity to investigate how accounting and reporting practices established by the EU Directive can contribute to influencing trust.

Despite the novelties introduced by the EU Directive and the consequent euphoric reactions for mandatory NFR, there are still questions about whether this new regulation is realistic and effective enough for rebuilding trust in society. La Torre et al. (2018a) call for addressing some of these questions and conclude that the EU Directive is a regulatory action by the States to further legitimise and institutionalise NFR and sustainability reporting. By making NFR compulsory for companies, the EU is attempting to make NFR practices noteworthy in the eyes of companies and society – something that companies should take seriously and embed in their ceremonial procedures for reporting.
While research into social and environmental accounting has a long research tradition in accounting, the EU Directive on NFR paves the way new practice-driven opportunities to advance accounting research. This can contribute to understanding such a mandatory context for social and environmental reporting (Luque-Vilchez and Larrinaga, 2016; La Torre et al., 2018a). We initiated this special issue entitled “Rebuilding trust: Sustainability and non-financial reporting, and the European Union regulation” to explore the new practical challenges and the changes in mandatory NFR imposed by the EU Directive. However, since we first proposed the special issue, the context we are living in has radically changed, and we cannot help but contextualise the role of NFR practices in light of the current COVID-19 crisis.

The studies published in this special issue investigate the EU Directive and mandatory NFR practice from the perspective of the different social actors who are involved – academics (Tarquinio and Posadas, 2020), accounting practitioners (Krasodomska et al., 2020), companies (Unerman and Bennett, 2004; Di Tullio et al., 2020; Doni et al., 2020; Masiero et al., 2020), assurance providers and investors (Quick and Inwinkl, 2020) and standard setters (Biondi et al., 2020). Thus, by offering new answers to the research questions coming from the EU Directive, this special issue demonstrates that, in practice, there is a polyphonic voice coming from different social actors involved in the EU Directive.

Yet, accountability stands up as an essential and common issue from these studies – a concept that connects these actors altogether. Therefore, in this article, we analyse the concept of accountability in the context of the current European regulation for NFR to offer a commentary to advance practice and research on NFR. This paper follows up our previous review and research agenda (La Torre et al., 2018a) by raising new emerging issues from the most recent studies and providing new future directions for practice and research into the accountability issues in the current European regulation of NFR.

This special issue is also timely because, as we were developing it, the EU was undertaking a round of feedback and consultations over changes to the EU Directive. Thus, the practice-based research in this special issue and our participation as academics in the consultation process evidences a direct link between academia and the changes to the EU Directive. A second direct link to implementing the EU Directive is that one of the co-editors and co-authors of this special issue is a member of the Swedish government’s expert accounting body, which is responsible for developing general guidelines and information to help Swedish companies follow accounting rules. This know-how has been incorporated into our research to help reduce the gap between academia and accounting practice (Tucker and Lowe, 2014). Through these links, and by offering a discussion of the need for dialogical accountability in the context of the EU Directive, this paper contributes to providing policy-makers with some novel insights for revising the EU Directive and advancing NFR practice.

The article is structured as follows. Section 2 presents our review and discussion of the articles published in the special issue. In Section 3, we analyse the links between trust, accountability and accounting in the context of mandatory NFR, highlighting the elements making up this relationship. By this, we propose a framework for future research and practice relying on a dialogical perspective of accountability for trust. Section 4 outlines our concluding remarks and questions for future research.
2. The contributions of the special issue

The studies published in this special issue contribute to research and practice by offering novel empirical and theoretical contributions into how the EU Directive is leading changes in NFR practices in Europe. Combined, they provide a contemporary multifaceted view on the EU Directive and mandatory NFR through different methodological approaches, including qualitative research and case study methods (Masiero et al., 2020); an interpretive study (Biondi et al., 2020), surveys (Krasodomska et al., 2020; Tarquinio and Posadas, 2020), quantitative archival content analysis (Doni et al., 2020), a social experiment (Quick and Inwinkl, 2020) and semiotic analysis (Di Tullio et al., 2020). These studies also cover a wide range of topics that go beyond examining the contents of corporate reports, and extend to investigating the broader social and political ground of the EU Directive.

Interestingly, we note significant interdisciplinarity in this special issue. This contributes to uncovering novel theoretical explanations of NFR, such as the psychological underpinnings of practitioners’ understanding (Krasodomska et al., 2020), semiotic choices veiled in corporate reporting legitimation strategies (Di Tullio et al., 2020) and the political rationale of reporting standards and frameworks (Biondi et al., 2020). This special issue is structured to highlight the main topics covered by the studies, which are:

- practitioners’ and academics’ understanding of NFI and reporting (Krasodomska et al., 2020; Tarquinio and Posadas, 2020);
- changes in reporting standards and the content of corporate reports (Doni et al., 2020) and accountability (Masiero et al., 2020);
- the effects on report users, such as the impact of NFR assurance on investment decisions (Quick and Inwinkl, 2020) and the semiotic elements underpinning legitimation strategies to comply with the law (Di Tullio et al., 2020); and
- the political rationales underlying the reporting frameworks and standards to comply with the EU Directive, such as the International Integrated Reporting Framework (IIRF) (Biondi et al., 2020).

In the following subsections, we review and discuss the articles published in the special issue by grouping them into these topics and highlighting their contribution to the literature.

2.1. Understanding non-financial information and reporting

Prior research demonstrates that the landscape of NFR has been puzzling for a long time (Stolowy and Paugam, 2018). The terminology beside NFR is variegated and lacks a consistent meaning and vocabulary. Non-financial reports have different titles and belong to different types of reporting – e.g., sustainability reports, social responsibility reports, social and environmental reports, integrated reports (Stolowy and Paugam, 2018). In turn, the semantic consistency surrounding NFI is not taken-for-granted (Haller et al., 2017), and the EU Directive highlights these semantic and vernacular ambiguities. In this special issue, Tarquinio and Posadas (2020) and Krasodomska et al. (2020) explore the cognitive understandings of respected academics and accounting practitioners they believe underpin NFI.
Tarquinio and Posadas (2020) review the academic literature on NFI and interview scholars to explore their cognitive perceptions of the meaning of NFI. They demonstrate that the meaning of NFI is still ambiguous and multifaceted since there is not a shared understanding and definition. While more recently the term NFI has referred to social and environmental information, accounting scholars conceive and acknowledge it as a broader term—a genus that is shaped by different species of understandings pertaining to corporate social responsibility (CSR) issues, intellectual capital information and information external to financial statements (Tarquinio and Posadas, 2020).

Similarly, Krasodomska et al. (2020) focus on the factors underpinning accountants’ understandings of NFR to explain the differences in their cognition and attitudes through social identity theory. They find that the differences depend on the social identity of the various accounting professions. Their social identity, in turn, depends on the accountant’s training in CSR disclosure and the influence of professional associations, governments and big accounting firms in transforming the social identity of the accounting profession. Therefore, NFI is open to different interpretations and extends over its narrow meaning to CSR (Tarquinio and Posadas, 2020), and understanding it depends on the group’s social identity (Krasodomska et al., 2020). The findings in these studies unveil the importance of the socio-cultural factors underpinning the change desired by the EU Directive. This change cannot happen overnight and practitioners need training to shape practitioners’ mindsets, knowledge and attitudes toward environmental, social and governance reporting.

2.2. Changes in corporate non-financial reporting practice

Due to the requirements of the EU Directive, there is an interest in providing early evidence about the changes in accounting and reporting practices. Doni et al. (2020) investigate the quantity and quality of NFI reported by 60 Italian companies before the EU Directive to explore if their previous voluntary sustainability practices have affected mandatory non-financial disclosures after the new regulation. They find that prior, established skills and expertise in NFR positively contribute to compliance with the law and guarantee quality in NFI. The standards of the Global Reporting Initiative (GRI) stand up as the most common reporting standard for preparing non-financial statements complying with the law. Yet, the integration between financial and NFR still represents a serious barrier to harmonise NFR and position it in established corporate reporting practices (Doni et al., 2020). Thus, while the EU Directive represents an important change toward mandatory NFR, there is still a reporting gap that makes the need for a common understanding of NFR and sustainability policies for social and environmental risk assessment and indicators urgent (Doni et al., 2020).

However, some changes can also occur in internal reporting processes. Compared to the previous voluntary setting, the new regulation on NFR requires more responsibility by the Board of Directors who are legally responsible for complying with the law and disclosing reliable and complete NFI to avoid non-compliance penalties (CSR Europe and GRI, 2017; Pizzi et al., 2020). Therefore, the EU Directive can somehow foster responsibility and engagement by the Board of Directors in communicating NFI. Yet this is still unexplored territory in the context of the EU Directive.
In this regard, the effects on accountability are specifically investigated by Masiero et al. (2020), who move beyond a monologic concept of corporate accountability toward embracing a more dialogical perspective. From a dialogical perspective, NFR should be positioned as a communicative action that concerns providing information, debates, questions, answers and judgments between actors. The authors focus on the role of connectivity as a condition for effective and meaningful communication that links companies with their audience. Through their case study, Masiero et al. (2020) conclude that the concept of relational connectivity is necessary to enhance corporate accountability and move away from monological accountability based on disclosure-based transparency. This monological conception of accountability stands up as a criticism of the EU Directive, which assumes that more NFI disclosure can enhance transparency and accountability.

2.3. Effects on report users

In dialogical communications, NFR assurance may represent a symbolic action for producing stakeholder confidence in NFR’s reliability and credibility. While the assurance of sustainability reporting is a prominent research topic and a widespread practice for improving credibility, it is a voluntary practice (Farooq and de Villiers, 2019b). Yet the rationale for voluntarily adopting assurance and the substantive or symbolic impact of assurance on credibility has been debated in the literature (La Torre et al., 2018a). Contemporary studies demonstrate that assurance is a hyperreal practice that fails to provide material, substantial, and credible verification (Boiral and Heras-Saizarbitoria, 2020). Sustainability assurance results in professional practices by assurance providers that both legitimate assurance and expand their market (Michelon et al., 2018). This falls within the realm of professional and managerial capture (Farooq and de Villiers, 2019a).

Within the debate on the capability of assurance to confer more credibility to NFR, Quick and Inwinkl (2020) present the results of a social experiment on bank directors to test if assurance can affect the investment decisions of financial capital providers. They find that assurance positively influences user confidence in NFR and attitudes toward investment decisions, especially when the assurance level is reasonable instead of limited. However, despite the potential of assurance in enhancing user confidence in NFI, the EU Directive has not preferred to require it in practice, and very few European States have opted to make the assurance of NFR mandatory (La Torre et al., 2018a). We question why the EU and most of its member States have opted to overlook this opportunity to increase the credibility of NFI.

From the perspective of report users, Di Tullio et al. (2020) offer novel insights into how new contents in corporate non-financial reports, such as business model information, are used by companies as legitimation strategies. The business model is an important topic in non-financial reports (Doni et al., 2020) because it is required by the EU Directive and it is a core element of the IIRF (Sukhari and de Villiers, 2018; Dumay et al., 2019) and intellectual capital accounting (Beattie and Smith, 2013). Di Tullio et al. (2020) analyse the semiotic elements behind the disclosure of business models before and after the introduction of mandatory NFR. They find that, in reacting to the new regulation, companies strategically choose to comply with the EU Directive by disclosing business model information through the use of non-
accounting language, figures and diagrams, without disclosing any substantive information. Thus, the corporate response represents a strategy to manage the impression of compliance and control their legitimacy through acquiescence and avoidance tactics (Di Tullio et al., 2020).

Biondi et al. (2020) emphasise this issue by questioning whether the EU Directive may be, once again, an opportunity for a corporate reporting façade. In analysing whether companies can comply with corporate reporting laws by using a de facto reporting standard or framework, the authors question the suitability of the IIRF to comply with EU Directive (Biondi et al., 2020). The authors frame their conclusions and recommendations for the future by reflecting on the impact of the COVID-19 pandemic and how it is changing our daily lives and the priorities of institutions, governments and corporations, and unveiling the real face and needs of human society. Therefore, the authors conclude that the impending changes to the EU Directive must have substance because society cannot afford another reporting façade for the sake of compliance.

2.4. Standard setters and reporting frameworks
Which reporting frameworks and standards can be used to comply with the law is a hot topic in the context of the EU Directive. Accordingly, companies can choose one or more national or international reporting standards and frameworks to produce their reports to suit their needs (European Union, 2014). This choice of reporting standards and frameworks has prompted researchers to investigate how, if at all, companies comply with the law in producing their non-financial reports (Manes-Rossi et al., 2018; Leopizzi et al., 2019), and, interestingly, the rhetorical justifications lying in their “comply-or-explain” approach (Pizzi et al., 2020). Yet, this flexibility in adopting a reporting framework also poses some questions about the EU Directive’s ability to achieve the harmonisation and comparability of NFI (La Torre et al., 2018a). Notwithstanding, it also creates competition among NFR and voluntary standard-setters (Guthrie and La Torre, 2020).

The GRI (2016) stands up as an early winner in this competition. Preliminary evidence reveals that most of the reporting companies use the GRI standards to comply with the law (Venturelli et al., 2019; Doni et al., 2020). This was reasonably expected for two reasons. First, the GRI has created its standards for NFR to provide companies with an easy to use, scalable and straightforward framework for complying with the EU Directive. Second, the GRI benefits from a global reputation from its long-standing experience in promoting and institutionalising sustainability reporting practice (de Villiers and Alexander, 2014).

Based on the collective belief and the IIRC’s claim that the IIRF can be used by companies to produce their non-financial statements and comply with the law, Biondi et al. (2020) analyse how the IIRF can be used to comply with the EU Directive by questioning the relevance of the compliance question (Biondi et al., 2020). The authors argue that the IIRF cannot become a de facto framework for complying with the EU Directive as it needs to be mandated in a specific jurisdiction (Biondi et al., 2020). Thus, while the IIRF’s six capitals model can offer a framework to foster corporate stewardship to a larger set of capitals (Dumay et al., 2019), it has a long way to go before becoming a framework for complying with the NFR regulation.
The IIRF is promoted as one of the many NFR frameworks for complying with the EU Directive (Biondi et al., 2020). Yet, the IIRC has failed to be convincing and persuasive enough to promote it as a valid new reporting framework (La Torre et al., 2020). Also, because of the existence of different frameworks, companies need to choose which is more suitable for complying with the EU Directive. In such a choice, companies may pursue a mere symbolic intent because they often adopt a sustainability reporting framework to implement impression management strategies (Cho et al., 2012; Boiral, 2013; Stacchezzini et al., 2016; Diouf and Boiral, 2017) – something that has more form than substance (Michelon et al., 2015). Hence, companies may choose a reporting framework that does not necessarily suit their need to comply with the law but, rather, a reporting framework that reflects their more calculating and semiotic intent (Di Tullio et al., 2020). Thus, we question how the several initiatives developing frameworks and guidelines for NFR can become a standard to comply with the law; and, most importantly, how they can help promote more effective NFR and corporate accountability in practice (Biondi et al., 2020). More importantly, we question how the EU can avoid mandatory NFR becoming another exercise of impression management legitimated by the law and the State.

3. Accountability in non-financial reporting regulation: a dialogical perspective

Accounting practice has been inundated with professional initiatives for changing company reporting with a very slight focus on accountability. Over the last decade, there has been a significant increase in reporting tools for providing more information on sustainability (Dumay et al., 2019). There has also been an increase in initiatives that provide new standards and frameworks for NFR. In turn, the adoption of sustainability reports has increased significantly around the world (Cho et al., 2015b; KPMG, 2017). The EU Directive is positioned in these initiatives for strengthening the reporting and disclosure of information as it requires larger companies to adopt mandatory NFR and disclose information on society, environment, human rights and corruption (European Union, 2014).

While the EU Directive requires companies to change or adapt their reporting practice, it also acknowledges its ultimate purpose of making companies more accountable and transparent to enhance societal trust (European Union, 2014). However, there are some concerns about the EU Directive’s ability to improve social accountability (La Torre et al., 2018a) and ultimately enhance the trust of society (Dumay et al., 2019). Of course, a tick-the-box approach is the most evident risk in pursuing this goal. But, even though some are companies are adopting mandatory NFR and reporting more information than required by the law, one can ask: Where is the dialogue that should be underpinning accountability?

To answer this question, in this section, we analyse the links between trust, accountability and accounting in the context of mandatory NFR and the EU Directive by reviewing the most up-to-date literature on NFR and the theoretical contributions on this theme. Our arguments support the idea that NFR regulation in Europe needs to move towards an accountability-based reform of accounting and reporting to establish dialogical accountability (Dillard and Vinnari, 2019). In the following subsections, we discuss the main elements underlying the
accountability issue in the EU Directive and reflect on how it can change NFR practice toward reporting that is based more on social accountability needs.

3.1. Trust and accountability

Enhancing trust is the primary rationale for mandating NFR in Europe. Trust has gained the interest of accounting researchers because accounting implicitly aims to govern the business relationships between actors, for example, managers and shareholders, by recording and monitoring transactions (Seal and Vincent-Jones, 1997). Moreover, trust can explain what the perspective of the economic contract cannot usually do in establishing and maintaining the relationships between social actors (Seal and Vincent-Jones, 1997). This interest in trust has also been justified by a continuous decline of trust in the pillars of society (Baldvinsdottir et al., 2011; Dumay et al., 2019; Edelman, 2020). Most importantly, the rising importance of trust represents an awareness of a connected and interdependent society and a business environment that is increasingly and significantly shaped by alliances, relationships and networks – or, more simply, communities (Tomkins, 2001). However, the most theoretical interest in trust by accounting researchers lies in the implications of accounting itself to accountability.

In examining the nexus between accounting and trust, Seal and Vincent-Jones (1997, p. 407) state that their concern is about the implications of accountability on long-term relations “since this aspect is both central to understanding accounting and important from the social welfare viewpoint”. The authors argue that accountability in certain identifiable relationships is a core element of accounting practice and agenda, and trust is the cornerstone in these relationships (Seal and Vincent-Jones, 1997). Despite such an acknowledgement, it seems that accounting research into NFR and accountability has rarely embraced and revitalised this role of trust, thus privileging other dominant economic theories, such as agency theory (Dumay et al., 2019).

Trust is defined variously, and this diversity depends on the different disciplines in which the concept is shaped and used (Baldvinsdottir et al., 2011). It is a multifaceted and very empirically-grounded concept (Seal and Vincent-Jones, 1997). But, a common definition provided by Tomkins (2001, p. 165) offers a general understanding of trust that is valid in any context:

The adoption of a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of that other party.

According to this definition, accounting is a mediator between two parties and can increase and decrease trust. However, Baldvinsdottir et al. (2011) outline that, despite the use of the concept of trust in accounting research, questions about the relationship between accounting and trust remain unanswered and no overall paradigm has been developed.

Baldvinsdottir et al. (2011) find that “the overwhelming majority of papers [on accounting and trust] do not have any explicit definition of trust” and “this lack of definitions also indicates non-paradigmatic research”. Yet, they find three common elements that characterise the definition of trust in accounting. These are: the willingness to accept risks in terms of acting
under uncertainty and the consequent lessening of uncertainty that comes from trust; the
parties’ expectations of certain behaviours; and the existence of situations of dependence or
cooperation (Baldvinsdottir et al., 2011).

The lack of common paradigms in the research on accounting and trust means that explaining
and theorising their relationship has been deeply grounded in empirical settings. Over time,
studies on corporate governance have contributed to advancing the understanding of this
relationship. Particular concern about trust in corporate governance comes from big financial
scandals and frauds (Clarke, 2005; Farber, 2005; Dumay et al., 2019). Trust is of interest in
investigating its contribution to forming informal accountability and social capital (Awio et al.,
2011; Subramaniam et al., 2013; Hyndman and McConville, 2018), along with its positive
effects on stakeholders and capital markets (Lins et al., 2017). Trust is used to explain inter-
organizational relationships during the financial crisis (Rad, 2017), and the corporate
relationships with accounting and audit professions (Chen and Jha, 2014). Despite empirical
evidence from different fields and contexts, the relationship between trust and accounting
information is affected by contingent variables and is still debated. What we know is that
accounting information has a mediating role in trust-building (ter Bogt and Tillema, 2016), but
this mutual relationship needs to be further explored, tested and theorised.

At a theoretical level, accounting information provides a cognitive platform that can increase
or decrease the belief of one party that the other party’s behaviour is in line with agreements
and expectations (Seal and Vincent-Jones, 1997). This cognitive platform acts at a symbolic
level in representing reality to provide the appearance that everything is desirable and “in
proper order” (Lewis and Weigert, 1985, p. 974). Accordingly, accounting information and
systems should be designed based on this need and trust-based demand (Tomkins, 2001). However, there are two main problems in identifying the nexus between trust and accounting.

The first is that, in some accounting practices, such as corporate reporting, we rarely see face-
to-face interaction between parties. Face-to-face-based trust can lay in more localised social
sites, which allow people to establish more personalised forms of trust (Seal and Vincent-Jones,
1997). Instead, accounting information is usually “mediated by institutionally created trust”,
which implies that the parties retain a certain level of anonymity (Seal and Vincent-Jones,
1997). This is the case in corporate reporting and NFR practices, because, given they are
directed to a large group of individuals, parties lose their personal identity in favour of the
stakeholder group’s collective ideological identity. This represents a challenge in empirically
analysing the trust underpinning sustainability and NFR.

The second difficulty is that, as explained by Seal and Vincent-Jones (1997), the behavioural
impact of accounting on trust is ambivalent since the recording and monitoring of relations
through accounting may also destroy trust between parties. The empirical evidence on the
nexus between accounting and trust are contrary. For example, Jacobs and Kemp (2002)
demonstrate that trust between parties can be a rationale for explaining cases where accounting
is absent. More specifically, there is no reason to record or monitor a relationship if the parties
trust each other. In turn, there is evidence that the absence of accounting and control can foster
trust as being a symbol that one party trusts the other (Jacobs and Kemp, 2002). Thus, the links
and mutual influence between accounting and trust are paradoxical and still controversial. This
is emphasised in the NFR context where individuals are not only anonymous but also diverse and represent multiple, and sometimes contrasting, interests. It is these diverging interests that make sustainability and NFR the result of an organised hypocrisy by corporations and façades for managing the conflicting demands of stakeholders (Cho et al., 2015a). However, the accountability of parties – especially of corporations – represents a key element for shedding light on this twilight zone and mediating the relationships between accounting, reporting and trust.

3.2. Accountability and reporting

Accountability is a long-standing topic in social and environmental accounting research (Parker, 2005). Gray (1992, p. 399) argues that accounting for sustainability and the environment has been widely acknowledged as a potential tool for contributing to “accountability and transparency in participative democracy”. Meanwhile, several academic contributions aimed to conceptualise the relationship between accounting, reporting and accountability, as well as corporate accountability and society (Cooper and Owen, 2007; Bebbington et al., 2019). Yet, what accountability means for companies and society is still debated, and there are different meanings and interpretations behind the use of this concept.

When the term accountability or corporate accountability is used, we can arduously figure out what accountability refers to and to whom. Which interpretation depends on the evolving role of corporations in society, their responsibilities (Bebbington et al., 2019) and the different views of the world and society (Gray et al., 1988; Cooper and Owen, 2007). However, a common understanding lying in the rationale of CSR and sustainability reporting is that companies have a responsibility that supersedes their contractual duties with shareholders and other stakeholders. Such a responsibility encloses externalities for the environment and society (Unerman et al., 2018), overcoming the narrow market view of accountability (Benston, 1982).

This obligation toward society depends on the values, beliefs and moral responsibilities held by corporations and managers. As Parker (2014, p. 362) argues, social accountability “emerges as accountability rendered through action, reflecting organisational leaders’ moral responsibility and connecting their personal beliefs with action for the common good”. Therefore, as corporate social accountability involves moral beliefs and actions, it is a multifaceted and complex concept where action can contradict talk and what is claimed in corporate reports (Cho et al., 2015a; Dumay et al., 2019).

While there is evidence that firms reporting information on their social accountability activities are less likely to engage in misconduct, this disclosure also acts to prevent expected punishments by the stock market when misconduct occurs (Christensen, 2015). However, social accountability is an exercise that cannot be limited to formal reporting and disclosure (Parker, 2014). Cooper and Owen (2007) argue that reporting is not enough to establish accountability to stakeholders; it should be, instead, conceived as a broad dialogue and communication action in which there is a need for a more pluralistic idea of corporate governance.
The need for a more dialogical approach and exercise of social accountability has been largely claimed in the social and environmental accounting literature (Bebbington et al., 2007; Brennan et al., 2013; Brown and Dillard, 2015), and its importance has been highlighted recently in the context of the EU Directive (Masiero et al., 2020). Despite the acknowledged importance of accountability, contemporary accounting research on mandatory NFR seems more concerned with the reporting and disclosure changes and very little with the changes to corporate social accountability in practice.

The EU Directive has likely changed organisational accounting practices and internal procedures. Aureli et al. (2020) demonstrate that the EU Directive has forced firms to rethink the reliability of their information because of the consequent penalties and the role of internal auditors. While this may bring improvement to internal procedures so as to ensure reliable information, it may also reasonably result in a decrease of information disclosed. Companies may decide to delete information that was previously disclosed voluntarily but are doubtfully reliable, even though this information are relevant and material to stakeholders. Thus, mandatory accounting changes and the establishment of new (or revised) formal accounting system may demotivate more comprehensive accountability to stakeholders in favour of formal correctness and the reliability of the disclosure.

The existence of different and contrasting stakeholder interests is a constant in stakeholder management theory (Cho et al., 2015a), and the need for its prioritisation in management decisions leads to the question “who and what really counts” in corporate reporting (Hall et al., 2015). Hall et al. (2015, p. 907) demonstrate that prioritising the voice of stakeholders is not solely a managerial decision; it also depends “on the construction of an appropriate accounting and reporting system, as shaped by managers’ epistemic beliefs [what data and knowledge count as valid and appropriate] and by the organisation’s material conditions”. These material conditions are “the nature of existing data collection and reporting systems access to financial resources, and access to necessary labour and expertise” (Hall et al., 2015, p. 928). These authors demonstrate that accounting and information system infrastructure, along with the epistemic beliefs of managers, influences the priority and importance given to the voices of certain stakeholders. This means that organisations need to implement proper accounting systems and infrastructure designed to instil broader and more pluralistic accountability.

Critical accounting research calls for more dialogical accountability and for moving reporting practice from accounting-based accountability to accountability-based accounting (Brown and Dillard, 2015; Vinnari and Dillard, 2016; Dillard and Vinnari, 2019). It is argued that, instead of keeping accountability dependent on accounting, accounting practices need to be designed to make accountability a dialogical process in a pluralistic society (Dillard and Vinnari, 2019). Dillard and Vinnari (2019, p. 17), therefore, support the need to move away from traditional accounting thinking, where the dominant belief is that “if we disclose it, responsible decisions will follow”, along with the “obsession of enhancing disclosure for disclosure’s sake”. Thus, based on Dillard and Vinnari (2019), we advocate that NFR regulation in Europe needs to move towards an accountability-based reform of accounting and reporting.
Instead of fostering more disclosure, policy-makers and regulators should think about how reporting practices can be changed to reflect a broader corporate social accountability. In the EU Directive, it states that:

*disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection*  

(European Union, 2014, p. 1)

The EU Directive can increase transparency by at least mandating more systematic information on corporate actions and their impact on society and the environment. Yet it does not establish anything new about regulating corporate behaviours, environmental protection and consequent penalties for misconduct, for example.

In proposing an alternative theoretical justification for the regulation of social and environmental reporting, Unerman and O’Dwyer (2007, p. 332) demonstrate how independent regulation “designed to protect the social and environmental interests of a range of stakeholders can also serve to enhance corporate economic performance and shareholder value”. The authors argue that where voluntary social and environmental accounting and reporting have been ineffective in preventing behaviour resulting in social and environmental damages, reflexivity can increase public awareness of the social and environmental risks arising from corporate actions (Unerman and O’Dwyer, 2007).

However, this increased perception of risk can also lead to losing trust in a corporation or sectors, and stakeholders can “begin to actively seek out alternative risk discourses to inform themselves about possible risks” they were previously unaware of (Unerman and O’Dwyer, 2007, p. 350). Such reflexivity results in a socially constructed knowledge that expert systems can fail, so leading to a decrease of trust of stakeholders in these expert systems (Unerman and O’Dwyer, 2007). Hence, the authors conclude that compliance costs coming from the regulation of NFR cannot guarantee higher levels of stakeholder trust and greater benefits for stakeholder relationships (Unerman and O’Dwyer, 2007). Thus, this theoretical view opens up some questions about the impact of regulation on stakeholder trust and perception, as well as on the relationship between stakeholder perceptions and economic value for shareholders.

The call for increasing corporate disclosure has often fallen into the trap of reinforcing the concentration of power around investors and corporations and has contributed little to broadening the concept of accountability (Dillard and Vinnari, 2019). We can see the same risk in the context of the EU Directive. NFR is anchored to a hierarchy of disclosure that privileges managers first, who, being at the top, own the power to disclose, then investors, and other stakeholders last (Biondi et al., 2020). In a report by the EU High-Level Expert Group on Sustainable Finance (2017), the term accountability is abundantly used in the text, but it looks more like it is referring to corporate accountability to investors and providers of financial capital than all the stakeholders.
3.3. Dialogic accountability and non-accounting systems

Within the traditional accounting-driven accountability systems, regulating corporate disclosure does not motivate companies to divulge information addressing the diverse needs of various stakeholders, or change businesses towards environmentally and socially sustainable behaviour as desired by their stakeholders (Cooper and Owen, 2007; Masiero et al., 2020). For more than a decade, critical accounting researchers have been questioning the conventional unidirectional accounting-driven accountability, where power is concentrated in the hands of corporations and their shareholders. Accordingly, critics propose an alternative system of dialogic accounting that takes pluralism seriously (e.g., Bebbington et al., 2007; Brown and Dillard, 2015; Vinnari and Dillard, 2016; Dillard and Vinnari, 2019).

From this perspective, stakeholder engagement, as we see it in corporate practices, is not dialogic because it is often performed within the boundaries of traditional accounting systems. It is designed to satisfy investor and shareholder needs, with “a little bit more” to address some needs of other stakeholders (Dillard and Vinnari, 2019, p. 20). Di Tullio et al. (2020) show that corporations symbolically comply with the EU Directive and mainly disclose financial information with minimal addition of social and environmental information to legitimise their business-as-usual. On the other hand, Aureli et al. (2020) show that internal auditors in the Italian context, where NFR assurance is mandatory, have a pivotal role in improving the credibility of NFI inside organisations. This is realised through the implementation of new internal procedures to handle sustainability, environmental and social information in response to the EU Directive.

Another example of increased credibility in corporate disclosures and stronger dialogues between a company and its stakeholders is shown in an experimental study by Quick and Inwinkl (2020). The results show that when companies add voluntary assurance of NFI, it has a positive impact on decision-making by bankers. Thus, voluntary choices may result in more accountability when companies have high internal motivation. This may happen if the expected benefits of external assurance exceed the costs (Lys et al., 2015; Jones and Solomon, 2019). In the absence of internal motivation, accountability can rather be decoupled or symbolic, which undermines the credibility of verification practices (Perego and Kolk, 2012).

The shift from voluntary to mandatory NFR has not resulted in an effective change to sufficiently improve corporate accountability (Doni et al., 2020). Instead, the accounting regulation requires reasonably limited disclosures, thus constraining the development of NFR practice (Trombetta et al., 2012; Dumitru et al., 2017). However, there is also evidence illustrating the ambition of some companies to move toward a dialogic approach to accountability. For example, Masiero et al. (2020) reveal how a company engages in dialogues relating to environmental issues with a broad range of stakeholders to enhance accountability and prepare its financial and non-financial reports. The company considers positive comments as well as critical remarks and enacts a dialogue with different tools (personal meetings, round tables, web sites and social media). This evidence demonstrates that improving accountability requires the adoption of other non-accounting tools for disclosure that extend over the traditional accounting systems.
To move from traditional accounting systems to dialogic accountability systems requires changes in the accounting profession and management attitudes to non-traditional accounting. The general knowledge of non-financial issues among accounting specialists is low and depends on the accountant’s social identity (Krasodomska et al., 2020). Additionally, although the prior skills and experience of managers are essential for improving NFR practice, the improvements are only limited, and management engagement is low when adopting the EU Directive (Doni et al., 2020). As traditional financial accounting belief is firmly embedded in the profession, there is a need to take diversity seriously and embrace the perspective of dialogic accountability in accounting education to direct the meaning of the term “non-financial” towards alternative dialogic accounting (Haller et al., 2017; Stolowy and Paugam, 2018; Tarquinio and Posadas, 2020).

We advocate further development of the EU Directive on NFI towards more guidance for corporations on how to achieve dialogic accountability systems that facilitate accountings relevant to diverse stakeholder groups, representing both humans and non-humans (Vinnari and Dillard 2016). Support for this suggestion can be seen in previous research arguing that accounting is more effective in achieving its goal of increasing trust to businesses in the countries where there are conditions for dialogic accountability (Unerman and Bennett, 2004; Bebbington et al., 2007; Brennan et al., 2013). For example, Unerman and Bennett (2004) argue that the censorship culture in some countries can constrain open dialogue between companies and various stakeholders through internet technologies and, therefore, these latter may only facilitates a symbolic dialogue. They argue that local institutions and culture have an impact on the transparency of the stakeholder dialogue, especially related to moral standards behaviour. Thus, dialogic accountability can be enhanced by internet technologies (Masiero et al., 2020), but this also needs local institutions and policies that embrace and stimulate open corporate dialogue with a diverse range of stakeholders. This demonstrates that, while non-accounting tools, such as the web, can facilitate a dialogue between firms and their stakeholders, it is not always the case since technological, political and cultural constraints can limit these web-based channels.

3.4. The materiality of NFI and accountability-driven materiality

The concept of materiality exists in both financial reporting and NFR. In financial accounting and reporting, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity” (IASB, 2018). IFRS Practice Statement 2 articulates four steps to determining and reporting materiality, consisting of: identifying the knowledge of primary users of financial information; assessing quantitative and qualitative factors; organising information into financial statements; and, finally, reviewing the financial statements (IASB, 2018). Even if the definition of materiality has been reformulated in recent years, in the scope of financial reporting, it is still an outcome of professional judgements made by preparers, auditors and powerful users of financial accounts (Edgley, 2014).
In the context of sustainability reporting, materiality is more complex because of the complexity of sustainability accounting involving multiple societal perspectives (Fasan and Mio, 2017). Thus, materiality in sustainability reporting is defined from a broader group of (influential) stakeholders, with which companies engage in a dialogue to identify material issues (Fasan and Mio, 2017). Even with stakeholder engagement, the engagement is often unidirectional (Dillard and Vinnari, 2019), which means that the decisions behind material issues are influenced by the power of corporations and the stakeholders whose decisions can have a significant economic impact on the company.

As Baumüller and Schaffhauser-Linzatti (2018) highlight, in designing the EU Directive, the EU commission acknowledged the importance of the materiality of NFI to avoid information overload and greenwashing in NFR. Materiality may help to disclose information that is useful to stakeholders. Within the context of NFR and sustainability reporting, the GRI standards define material information as a topic that needs to be included in the report as it reflects “the organisation’s economic, environmental, and social impacts, or influencing the decisions of stakeholders” (Baumüller and Schaffhauser-Linzatti, 2018, p. 104). However, the term ‘impact’ is elusive and abstract in sustainability accounting because of its different definitions and logics for assessment (Baumüller and Schaffhauser-Linzatti, 2018). Similarly, we can add that stakeholders are ideologically portraited as a symbolic and rhetorical audience, which is formed instead of different actors and interests.

Despite the importance of materiality, the first version of the EU Directive fails to define, and even mention, the concept of materiality. Although, it does provide a definition of information that should be disclosed:

*The management report [is] a non-financial statement containing information to the extent necessary for an understanding of the undertaking’s development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.*

(European Union, 2014, p. 4)

Thus, the abstractness lying in the term ‘impact’ does not help define which information is material. Furthermore, this definition depersonalises stakeholders and symbolically turns their interests such as the environment, society, corruption and human rights, into objects. This definition of material information is more aligned with a firm’s financial performance.

As argued by Baumüller and Schaffhauser-Linzatti (2018), the EU Directive tries to align a company’s financial position with the interests of its stakeholders, regardless of the existing trade-off and contrast between their interests. As such, the materiality grounding the EU Directive is closer to the materiality concept of the IIRF, which privilege the interests of financial capital providers (Baumüller and Schaffhauser-Linzatti, 2018). Of course, by adopting a stakeholder-oriented reporting framework, like, for example, the GRI standards or guidelines, firms may embrace a more stakeholder-oriented concept of materiality in complying with the EU Directive. However, when including NFI into the management commentary, this concept of materiality conflicts the materiality of financial reporting. As
such, the materiality concept in the EU Directive unveils the contrast between shareholder-oriented materiality and a more pluralistic idea of materiality. It is similar to what Dumay *et al.* (2015) refer to as material legitimacy, that blends what is jointly material to stakeholders and a company.

Our call for a more pluralistic concept of materiality is also foreshadowed in the current process being undertaken by the EU to revise the EU Directive. In this process, the European Commission has recently issued new non-binding guidelines on NFR and climate-related disclosures (European Union, 2019), which integrates the previous European Commission’s guidelines on NFR of 2017 and the recommendations of the FSB Task Force on Climate-related Financial Disclosures (TCFD). In this new EU Guidelines document, that develops closer links between climate change and NFR, the EU introduces a double materiality perspective where:

*The reference to the company’s “development, performance [and] position” indicates financial materiality, in the broad sense of affecting the value of the company. Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company. This perspective is typically of most interest to investors.*

*The reference to “impact of [the company’s] activities” indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company. This perspective is typically of most interest to citizens, consumers, employees, business partners, communities and civil society organisations. However, an increasing number of investors also need to know about the climate impacts of investee companies in order to better understand and measure the climate impacts of their investment portfolios.*

(European Union, 2019, p. 4)

With these new guidelines, the European Commission explicitly acknowledges the importance of materiality in NFR. Meanwhile, it also acknowledges that materiality is a complex issue that should not be viewed from a single perspective. However, while the double materiality perspective tries to contemplate both the investor and stakeholder perspectives, these new guidelines also highlight the existing trade-off and contrast between value to investors and value to society.

Some early applications of double materiality may demonstrate that environmental and social materiality may be instrumentally used to manage stakeholder opinions and interests to preserve financial value for the company and investors. Consequently, a double materiality analysis may result in a risk management-oriented approach to stakeholder engagement that has nothing to do with broad corporate accountability to stakeholders. Instead, it can again occur as a strategy of organised hypocrisy for managing conflicting stakeholder expectations (Cho *et al.*, 2015a), or a strategy to gain material legitimacy (Dumay *et al.*, 2015). Thus, to achieve a pluralistic approach to materiality, we advocate that regulators of all forms of NFR should consider increasing the focus on the dialogic accountability perspective in defining the
materiality of NFI that goes beyond double materiality. The materiality process should rely on continuous dialogue and negotiation with diverse groups of stakeholders that are affected by the company’s business and operations, not just the powerful ones (Dillard and Vinnari, 2019). In this process, materiality is expected to be locally-driven by stakeholders, companies and institutions (Dumitru et al., 2017; Masiero et al., 2020), and decisions regarding problematic material issues need to be made openly by considering a variety of conflicting arguments and interests.

Focusing on the complexity of the materiality of NFI will emphasise the needs of diverse stakeholders and the ways these needs are addressed by companies, rather than comparable accounts that only address the needs of the influential stakeholders. For example, by conducting a materiality analysis through an active and constructive dialogue with diverse stakeholders, non-financial reports become relevant to those stakeholders and their values and views of sustainability (Masiero et al., 2020). The non-financial report embracing this perspective becomes a reflection of the process of dialogic accountability. Moreover, decision making regarding the definition and boundaries of material issues is not a black box anymore, but rather a transparent process where the power is not concentrated in the hands of corporations and owners.

### 3.5. Reporting boundaries and accounting inscription

Materiality in non-financial reports represents the accounting inscription of particular stakeholder interests (Edgley, 2014). This means that any information in a non-financial report results from considering certain stakeholder interests. By this, companies aim to achieve material legitimacy, where “companies try to achieve mutually beneficial ‘win-win’ outcomes for themselves and their stakeholders” (Dumay et al., 2015). As such, with the recent developments in corporate reporting, we witnessed an extension of reporting boundaries over its traditional ones. The emergence of integrated reporting is a symbolic initiative aimed at extending the managing and reporting of corporate resources beyond the standard financial and physical capitals (Dumay et al., 2017). With the six capitals model of the IIRF, natural, human and social capitals become further central elements of the corporate value creation process, so resurging and extending the concept of intellectual capital itself and the boundaries of its measurement and reporting (Abhayawansa et al., 2019).

As Abhayawansa et al. (2019, p. 6) argue, integrated reporting can enable an eco-system approach (fourth-stage) to the accounting of the six capitals as it promotes an understanding of capital “beyond its creation, utilisation and impacts within economic boundaries of organisations to its role within the broader eco-system”. Although the IIRF has been criticised for having abandoned the sustainability in favour of the interests of investors and financial capital providers (Flower, 2015; La Torre et al., 2020), the six capitals model provides managers with the opportunity to act as stewards of a broader set of resources that are not directly owned and controlled by firms and overcome the organisational boundaries (Dumay et al., 2019). Thus, stakeholder interests can become further inscribed in corporate reporting, including interests that go beyond financial and economic ones.
Similarly, the EU Directive represents an attempt to extend the financial reporting boundaries toward the inclusion of non-financial aspects. The EU Directive is a regulatory action to legitimate NFR and includes NFI within compulsory annual reporting (La Torre et al., 2018a). Yet, while we can see such an extension of reporting boundaries, there is still little understanding of what and how stakeholder interests are inscribed in NFI, which is something that future research can focus on for two reasons.

First, Edgley (2014, p. 268) argue that “materiality operates at the site of truth games about making visible, controlling, taming, managing or hiding errors and subjectivities in the translation of accounting inscriptions”. So, through double materiality analysis, different and conflicting stakeholder interests can be encapsulated and translated into information. NFR represents the interests of stakeholders and their prioritisation (Hall et al., 2015) – a social construction of the stakeholder voices considered by companies. Due to the risk of the concentration of power around shareholders and the capital market, NFI can be merely a reflection of their economic interests. Thus, in the context of the EU Directive, we advocate that future research can fruitfully investigate the interests inscribed in NFR practice by deconstructing the reverse process of their formation.

Second, as reporting extends over traditional boundaries to embrace a more dialogical accountability, firms should also develop tools and techniques that extend over the boundaries of traditional accounting systems and formal procedures. As Hall et al. (2015, p. 928) demonstrate, prioritising stakeholder interests means not only choosing which of the stakeholder voices to include the in the organisation’s accounting system but also “the form and type of data used to represent stakeholder voices”. Since an organisation’s accounting infrastructure influences how managers prioritise stakeholders, organisations therefore need robust information systems to track stakeholder responses to their demands and other critical issues, as well as marketing tracking tools (Hall et al., 2015). Thus, to embrace broader dialogical accountability, researchers, practitioners and policy-makers should rethink internal organisational procedures for NFR and explore new techniques and systems that go beyond the boundaries of the traditional accounting systems.

4. Conclusion and future research
The EU Directive aims to increase transparency and corporate accountability to rebuild investor and consumer trust in businesses. Motivated by this ambitious goal, this paper shows the concept of accountability in the context of the regulation for NFR with a commentary to advance practice and research. The articles in this special issue demonstrate that a shift from voluntary to regulated corporate NFR practices has not resulted in a radical change to improve corporate accountability. Instead, NFR practice is currently guided by traditional accounting systems, where accounting and accountability systems are designed to satisfy the needs of investors and shareholders, with the addition of “a little bit more” (Dillard and Vinnari, 2019, p. 20). By analysing the links between trust, accountability, reporting and accounting, this paper offers a novel view on the concept of accountability in the EU Directive to foster a more pluralistic and dialogical perspective and establish accountability-driven non-financial accounting and reporting practices.
Accountability is the reflective surface of underlying politics that shapes governance. However, the presence or absence of accountability to broader stakeholders in the context of NFR results from the attitude towards non-financial issues by accounting specialists (Krasodomska et al., 2020) and managers (Doni et al., 2020). Local institutions and culture have an impact on knowledge and attitudes, thus shaping the transparency of the stakeholder dialogue, especially related to moral standards and corporate behaviour (Unerman and Bennett, 2004). This approach can be mirrored in the practice of materiality analysis through active and constructive dialogue with diverse stakeholders, which makes non-financial reports relevant to the stakeholders and their values and views of sustainability (Masiero et al., 2020) This area of research is still in its early stage of development, but the contributions in this special issue offer some empirical insights for developing theoretical advances the regulation of NFR. Thus, we contribute to the current public consultation on revising the EU Directive in 2020 by providing empirical and theoretically-based insights into the role of accountability and materiality in mandatory NFR.

Researchers, practitioners and policy-makers need to enlarge their view of NFR and its regulation by emphasising the issue of accountability and the need for a more dialogical perspective. We argue that the cause-effect relationship between trust, accounting and corporate reporting practice is ambiguous, controversial and still under-researched. The literature on trust and accounting demonstrates that their relationship is still not well established theoretically and empirically (Seal and Vincent-Jones, 1997; Jacobs and Kemp, 2002; Dumay et al., 2019). Yet, accountability represents a cornerstone for analysing and interpreting cause-effect relationships and for shedding light on the twilight zone between accounting, reporting and trust.

In the context of mandatory NFR, stakeholders become anonymous and lose their individual nature in the trust-related relationship with corporations. Their diverse and usually contrasting interests are ideologically constructed and inscribed into their NFI and annual reports. Materiality encloses such an inscription in the interests of particular stakeholders (Edgley, 2014). However, a regulatory effort toward more disclosure, like the EU Directive, may fall into the trap of concentrating the power again around investors and corporations.

The double materiality perspective in the recent non-binding supplemental guidelines on climate-related information (European Union, 2019) is a useful initiative for overcoming this risk and including the social and environmental perspective in the materiality analysis. However, this new perspective of materiality is still a part of non-binding guidelines, not a legal requirement. Additionally, with the double materiality perspective, the risk remains that social and environmental materiality may be used only to assess social and environmental risks to preserve the company’s financial value as companies continue to privilege financial sustainability over social and environmental sustainability (Biondi et al., 2020). Instead, NFI must be used and disclosed to signal the financial impacts emanating from the social and environmental risks associated with corporate economic value creation. Thus, we advocate that researchers and practitioners should investigate and rethink the interests of those who control non-financial report preparers by deconstructing the rationales of calculating and disclosing NFI.
Accordingly, as NFR practices need to be based more on pluralistic and dialogical accountability, organisations need to design and improve accounting information and reporting systems to instil a broader concept of accountability. As demonstrated, accounting information and reporting systems may influence the way stakeholder voices are prioritised and included (Hall et al., 2015). Thus, researchers, practitioners and policy-makers should rethink and explore new techniques and systems that go beyond traditional accounting systems and the boundaries of legal responsibility. The current NFR frameworks, like the GRI, Global Compact and the EU Directive, have already attempted to do this by extending the boundaries to promote social and environmental reporting, reflecting a corporate responsibility for legal compliance. Promoting corporate responsibility is the reason the EU is taking the European Green Deal seriously and embracing it in revising the EU Directive (European Union, 2020). However, there is still a need to go further by exploring how new accountability-driven accounting and non-accounting technologies can instil dialogical accountability.

Such a rethink means exploring non-accounting tools and infrastructures that can help to establish a platform that reflects a pluralistic dialogue with stakeholders (see Eccles and Krzus, 2010). Accordingly, we applaud further developments of the EU Directive on NFR towards more guidance on how to achieve dialogic accountability systems that facilitate accountings relevant to diverse stakeholder groups (Vinnari and Dillard, 2016). The rethinking process must begin with establishing a form of accountability to the material issues affecting “citizens, consumers, employees, business partners, communities and civil society organisations” (European Union, 2019, p. 4). For an effective regulation of NFR based on dialogical accountability, there is a need to provide companies with guidance and tools that would result in accountability-driven NFR practices. This is something occurring with the EU Directive as the current guidance is replete with key performance indicators and examples for companies to follow (European Union, 2019). What is missing is guidance, or even regulation, on the technology and systems, such as Web2.0 and XBRL, that enable a dialogue between companies and stakeholders (Eccles and Krzus, 2010; La Torre et al., 2018b). We argue that the EU needs to give firm directions on not only what to report, but how to report and how to produce NFI.

As stated by the European Commission in its “Inception Impact Assessment” document announcing the public consultation for the revision of the EU Directive (European Union, 2020), the revision of the EU Directive aims to tackle the following problems:

(1) There is inadequate publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment. In particular:

a. Reported non-financial information is not sufficiently comparable or reliable.

b. Companies do not report all non-financial information that users think is necessary, and many companies report information that users do not think is relevant.

c. Some companies from which investors and other users want non-financial information do not report such information.
It is hard for investors and other users to find non-financial information even when it is reported.

Companies incur unnecessary and avoidable costs related to reporting non-financial information. Companies face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information.

(European Union, 2020, p. 2)

Although these problems can look more formal issues of NFR, this paper contributes to the public consultation to revise the EU Directive by unveiling the issue of accountability in the NFR and providing regulators with some novel insights into the need for dialogical accountability in NFR practices. We advocate that NFR regulation needs to revolve around more accountability-driven NFR and establish dialogical accountability by enlarging the boundaries of materiality and the traditional accounting and reporting systems.

In pursuing this goal, future research can contribute to extending the existing knowledge of NFR practice and regulation by directing research efforts toward answering the following research questions:

- How are policy-makers and regulators rethinking how reporting practices can be changed to reflect a broader corporate social accountability?
- How can NFR regulation in Europe move towards an accountability-based reform of accounting and reporting? Is double materiality enough?
- How can political and cultural factors enable or constrain dialogic accountability in the context of NFR?
- What are the stakeholder interests inscribed in a company’s materiality analysis and NFI?
- How do accounting infrastructures influence corporate accountability?
- How can accounting and non-accounting infrastructures foster more dialogical and pluralistic accountability?
- How can new methodologies and artefacts help to assess accountability in NFR so as to help researchers and practitioners distinguish dialogic accountability from unidirectional accountability?
- What are the internal and external drivers, mechanisms and patterns of dialogic accountability?

Addressing these research questions can contribute to unveiling the types of accountability underpinning NFR practice and shifting the research and practical focus from reporting and accounting to accountability. Notwithstanding, corporate NFR practices and the revised EU Directive must face challenges emanating from the COVID-19 crisis.

The COVID-19 pandemic has already changed the way companies, investors and society look at NFR (Dumay et al., 2020). The EU Directive’s desirability and effectiveness are challenged by the changed needs of companies and society, and the priorities for policy-makers and governments. The United Nations (2020) has already alerted us about the social implications
of COVID-19 in terms of the risks for social inclusion, poverty, and social inequalities, and calls for global action to address these risks. During any natural disaster, emergency or crisis, people’s perception of risks can change; their beliefs can be misguided, which can result in losing public trust in institutions, science and regulations (Stoppa and Berti, 2013). What is needed is a dialogue between all parties to develop trust and move towards overcoming the negative impacts of the crisis.

While the European Union is already responding to address the decline of public trust over the pandemic emergency, corporate NFR practice also needs to change. Thus, we should investigate how and what large companies are doing to alleviate the detrimental effects of the crisis on society and how NFR is utilised in this response. Considering our call for a more dialogic form of accounting and accountability, it is timely that we question the rationality of NFR when reports are issued in response to events occurring in the past. Just before the COVID-19 crisis, thousands of European companies issued their NFRs in compliance with the transposition of the EU Directive to their home State. However, it is highly unlikely that any of these reports are relevant today because the world in which these companies and society operates has changed beyond belief.

What is needed is more timely NFI that develops a dialogue between companies, investors, national regulators, the EU, and civil society, not more untimely standalone reporting that has most likely lost its relevance and materially by the time it is issued to users. In its current form as a reporting framework, the EU Directive seems unable to rebuild trust between companies, investors and society, which will be essential to moving forward from where we are now, not where we were when the last NFR was issued. It is also the role of academia to get involved by helping to promote and develop dialogic accounting and accountability processes that bring together all stakeholders in an ongoing dialogue about improving our mutual futures rather than redeveloping reporting frameworks that lack timeliness and relevance. Otherwise, NFR based in the EU Directive will become just another reporting façade.
References


See https://www.datamaran.com/double-materiality-explained/