Social Sustainability Reporting Readiness in Software Services: Drivers and Challenges

Bachelor Thesis

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ABSTRACT

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1. INTRODUCTION

You have to **submit the Bachelor's thesis** on the submisson date to the department. This is the introduction chapter. Write your content here.

It should provide an overview of your research topic, the problem statement, and the objectives of your study. Discuss the significance of your research and how it contributes to the field.

1.1. Background

Provide background information on your research topic. Explain the context and relevance of your study. This section asd should help the reader understand why your research is important and what led you to choose this topic.

1.2. Problem Statement

Clearly articulate the problem that your research aims to address. Discuss the specific issues or challenges that exist in the current literature or practice. Explain why these problems are significant and worth investigating.

1.3. Objectives

The choice of 2023 as the temporal focus of this study is closely linked to the institutional context. While the Corporate Sustainability Reporting Directive (CSRD) formally entered into force in January 2023, companies are required to disclose in line with the European Sustainability Reporting Standards (ESRS) for fiscal years starting on or after January 2024. Thus, 2023 represented a preparatory phase in which firms faced rising institutional pressure, whereas 2024 marks the first mandatory reporting cycle. This transition reflects the increasing coercive institutional forces that shape companies' readiness for social sustainability reporting.

Social pillars include employment, labor relations, diversity, occupational health and safety, and human rights (Fiechter 2022; Edge 2022).

2. Literature Review and Theoretical Framework

2.1. Prior Literature on Social Sustainability Reporting

Sustainability reporting can be understood under various definitions, including corporate social responsibility (CSR), extended external reporting, and ESG reporting (Edge 2022). As defined by (Rasche et al. 2017), CSR is the integration of social, environmental, ethical, and philanthropic responsibilities into business practice. Meanwhile, the concept of ESG stands for Environmental, Social, and Governance (**UNGlobal2024**). According to (**Krivogorsky2024**), three components of sustainability reporting can be associated with three main drivers of sustainability, namely the reporting entity, society and ecology. Across these approaches, the social dimension consistently emerges as a core aspect, covering issues such as employment, working conditions and human rights (Fiechter et al. 2022; Morais and Silvestre 2018).

Several regulations and standards have been developed to provide a basis for social sustainability reporting. Among these, the Global Reporting Initiative (GRI) is regarded as the most widely used framework by companies worldwide (Bais et al. 2024; Oorschot et al. 2024). According to GRI 401-406, companies disclose a wide range of social aspects, such as employment, workplace conditions, equality issues and non-discrimination. Marking a significant step forward, the European Sustainability Reporting Standards (ESRS) broaden this scope and make disclosure mandatory. The European Commission adopted the ESRS in July 2023 under the Corporate Sustainability Reporting Directive (CSRD). These standards oblige companies to report on impacts concerning the workforce (S1), value chain workers (S2), affected communities (S3), and consumers and end-users (S4).

Despite these regulatory developments, prior studies show that the social pillar remains underdeveloped within sustainability reporting practices. According to Heldal et al. (2024), the social dimension has not received adequate attention. This can be explained by **Sharma2024**, who argue that social data is a critical but often neglected component of sustainability reporting. Similarly, Morais and Silvestre (2018) point out that the social pillar remains vague, difficult to quantify, and less prioritized than environmental issues. This view is reinforced by Berg et al. (2022), who demonstrate lower inter-rater consensus on social indicators compared to environmental ones.

2.2. Prior Literature on SSR Readiness

Most prior research examines the extent to which firms comply with the GRI Standards when issuing sustainability reports (Fonseca et al. 2014; Vigneau et al. 2015). This emphasis is to be expected, as the GRI has represented a pioneering initiative in defining a common foundation that enables companies to develop stakeholder-oriented sustainability reports (Carungu et al. 2025; Dumay et al. 2010). In 2023, GRI and EFRAG released a draft Interoperability Index to help preparers align GRI Standards with ESRS disclosure requirements in detail (GRI and EFRAG 2024). Given this close interrelation, the present study begins by reviewing prior literature on GRI-based compliance in sustainability (CSR) reporting, which provide a basis for the analysis of SSR readiness.

For example, Ehnert et al. (2016) employed the GRI guidelines as an analytical framework to assess aspects of Sustainable Human Resource Management (HRM). Their study shows that companies tend to report more extensively on their internal workforce compared to their external workforce (Ehnert et al. 2016). Meanwhile, issues related to collective labor rights are often underreported, as firms exploit gaps in the GRI standards—particularly in disclosures 402 and 407 (Waas 2021). Consistently, Parsa et al. (2018) found that transnational corporations failed to comply with GRI's "labour" and "human rights" reporting guidelines. Similarly, the quality of information disclosed on occupational health, safety (OHS), and employee well-being remains generally low (Mariappanadar et al. 2022). Specifically, Mariappanadar et al. (2022) highlight that firms often provide only generic and anecdotal disclosures to meet GRI requirements, rarely translating their claims into measurable outcomes. In line with these findings, Chauvey et al. (2015) also demonstrate that the quality of human resource-related reporting remains relatively poor.

At present, the introduction of the ESRS shifts attention toward firms' readiness to meet more comprehensive and mandatory reporting requirements. However, most prior studies have addressed overall sustainability or CSR reporting readiness, but have not examined social pillar readiness in isolation. Current research provides only limited empirical insights into the extent to which companies are adjusting to the new sustainability reporting requirements. Notable exceptions are Nicolo et al. (2025), who examined early compliance with ESRS disclosure requirements among Italian listed firms and identified key firm-level drivers of adaptation, and Leal Filho et al. (2025), who assessed the readiness of 20 firms drawn from a cross-sectoral sample of EU companies. Nicolo et al. (2025) reports relatively high levels of early compliance with ESRS requirements among firms falling within the scope of the Omnibus Package. Whereas, Raimo et al. (2025) documents relatively low overall levels of pre-compliance, particularly in integrated reports. Leal Filho et al. (2025) and Milanés-Montero et al. (2025) likewise reveal that disclosure, especially among SMEs, remains limited, due to the absence of concrete metrics, verification mechanisms, and external assurance. Overall, prior studies have focused on sustainability reporting in general and highlighted industry environmental sensitivity as a key determinant of readiness (Leal Filho et al. 2025; Raimo et al. 2025; Nicolo et al. 2025; Milanés-Montero et al. 2025). Specifically, these studies have focused on environmentally intensive sectors such as oil and energy (Leal Filho et al. 2025; Raimo et al. 2025; Nicolo et al. 2025), while the software industry has received only limited attention, typically being considered within broader technology-oriented classifications (Milanés-Montero et al. 2025).

2.3. Sectoral Characteristics and Reporting Practices in Software Services

The software services sector is a service-oriented industry that primarily provides intangible assets in the form of digital goods (Buxmann et al. 2015). Within this sector, the workforce plays a particularly crucial role (Buxmann et al. 2015). Investment in employee capacity development through training programs and certification initiatives has been shown to positively impact company performance in the global IT services industry (Chatterjee 2017). Furthermore, Nowak and Grantham (2000) emphasize that intellectual capital constitutes a core value of the software industry. This highlights why the software services sector has drawn significant attention in research on CSR reporting in general (Holder-Webb et al. 2009; Kim et al. 2018).

To date, there remains a lack of empirical research specifically addressing the social pillar of CSR reporting within the software industry. For example, Holder-Webb et al. (2009) examined software companies within a sample of 50 firms across multiple industries in the United States. The results indicate that employment-related issues as well as health and safety are relatively well addressed in the software sector (Holder-Webb et al. 2009). In contrast, other social aspects, such as human rights and community engagement, are not reported in a comprehensive manner (Holder-Webb et al. 2009).

Moreover, the software industry experiences rapid changes in technology and business models (Buxmann et al. 2015). Such continuous changes require companies to rapidly adapt to new regulations, such as the ESRS.

Reporting on key aspects such as work environment, work-life balance, and training is often inconsistent and rarely comprehensive (Greig et al. 2021). Similarly, disclosures on gender diversity were limited and linked to worse gender pay gaps, suggesting a reputational motive (Huang and Lu 2022).

Prior studies have highlighted persistent weaknesses in CSR report quality (Di Chiacchio et al. 2024), largely due to the scarcity of quantitative and monetary data (Michelon et al. 2015).

2.4. Theoretical frameworks

This study employs theoretical frameworks to explain the current level of social sustainability reporting readiness in the software services sector and to interpret the drivers and barriers shaping firms' preparedness. Prior studies have highlighted the importance of theoretical perspectives in the study of sustainability reporting (Del Gesso and Lodhi 2025; Rezaee 2016; Lozano et al. 2015). Within the wide range of theories applied in this field, Institutional Theory and Legitimacy Theory are among those frequently employed.

2.4.1. Institutional Theory

Institutional Theory is widely applied in sustainability reporting research (Campbell 2007). This theory explains how organizations adapt to social, political, and economic environments through institutionalized practices (Meyer and Rowan 1977; DiMaggio and Powell 1983). It emphasizes how coercive, normative, and mimetic pressures shape organizational behavior.

3. RESEARCH METHODOLOGY

4. FINDINGS AND ANALYSIS FROM EMPIRICAL RESEARCH

5. DISCUSSION AND IMPLICATIONS

6. SUMMARY AND CONCLUSIONS

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