Social Sustainability Reporting Readiness in Software Services: Drivers and Challenges

Bachelor Thesis

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ABSTRACT

Your abstract goes heredsfsd (Ehnert et al. 2016, p. 500; Waas 2021, pp. 100–200)

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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 (Financial Industry 2004). 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 (**UNGlobal2024**; **Krivogorsky** Rasche et al. 2017), covering issues such as employment, working conditions and human rights (Fiechter et al. 2022; Morais and Silvestre 2018).

Prior studies relates to the social pillar within sustainability reporting practices. Social issues appear to attract strong interest from organizations and their customers, however, this interest does not necessarily translate into the inclusion of social objectives in sustainability goals (Heldal et al. 2024). 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.

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).

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, this 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). The 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 techonology industry has received only limited attention (Milanés-Montero et al. 2025).

2.3. Theoretical frameworks

Prior studies have highlighted the importance of theoretical perspectives in the study of sustainability reporting, with a subset on social sustainability reporting (SSR) (Del Gesso and Lodhi 2025; Rezaee 2016; Lozano et al. 2015). This thesis examines the subject through the lenses of legitimacy theory, institutional theory, and stakeholder theory. The selection of these theories as the foundational frameworks is motivated by their significance in comprehensively understanding the social sustainability reporting readiness. These theories offer unique yet synergistic perspectives that illuminate the drivers and challenges associated with SSR readiness.

Institutional theory offers a macro-level perspective, highlighting the influence of regulatory pressures and the institutionalization process on organizational behavior. It facilitates the understanding of the new regulatory pressures influencing the implementation of SSR by software companies. This perspective is crucial for examining the level of SSR readiness affected by regulatory compliance.

In addition, legitimacy theory provides a macro-level view on how organizations seek social approval and maintain their legitimacy in the eyes of stakeholders. This theory explains the extent to which the SSR readiness relates to organizational legitimacy and credibility.

On the other hand, stakeholder theory provides a micro-level perspective, emphasizing the influence of stakeholders on organizational behavior. It highlights how the expectations of internal and external stakeholders motivate software companies to implement more transparent, accountable, and inclusive social sustainability reporting practices.

The opportunities and challenges related to SSR readiness can be analyzed through the lens of foundational theories. From an institutional perspective, these facilitators and obstacles arise from the emergence of new institutional norms and regulatory pressures. From the lens of legitimacy theory, companies are motivated to align their social sustainability reporting practices with societal expectations; however, challenges arise from maintaining credibility and transparency. From a stakeholder perspective, stakeholder engagement and concerns play a critical role in shaping these determinants. Together, these theoretical perspectives provide a comprehensive understanding of the factors that drive or hinder software companies in developing their readiness for social sustainability reporting.

2.3.1. Institutional Theory

Institutional Theory is widely applied in sustainability reporting research (e.g., Campbell 2007; **Nikolaeva2010 Nikolaeva2010**; **Shabana2017 Shabana2017**). This theory highlights how external social, political, and economic processes shape organizational practices (Meyer and Rowan 1977), such as in adopting social sustainability reporting standards. At its core, the theory seeks to understand how internal structures, encompassing established schemes, rules, norms, and routines, become authoritative guides for social conduct (**Dimaggio1983**; **Greenwood1996**; Meyer and Rowan 1977).

Institutional theory highlights the concept of isomorphism. The concept describes the tendency of organizations within a given field to become increasingly similar, even when their goals or strategies differ. Three mechanisms are typically identified as drivers of this process: coercive, mimetic, and normative isomorphism (DiMaggio and Powell 1983).

Institutional theory has been widely applied to explain the adoption of corporate social responsibility (CSR) and sustainability reporting across industries. Previous studies suggest that organizations are motivated to adopt reporting practices not solely for intrinsic ethical reasons but to conform to institutional expectations and to signal legitimacy to stakeholders (Marquis et al., 2007; Campbell, 2007). Firms'readiness to implement social sustainability reporting frameworks, such as ESRS, can therefore be interpreted as a response to these institutional pressures. Adoption patterns may differ depending on firm size, ownership structure, international exposure, and prior experience with sustainability initiatives.

2.3.2. Legitimacy Theory

Legitimacy theory is considered one of the most successful approaches for explaining the content and extent of disclosed social information (**Grey1995**). This theory originates from the concept of the social contract (**Patten1991**). **Schoker1974** argued that "any social institution [including business] operates in society via a social contract, expressed or implied". Meeting social objectives directly influences a business's survival and development (**Schoker1974**). Therefore, organizations continuously strive to maintain congruence between their actions and the norms, values, and expectations of society (**Suchman1995**). This alignment is considered by businesses as a "license to operate" (**Demuijnck2016**). When an organization is perceived as legitimate, audiences tend to view it as not only more worthy, but also more meaningful, predictable, and trustworthy (**Suchman1995**). Legitimacy is categorized into three principal forms: pragmatic, moral, and cognitive (**Suchman1995**).

Pragmatic legitimacy depends on stakeholders' self-interest. When stakeholders perceive tangible and direct benefits, legitimacy is granted. Similar to pragmatic legitimacy, moral legitimacy relies on stakeholders' active support. It is determined by whether the company's actions are perceived as morally appropriate. Meanwhile, cognitive legitimacy is difficult for companies to regulate because of its inherent implicitness. When organizational practices are understandable, widely accepted and aligned with prevailing societal expectations, cognitive legitimacy is recognized

(**Suchmann1995**)

Corporate disclosure can be used as a tool to shape how external stakeholders perceive the organization (**Deegan2002**).

Building on the concept that CSR reporting serves as a legitimacy-seeking behavior (Author A, Year; Author B, Year), social sustainability reporting (SSR) can be interpreted as a proactive organizational effort to maintain or restore legitimacy. From a pragmatic perspective, social sustainability reporting (SSR) concerning the organization's own workforce enables firms to respond to stakeholders' immediate interests. Such interests encompass employees' well-being, labor conditions, and diversity considerations. Addressing these concerns may also affect investors, clients, and partners who prioritize responsible management of human capital. From a moral perspective, reporting on workforce-related practices signals that the organization acts ethically. It demonstrates that the organization fulfills its social responsibilities toward its employees. From a cognitive perspective, transparent and consistent disclosure of workforce-related data makes reporting practices understandable. This approach helps such practices become taken-for-granted, thereby enhancing the perceived appropriateness of the organization's actions within society.

2.4. 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 related to CSR reporting (Holder-Webb et al. 2009).

The software industry has received particular attention in prior research examining the relationship between CSR reporting and financial performance (**Okafor2021**). However, social aspects, including employee relations and human rights ratings are not significantly associated with financial performance (**Okafor2021**).

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 a rapid rate of technological change (**Li2010**). 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).

Bornar2025 highlights that certain variables, including Average Training, Employee Accidents, Total Accidents, Employee Turnover, Employees with Disabilities, and Employee Injury Rate, exhibit a significant relationship with firms' financial performance indicators. In contrast, factors such as Gender Pay Gap, Trade Union Representation, and Employee Fatalities do not appear to be financially material. Additionally, several indicators, namely Employee Satisfaction, Women Managers, New Women Employees, and Lobbying Contribution, seem to have potential financial relevance but are not yet mandated in reporting requirements. It has been found that mandatory disclosure requirements enhance social performance and that social and financial performance are positively associated.

In recent years, the importance of the social aspect within ESG has grown, according to **BaidJayaraman2022**.

Additionally, contemporary political events have reinforced the relevance of the social component in ESG frameworks (**She2022**).

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).

2.5. Prior Research on Drivers and Barriers of SSR Readiness

2.5.1. Drivers of SSR Readiness

3. RESEARCH METHODOLOGY

4. FINDINGS AND ANALYSIS FROM EMPIRICAL RESEARCH

5. DISCUSSION AND IMPLICATIONS

6. SUMMARY AND CONCLUSIONS

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