Social Sustainability Reporting Readiness in Software Services: Drivers and Challenges

Bachelor Thesis

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ABSTRACT

Your abstract goes

Contents

List of Figures

List of Tables

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. Literature Review

2.1.1. 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. Similarly, the ESG framework focuses on environmental, social, and governance. 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 Morais and Silvestre (2018), who argue 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.

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2.1.3. 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 GRI is the most widely adopted global framework (Bebbington et al. 2012; Mahoney et al. 2013) and served as a key foundation for the development of the ESRS. Building on the GRI Standards, EFRAG developed the ESRS with a high degree of interoperability between the two frameworks, thereby facilitating companies' adaptation to the new mandatory reporting requirements. 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.

A study by Mariappanadar et al. (2022) shows that companies often disclose only generic and anecdotal information concerning occupational health and safety (OHS) and employee welfare. Consequently, the level of compliance with GRI standards in these aspects remains low (Mariappanadar et al. 2022). Although the volume of disclosures has increased, the primary motivation frequently lies in enhancing legitimacy and improving corporate image (Chauvey et al. 2015). Multinational corporations (TNCs) often claim higher levels of compliance with GRI guidelines across labor and human rights indicators than what is actually practiced (Parsa et al. 2018). According to Parsa et al. (2018), companies tend to avoid reporting on sensitive issues or those requiring detailed data, such as gender pay ratios or employee turnover disaggregated by age, gender, and region. Only a limited number of firms translate their statements on OHS and employee welfare into measurable sustainability outcomes (Mariappanadar et al. 2022).

Most prior studies have addressed overall sustainability or CSR reporting readiness, but have not examined social pillar readiness in isolation. At present, the introduction of the ESRS shifts attention toward firms' readiness to meet more comprehensive and mandatory reporting requirements. However, existing studies remain predominantly normative and conceptual, with limited empirical evidence on whether, and to what extent, firms have begun to adapt 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).

Overall, prior studies have predominantly concentrated on environmentally sensitive industries such as oil and energy (Leal Filho et al. 2025; Raimo et al. 2025; Nicolo et al. 2025), whereas the software sector has only been addressed within broader technology classifications (Milanés-Montero et al. 2025).

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).

2.2. 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.

2.2.1. 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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