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SUSTAINABILITY DISCLOSURES IN THE EU TEXTILE INDUSTRY: PAST, PRESENT, AND FUTURE

How Have Sustainability Disclosures Evolved in the European Textile Industry Over Time?

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Abstract

Sustainability disclosures in the European textile industry have significantly evolved over the course of the past few decades. The changes throughout history have contributed to the turning point happening currently in sustainability reporting. The European Union is at the forefront of global development in sustainability reporting which makes the EU a highly attractive landscape for research.

In the EU, the textile industry holds a remarkable role both economically and socially, however, the sustainability-related issues within the industry call for action. Sustainability reporting plays a vital role in addressing the environmental and social challenges and thus, by successful sustainability disclosures European textile companies can contribute to achieving the EU's target of becoming climate neutral by 2050. In the future, the upcoming sustainability disclosures are expected to become as important as financial disclosures are from a reporting perspective.

As seen through Marimekko's reporting practices from 2000 to 2022, sustainability disclosures have evolved profoundly for textile and clothing companies in the EU. However, much of sustainability reporting has also been disclosed willingly as a display of companies' commitment to CSR and thus, work remains to be done in order for companies to fully account for sustainability.

Keywords Sustainability Reporting, Sustainability Disclosures, Textile Industry, EU, CSR, GRI, IFRS, NFRD, CSRD, TCFD

Table of Contents

1 Introduction

Sustainability disclosures have evolved significantly over the course of the past few decades and are incrementally becoming an increasingly mandatory part of financial reporting in the European Union (EU). Sustainability reporting is a relatively recent phenomenon, although Corporate Social Responsibility (CSR) has been under scrutiny since the 1960s (United Nations Environment Programme, n.d.). Between 1960 and 2020, financial reporting has evolved from containing no sustainability measures to including specific sustainability-related performance indicators and regulations. The pre-standardization period of sustainability reporting took place between 1962 and 1997 (Gokten et al. 2020). The first draft of the global framework for sustainability reporting was published in 2000 by the Global Reporting Initiative (GRI) which marked the beginning of the standardization period (GRI, n.d.). This period lasted until 2016, when the GRI established the initial global standards for sustainability reporting, which has defined the present state of sustainability reporting today.

In today's climate, sustainability reporting is continuously becoming more relevant for companies as sustainability standards and regulations continue to develop and tighten. The new Corporate Sustainability Reporting Directive (CSRD) was enforced in the EU in 2023 and starting from 2024 will broaden the scope of European companies required to disclose environmental and social information in their annual reports published from 2025 onwards (European Commission, n.d.). The CSRD aims to help stakeholders assess the sustainability performance of companies, as part of the "European Green Deal – a roadmap for making Europe the first climate-neutral continent by 2050" (European Commission, 2019).

The EU has identified the Textile and Clothing industry (T&C industry) as one of the key targets aligned with achieving carbon neutrality by 2050 as outlined in the "European Green Deal" supported by the EU Strategy for Sustainable and Circular Textiles (Román-Collado et al. 2023; European Commission, n.d.). Textiles and clothing play a vital role in the everyday life of human beings making the T&C industry one of the most impactful productive sectors worldwide. Furthermore, the textile industry is amongst the most globalised value chains (European Commission, n.d.) and nearly everyone, to some degree, holds a role in its value chain (Luján-Ornelas et al. 2020). The textile industry is recognized for its significant environmental footprint and therefore is facing global sustainability issues, which indicates that adopting sustainable practices is necessary for the companies in the industry to succeed in the future (Peters and Simaens, 2020).

This thesis focuses on analysing sustainability disclosures and their development in the textile industry, particularly in the EU. Sustainability reporting has a significant position in the global regulatory landscape, however, the major changes in this area are currently happening in the EU (EFRAG, 2021), which justifies limiting the scope of this thesis, and makes the EU an interesting area for research.

To further understand the topic, it is crucial to define the terms used within sustainability reporting. Sustainability reporting, in accounting, is the process of incorporating a company's sustainability-related information into its financial reports (Deloitte, 2020). Sustainability disclosures can be defined as transparency mechanisms for reporting companies' environmental, social, and governance (ESG) performance (Camilleri, 2015). There is a variety of different terms used interchangeably within sustainability, in the CSR context, and thus, a consensus has not been found on a precise definition of "sustainability" yet (Fisch, 2019). The United Nations (UN Environment Programme, n.d.) also states that no universally agreed definition for sustainability reporting currently exists, however, the UN defines the concept as "the practise of measuring and disclosing sustainability information alongside or integrated with companies' existing reporting practises".

Sustainability disclosures have a major impact on how sustainability related issues in the textile industry are addressed. A concern with sustainability reporting, especially with textile companies, is how sustainability disclosures in financial reports indicate actual sustainable performance (Papoutsi and Sodhi, 2020). The upcoming sustainability standards IFRS S1 and IFRS S2, entering into force in 2024, can potentially address this shortcoming and thus, these new disclosures are anticipated to have a substantial impact on financial reporting. These standards are relevant for the textile industry because they will require industry specific disclosures related to raw materials sourcing and supply chains (IFRS, 2023).

As sustainability reporting is constantly evolving, it is paramount to explore this topic in the light of past, present, and future developments to comprehend the evolution of sustainability disclosures. This leads to the research question that this thesis aims to answer: "How have sustainability disclosures evolved in the European textile industry over time, what is the current state of these disclosures, and what future trends and challenges are anticipated in this area?". The research question is answered by analyzing how European textile companies have applied sustainability frameworks and regulations to disclose information and how will they continue to do so. Additionally, a European textile company is used as an example to provide a more concrete picture on how textile companies report on their sustainability. Profound environmental and social challenges associated with the industry, as well as the increasing demand from stakeholders for transparency on sustainable actions highlight the importance for research on the topic.

The analysis is presented in the form of a literature review since most of the existing research around sustainability reporting is qualitative. Moreover, some of the upcoming standards have not been enforced yet, making the effects of sustainability disclosures difficult to analyze through an empirical study at this point. The literature review is conducted by searching for relevant academic research papers related to sustainability reporting, sustainability disclosures, sustainability in textile industry and sustainability in the EU. As stated earlier, there are many definitions and terms within sustainability reporting which explains the wide use of different keywords. Additionally, official websites of European institutions and foundations are used to find the most recent information regarding sustainability standards since many of them are currently developing and being constantly updated. For the example company section, the annual reports and sustainability reviews of Marimekko are used as a source for information.

The rest of the thesis is structured as follows. After the introduction, section 2 will provide a historical overview of sustainability reporting and present the characteristics of the textile industry to better understand the fundamentals of the topic. The historical overview of sustainability reporting is conducted by summarizing the key milestones in the area. Section 3 reviews the past development of sustainability reporting in the textile industry, followed by a review of the present state of sustainability disclosures in section 4. Section 5 presents future trends and challenges associated with sustainability reporting in the textile industry. Finally, section 6 provides an example of sustainability reporting in a European textile company. At the end of the thesis, I will discuss how sustainability disclosures have evolved in the light of the previous sections and what is anticipated in the future.

2 Background

To understand, how sustainability disclosures have evolved, it is essential to define the background for sustainability reporting and the past of these disclosures. Thus, the background section will overview the key milestones in sustainability reporting in a chronological order up to this date by reviewing relevant literature and sustainability disclosure regulations, frameworks, and standards applicable to the European textile industry. Additionally, this section will provide an overview of the characteristics of the textile industry in the EU.

2.1 Historical Overview of Sustainability Reporting

Although sustainability reporting is a contemporary topic, the concept of sustainability has been around since the mid-20th century (Gokten et al. 2020). However, the evolvement of sustainability disclosures that affect the current state covers roughly the past 20 years. Moreover, as sustainability reporting is currently at a major turning point, looking at the time before the 21st century is not as relevant. Establishing the Global Reporting Initiative (GRI) was crucial for the standardization of sustainability within financial reporting (Larrinaga and Bebbington, 2021), and therefore, the relevant history of sustainability reporting dates to the founding of the GRI in 1997. The initial release of the GRI Guidelines in 2000, established "the first global framework for sustainability reporting" (GRI, n.d.).

In the EU, CSR first received attention in the Lisbon Summit of the European Council in 2000 where it was announced: "CSR can make a contribution towards achieving the strategic goal of becoming the most competitive and dynamic knowledge-based economy (referring to the EU) in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (Camilleri, 2015; Eurofound, 2003). The Lisbon Strategy was then supplemented by the Gothenburg Sustainability Strategy[1] in 2001 which became the first strategic goal for sustainable development in the EU (Camilleri, 2015). Over the last two decades the strategy in the EU has evolved from guidelines to legally binding climate targets[2] and all 27 EU Member States have pledged to transform Europe into the first climate neutral continent by 2050 as part of The European Green Deal introduced in 2019 (European Commission, 2019).

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[1]Gothenburg Sustainability Strategy was the first EU Sustainable Development Strategy proposed by the European Commission. The aim of the strategy was to initiate "development that will enable the EU to achieve economic growth, greater social cohesion, and a better environment with the focus on e.g., climate change, public health, poverty, social exclusion as well as management of natural resources" (EUR-Lex, 2009).

[2]EU's legally binding climate targets include "emissions reduction targets across a broad range of sectors, a target to boost natural carbon sinks, an updated emissions trading system to cap emissions, put a price on pollution and generate investments in the green transition, and social support for citizens and small businesses" (European Commission, n.d.).

In the EU, the standardization period of sustainability reporting accelerated in 2014 as the EU introduced the Directive 2014/95/EU on non-financial reporting. The Non-Financial Reporting Directive (NFRD) can be considered as the starting point for sustainability reporting in the EU (EUR-Lex, 2014). The purpose of the NFRD is to mandate large EU-based listed companies, employing over 500 people, to report non-financial information regarding their operational methods and the management of social and environmental challenges from the financial year 2017 onwards (European Commission, n.d.). As a result, approximately 11,700 European companies now comply with the non-financial reporting requirements (Stancheva-Todorova, 2022).

2015 was an important year in terms of sustainability both in Europe and worldwide. The United Nations (UN) published the UN 2030 Agenda for Sustainable Development by announcing the 17 Sustainable Development Goals (SDGs), and contemporaneously, the Paris Agreement on Climate Change was adopted. The events are widely considered a turning point in society's perspective on the challenges arising from climate change and can be considered a spark for sustainable development (Hummel and Jobst, 2023).

Another significant phase in 2015 was the founding of the Taskforce for Climate-Related Financial Disclosures (TCFD) by the Financial Stability Board (FSB), which centered the focus of financial reporting on climate change, highlighting its impact on companies' current and future financial performance (European Commission, n.d.). TCFD (n.d.) stated that climate change poses a financial risk to the worldwide economy. Thus, these disclosures have aimed to provide a basis for climate-related reporting for companies to create "voluntary, consistent climate-related financial risk disclosures" when reporting information to stakeholders (TCFD, n.d.).

One of the most significant steps in the global sustainability reporting landscape happened in 2016 when the GRI's Sustainability Reporting Guidelines transitioned into GRI Standards together with the establishment of the Global Sustainability Standards Board (GSSB) (Stancheva-Todorova, 2022). The GRI Standards became the first global standards for sustainability reporting which have been the most commonly used standards worldwide up to this day (Stancheva-Todorova, 2022). According to GRI databases, the quantity of companies releasing sustainability reports worldwide has increased from approximately 44 in 2000 to more than 13 000 in 2019 (Larrinaga and Bebbington, 2021). This increase highlights the permanent impact of both the GRI reporting guidelines and the GRI standards on the development of sustainability reporting. Moreover, 78% of the 250 largest global companies across 58 countries in 2022 reported on sustainability in accordance with the GRI standards (KPMG, 2022).

In 2020, the IFRS Foundation emphasized the need for a better global framework for sustainability reporting to ensure that reported information is comparable, and to simplify reporting procedures for companies (IFRS, 2020). Furthermore, standard-setters such as the GRI and the Sustainability Accounting Standards Board (SASB) declared their intention to collaborate on achieving comprehensive corporate reporting (Hummel and Jobst, 2023).

An important international step towards a more comprehensive global baseline of sustainability disclosures was the establishment of the International Sustainability Standards Board (ISSB) by the IFRS Foundation in 2021, which is dedicated to developing the IFRS sustainability disclosure standards (Hummel and Jobst, 2023). One of the reasons behind the creation of ISSB was a response for the increasing demand of transparency, reliability, and comparability in reporting on climate and other ESG matters (Stancheva-Todorova, 2022). The intention of ISSB is to use the TCFD and other existing frameworks as the foundation for its initiatives (TCFD, n.d.). In 2022, the ISSB published its first set of exposure drafts, IFRS S1 and IFRS S2 (IFRS Foundation, 2022), which are presented and discussed further in section 5.

Previous literature has repeatedly criticized the NFRD for having requirements that lack specific information that companies need to disclose in their sustainability reports (Hummel and Jobst, 2023). Additionally, the European Commission has also noted limitations in the directive regarding comparability and consistency of the sustainability information disclosed (European Commission, n.d.). To address the deficiencies in the NFRD, the European Parliament and the EU Council issued a proposal for a new Corporate Sustainability Reporting Directive (CSRD) in 2022 with the goal of bringing sustainability reporting to the level of financial reporting eventually (EFRAG, 2022; European Commission, n.d.). Since the CSRD is in the hands of the European Commission, the Commission requested the European Financial Reporting Advisory Group (EFRAG) to develop the draft standards. EFRAG served as an advisor to the European Commission regarding the endorsement of IFRS Standards (EFRAG, 2021).

On 5 January 2023, the CSRD was enforced and will begin to replace the NFRD from financial year 2024 onwards affecting reports published in 2025 (European Commission, n.d.). The transition to CSRD will extensively increase the number of companies in the scope of sustainability reporting. The CSRD requires more detailed reporting, including the responsibility to adhere to European Sustainability Reporting Standards (ESRS), incorporation of sustainability disclosures in the management reports, a requirement for external assurance, and digital tagging of the disclosed information (Hummel and Jobst, 2023). The first set of ESRS was adopted by the European Commission in July 2023 (EFRAG, n.d.). The CSRD will be further discussed in sections 4 and 5.

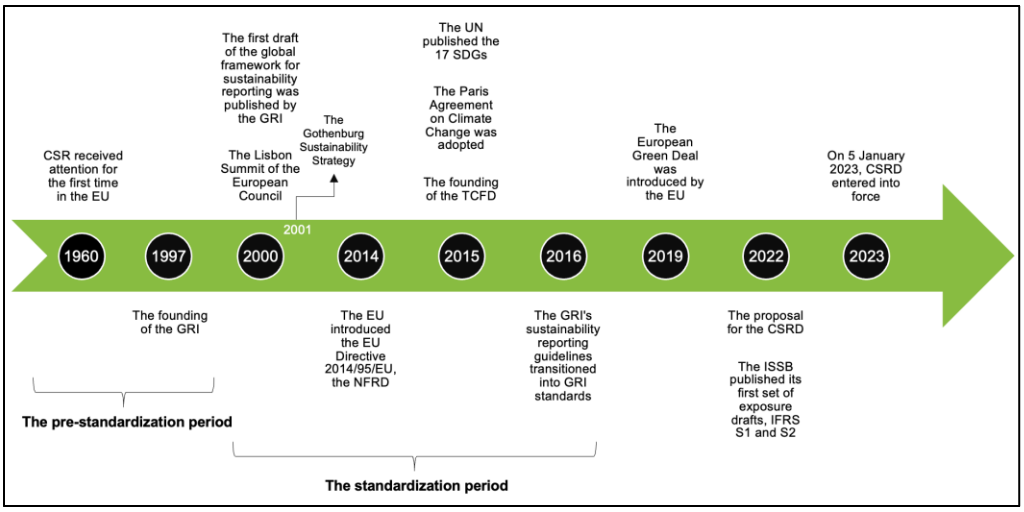

Table 1: Timeline of sustainability reporting in the EU from 1960 to 2023

2.2 Characteristics of the European Textile Industry

The scope of the thesis focuses on the textile industry in the EU and thus, this section provides an overview of the characteristics of the EU textile industry. In this thesis, the EU refers to EU27, the 27 Member States of the European Union. In the EU, the textile industry is often defined together with the clothing industry as the T&C Industry (European Commission, n.d.), and therefore, the terms T&C industry and textile industry will be used interchangeably.

In accordance with the European Classification of Economic Activities (NACE Rev. 2), the textile and clothing industry consists of two major divisions under the division Manufacturing (C): "Manufacture of textiles" (C13) and "Manufacture of wearing apparel" (C14) (Román-Collado et al. 2023; Eurostat, 2008). In their paper, Stengg (2001) also defines the textile industry together with the clothing industry (T&C industry) to comprise the following activities: "the treatment of raw materials i.e., the preparation or production of various textile fibres, the production of knitted and woven fabrics, finishing activities such as bleaching, printing and dyeing followed by the manufacturing and transformation of fabrics into products such as garments, carpets, home textiles and industrial textiles." In the EU T&C Industry, approximately 67% of the companies produce clothing and the rest (33%) are driven to produce textiles (EURATEX, 2022).

According to the estimate of the European Apparel and Textile Confederation (EURATEX, 2022), the T&C Industry's turnover in the EU region amounted to 147 billion euros in 2021. Additionally, EURATEX (2022) states that the EU is the world's second largest exporter in the T&C Industry, after China, accounting for 58 billion euros worth of exports. The industry covers approximately 143 000 companies that employ 1.3 million people (EURATEX, 2022). These numbers from 2021 indicate, how important and vibrant the industry in question is. The industry not only employs millions of people worldwide and generates significant revenues, but also touches almost every human being everywhere (The Ellen MacArthur Foundation, 2017).

While being one of the most important industries, the textile industry is also ranked among the most polluting sectors in the world (Boström and Micheletti, 2016). The T&C industry has a global environmental impact causing substantial harm to water, land, and air (Román-Collado et al. 2023; European Parliament, 2023). The textile industry has gained recognition throughout its history for entering emerging markets because of its globally extending supply chain and sourcing practices, and the industry's labour-intensive nature (Garcia-Torres et al. 2017). Due to the long supply chains, from "production of raw materials, manufacturing, transport and distribution to consumer behaviour", the amount of energy and water consumed is substantial (European Parliament, 2020). The main energy source in the industry is fossil energy which supplies approximately 80% in the EU (European Parliament, 2020). In addition, the industry is accountable for 20% of pollution in industrial wastewater (European Parliament, 2023). The whole industry generates approximately 1.2 billion tonnes of Co2 equivalent, contributing to around 10% of greenhouse gas (GHG) emissions worldwide (European Parliament, 2020). Due to these reasons, sustainability issues within the textile industry have received significant attention.

The textile industry is divided into several different sub-categories of which fast fashion is worth mentioning due to its complex supply chains and wide range of sustainability issues (Garcia-Torres et al. 2017). In the textile industry, especially fast fashion is in the spotlight of social pressure because of its "high volume, rapid lead times and low prices", which further emphasizes the sustainability-related challenges in the sector (Garcia-Torres et al. 2017; Caro and Martínez-de-Albéniz, 2015). In addition to the environmental issues, the industry faces issues related to health and working conditions of employees (Garcia-Torres et al. 2017). Manufacturing of textiles and clothing is a labour-intensive industry, and these companies rarely own their own manufacturing facilities (Jestratijevic et al. 2020). Instead, many European companies have relocated their manufacturing to developing countries due to the low labour costs (Jestratijevic et al. 2020).

Over the past two decades the production of textiles and sales of clothing have nearly doubled (Textile Exchange, 2021), meanwhile the average lifespan of clothes has decreased more than a third. Durable products are crucial for fostering sustainable development in the textile industry and thus, extending the lifespan of clothing and textiles has the potential of reducing the emissions in the industry by up to 44% (The Ellen MacArthur Foundation, 2017).

The vision for the European textile industry according to the European Commission is to “move towards a circular business model, fully focused on sustainability and transparency, without forgetting to look at the resilience of the sector in a global competitive environment” (EURATEX, 2022). To achieve their vision, the European Commission adopted the new action plan for circular economy in 2020 and the “EU Strategy for Sustainable and Circular Textiles” is part of it (European Commission, n.d.). The strategy aims to address the issues related to “the materials used in textiles, greenwashing, recycling of clothes, the amount of waste produced, responsibility along the value chain and the respect of social rights” (European Commission, n.d.).

3 Past Development of Sustainability Reporting in the Textile Industry

Regardless of the significantly negative environmental and social implications related to the textile industry, there is still a scarce amount of literature on how textile companies disclose their sustainability practices (Feng and Ngai, 2020). This section analyzes the past development of sustainability disclosures in the EU textile industry by reviewing the impact of sustainability reporting practices presented in section 2.

A call for action, regarding the industry’s sustainability practices, was the major accident in 2013 in Bangladesh, when the Rana Plaza factory collapsed killing 1134 garment workers (Fashion Revolution, 2017; Jestratijevic et al. 2020). Additionally, several similar incidents in the past years have drawn attention to the issues related to the safety and working conditions of employees in the manufacturing facilities of textile companies (Yadlapalli and Rahman, 2016). Due to this, textile companies have been criticized by different stakeholders for lack of responsibility and transparency of the manufacturing of their products (Fraser and van der Ven, 2022).

The EU emphasizes that to "fully meet their CSR, enterprises should have in place a process to integrate social, environmental, ethical, human rights, and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders" (European Commission, n.d.). The European Commission's focus on incorporating non-financial standards into companies' core values proves how sustainability reporting serves an important role in communicating with stakeholders. For textile companies this is largely important, as they tend to be present in multiple parts of the value chain associated with sustainability risks (Garcia-Torres et al. 2017).

Prior to the GRI standards being published in 2016, companies reported according to the international and standardized GRI guidelines (Luque-Vílchez et al. 2023). The GRI guidelines were developed and improved gradually by first updating from G1 guidelines to G2 guidelines in 2002 (GRI, n.d.). The growing demand for GRI reporting among organizations resulted in more extensive and improved guidelines such as the G3 in 2006 followed by G4 in 2013 (GRI, n.d.). Companies used these guidelines to disclose information on their sustainability impacts through the companies' websites or through either integrated or standalone sustainability reports (Jestratijevic et al. 2022). The guidelines were designed to be used across different sectors, however, the industry-specific guidelines "Apparel and Footwear Sector Supplement" were intended for the apparel industry (Yadlapalli and Rahman, 2016). The guidelines contained key performance indicators (KPIs) specific to the textile industry, such as information on "raw material sourcing, innovation, biodiversity, and life cycle assessment" (GRI, 2015).

A study by Yadlapalli and Rahman (2016) analyzed how European apparel companies disclosed information on their social sustainability according to the social category of GRI guidelines. The social category consists of disclosures on "labour practices, human rights, society, and product responsibility" (GRI, 2015). The results of the study indicated that only a few companies were reporting comprehensively on their social actions (Yadlapalli and Rahman, 2016). Although sustainability reporting has concerned large companies and they have been more likely to publish reports, there was no prominent difference in the level of disclosure between large companies, and small and medium sized enterprises (SMEs) (Yadlapalli and Rahman, 2016).

The shift from GRI guidelines to GRI standards in 2016 has evidently had an accelerating effect on sustainability reporting among companies. Before the adoption of GRI standards, Lucchini and Moisello (2017) noted that despite the GRI guidelines being the most widely used, companies have nowhere near enough incorporated them globally and thoroughly and hence, shifting from voluntary to mandatory disclosures could significantly expedite the development of sustainability reporting (Lucchini and Moisello, 2017). After the continuous improvement of GRI guidelines and finally the establishment of the GRI standards in 2016, the materiality, transparency and comparability of reporting has improved (Luque-Vilchez et al. 2023). A concrete example of the GRI standards' effect and improvement of reporting is seen in section 6.

After the establishment of the GRI, a growing number of companies have disclosed information on a voluntary basis (UN Environment Programme, n.d.). In the past, the companies have most commonly used the GRI framework for reporting on sustainability. Since there have not been mandatory reporting requirements in the past, the framework of the UN Sustainable Development Goals (SDGs) has acted as globally shared soft regulations (Garcia-Torres et al. 2017). In 2015, the GRI adopted the SDG framework which includes a target for corporate transparency (GRI, n.d.). Today, many companies, especially in the textile industry, use the SDGs as frameworks in their sustainability reports (Marimekko, 2022).

The GRI standards have been widely adopted by many European, especially larger, textile companies, however, these standards have been criticized for failing to provide an actual effect on improving sustainability in supply chains (Garcia-Torres et al. 2017). Especially in the T&C industry, sustainability is often viewed as "greenwashing" and lacking consistency between disclosed information and actual sustainability actions taken (Yu et al. 2020). Greenwashing in sustainability reporting refers to when companies disclose information on their sustainable actions, however, the actual sustainable performance is not aligned with the disclosures (Yu et al. 2020). According to Yu et al. (2020) the present issues stem from the facts that sustainability reports lack both global baseline for reporting and assurance.

Until now, another problem with the existing reporting standards has been the lack of industry specific requirements (Garcia-Torres et al. 2017). However, the companies are not the only ones to blame for this since the standards per se have been criticised for being too vague without concrete requirements (Garcia-Torres et al. 2017). An industry such as the textile industry that relies heavily on global supply chains should unquestionably have industry-specific disclosures to address its sustainability problems accordingly. This will help companies to disclose information on sustainability issues relevant for their specific industry (IFRS Foundation, 2023). Industry-specific disclosures also better meet the expectations of stakeholders, as these disclosures would facilitate improved comparability among companies (IFRS Foundation, 2023).

One of the challenges at the intersection of European sustainability reporting and textile industry has been that, until now, sustainability reporting has only been required from larger publicly listed companies (European Commission, n.d.), whereas the majority of companies in the textile industry are SMEs (European Commission, 2021) with only few publicly traded companies such as Inditex and H&M (Fraser and van der Ven, 2022). Measured by the number of employees, 99.8% of the companies in T&C industry are SMEs, with large companies, defined by having over 250 employees, constituting only 0.2% (EURATEX, 2022). The SMEs contribute dominantly to the global economy, for example, in the EU, SMEs contribute approximately 60% of gross value added (UN Environment Programme, n.d.). This raises a problem since the SMEs are not in the scope of mandatory sustainability reporting (UN Environment Programme, n.d.).

Although European companies publish sustainability reports more extensively compared to companies in other continents, the extent of their social disclosures has thus far remained relatively low (Yadlapalli and Rahman, 2016). As an example, Garcia-Torres et al. (2017) found that Inditex and H&M are examples of companies that have exerted considerable efforts to disclose information about their production impacts, however, they provide minimal information on their supply chain practises that were for long "secret or unknown".

To increase transparency regarding how companies in the fashion industry disclose information on their sustainability actions, the Fashion Revolution Foundation in the UK introduced the Fashion Transparency Index (FTI) in 2017 (Fashion Revolution, 2023). The index ranks "250 of the world's largest fashion brands and retailers according to the level of information they disclose on human rights and environmental policies, practices, and impacts, across their operations and supply chains on the company's website, or in their annual or sustainability reports" (Jestratijevic et al. 2020; FTI, 2017). Jestratijevic et al. (2020) used FTI as a method to investigate "how much sustainability-related information are the fashion brands publicly disclosing" in 2017 and they found that even the companies demonstrating the highest performance would need to double their efforts to achieve full transparency.

4 Present State of Sustainability Disclosures

As we have seen when analysing the evolvement of sustainability reporting in the textile industry, there have been multiple key milestones throughout its history, and the current state can be considered the last milestone that we are, for now, aware of. While companies in the textile industry have initiated certain measures to better disclose their dedication to sustainability, the present state of disclosures underscores a topic that undoubtedly requires more comprehensive academic scrutiny (Jestratijevic et al. 2020). To date, there has been limited exploration of sustainability-related disclosures within the textile industry (Jestratijevic et al. 2020).

We are currently at the turning point of sustainability reporting and the current sustainability disclosures at hand are anticipated to have a significant influence on companies' reporting practises within the textile industry in the future (Indyk, 2022). Thus, the present state does not yet differ much from the past since European companies are still mostly reporting in accordance with the GRI and the NFRD. Until the beginning of the year 2024, the situation remains unchanged. In the beginning of 2023, the CSRD directive entered into force and the expansion of the NFRD to the CSRD will increase the number of companies mandated to publish sustainability reports (Odobaša and Marošević, 2023.) Starting from the fiscal year 2024, the number will rise from approximately 15 000 to 50 000 entities across the EU (KPMG, 2023). In 2014, approximately 11 000 companies in the EU were in the scope of reporting, which indicates a major incrementation over the past decade (Deloitte, 2022).

Thus far, NFRD has acted as the set of main reporting rules for companies in the EU and will remain so until the CSRD is applied (European Commission, n.d.). The NFRD has required companies to disclose information on "environmental matters, social matters and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards" (European Commission, n.d.). These disclosures have been required from large, listed companies with over 500 employees (Deloitte, 2022).

The transition to CSRD will happen on a phased basis depending on the characteristics of companies (Deloitte, 2022). Although the actual implementation will occur in 2024, the CSRD is partly reviewed in this section as the CSRD entered into force in 2023, the year of writing this thesis. The CSRD offers mandatory sustainability reporting standards for companies in the EU. The directive will require companies to disclose information such as the companies' strategy's alignment with the European Green Deal -objective, science-based targets, policies, negative effects related to coal/oil/gas -activities, value chains, and additionally, how the information disclosed is identified prior to reporting (Deloitte, 2022). The CSRD will first mandate all listed companies employing more than 500 people to report on the year 2024 in their 2025 report and starting from 2025 large non-listed companies that exceed certain requirements will also be in the scope of CSRD

(Deloitte, 2022). Large companies will be determined based on their balance sheet total, net revenue, and average number of employees. If the company has a balance sheet total of over 20 million euros, over 40 million euros in net revenue, or more than 250 employees during the financial year, the company is required to report if it exceeds 2/3 of the mentioned measures (Deloitte, 2022).

In 2026, reporting on CSRD will also become mandatory for SMEs, however, through simplified reporting (Deloitte, 2022). Through mandatory reporting in SMEs, the scope of companies reporting in the textile industry will certainly increase. By that, the CSRD is anticipated to also include sector specific reporting standards which will be published in 2024 (Deloitte, 2022). The complete timeline according to currently available information for implementation of the CSRD is also presented in table 2 in section 5.

A challenge with current disclosures is that, except for the NFRD, sustainability reporting is mostly done on voluntary basis, which has led to companies choosing the kind of information to disclose (Fisch, 2019). Consequently, the level of disclosures differs significantly hindering effective comparison among companies (Fisch, 2019). Since sustainability reporting is often identified as “non-financial” reporting and compared to other financial reporting information, it lacks clear regulations regarding the location and the format of the report (Fisch, 2019). Thus, sustainability reports differ significantly in quality and assurance. These have been the present challenges concerning sustainability disclosures which have resulted in compromising their efficiency as an instrument for enhancing companies’ accountability (Fisch, 2019.)

5 Future Trends and Challenges of Sustainability Reporting

As sustainability reporting is on the verge of a major transformation, it is inherent to analyze what the future will hold. Although the changes and the upcoming trends are anticipated to be beneficial, there are also possible challenges to be considered. For instance, the swift evolvement of sustainability reporting within the EU, coupled with the varied objectives and requirements, pose a growing challenge for both organizational decision-makers and stakeholders to keep track of regulatory changes and reporting standards (Hummel and Jobst, 2023). It is difficult to predict the future of the new regulations and standards, and the development brought by these, however, with the help of existing literature we can roughly analyze what is anticipated in the future in this area.

The past and present situations imply that although sustainability reporting has evolved, there is still much to be developed in terms of sustainability disclosures (Fisch, 2019), especially in the textile industry (Garcia-Torres et al. 2017). A positive thing that sheds light on the development is that the anticipated disclosures will, at last, include more industry-specific measures (KPMG, 2023). Furthermore, since the NFRD and GRI both lack specificity in their standards, it could be expected that the direction with the new regulatory changes could ensure improvement in sustainability reporting (Indyk, 2022).

The main future frameworks for sustainability reporting in the EU will be the GRI standards in parallel with the upcoming IFRS standards and the CSRD. In 2023, TCFD completed its mission and as a result dispersed (TCFD, n.d.). By the end of 2022, TCFD's number of supporters exceeded 4000 organizations (TCFD, n.d.). The FSB delegated its responsibility of the further development of companies' climate-related disclosures to the IFRS Foundation (TCFD, n.d.), and the climate-related disclosures will be covered under the upcoming IFRS S2 standard.

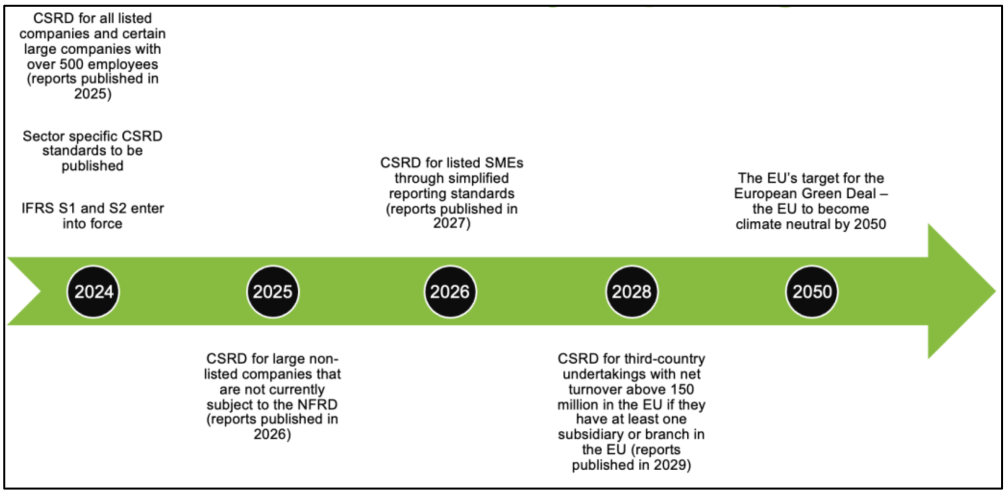

Table 2: Timeline of sustainability reporting in the EU from 2024 onwards (CSRD data: Deloitte, 2022)

5.1 Anticipated Sustainability Disclosures

In June 2023, the ISSB issued its first global sustainability disclosure standards, IFRS S1 and IFRS S2, which marked "a new era of sustainability disclosures worldwide" (IFRS, 2023) and are expected to result in significant alterations in financial reporting (Indyk, 2022). The aim of these standards is to bolster the reliability and assurance in disclosures related to sustainability, providing valuable information stakeholders and especially investors (IFRS, 2023). For the first time in the history of sustainability reporting, these disclosures will strive to establish a standardized language for reporting the effects of climate-related risks aiming to create a universal framework for sustainability-related disclosures (IFRS, 2023).

Both standards completely integrate the framework established by the TCFD (IFRS, 2023). Furthermore, the sustainability-related information disclosed according to the standards is intended to be connected to companies' financial statements within the same reporting package (KPMG, 2023). The standards are effective for reporting from 2024 onwards together with the financial reports published in 2025 (IFRS, 2023). The standards are designed to be used together with accounting requirement and thus, they are constructed based on the principles that form the IFRS Accounting Standards, which are already required by over 140 jurisdictions (IFRS, 2023).

The next two sub-sections present the new IFRS standards in detail and review them in the context of the textile industry. Main emphasis is on the IFRS S2 because the standard includes industry-based requirements that will affect the T&C industry.

5.1.1 IFRS S1

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information outlines disclosure requirements crafted to facilitate companies in communications with investors regarding the short-, medium-, and long-term sustainability related risks and opportunities they encounter across an entity's value chain (IFRS, 2023). In other words, the S1 presents the general requirements for disclosure of sustainability-related financial information providing the core framework which is then supplemented by the IFRS S2 (PWC, 2023). The standards shall be applied together with the IFRS S2 as well as other future standards released by the ISSB (IFRS, 2023).

5.1.2 IFRS S2

IFRS S2 Climate-related Disclosures, establishes specific climate-related disclosures and is intended for use together with the IFRS S1. The IFRS S2 includes "industry-based disclosure requirements for identifying, measuring, and disclosing information related to significant climate-related risks and opportunities associated with particular industries." (IFRS, 2023). The industry-specific disclosure requirements are based on the SASB Standards (IFRS, 2023). The ISSB has published materials by industry so that different entities can identify the requirements applicable for their business model (ISSB, 2023).

According to the IFRS (2022), the textile industry would be classified under the Consumer Goods -sector, Volume B1 – Apparel, Accessories and Footwear, which includes companies involved in the design, manufacturing, wholesaling, and retailing of various products, such as clothing (IFRS Exposure Draft, 2022). Since the products are mostly manufactured in the emerging markets, companies primarily focus on activities like wholesaling and supply chain management. The sustainability disclosure topics and metrics cover mainly the topic of raw materials sourcing and its related metrics (IFRS, 2023).

The industry is dependent on variety of raw materials as essential components to produce finished goods. Thus, the industry's ability to acquire materials is influenced by sustainability factors such as climate change, land use resource scarcity, and conflict in regions where the supply chains operate (IFRS, 2023). The complex supply chains complicate the management of potential issues associated with the supply chains because the supply chains often lack transparency. Challenges related to this can lead to reduced margins, constrained revenue growth and higher costs of capital (IFRS, 2023). Therefore, it is paramount for the companies to address the risks associated with the sourcing of materials and supply chains by engaging more with suppliers and enhancing transparency (IFRS, 2022).

According to the IFRS S2 (2022), the companies must disclose "Description of environmental and social risks associated with sourcing priority raw materials" and "Percentage of raw materials third-party certified to a an environmental and/or social sustainability standard, by standard". Additionally, one activity metric is to disclose the number or Tier 1 suppliers and suppliers beyond Tier 1 (IFRS, 2023). The Tier 1 suppliers are defined as "suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities) and suppliers beyond that include the key suppliers to the entity's Tier 1 suppliers, for example, providers of raw materials extraction (e.g., mills, washing facilities, embroiderers etc.) (IFRS, 2023). Furthermore, the entity must disclose if any supplier data beyond Tier 1 is associated with any uncertainty (IFRS, 2022).

5.2 Emerging Challenges for Sustainability Reporting

Despite the new regulations and standards in place, there remain some emerging challenges. For now, one of the key challenges faced by stakeholders has been the lack of access to quality and comparable sustainability information. The challenge is addressed by the developments of the ISSB which are expected to be game-changing for global sustainability reporting (Grant Thornton, 2023).

In the future, sustainability information might be easier to disclose, however, the real challenge is how sustainability will be implemented into the complex supply chains in textile companies. The disparity between disclosing sustainability-related information and actual implementation of sustainability practices is especially concerning in industries that are dependent on global supply chains (Garcia-Torres et al. 2017).

The new standards imply that companies will have to prepare for a complete ESG integration into their business strategies (Indyk, 2022). Considering the process that has occurred until now, this signifies a major transformation for most companies since they will have to build sustainability-related financial reporting from a rudimentary basis (Indyk, 2022). Thus, the transformation will be easier for the companies that have voluntarily partaken in sustainability reporting. For some companies the challenge comes from transitioning to new frameworks, like the companies that have already reported on GRI and NFRD. As the requirements are much broader than before, measuring climate-related risks and opportunities and disclosing them in financial statements will be a challenge for many companies (Indyk, 2022).

A remaining challenge with many textile companies, especially with fast fashion companies, is that they report information in a manner that appeases stakeholders, highlighting the strengths of their actions. Whereas they choose not to report actions in which they have not succeeded. A concern is that, even with increased sustainability requirements, the industry might not succeed in becoming sustainable with all the environmental and social issues around it.

In summary, it is largely dependent on industry how extensive the impact of these new developments will be. However, for an industry like the textile industry which has a substantial impact on the environment, the updated reporting requirements will have a major implication on the core businesses. Once IFRS S1 and S2, as well as the CSRD will be enforced, they will be critical for the industry. This is changing the behaviour of entities in the way the operate and interact with their suppliers, social environment, and stakeholders.

6 Textile Company as an Example

6.1 Overview of the Company

This section provides an example of sustainability reporting in a European textile company. A study by Yadlapalli and Rahman (2016) found that especially apparel companies in Germany, Switzerland, Finland, and the Netherlands are publishing sustainability reports, making Europe a leader in sustainability reporting of apparel companies. From these countries, Finland is a great example as Finland is aiming to be "a forerunner in sustainable and knowledge-based textile industry by 2035" (Kamppuri et al. 2021). The company used as an example is Marimekko, a leading Finnish textile and clothing company established in 1951 (Marimekko, n.d.). Marimekko's goal is to lead in the development of more sustainable products and practises (Marimekko, 2023).

Over the years, the company has expanded globally with approximately 150 stores worldwide and online stores in 35 countries (Marimekko, 2022). Marimekko group's net sales amounted to 167 million euros in 2022, and the company had 460 employees (Marimekko, 2022). In 1999, Marimekko Corporation was listed on Nasdaq Helsinki (Marimekko, n.d.). From the textile industry's perspective, Marimekko is considered a large company and since it is also publicly listed, it provides a great example of a company that has been mandated to report on sustainability already for several years.

Marimekko has published standalone sustainability reports annually for the past 10 years, with the first one published in 2013 and the latest in 2022 (Marimekko, 2022). Prior to 2013, Marimekko has included a sustainability section in its annual reports for several years. Additionally, the company has a separate sustainability section on their website. The analysis of Marimekko's sustainability reporting is conducted by reviewing all the published sustainability reports available on the company's website and delving into their annual reports of the time before sustainability reports.

6.2 Early Stage of Sustainability Reporting

The first available annual report on their website is from 2000, and although at that time Marimekko had already existed for nearly 50 years and CSR had been around for several decades, the annual report did not contain any kind of sustainability-related information (Marimekko, 2000). The GRI guidelines were established in 2000, however, the annual reports from 2000 to 2002 did not contain anything related to sustainability or CSR. In

2003, the phrases “social responsibility” and “sustainable future” appeared in the annual report for the first time. The president of Marimekko at the time stated that “Marimekko’s strategy is to grow and develop business operations, building a sustainable future” (Marimekko, 2003). In that annual report, one full page was dedicated to social responsibility with a section for the environment, covering energy, waste, and sorting. Moreover, in the 2003 annual report, Marimekko defined responsibility for the environment and nature as “one of the most important principles in Marimekko’s operations” (Marimekko, 2003).

In 2004, the company stated (Marimekko, 2004) for the first time that it is monitoring its product supply chains and requiring its partners to implement social responsibility in their operations. The level of sustainability disclosures in the annual report remained unchanged until 2007, when slight progress towards improved responsible practises and sustainability reporting was observed. In the annual report (2007), Marimekko initiated a project to expand their social responsibility by a group-wide management system. The motive for this emerged from the stakeholders’ demand for both financial and non-financial indicators to better evaluate the company’s performance, with Marimekko wanting to meet the expectations of stakeholders (Marimekko, 2007).

In their social responsibility section in 2007, Marimekko shed more light on their manufacturing and suppliers. At the time, most of the foreign suppliers were located in the EU with a few subcontractors in developing countries. Growing globalisation was expected to impact the international trade and the complexity of supply chains and thus, Marimekko emphasized (2007) that ensuring transparency across the supply chains will grow in significance. This shows, that already then Marimekko was aware of the potential issues related to supply chains and concentrated more on enhancing transparency (Marimekko, 2007). In 2008, the company determined management of supply chains as a crucial part of developing social responsibility (Marimekko, 2008).

2008 was the beginning of Marimekko’s reporting on social responsibility and “the general principles of Marimekko’s CSR” were approved by the Marimekko Board of Directors that same year (Marimekko, 2008). The 2008 annual report provided the most extensive report on social responsibility compared to the previous years, covering environmental, health, and safety issues. The annual report was the first one to mention the GRI, since the group started to apply the GRI reporting framework’s G3 guidelines. The key figures for social responsibility disclosed were both environmental responsibility indicators such as consumptions of power, water and natural gas, sourcing, and certified suppliers as well as social responsibility indicators (Marimekko, 2008).

In 2009, Marimekko used the term corporate social responsibility (CSR) instead of social responsibility for the first time in their annual report (Marimekko, 2009). That year the company focused specifically on training its employees in CSR matters. Marimekko (2009) continued to pay attention to its sourcing processes, and especially on the challenges related to management and transparency of supply chains. In their report (Marimekko, 2009), the company stated that in-house production had decreased since the manufacturing of products was increasingly subcontracted. In 2010, 36% of the products sold were manufactured in Finland, 47% in other EU countries and 17% outside EU (Marimekko, 2010).

As according to the GRI guidelines, Marimekko's GRI reporting complied with the financial, social, and environmental responsibility divisions. Marimekko considers adherence to laws and regulations, along with meeting the expectations of its main stakeholders as fundamental principles for reporting (Marimekko, 2010). In 2010, Marimekko expanded their social responsibility group, and the company assigned their first CSR Manager (Marimekko, 2010). Marimekko has every year continued to further develop their long-term goal of the CSR management system since its establishment and the CSR part in annual reports has expanded in length and included a more comprehensive sustainability review (Marimekko, 2011). In 2011, the company also started to include CSR on their website to further improve their communication on the matter. In 2012, the company announced that their goal for the upcoming years is to integrate CSR profoundly within Marimekko's strategic framework (Marimekko, 2012).

6.3 Strong Development of Sustainability Reporting Practises

2013 was the turning point in Marimekko's sustainability reporting when the company published its first standalone sustainability review. The first sustainability report also applied the GRI G4 guidelines for the first time (Marimekko, 2013). The key environmental indicators were much more comprehensive and detailed compared to the previous years. Although the 2013 sustainability report (Marimekko, 2013) also showed the numbers from 2011 and 2012, the disclosure on emissions was broader than before including specific measures such as Scope 1 and Scope 2 emissions. The key figures on social responsibility had remained more unchanged (Marimekko, 2013). According to the GRI content index in the report, only part of the GRI guidelines were included completely and for example economic responsibility, environment and social responsibility were included only partly. However, the company admitted (Marimekko, 2013) that the report was not completely constructed according to the GRI G4

Guidelines, which explained the lack of some indicators. Marimekko (2013) stated that the information for the report had been based on the information available at the time and that the company's sustainability reporting was still developing.

The reporting in 2014 closely resembled the year 2013 with no major changes. 2015 was an important year in terms of sustainability not only for Marimekko but also in general. Sustainability, sustainable development, and climate change were major topics both in Finland and worldwide, since the UN SDGs were established, and the Paris Agreement on Climate Change was adopted. These new international targets had a major impact on companies, including Marimekko. Marimekko considered 2015 as a "year of renewal" since the company launched its new sustainability strategy (Marimekko, 2015). The new strategy was aligned with stakeholders' expectations and megatrends surrounding the industry.

Still in 2015, the report was not completely prepared according to the GRI G4 guidelines leading to the fact that all indicators were not detailed. A challenge for the company has been the lack of information on the environmental effects of the supply chains, which has led to the company disclosing mostly information on their own operations. For example, the environmental data provided was originated only from the Helsinki factory (Marimekko, 2015).

The GRI guidelines transitioned into GRI standards in 2016, however, no major changes happened in Marimekko's reporting in 2016 and 2017. The 2018 sustainability report was Marimekko's sixth, and it was the first one to reference disclosures according to the GRI standards which were published in 2016. However, the transition from GRI guidelines to GRI standards did not result in a major visible change on Marimekko's sustainable reports. In 2018, Marimekko outlined, for the first time, its sustainability targets aligned with the UN SDGs published in 2015 (Marimekko, 2018). The report (2018) included the SDGs which were most relevant for Marimekko's sustainability.

From 2015 onwards, the environmental indicators had contained Scope 1 and Scope 2 emissions which were obtained from the "GHG Protocol calculation method scoping" (Marimekko, 2015). In 2019, Marimekko started to better map its carbon footprint and in addition to Scope 1 and 2 emissions, Scope 3 categorization was also included (Marimekko, 2019). In 2020, Marimekko introduced its new sustainability strategy and goals for 2021-2025 (Marimekko, 2020). The new strategy aims to adopt fairness and equality across the value chain by increasing transparency of operations and supply chains all the way from raw materials (Marimekko, 2020). Another one of Marimekko's key targets is to remarkably reduce GHG emissions in alignment with the Paris Agreement (Marimekko, 2020). Marimekko's own operations achieved carbon neutrality in 2020, however, the company has set goals for reducing emissions in their logistics and textile materials (Marimekko, 2020).

Further development in Marimekko's sustainability reporting practises occurred significantly in the 2021 report. The report was in accordance with the GRI Standard 2016, and a separate disclosure related to water consumption referenced the GRI Standard 2018. In addition to GRI, the 2021 report's non-financial information was published according to the NFRD (Marimekko, 2021). The NFRD was mentioned for the first time, although it was introduced in the EU already in 2014. Furthermore, the 2021 report's data covered the entire Marimekko Corporation and finally, the report included more detailed information on the company's supply chains compared to the previous reports which were lacking supply chain information (Marimekko, 2021). Problems with the sustainability reviews in the past was that GRI 4 guidelines were never adopted completely, access to information such as environmental impacts of supply chains were limited, and most data provided was only from manufacturing in Finland. Starting from 2021, the data in the reports covered the entire Marimekko group including more precise information on supply chains as well (Marimekko, 2021).

In 2021, the implementation of Marimekko's new sustainability strategy could already be partially detected especially in the growing number of environmental responsibility key figures disclosed (Marimekko, 2021). The company's reporting on energy consumption was aligned with the boundaries of Scope 1 and 2 emissions reporting, and additionally, GHG emissions reporting was aligned with the GHG Protocol covering emissions across their value chain (Marimekko, 2021). In addition to the environmental aspect of supply chains, Marimekko also emphasized the promoting of human rights, living wages, and safe working conditions in its supply chains (Marimekko, 2021).

6.4 Present State of Sustainability Reporting

Today, the latest trace of Marimekko's sustainability is based on the 2022 report. During 2022, Marimekko further increased the number of sustainable materials in its products to be aligned with the principles of the circular economy target (Marimekko, 2022). Additionally, scope 1 and 2 emissions lowered with 72% from 2019 and GHG emissions of logistics in the supply chains reduced by 40% compared to 2018 (Marimekko, 2022). To further achieve its GHG emissions related targets, Marimekko committed to the to the Science Based Targets Initiative (SBTi) to align its goals with the UN Paris Climate Agreement (Marimekko, 2022).

In 2022, Marimekko defined sustainability as one of the five strategic success factors in the company's new business strategy for 2023-2027. The recent years have indicated that determined sustainability efforts support the long-term success of Marimekko (Marimekko, 2022). The latest sustainability report from 2022 shows that Marimekko has thus far achieved many of its sustainability goals and has significantly improved its sustainability related practises and reporting throughout the years. However, the development of reporting is evidently the result of long-term work since 2003 when sustainable future was mentioned for the first time in Marimekko's annual report. In the span of around 20 years, Marimekko has evolved from publishing annual reports containing no sustainability-related information to 60-page long standalone sustainability reports.

As seen in section 3, during the past 10 years the GRI has been the most used framework for reporting and that is also evident in the case of Marimekko. The 2022 report (Marimekko, 2022) is in accordance with disclosures from the GRI Standard 2021. Progress in reporting principles has been made and the GRI content index (Marimekko, 2022) indicated that nearly all general disclosures were included completely, however, for example disclosures related to materials, energy, water and effluents, emissions, waste, child labour and supplier social assessment were included partly. Furthermore, as stated earlier SDGs are often used as frameworks in textile companies' goals and since the adoption of the SDGs, they have served as the main goal setters in Marimekko's sustainability reports to date.

Throughout the annual reports of Marimekko, one thing stood out evidently annually. Due to the increased globalisation since the beginning of 2000s, Marimekko's business landscape has extensively globalized in parallel. Hence, managing complex supply chains and its related challenges has been one of Marimekko's focus areas over the entire period of published reports. For example, many of the prior reports did not contain any detailed information on the supply chains which has largely developed to the better and providing more related data to stakeholders is one of Marimekko's main goals (Marimekko, 2022). The company stated (Marimekko, 2022) that they are striving to achieve complete transparency throughout their supply chains from raw materials to the customers. However, Marimekko noted that since on a global level the company is a minor player, Marimekko is to some extent affected by the overall progress in transparency in the textile industry (Marimekko, 2022).

Positively notable is that Marimekko has managed to keep throughout the years most of its manufacturing in the EU. Moreover, Marimekko is known as one of the only companies to have its own industrial-scale textile printing factory in the Nordics (Marimekko, 2020). Still in 2013, Marimekko manufactured almost 80% of its products in Europe, which is exceptional for this exact industry (Marimekko, 2013) that often relies on lower-cost manufacturing in, for example, developing countries. In 2022, the origin of Marimekko's products was 52% from the EU and 48% outside EU.

While Marimekko serves as a good example of a textile company reporting on sustainability, they too have room for improvement, for example in the assurance of their sustainability reports. Although the company's financial statements are audited, the sustainability reports from 2013 to 2022 were not assured by a third party (Marimekko, 2013; 2014; 2015; 2016; 2017; 2018; 2019; 2020; 2021; 2022). Despite the fact that in 2007, the company expressed the need for verifying the Annual Report's social responsibility section by a third party (Marimekko, 2007) and in the 2010 report Marimekko stated their aim is to verify them by an external party in the next 2 years (Marimekko, 2010). Extending the company's assurance practises to sustainability reports as well, could further improve the credibility of their sustainability reporting from the stakeholders' perspective. The new CSRD includes, among other matters, an increased emphasis on assurance practises (Luque-Vilchez et al. 2023), and in the future, assurance of sustainability reports will become mandatory (European Commission, 2023).

Patten and Zhao (2014) state that the content of sustainability reports is affected by many factors such as the company size, the level of ambition and the company's involvement with society. This explains Marimekko's rather extensive disclosing on sustainability information. In Finland and in the textile industry in general, Marimekko is considered a fairly large company and due to the industry, it operates in, the company is broadly involved with society both through its business model and supply chains. The level of ambition is reflected in the way Marimekko has established sustainability as a core of its business strategy. Furthermore, Marimekko defines sustainability as "one of the most significant drivers of change in the fashion and textile industry" (Marimekko, 2021) making Marimekko a leader in taking Finland towards its sustainability targets.

7 Discussion

This section reviews the ramifications of the evolvement that has happened over time and discusses what kind of potential concerns and new possibilities are associated with the future of sustainability reporting.

While accounting standards have a long history, sustainability standards have had a much shorter time frame. When looking at the past, over 20 years ago none of the current disclosures existed, making it evident that the evolution of sustainability reporting has been fast, and now the pace is accelerating even more. The implementation of the upcoming standards is approaching and the timeline for their application is considered fast from the companies' point of view. Reporting at the same time with financial statements will lead to increased pressure on the year-end reporting for companies (Grant Thornton, 2023). Thus, the adoption of these standards is not going to be easy, and a phased process is required.

Some companies, especially larger ones, have already been reporting varying sustainability metrics for years, however, for many it still lies ahead. On the contrary, some might have been slowing down on purpose because of the ambiguity of the previous standards and regulations. The future regulations do not leave room for deceleration, as the shift from voluntary to mandatory reporting is increasingly affecting a larger scope of companies in the EU (European Commission, n.d.).

Thus, now is the time for companies to implement sustainability as a core of their strategy. Moreover, sustainability reporting has rapidly become a competitive advantage for companies and the ones that have familiarized themselves with it, can certainly use it as leverage. All companies, especially their executives and board members, should start preparing for the change in reporting requirements. In addition, more sustainability resources across organizations are needed.

Stakeholders' high demand for sustainability is one of the key drivers for companies to begin reporting. The better they disclose information transparently about their actions, the better it is from the perspective of the stakeholders. A risk for textile companies especially is how their disclosed information is in line with their actual actions. However, as we have seen with well-established companies like H&M and Inditex, unfortunately despite their unsustainable actions, the companies keep growing both in revenue and popularity. The new ISSB Standards are expected to contribute to addressing the challenges of companies' "greenwashing" to help stakeholders to make better decisions based on more accurate, comparable, and transparent information (Grant Thornton, 2023).

As stated by Indyk (2022), the IFRS S1 and IFRS S2 disclosure standards are expected to result in significant changes in financial reporting. Especially challenges related to transparency in supply chains is evidently addressed by the IFRS S2. Additionally, the periodic sustainability reports published according to the CSRD standards will provide a more realistic view of the results attained in addressing the sustainability issues within the economy, and the progress made towards the goals outlined in the Paris Agreement, the UN Sustainable Development Goals, the European Green Deal and other acts to regulate the shift towards a more sustainable economy and society (Odobaša and Marošević, 2023).

One of the challenges that has surfaced as the sustainability disclosures have evolved is, how the past and future disclosures will converge into a unified global standard for sustainability reporting (Odobaša and Marošević, 2023). One factor that facilitates the convergence is that the emerging standards are built on the already existing frameworks and standards. However, since the new CSRD and the IFRS are entering into force in parallel with each other, it is difficult to estimate whether they will accelerate or further slowdown the convergence between different regulatory frameworks.

The evolvement of sustainability reporting shows, how during the past few decades sustainability reporting has expanded the scope of accounting and financial reporting, encompassing a broader area beyond solely financial information (Gokten et al. 2020). The evolvement is noticeable both in the increased amount of published sustainability reports and the improved quality of reporting (Yadlapalli and Rahman, 2016).

Rightly so, as the pressure from growing sustainability reporting demands is mounting, in addition to successful management, companies are also in charge of managing their effect on climate change. The high demand is justified, because if companies do not start paying attention to the sustainability issues, eventually businesses will start to fail in one way or another. The same way companies strive to avoid financial crises by disclosing financial information, they should also promote slowing down the on-going climate crisis with sustainability disclosures. At this rate, it is inevitable that eventually sustainability disclosures will become as important as financial disclosures are from a reporting perspective.

8 Conclusion

The thesis analysed the evolvement of sustainability disclosures in the European textile industry by reviewing the key milestones and relevant changes in sustainability reporting in the past and present, as well as the future. The literature review conducted an overview of the relevant sustainability disclosures that have been effective until this day and the upcoming ones that are expected to further develop the sustainability reporting landscape in the European textile industry. The textile company example provided a concrete example of the evolvement of sustainability disclosures during the past two decades, from 2000 to 2023.

The evolvement that has happened has shifted sustainability reporting from non-financial reporting towards a more comprehensive sustainability reporting framework consisting of several regulations and standards to address the worldwide sustainability challenges. Additionally, the content of information disclosed in sustainability reports has expanded over the years to meet the growing expectations of stakeholders, which is evidently seen in the case of Marimekko.

Sustainability reporting can greatly contribute to global sustainable development (UN Environment Programme, n.d.), however, to reach an even greater impact, sustainability disclosures require a broader adoption. Particularly, in the textile industry, further development will occur as soon as the SMEs are included in the scope of reporting (UN Environment Programme, n.d.), leading the whole textile industry towards a more sustainable future.

Sustainability reporting should not be considered only as a compliance exercise on reporting, but rather as a goal to achieve a sustainable economy in Europe. By successful sustainability disclosures, European companies can assist in achieving the EU's target of becoming climate neutral by 2050.

8.1 Limitations of the Study

One limitation of this thesis is that the IFRS S1 and IFRS S2 disclosures as well as the CSRD presented in the thesis, are future regulations, which have not been completely enforced yet. Thus, at this point analysing these standards is only based on predictions of the future. There is no evidence neither literature yet of the actual effects of these regulations.

Furthermore, there has been a wide range of different frameworks, guidelines, regulations, and standards in the history of sustainability reporting and the thesis cannot analyse all of these. One reason for the limitation is that although there is plenty of literature on sustainability in the textile industry, there is a significantly small amount of literature around sustainability reporting particularly in the textile industry. Additionally, since the scope of this thesis is the textile industry in the EU, the thesis only provides information on sustainability disclosures relevant for the area.

8.2 Suggestions for Future Research

The thesis aimed to explore the evolvement of sustainability disclosures in the textile industry and provided an example of sustainability reporting in a European textile company. However, the emphasis of the thesis is more on the evolvement of the sustainability disclosures rather than on analysis how exactly certain textile companies have disclosed their information. Thus, the topic could be further researched by analyzing and comparing how exactly different textile companies disclose their sustainability-related information. Researching that area would require delving into financial and non-financial reports more extensively and a wider quantitative and qualitative analysis.

As discussed in the thesis, there has been a subtle amount of sustainability reporting in the textile industry due to the size of the companies. Therefore, this could be a great topic for research, especially after we have seen the effects of the upcoming changes and start seeing results within the next few years. Another area for research could be the effects of these disclosures on the actual sustainable performance of companies in the textile industry. Furthermore, the topic could be researched in the context of other industries, as well. As soon as the new regulations are enforced and assurance of sustainability reports becomes mandatory, the assurance of these disclosures could also be investigated. The topic continues to evolve and will most likely receive great attention in the upcoming years providing opportunities for a wide range of future research.

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