The Impact of the CSRD and the ESRS on Non-Financial Disclosure

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Abstract

The paper examines the evolution of non-financial reporting in Europe, propelled by significant regulatory changes including the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) adoption. With the European Green Deal as a backdrop, we explore how sustainability has transitioned from a compliance obligation to a strategic imperative fundamentally reshaping corporate behaviour. By integrating Environmental, Social, and Governance (ESG) factors into corporate strategies, the new framework enhances transparency, fosters stakeholder trust, and prepares companies for the challenges and opportunities of sustainable operation. We discuss the potential of the European model to set global reporting standards and outline future research directions to assess the effectiveness of standards and their impact on corporate performance, investor behavior, and consumer trust.

Keywords: Non-Financial Reporting; Corporate Sustainability Reporting Directive (CSRD); European Sustainability Reporting Standards (ESRS); Environmental, Social, and Governance (ESG); European Green Deal; Global Markets

1. Performance and Transparency

In the last decades, corporate social responsibility and sustainability have emerged as central elements in corporate strategies globally (Brondoni & Plata, 2022). This evolution has been driven by a significant shift in societal expectations and market dynamics, profoundly impacting how companies operate and communicate (Costaguta, 2022). Integrating sustainability into companies' day-to-day operations not only responds to regulatory pressures and stakeholder demands but also creates substantial long-term value (Tetteh et al., 2024). Companies can significantly

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improve their reputation and trust through sustainable management of natural resources, adopting ethical policies in the treatment of employees and local communities, and transparent governance. These efforts increase consumers loyalty, make companies more attractive to talent, and open access to new markets and more favorable financing terms. Additionally, adopting sustainable practices helps mitigate a wide range of business risks (Nobanee et al., 2021), making companies more resilient to economic fluctuations, natural disasters, regulatory changes, and reputational crises. This resilience ensures long-term stability and growth perspective, demonstrating that sustainability is not just a matter of ethical or legal compliance, but is a crucial strategic element (Settembre-Blundo et al., 2021).

Integrating sustainability and corporate social responsibility into corporate strategies has received significant impetus from supranational initiatives, including the United Nations Sustainable Development Goals and the Paris Agreement on climate change (Fawzy et al., 2020). These global initiatives have emphasized not only the need for a more sustainable economy, but also the need for greater transparency in business practices, placing new expectations on companies worldwide.

The growing awareness of environmental, social, and governance (ESG) issues, further stimulated by the adoption of the European Green Deal (Gisotti & Tarsi, 2023), has significantly influenced both businesses and policymakers to recognize the importance of disclosing non-financial information (Gazzola et al., 2020). This heightened focus underscores the need for transparency in areas beyond traditional financial metrics, encompassing a company's impact on the environment, its social contributions, and the quality of its governance (Risso & Longarini, 2023).

The European Union has taken a leading role in the transparency and reporting of non-financial information, imposing a series of pioneering regulations that aim to improve both the transparency and comparability of data (Aureli et al., 2020b). The Non-Financial Reporting Directive (NFRD), adopted in 2014 by the European Parliament and the Council of the EU, was the first step in this direction, requiring public-interest entities with more than 500 employees to disclose detailed information on ESG issues (Aureli et al., 2020a). Despite the initial progress made with the NFRD, several stakeholders, as investors, consumers, non-governmental organizations, and social partners expressed concerns about its effectiveness, criticizing the lack of uniformity and detail in the disclosable information, which limited the comparability of data between different companies (Breijer & Orij, 2022). In response to these criticisms and the need for greater clarity and uniformity, the EU has substantially revised this directive.

In 2022, the EU introduced the Corporate Sustainability Reporting Directive (CSRD), representing a significant advance over the NFRD. The CSRD extends the scope of reporting, including not only large public companies but also large private companies and all listed companies, regardless of their size (Primec & Belak, 2022). In addition, one of the most important innovations introduced by the CSRD is the adoption of the European Sustainability Reporting Standards (ESRS), which aim to standardize the reporting of non-financial information at European level.

This article considers the improvement of transparency on corporate performance related to the introduction of European regulations on non-financial reporting and related standards.

The structure of the paper is as follows: section 2 presents the theoretical and regulatory context of non-financial reporting; section 3 analyzes the requirements of the ESRS; section 4 discusses the implications for companies of adopting the new standards; and the last section proposes directions for future research in non-financial reporting.

2. Non-Financial Reporting

2.1 Evolution of Non-Financial Information Reporting in Europe

Non-financial reporting is the disclosure of information relating to a company's performance and practices in areas that are not strictly financial, that is ESG (Crous et al., 2022; Stolowy & Paugam, 2018). Through a comprehensive view of a company's activities and impacts, the reporting goes beyond traditional financials and includes aspects that influence sustainability and corporate responsibility (Turzo et al., 2022). Non-financial reporting is crucial for increasing companies' transparency and accountability for sustainability issues (Caputo et al., 2021). It provides investors, consumers, employees, and other stakeholders with information to assess a company's overall impact and commitment to sustainable and responsible practices (Bartolacci et al., 2022).

The first signs of awareness of the importance of non-financial reporting date back to the 1970s and 1980s, thanks to the push of environmental and social movements committed to highlighting the negative impact of corporate activities on the environment and society. Some pioneering companies began to publish environmental and social reports on a voluntary basis, although these were sporadic and non-standardized.

In the late 1990s, the first international principles and guide emerged, aimed at fostering sustainability and enhancing non-financial reporting among companies (Monciardini et al., 2020). These initiatives significantly improved the quality of sustainability actions and the transparency of the information disclosed.

Among the most influential frameworks are the UN Global Compact and Agenda 2030, which encourage companies to align their operations with universal principles and goals concerning human rights, the society and the environment (Laasch et al., 2020); the OECD Guidelines for Multinational Enterprises, which provide recommendations for responsible business conduct in a global context; and the ILO Tripartite Declaration that offers guidance on multinational enterprises and social policy; and ISO 26000, which, although it advises on corporate social responsibility (Bijlmakers, 2021).

In the realm of non-financial reporting, the GRI stands out as a pivotal initiative. Its guidelines have enabled companies to disclose ESG information in a structured and comparable manner, facilitating better transparency and accountability in corporate practices (Darnall et al., 2022).

In 2011, the European Commission published a new corporate social responsibility strategy, emphasizing the importance of transparency and non-financial reporting (Fiandrino et al., 2022). This paved the way for the development of legislation at European level.

Directive 2014/95/EU - NFRD has been a turning point in non-financial reporting at the European level: large public-interest companies with more than 500 employees must disclose information on environmental, social, and personnel issues, respect for human rights, the fight against corruption and financial crimes, diversity in management bodies, and management and control (Moggi et al., 2023). Companies voluntarily provide information when the benefits of disclosure outweigh the costs, formalizing a central principle of the information economy (Bertomeu et al., 2021; Verrecchia, 1983). However, with the introduction of regulations that make non-financial reporting mandatory, this dynamic changes significantly. In fact, it becomes crucial to consider the quantity and quality of the resources invested in disseminating information. Companies must approach non-financial reporting as a strategic investment that can lead to significant benefits in terms of reputation, access to capital, competitive advantage, and regulatory compliance (La Rosa & Bernini, 2022). In 2017, the European Commission published non-binding guidelines to help 11.000 companies involved in NFRD to comply with the directive (Dinh et al., 2023).

These guidelines were updated in 2019 with specific recommendations on reporting climate-related information in line with the EU Action Plan on Sustainable Finance.

In 2022, the EU adopted the CSRD to replace and expand the NFRD, involving around 50.000 european companies (Hamrol et al., 2024). The main innovations introduced by the CSRD include extending the scope to all large companies and listed SMEs, greater detail, and quality in the required ESG information, mandatory verification of ESG information by external auditors, and introducing common reporting standards at the EU level.

2.2 Why Non-Financial Reporting

As previously explained, the evolution of non-financial reporting has seen significant progress in recent decades, moving from voluntary initiatives to increasingly stringent regulatory provisions (Korca et al., 2021). The growing awareness of the importance of ESG information for corporate sustainability and transparency towards stakeholders has driven this process (Freeman & Dmytriyev, 2017; Salvioni & Gennari, 2017; Cantino & Cortese, 2017). Several theoretical perspectives have been employed in the literature to explain why companies disclose non-financial information, including stakeholder theory (Robin, 1992) legitimacy theory (O’donovan, 2022).

Stakeholder theory explains why companies, which do not operate in a vacuum, engage in sustainability reporting. Still, they are part of a large social and economic system in which various stakeholders have a legitimate interest in business activities.

Stakeholder theory is based on the core principle that the political, social, institutional, and environmental contexts in which companies operate should be considered alongside the economic dimension (Deegan & Blomquist, 2006). Stakeholder theory stresses the importance of considering the needs and expectations of a wide range of stakeholders and of operating transparently and accountable. Accordingly, non-financial reporting represents a strategic tool for building trusting relationships, mitigating risks, and creating shared value for all stakeholders (Turzo et al., 2022). Stakeholder theory states that a company's performance relies on addressing the needs of all stakeholders (Deegan & Blomquist, 2006). Consequently, companies integrate these needs into their decision-making processes and reporting practices (Raimo et al., 2022).

Legitimacy theory offers another significant perspective (Mio et al., 2020) on companies' motivation to provide sustainability information (Silva, 2021). Legitimacy is a "generalized perception or assumption that an entity's actions are desirable, appropriate, or conform within a socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Companies are highly sensitive to legitimacy challenges in their interactions with stakeholders (Freeman & Sonnenfeld, 1984). Thus, aligning a company's activities with stakeholder expectations is crucial for legitimizing its actions (Nishitani et al., 2021). For this reason, numerous studies on non-financial disclosure have used legitimacy theory as a foundation. Non-financial reporting is, in fact, a tool capable of creating a competitive advantage necessary for medium and long-term success (Caccialanza & Torelli, 2024), essential to respond to social and environmental expectations, useful for risk mitigation and the consequent management of corporate reputation. By sharing non-financial information, companies aim to legitimize their actions, reassuring stakeholders that their operations meet societal norms and expectations. Firms establish credibility through communications, showcasing their commitment to social ideals and adherence to societal norms (Zimmerman, 2002). According to legitimacy theory, companies must grow in alignment with socially accepted values, principles, and standards; failing to do so would constitute a breach of the social contract, resulting in a loss of legitimacy and potentially the company's demise (Deegan & Samkin, 2011). Therefore, it is evident that effectively communicating its message are essential for building legitimacy.

Summarising, stakeholder, and legitimacy theories provide foundational perspectives on why companies disclose non-financial information, emphasizing the need for transparency and alignment with societal expectations. Accordingly, non-financial reporting emerges as a strategic tool for fostering trust, mitigating risks, and ensuring long-term corporate legitimacy and success.

3. Shaping the Future of Non-Financial Reporting in Europe

3.1 Corporate Sustainability Reporting Directive

With the approval of the CSRD, the European Union advance its legislation relating to non-financial reporting. The directive aims to improve the transparency and comparability of sustainability information reported by companies, addressing market needs and stakeholders' pressure for greater environmental and social responsibility (European Commission, 2021).

The CSRD extends the number of companies subject to non-financial reporting requirements. In addition to companies that were already covered by the previous legislation, medium-sized companies listed on regulated markets in the EU are now required to comply with the new standards. The total number of companies involved rose from about 11,000 to about 50,000. The CSRD requires companies to report on how their business, operating models, and risk connectivity affect their sustainability issues, and vice versa. The information must cover ESG issues, focusing on topics such as biodiversity, climate change, and social and ethical impacts. The non-financial information reported by companies must be externally verified to ensure its reliability. This verification represents a significant change from the NFRD, under which external verification was not mandatory. The CSRD requires reporting to be carried out in an electronic, standardized, and accessible format, fostering transparency, and facilitating analysis by investors, consumers, and other stakeholders. The information must be deposited in a format that allows "machine readability" (i.e., automatic reading by software). The CSRD introduces the integration of financial and non-financial reporting, confirming that non-financial information must be included in the Directors' Report in the Financial Statements.

The implementation of the CSRD will be gradual. Companies already subject to the NFRD will have to start reporting according to the new standards in the 2024 financial year, while the other companies involved will start in 2025 or 2026, depending on their size and listing status.

Finally, the CSRD introduces specific standards for sustainability reporting, the ESRS, developed by European Financial Reporting Advisory Group (EFRAG). These standards are intended to ensure consistency and comparability of the information reported. ESRS are in fact designed to ensure that the information companies provide is comparable, consistent, and highly detailed, allowing stakeholders, including investors, consumers, and policy makers, to make more informed assessments about companies' sustainability performance (Primec & Belak, 2022).

3.2 European Sustainability Reporting Standard

The decision to introduce new reporting standards is a response to the critical issues and limitations of the current reporting system. The goal is to create homogeneity in the reports of European companies, ensuring an effective comparison also at the level of non-financial information.

Among the G250 companies, which include some of the globe's largest by revenue, 78% now utilize the GRI Standards for their reporting. This marks an increase from 73% in 2020. These companies also maintain a high level of overall sustainability or ESG reporting, with the percentage holding steady at 96% since 2020. However, despite widespread reporting on carbon reduction by 80% of the G250 companies, only 46% report on biodiversity, indicating a gap in the coverage of environmental impacts. Similarly, in the broader pool of N100 companies, which now includes 5.800 firms, 68% use the GRI standards, slightly up from 67% in 2020. Reporting on sustainability or ESG among these companies has also slightly increased from 77% in 2020 to 79% recently. Like their G250 counterparts, many N100 companies report on carbon reduction (71%), but a smaller percentage, 40%, include biodiversity in their sustainability reports (KPMG, 2022). Despite the widespread adoption and application of GRI standards across diverse regions and company sizes, the reports also highlight significant limitations, especially in the consistency and scope of reporting.

This aspect underscores the need for improvements in how companies approach comprehensive sustainability reporting, ensuring that environmental impacts are fully covered alongside other ESG concerns. First, GRI offer flexibility to companies, which can lead to significant variations in how they report and make comparisons between different companies difficult. While this flexibility can be beneficial for adapting to various business contexts, it can compromise the consistency of the data reported. Second, while GRI are detailed, they only sometimes fully meet the specific regulatory needs and political priorities of the European Union, such as those defined by the European Green Deal. Another area for improvement of GRIs is the lack of an obligation to externally verify the information reported, which can raise doubts about the reliability and credibility of the data. The CSRD, on the other hand, mandates external verification of non-financial information, significantly improving trust in the reported data. ESRS has been developed to facilitate this verification process by ensuring that the information is accurate and verifiable.

The CSRD also responds to criticism of the previous NFRD, which was challenged for its lack of specificity and excessive flexibility. One of the main reasons the CSRD has adopted these standards is the need to improve the quality of the disclosed sustainability information. ESRS has been designed to ensure that the information companies provide is detailed, accurate, and relevant. This approach provides a clear and comprehensive view of the company's ESG practices, facilitating a deeper understanding of companies' sustainability performance. In addition, the adoption of common standards at the European level ensures greater consistency in collecting and presenting sustainability information. Before ESRS was introduced, there were significant discrepancies and inconsistencies in different companies' sustainability reports. With ESRS, all companies subject to the CSRD follow the same guidelines, making the information more consistent and reliable. Another important benefit of ESRS is that they facilitate the comparability of sustainability information across different companies and industries. This is especially crucial for investors and other stakeholders who need to compare the ESG performance of different companies to make informed decisions. With standardized information, it becomes easier to assess and compare the sustainability practices of different organizations. Standardizing sustainability reporting also supports investment decisions. Investors can use the clear and comparable information provided by the ESRS to better analyze the risks and opportunities related to the long-term sustainability of companies. This facilitates more responsible and informed investment decisions.

Another key reason for the introduction of ESRS is to increase transparency and accountability for companies. The standards promote detailed disclosure of corporate ESG practices, making companies more accountable to stakeholders. This is essential for building trust and improving corporate reputation, as stakeholders can assess companies' social and environmental impact more easily. In addition, the growing demand for sustainability information from investors, consumers, employees, and other stakeholders has necessitated a standardized approach to reporting. The ESRS address these needs by providing a clear and uniform framework for the disclosure of ESG information.

The process of drafting the ESRS has been a complex and collaborative process, which began with the assignment by the European Commission to the European Financial Reporting Advisory Group (Giner & Luque-Vílchez, 2022). To ensure that the ESRS reflected the needs of all stakeholders, EFRAG set up a multidisciplinary expert group. This group included representatives from academia, sustainability experts, reporting professionals, and business and investor representatives. The aim was to combine different perspectives and expertise to develop comprehensive and applicable standards in various sectors. While drafting the standards, EFRAG launched numerous public consultations to gather feedback from a wide range of stakeholders, including companies, non-governmental organizations, investors, and other stakeholders. These consultations were crucial to ensure that the standards met the real market needs and reflected the stakeholders' expectations. In parallel, EFRAG reviewed existing sustainability reporting practices at the international level. The drafting process involved several internal review and validation stages by EFRAG's Steering Committee. In some cases, pilot tests have been conducted with selected companies to assess the feasibility and effectiveness of the proposed standards. These tests provided additional feedback that was used to refine and improve standards. Once completed, the ESRS were submitted to the European Commission for approval. After an in-depth review, the Commission adopted the standards as an integral part of the CSRD, making them mandatory for all companies subject to the Directive.

3.3 Structure of the European Sustainability Reporting Standard

The ESRS provide a comprehensive framework for sustainability reporting, and it was developed to improve the transparency and accountability of companies regarding their sustainability practices. The ESRS is divided into two main sets: Set 1, which applies broadly across various sectors and companies, and Set 2, which introduces sector-specific standards.

The ESRS Set 1 is structured into a comprehensive framework, beginning with two foundational, crosscutting standards that set the stage for all subsequent disclosures. These initial standards encompass general requirements and key disclosures relevant to all areas of sustainability reporting. The cross-cutting standards are:

- General Disclosures require entities to disclose foundational information that applies across all facets of their operations, including organizational overview, business model, and strategy. It also covers governance aspects, risk management practices, and targets for sustainable development.
- Strategy and Implementation focus on how an organization integrates sustainability into its strategy and operational execution. This includes the assessment of sustainability-related risks and opportunities, impact on sustainability matters, and the company's approach to managing these impacts in the short, medium, and long term.

Ten additional standards are categorized into three distinct groups - Environment, Social, and Governance, each addressing specific elements of sustainability:
Environmental Standards:

- *Climate Change* reports on carbon emissions, energy efficiency initiatives, and adaptation measures to combat climate change effects.
- *Pollution* focuses on emissions, effluents, waste management, and the mitigation of environmental pollution.
- *Water and Marine Resources* includes the management of water resources and impacts on marine ecosystems.
- *Biodiversity and Ecosystems* concerns with activities affecting biodiversity, conservation efforts, and sustainable land use.

Social Standards:

- *Own Workforce* covers employee rights, workplace safety, diversity and inclusion, and labor practices.
- *Affected Communities* addresses how operations affect local communities, including community engagement, impact assessments, and development programs.
- *Consumers and End-users* focuses on product safety, customer satisfaction, and data protection.

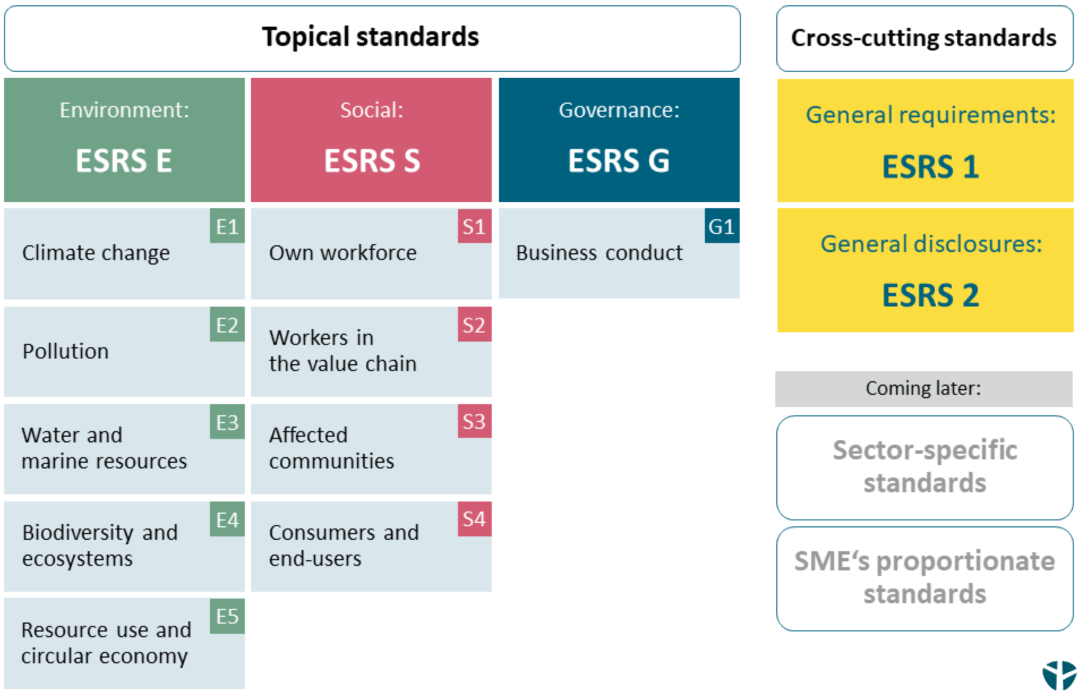
Governance Standards:

- *Business Conduct* reports on business ethics, anti-corruption practices, and regulatory compliance.
- *Political Engagement and Lobbying* details the organization's policies and practices on political contributions, lobbying activities, and adherence to public policy.
- *Internal Controls and Risk Management* highlights the mechanisms for managing risks and maintaining internal controls over financial and non-financial reporting.

The ESRS also provides appendices to further technical details and practical guidelines for implementing the standards. They may include technical specifications on how to measure and report specific data, such as greenhouse gas emissions or water consumption, detailed guidance on how to implement standards within different company structures, practical examples, and a glossary.

In the future ESRS Set 2 with specific sector standard and SME standard will be released.

Figure 1: *The Structure of ESRS.*



Source: Denkstatt.At/En/Esrs-Standards-Explained/

The most disruptive innovations introduced are contained in ESRS Set 1, which establishes the general requirements for sustainability reporting. This standard represents a significant breakthrough for companies, as it introduces a set of principles and guidelines that fundamentally transform how sustainability information should be collected, analyzed, and disclosed.

One of the most innovative aspects of ESRS Set 1 is its new approach to materiality. Companies are now required to identify and disclose information relevant to the impact of their activities on the environment, society, and the economy (i.e., outside-in), and to its financial relevance (i.e., inside-out), following the double materiality approach. This two-pronged approach to materiality ensures that the information provided is comprehensive and relevant to a wide range of stakeholders, improving the quality of disclosures.

A further key aspect of ESRS Set 1 is the Impact, Risk, Opportunity analysis, which is the obligation for companies to identify and disclose in detail sustainability-related risks and opportunities that may affect their long-term performance. This includes a thorough assessment of how ESG risks can impact business strategy and day-to-day operations, promoting proactive and responsible management.

ESRS Set 1 also requires companies to actively involve their stakeholders in the sustainability reporting process. Companies must describe how they have involved their stakeholders in determining material issues and how their expectations have been considered in defining their sustainability strategy. This involvement is crucial to ensure that the information disclosed is relevant and responds to the real needs of stakeholders. In addition, ESRS Set 1 provides specific guidelines on how information should be presented, ensuring that it is understandable, relevant, comparable, accurate, and timely. This standard aims to improve the disclosure quality and facilitate clear and effective communication of sustainability information.

Finally, ESRS Set 1 promotes the integration of financial and non-financial information, requiring the latter to be included in the Directors' Report, an integral part of the Financial Statements, and mandatory external verification. These requirements are critical to ensure that the reported data is credible and can be used by stakeholders for informed assessments and decisions. This holistic approach not only facilitates a comprehensive view of business performance, but also ensures that sustainability information is treated with the same rigor as financial information.

4. The Impact of ESRS on Companies

The application of the new ESRS standard has several consequences for companies: a higher level of operational complexity, organizational changes, enhanced stakeholder engagement, and greater responsibility for the information disclosed.

ESRS standards have a significantly higher level of operational complexity than previous standards. This means that companies must invest substantial resources to comply with the new requirements, approaching completely outsourcing work to external consultants insufficient. ESRS requires very detailed and rigorous ESG data collection and analysis. The information must cover a wide range of ESG aspects, often requiring granular data that was not previously monitored or reported. This implies that companies must implement robust systems to collect and manage data while ensuring its accuracy and reliability. In addition, non-financial information must be integrated into the annual financial statements and management report, requiring integration and consistency between data and functions. The operational complexity introduced by ESRS requires companies to invest significant resources in data management infrastructures, staff training, and in-house skills development. For example, companies need to implement or update information systems to collect, manage, and analyze ESG data. Employees need to be trained to collect and report this data following ESRS. This applies not only to the sustainability department staff but also to those in finance, management control and other business functions.

To comply with the new standards, firms must undertake organizational changes. Building or empowering internal sustainability teams becomes essential to handle complex and ever-changing reporting requirements. The complexity of the data and information requires a deep and detailed understanding of business operations, which only in-house staff can have. In addition, reporting obligations are continuous and integrated into daily business processes, making internal staff better suited to manage them consistently and responsibly over time. ESG information must be integrated into the overall business strategy, requiring business leaders' and internal staff's active and ongoing involvement.

The detailed reporting requirements of ESRS encourage firms to improve their stakeholder engagement, and the dual materiality approach ensures that companies consider the perspectives and concerns of various stakeholders. Applying the standards requires active involvement of the entire value chain, with companies engaging in a mutual and transparent exchange of information with stakeholders. Aligning with stakeholders' expectations can lead to greater trust and collaboration and building strong business relationships as stakeholders feel their interests are recognized and addressed. Engaging with stakeholders through the lens of dual materiality can also help companies identify emerging issues and trends, enabling them to address potential challenges and opportunities proactively. In addition, the adoption of Impact, Risk, Opportunity analysis prompts a comprehensive reflection because what today is an impact, whether positive or negative, on one or more stakeholders, is likely to take on a financial dimension in the company's accounts or in the very value of the company tomorrow, positively, or negatively.

The integration of non-financial information into the financial statements and the introduction of mandatory assurance are requirements that profoundly change the responsibility of company directors in terms of transparency, reliability and compliance with the information disclosed. These also increase the expectations and legal duties of directors. By including non-financial information in the Annual Report on Financial Statements, directors must treat ESG issues with the same care and rigor as traditional financial information. With this comes new responsibilities, as directors must ensure that non-financial information is accurate, complete, and relevant. This requires continuous monitoring of business activities and careful management of ESG data. They must identify information materially relevant to stakeholders, ensuring that disclosures adequately reflect the impact of the company's activities on the environment, society, and the economy, as well as sustainability-related risks and opportunities. In addition, they must integrate ESG considerations into their business strategy and decision-making processes, assessing ESG risks and implementing measures to mitigate those risks. Mandatory assurance of non-financial information introduces an additional layer of external scrutiny and verification, with significant implications for directors' accountability. They must ensure that non-financial information is verifiable, and that data collection and reporting processes are robust enough to withstand external scrutiny. They must ensure that non-financial reporting complies with the standards set by the ESRS and CSRD regulations, preparing to provide the reports in a format that allows for effective verification. With mandatory assurance, any discrepancy or omission in the disclosed information can lead to legal penalties and reputational damage. Administrators are, therefore, under increased pressure to ensure that all information is transparent and accurate. These new obligations have several legal and reputational implications. In non-compliance with non-financial reporting requirements, directors could face legal penalties, including fines and legal action from stakeholders. In addition, the transparency and accuracy of sustainability information are critical to a company's reputation. Errors or omissions in reporting can severely damage stakeholder trust and the company's reputation. On the other hand, robust and verified ESG reporting can strengthen the confidence of investors, customers, and other stakeholders, improving relationships and providing support for the company.

These developments, therefore, require greater commitment from companies to ensure that business practices are aligned with the highest standards of sustainability and transparency, profoundly influencing corporate governance and stakeholder trust.

5. A Conclusion that Reflects on the Role of Business and Proposes Directions for Future Research in the Field of Non-Financial Reporting

In this paper, we explore the transformative impact of European regulations on non-financial reporting, with a particular emphasis on the newly implemented ESRS standards. The enactment of the European Green Deal, alongside the introduction of the CSRD, marks a significant shift in integrating sustainability within the core strategic frameworks of businesses. This development redefines sustainability as not just a regulatory compliance requirement but as a strategic imperative essential for long-term corporate resilience and success. The European model of non-financial reporting has the potential to set a global standard that other regions could adopt. Such standards could significantly influence global sustainability practices and promote a more unified approach to addressing global environmental and social challenges.

The introduction of the new ESRS standards is transforming corporate governance with the aim of encouraging non-financial reporting to be seamlessly integrated with financial assessments. This regulation requires leaders to incorporate ESG factors into their decision-making, ensuring that financial and non-financial dimensions are equally weighted. Such practices enhance transparency in evaluating company performance, contributing to a deeper understanding of corporate dynamics. Furthermore, this approach advances a broader commitment to accountability, transparency, ethical behavior, and active stakeholder engagement. Moreover, the evolving landscape of reporting presents both challenges and opportunities for businesses. Implementing detailed standards such as the ESRS requires substantial resources and organizational adjustments. It also offers opportunities for companies to distinguish themselves in a competitive market through their commitment to sustainable practices.

Future research could focus on evaluating the effectiveness of the CSRD and ESRS in enhancing the quality of sustainability reporting across Europe. Investigating the long-term impacts of these regulations on corporate performance, investor behavior, and consumer trust will be crucial. Additionally, exploring how technological advancements can improve the reliability and accessibility of reported non-financial data offers a promising avenue for further study. This continued research will help understand the broader implications of these regulatory changes and guide the evolution of corporate sustainability practices.

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