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Evaluating the European Framework for Non-financial Reporting: An Intervention Logic Analysis

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Abstract

This thesis evaluates the effectiveness of the Corporate Sustainability Reporting Directive in enhancing non-financial reporting within the EU by answering the question *to what extent the CSRD, as an amendment of the NFRD, is suitable to achieve its intended objectives.* Methodologically, it combines textual analysis of relevant documents and the application of the Intervention Logic Framework to assess the CSRD´s ability to meet its objectives. The research highlights significant regulatory burdens, particularly for SMEs, despite anticipated long-term efficiencies. Findings indicate that the CSRD addresses the shortcomings of its predecessor by introducing several key provisions: standardizing reporting through mandatory European Sustainability Reporting Standards, mandatory limited assurance, an expanded scope and amended reporting requirements which improve the quality, comparability, and reliability of disclosed information. However, discrepancies between the European Commission´s cost estimates and those reported by companies suggest potential challenges in realizing projected cost savings. Overall, the CSRD shows promise in achieving its aims of enhancing corporate transparency and accountability while potentially reducing unnecessary burdens, though further monitoring and support are essential for its successful implementation and impact.

Keywords: Non-Financial Reporting Directive, Corporate Sustainability Reporting Directive, Reporting, Company Burdens, European Green Deal

List of Abbreviations

AD	Accounting Directive (Directive 2013/34/EU)
BAU	Business-as-usual
CEPS	Centre for European Policy Studies
CMU	Capital Markets Union
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive (Directive 2022/2464/EU)
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
ESAP	European Single Access Point
ESRS	European Sustainability Reporting Standards
ESMA	European Securities and Markets Authority
EU	European Union
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LSME	Standards for listed small and medium-sized enterprises
MS	Member State
NFRD	Non-Financial Reporting Directive (Directive 2014/95/EU)
SASB	Sustainability Accounting Standards Board
SFDR	Sustainable Finance Disclosure Regulation (Regulation 2019/2088/EU)
SCM	Standard Costs Model
SMEs	Small and medium-sized Enterprises
TCFD	Task Force on Climate-related Financial Disclosures
VSME	Voluntary standards for small and medium-sized enterprises

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Chapter 1: Introduction

1.1 Introduction

The landscape of corporate reporting is undergoing a transformative shift, particularly in the European Union (EU), where the focus is increasingly drawn to sustainability and environmental responsibilities. Environmental, Social, and Governance (ESG) factors are gaining prominence and becoming an integral part of corporate reporting, reflecting a broader recognition of their importance in assessing corporate performance (van der Lugt et al., 2020). Within the EU, this shift becomes evident through the introduction of several Directives aimed at instituting and strengthening non-financial reporting. In 2014, the Non-Financial Reporting Directive (NFRD)[1] mandated that certain entities within the EU disclose information that extends beyond traditional financial reporting parameters to include environmental, social, employee, and governance considerations. However, numerous studies and articles examining the application of the NFRD have identified significant shortcomings, underscoring the necessity for revising the Directive (Hummel & Jobst, 2024; Baumüller & Grbenic, 2021; Mittelbach-Hörmanseder et al., 2020; Venturelli et al., 2020, European Commission, 2021a; European Commission, 2020c).

In response to the identified deficiencies and in line with the European Commission's aim to contribute to the European Green Deal´s[2] objective of transforming the European economy towards greater sustainability, the proposal for a Corporate Sustainability Reporting Directive (CSRD)[3] emerged as a strategic intervention. The following adoption of the CSRD in 2022 marked a significant step towards enhanced corporate transparency, particularly concerning ESG factors as the CSRD aimed to improve the completeness, comparability, and reliability of non-financial reports within the EU, addressing the gaps in the existing regulatory framework (Baumüller & Grbenic, 2021; Directive 2022/2464/EU). The introduction of the Directive is not merely a policy update, it

[1] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.
[2] European Commission (2019). Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. The European Green Deal.
[3] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

represents a comprehensive overhaul of the regulatory framework governing corporate non-financial reporting. This renewed framework is poised to have wide-ranging consequences for companies, users, and investors. It includes the adoption of European Sustainability Reporting Standards (ESRS), requires limited assurance of reports, and considerably broadens the reporting scope to encompass nearly 50.000 companies. Nevertheless, as the corporate reporting landscape undergoes this profound transition towards enhanced sustainability, it remains essential to critically examine whether the proposed CSRD can effectively address the identified shortcomings of the regulatory reporting landscape within the EU and achieve its intended objectives. Various academic studies and reports investigating the effects of regulatory requirements on non-financial reporting in the EU have emphasized potential challenges, such as increased administrative burdens and an extensive input of resources required to fulfil the comprehensive disclosure of relevant information. These concerns raise questions about the feasibility and effectiveness of this regulatory instrument (Baumüller & Grbenic, 2021; European Commission, 2020c; European Commission, 2020d; European Commission, 2021a).

Against this background, this thesis undertakes a thorough study to scrutinize the nuances and potential limitations of the CSRD in ensuring comprehensive and reliable non-financial reporting within the EU. By examining the transition from the NFRD to the CSRD, analysing its key provisions, impacts on corporate non-financial reporting, and potential administrative burdens on companies, this research aims to provide a detailed assessment of the CSRD's capacity to meet its objectives. The findings of this study are expected to contribute significantly to the ongoing discourse on corporate sustainability reporting, offering insights into the efficacy of regulatory frameworks in fostering transparency and accountability in the pursuit of a sustainable and inclusive economic system in the EU. To guide the analysis of this thesis, the following central research question has been formulated: *To what extent is the CSRD, as an amendment of the NFRD, suitable to achieve its intended objectives?*

1.2 Methodology

To thoroughly address the guiding research question, this thesis delves into the regulatory landscape of the EU, focusing on two pivotal Directives: the NFRD and the recently adopted CSRD. These Directives are central to shaping non-financial reporting in the corporate sector. The NFRD, introduced in 2014, marked a significant milestone by mandating non-financial reporting for EU companies, expanding the scope of corporate disclosures beyond traditional financial metrics. The subsequent adoption of the CSRD in 2022 reflects a strategic measure aimed at improving and strengthening the existing legal framework for non-financial reporting. Hence, the study´s focus on these Directives aligns with the objective of understanding the development from the NFRD to the CSRD and critically assessing their effectiveness in achieving the intended goals.

Methodologically, this thesis adopts a two-fold approach. First, a textual analysis of selected documents, journal articles, press releases and policy reports is undertaken. This analysis aims to elucidate the underlying reasons for the adoption of the Directive, evaluate their impacts, and assess choices for different policy options. Secondly, this thesis employs the Intervention Logic Framework to evaluate the extent to which the CSRD, as an amendment to the NFRD, is able to fulfil its intended objectives. The Intervention Logic Framework, as described in the European Commission's Better Regulation toolbox, provides a structured approach to assessing policy interventions by delineating the need for intervention, policy activities, expected outputs, results, and impacts (European Commission, 2023b). It represents a narrative and visual description of how the intervention is expected to work, depicting the chain of events leading to the intended change.

This research applies the Intervention Logic Framework to the CSRD by initially analysing the fundamental rationale for the intervention, followed by a comprehensive examination of the Directive´s objectives, inputs, and resultant effects (outcomes, outputs, impacts). A comprehensive evaluation is subsequently conducted to determine the degree to which the envisaged outcomes, outputs, and impacts are being realized, while also accounting for external variables. This analysis is complemented by a visual representation of the Intervention Logic, highlighting the interplay between various activities and the policy´s core objectives. The findings from both the textual analysis and the Intervention Logic Framework are then synthesized to provide a cohesive assessment.

In addition, this thesis investigates the regulatory burdens imposed on companies, particularly in relation to non-financial reporting obligations. The requirement to disclose non-financial information presents considerable challenges for companies, with small and medium-sized enterprises (SMEs) being disproportionately affected by administrative complexities and rising compliance costs. To gain a nuanced understanding of the regulatory framework's impact on companies, this research incorporates interviews conducted in collaboration with the thesis supervisor in the context of a project for an EU entity. These interviews aim to gather information about the costs and specific challenges faced by companies within the EU in complying with the CSRD´s non-financial reporting requirements. The empirical insights obtained from these interviews, cannot be directly quoted, nor can they be attributed to the respondent, due to the confidentiality requirements of the research project. Consequently, no list of interviewees or transcript of the interviews is provided in the annexes of this thesis.

This thesis contributes to the existing body of literature on the CSRD by providing a comprehensive analysis of the legislative initiative and its ability to achieve the identified objectives by employing the Intervention Logic Framework. This is particularly important given the EU´s intensified efforts to promote and advance sustainable growth, as the CSRD represents a relatively recent Directive that seeks to build upon and rectify the deficiencies of its predecessor.

Chapter 2: Current EU framework for ESG reporting

This chapter examines the genesis of non-financial reporting and the evolution of regulatory requirements concerning the disclosure of non-financial information within the EU. Furthermore, it delves into academic literature addressing the implementation of the NFRD, critically analysing the shortcomings and deficiencies that have surfaced within its regulatory framework.

2.1 Introduction

The landscape of non-financial reporting, another term to indicate sustainability reporting[4], dates back to the societal and environmental awareness emerging in the 1960s and 1970s, marked by a discernible trend toward voluntary sustainability reporting in the U.S. and Europe (Ioannou & Serafeim, 2017). The transformative moment appeared with the Exxon Valdez disaster in 1989, acting as a catalyst for the formulation of environmental reporting guidelines and, subsequently, the establishment of the Global Reporting Initiative (GRI) through the collaborative efforts of the Coalition for Environmentally Responsible Economies and the United Nations Environment Programme (Ioannou & Serafeim, 2017).

Building upon these foundations, the 1990s witnessed a surge in voluntary corporate sustainability reports as a response to growing societal demands for transparency and accountability (Monciardini, 2016). Stakeholders, including investors and non-shareholding groups, sought a more comprehensive understanding of a company´s impact on human capital, natural resources, and society at large (Monciardini, 2016).

In recent years, the landscape of sustainability reporting has undergone further transformation due to heightened social and environmental challenges, encompassing issues such as climate change and social inequality (Ioannou & Serafeim, 2014). Corporate scandals and the global financial crisis of the late 2000s instigated widespread distrust in companies' self-regulatory capacities, questioning the efficacy of current disclosures, which primarily focused on historical performance rather than future

[4] In the contemporary discourse, the terms non-financial reporting and sustainability reporting refer to the same endeavour. The CSRD officially transitions the terminology from `non-financial´ to `sustainability´ reporting. However, to maintain consistency with the terminology used in the documents subject to analysis, this thesis will use the term `non-financial reporting´.

prospects (Ioannou & Serafeim, 2017; Monciardini, 2016). This scepticism led investors and information intermediaries to integrate ESG data into valuation models, amplifying the demand for sustainability reporting (Ioannou & Serafeim, 2017). Consequently, an increasing number of countries worldwide have embraced the mandate for disclosing ESG information, reflected in legal and regulatory frameworks and stock exchange listing standards (Ioannou & Serafeim, 2017). This shift is propelled not only by the investment community but also by diverse non-shareholding stakeholders. As outlined by Ioannou and Serafeim (2017), the historical trajectory of sustainability reporting mirrors a dynamic interplay of evolving societal expectations, environmental challenges, and regulatory responses.

2.2 EU´s Regulatory Approach

The EU´s mandate to regulate the disclosure of non-financial information is grounded in its commitment to fostering a competitive social market economy and achieving sustainable development (European Commission, 2021b). The EU´s objectives of establishing a single market and integrating capital markets across the EU necessitate harmonized minimum requirements for corporate reporting, ensuring the proper functioning of financial market infrastructure and enabling capital flows to companies seeking public funding via capital markets (European Commission, 2021b). Moreover, in response to the 2008 financial crisis, the EU undertook regulatory reforms to restore financial stability and enhance prudential and supervisory oversight, contributing to sustainable growth (European Commission, 2021b).

In the communication 'Single Market Act – Twelve levers to boost growth and strengthen confidence – "Working together to create new growth"', issued by the European Commission, emphasis is placed on leveraging the considerable financial influence wielded by the European asset-management sector to advance objectives of general interest or relating to social, ethical or environmental development (European Commission, 2011). As part of this vision, the Commission announces its intent to introduce legislative measures aimed at enhancing the transparency of companies' disclosure regarding their social and environmental practices across various sectors. By requiring companies to disclose information about their activities, performance, risks, and impacts, the EU further aims to build confidence and trust among stakeholders while ensuring the overarching objectives of a functioning single market and sustainable development (Monciardini, 2016). According to the European Commission, the objective of sustainable development can be advanced through corporate reporting by ensuring that stakeholders have access to comprehensive information regarding companies' "impact on society and the environment, and about the sustainability-related risks to which companies may be exposed" (European Commission, 2021b, p.10). Furthermore, a report on the NFRD by the European Parliament underscores the significance of enhancing data availability and improving the disclosure of non-financial information by companies and financial institutions as means to "direct financial and capital flows to sustainable investment […]. This makes it easier to measure, monitor and manage companies' performance and their impact on society" (European Parliament, 2021, p.1).

Recognizing the significance of public reporting by companies as a public good benefiting various stakeholders, including investors, creditors, employees, and civil society organizations, the EU has progressively introduced legal acts governing corporate reporting over the last decades. This legislative framework encompasses different European legal acts that aim to ensure the efficient allocation of capital, promote transparency and accountability, and facilitate informed decision-making by market participants and stakeholders. The forthcoming section delves into a detailed examination of the legislative framework. However, importantly the listed Directives are not the sole legislative acts governing companies and financial information disclosure in the EU.[5] Instead, they are particularly relevant when assessing the current framework and the development of the disclosure of non-financial information.

2.3 Overview & Aim

The EU framework governing the disclosure of financial and non-financial information by companies is established through several legislative acts, each with specific aims and requirements. The Accounting Directive (AD) (Directive 2013/34/EU) forms the foundation of public reporting by companies in the EU. The renewed provisions of the

[5] For instance, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector which lays down transparency rules for financial market participants on how to integrate ESG factors into their investment decisions.

AD, setting standards on annual financial statements, include the undertakings listed in Annex I of the Directive consisting of public and private companies limited by shares or by guarantees, and Annex II covering a) partnerships, limited partnerships, or unlimited companies of the types listed in Annex I, governed by the law of a Member State, and b) Comparable legal forms not governed by the law of a Member State but similar to those listed in Annex I, which includes partnerships, limited partnerships, and unlimited companies (Directive 2013/34/EU). The different categories of undertakings and groups are differentiated into:

- Micro-Undertakings: Undertakings that do not exceed at least two of the following three criteria on their balance sheet dates;
- Small Undertakings: Undertakings that do not exceed at least two of the following three criteria on their balance sheet dates;
- Medium-Sized Undertakings: Undertakings that are not micro or small and do not exceed at least two of the following three criteria on their balance sheet dates;
- Large Undertakings: Undertakings that exceed at least two of the following three criteria on their balance sheet dates;
- Small Groups: Groups consisting of parent and subsidiary undertakings that, on a consolidated basis, do not exceed at least two of the following three criteria on the balance sheet date of the parent undertaking;
- Medium-Sized Groups: Groups that are not small groups and consist of parent and subsidiary undertakings that, on a consolidated basis, do not exceed at least two of the following three criteria on the balance sheet date of the parent undertaking;
- Large Groups: Groups consisting of parent and subsidiary undertakings that, on a consolidated basis, exceed at least two of the following three criteria on the balance sheet date of the parent undertaking;

The criteria of consideration on the balance sheet days are displayed in the following table:

Table 1

Categories of undertakings and groups under the Accounting Directive:

Type of undertaking	**Balance sheet**	**Net turnover**	**Average number of employees during financial year**
Micro-Undertakings	450.000 euro	900.000 euro	10
Small Undertakings	5.000.000 euro (MS may increase to 7.500.000)	10.000.000 euro (MS may increase up to 15.000.000)	50
Medium-Sized Undertakings	25.000.000 euro	50.000.000 euro	250
Large Undertakings exceeding 2/3:	25.000.000 euro	50.000.000 euro	250
Small Groups	5.000.000 euro (MS may increase to 7.500.000)	10.000.000 euro (MS may increase to 15.000.000)	50
Medium-Sized Groups	25.000.000 euro	50.000.000	250
Large Groups exceeding 2/3:	25.000.000 euro	50.000.000	250

Source: Directive 2013/34/EU

Article 36 of the AD offers provisions for simplifying accounting requirements based on the size of the company, with micro and small companies being subject to certain exemptions and simplified requirements (Directive 2013/34/EU).

The Transparency Directive (Directive 2013/50/EU), which amends Directive 2004/109/EC on the harmonisation of transparency requirements, applies to all companies (including non-EU country companies) listed on EU regulated markets and mandates the publication of annual financial reports, including financial statements and management reports, to ensure transparency and fair representation of the company's situation. Additionally, the Transparency Directive requires listed companies in extractive and logging industries to disclose country-by-country reports on payments to local governments.

In 2014, the AD, was amended by the NFRD (Directive 2014/95/EU). The adoption of the NFRD is seen as a decisive step for the EU in establishing corporate transparency and accountability concerning social and environmental issues (Baumüller & Grbenic, 2021; CSR Europe & GRI, 2017; European Parliament, 2021).

As articulated in Article 1 of the Directive, the NFRD applies to large undertakings classified as “public interest entities”, which include large listed companies, banks, insurance companies, and other entities recognized by national authorities, with more than 500 employees (Directive 2014/95/EU). In practice, after the transposition into national legislation, this scope comprised an approximate total number of 11.700 companies (European Commission, 2021b). Companies under scope are required to disclose information on, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters (Directive 2014/95/EU; European Commission, 2014; European Commission, 2021b). The Directive incorporates the ‘double materiality’ principle, requiring companies to disclose information including both how sustainability issues may affect the company (“outside-in risks”) and how the company affects society and the environment (“inside-out risks”). Despite this comprehensive approach, the Directive does leave a certain amount of flexibility in the implementation of its provisions (European Parliament, 2021). First, the disclosure of non-financial information does not require the use of a specific standard or framework, thus companies are able to report in the way, most useful for them (European Parliament, 2021). Companies may however rely on national frameworks, Union-based frameworks, or international frameworks (Directive 2014/95/EU). Second, the AD, as amended by the NFRD, includes the ‘comply or explain’ principle, wherein an undertaking is required to provide a clear and reasoned explanation in the non-financial statement in case of abstaining from disclosing information on the prescribed subjects (Directive 2014/95/EU).

In sum, the NFRD represented a significant step toward bolstering corporate transparency and accountability in the EU. By mandating reporting on social and environmental issues, it aimed to foster sustainable development and informed decision-making from stakeholders.

2.4 Shortcomings of the NFRD

Having established the NFRD as a pivotal milestone in enhancing corporate transparency and accountability, this section is concerned with its shortcomings and deficiencies. While the NFRD represents a significant advancement in mandating non-financial reporting for large entities within the EU, it is essential to acknowledge that its implementation has not been without challenges.

As elaborated in the Impact Assessment conducted by the European Commission (2021a) on the CSRD, the complexities inherent in the legislative framework governing the disclosure of non-financial information until 2021 have brought forward challenges for various stakeholders. The regulatory landscape has presented impediments not only for users, i.e. investors, non-governmental organizations, the general public, and policymakers, but also for preparers, namely the reporting companies.

The Commission's report highlights two significant challenges regarding non-financial reporting by companies: a) some companies do not report non-financial information at all, and b) those that do report often fail to provide all the relevant information that is needed by users (European Commission, 2021a). A 2018 report on human rights reporting in France has found that 18 out of 20 companies do not identify their salient human rights issues, which are the human rights at risk of the most severe negative impact through the company´s activities and business relationships (Langlois, 2018). Furthermore, reported information is not sufficiently comparable as well as reliable (European Commission, 2021a). Following the 2018 Bloomberg Sustainable Business & Finance Survey, 48% of a sample of 100 European investors indicated that obtaining consistent and comparable data was a big challenge (Bloomberg, 2018). As a consequence, investors are unable to take sufficient account of sustainability-related risks into investment decisions that could potentially lead to a systemic risk that threatens financial stability (International Monetary Fund, 2019; European Commission, 2021). This assertion is supported by a European Central Bank study on Climate Change and financial stability, which highlights that the lack of sufficiently detailed public data hinders the allocation of funding for sustainable investments (Giuzio et al., 2019). Next to that, civil-society stakeholders struggle to hold companies accountable for their societal and environmental impacts, contributing to an accountability deficit and undermining the functioning of the social market economy (European Commission, 2021). The issues above translate into the following general problem identified by the European Commission: “users do not have access to adequate information about how non-financial issues, and sustainability issues in particular, might impact companies, or about how the company itself impacts society and the environment” (European Commission, 2021a, p. 9).

As argued above, the NFRD provides for the so called `comply-or-explain´ principle allowing companies to not disclose the required information but simply providing an explanation for doing so. The lack of reporting by companies and the lack of publication of relevant information can be explained, following the argumentation of Ioannou and Serafeim (2017), by this `comply or explain´ clause provided for in the NFRD. “[T]hey provide firms with the option of not increasing ESG disclosure but instead, to opt for briefly explaining why they are not releasing ESG data” (Ioannou & Serafeim, 2017, p. 3). The EP acknowledges that by stating that the “NFRD leaves a fair amount of flexibility in the implementation of its provisions” and thus provides companies with the ability to “disclose relevant information in the way they consider most useful” (European Parliament, 2021, p. 3). Although academic literature has also identified benefits in the application of the comply-or-explain principle, such as providing greater flexibility for issuers, and allowing companies and regulators to identify and address weaknesses and inefficiencies individually, concerns arise from the fact that companies may provide perfunctory explanations for deviations and relatively few firms will engage into adopting best practices (Harper Ho, 2017). Comply or explain may then simply become a ‘tick the box’ exercise (Harper Ho, 2017). Ioannou and Serafeim (2017) further stress the fact that the existence of the comply-or-explain provision potentially hinders the initial goal of disclosure regulations to increase the availability of information since companies are allowed to decide what to report on. This degree of flexibility in the implementation of the provisions impedes the necessary transparency and breadth of published information that is important to users of non-financial information.

Another deficiency points to the incomparability of reported information: Reported information is neither adequately comparable nor sufficiently reliable (European Commission, 2021). Recital nine of the NFRD stipulates that companies subject to the Directive may utilize various standards for reporting non-financial information (Directive 2014/95/EU). This provision has resulted in the adoption of a wide array of reporting standards, leading to a lack of comparability in the published non-financial information

(Baumüller & Grbenic, 2021; European Parliament, 2021; European Commission, 2021b). Moreover, the Impact Assessment underscores significant regulatory failures pertaining to the NFRD, emphasising the adverse consequences arising from the flexibility and insufficient granularity of reporting requirements on information comparability. Furthermore, the allowance within the NFRD for companies to publish non-financial reports distinct from the management report is highlighted as a factor diminishing accessibility to information and impeding its perceived reliability (European Commission, 2021a).

Further findings point to an insufficient scope of the Directive (Baumüller & Grbenic, 2021; Bossut et al., 2021). By only requiring large public interest entities with more than 500 employees to report non-financial information, many sectors, such as agriculture, are insufficiently covered. For example, despite agriculture´s substantial contribution to the EU's GDP and its significant environmental impact, only a small fraction of agricultural companies fall under the NFRD's reporting requirements. This results in only 1-2% of economic activities in this critical sector being accounted for under the Directive (Bossut et al., 2021).

Lastly, unlike financial reports that are subject to strict audit requirements, the disclosure of non-financial information is not subject to them (European Commission, 2021a). The lack of assurance measures results in inadequate oversight and allows for discretion in the preparation of sustainability reports. To this regards, the European Securities and Markets Authority (ESMA) notes that "the optionality that characterises the non-financial disclosure requirements (e.g. in relation to the applicable frameworks, the location and timing of publication of the NFS and the assurance) does not yet allow a satisfactory convergence of disclosure practices thus undermining the consistency of supervisory approaches which is urgent to achieve in this area" (European Securities and Markets Authority, 2019, p. 26).

In addition to the challenges faced by users of non-financial information, the regulatory framework established by the EU has presented considerable hurdles for preparers. As outlined above, the NFRD lacks specificity regarding the required information for disclosure and does not mandate using a particular reporting standard. Consequently, preparers of non-financial disclosures encounter difficulties and complexities in determining both the content and methodology of reporting (European Commission, 2021a; European Securities and Markets Authority, 2019). Furthermore, a significant challenge identified in the literature is the lack of convergence in definitions of non-financial reporting, which leads to inconsistencies in interpretation and implementation. Studies by Erkens et al. (2015) and Haller et al. (2017) highlight the absence of a unified definition, complicating the regulatory landscape. This lack of convergence underscores the fundamental importance of ensuring clarity and consistency across reporting requirements, as emphasized by Stolowy and Paugam (2018), Erkens et al. (2015), and Haller et al. (2017). The Network for Greening the Financial System (2019) also demands robust and internationally consistent climate and environment-related disclosure systems, further reinforcing the need for standardized definitions and approaches. Finally, as underscored by a number of reports, mandating the disclosure of non-financial information results in increased one-off costs as well as recurring administrative costs that companies, subject to this Directive, have to comply with (European Commission, 2021a; European Commission, 2021b; Ioannou & Serafeim, 2017). This issue is further explored in a later chapter of this thesis.

2.5 Conclusion

In conclusion, this chapter has delved into the landscape of non-financial reporting including the Non-Financial Reporting Directive of the EU. As the disclosure of non-financial information has experienced increased relevance over the time the EU has put forward a legislative approach underscoring the objectives of transparency, accountability, and sustainable development through Directives such as the AD, as well as the subsequent NFRD. While the NFRD is considered a pivotal step, its implementation has revealed a number of shortcomings. Users of non-financial information encounter issues with the adequacy, comparability, and reliability of the disclosed data, which impedes informed decision-making. The flexibility within the Directive, including the “comply or explain” principle and the lack of a mandated reporting standard, results in inconsistent disclosures. The absence of stringent assurance measures for non-financial disclosures leads to insufficient oversight and variable reporting practices. Next to the users of non-financial information these regulatory inadequacies also present challenges for preparers, who face complexities and increased costs of reporting on relevant activities. This hinders the achievement of the general objectives of achieving an efficient functioning of the single market, financial stability and sustainable growth. As the Commission´s Fitness Check concludes: “the context has evolved in such a way that the NFRD no longer represents an adequate response to new needs and challenges” (European Commission, 2021b, p. 81).

Chapter 3: Intervention Logic Framework Analysis

This chapter is dedicated to the Corporate Sustainability Reporting Directive. It will commence by delineating the rationale behind the introduction of the CSRD, followed by an overview of its implementation process. Following that, the chapter will undertake an Intervention Logic Framework analysis of the CSRD. To elucidate the anticipated cause-and-effect relationships between the Directive´s provisions and its objectives, the analysis will deconstruct the legislative act into distinct elements that illustrate how the EU intervention intends to achieve its goals. Initially, the analysis will address the needs and general objectives of the CSRD, outlining the fundamental issues and resulting prerequisites for both users and preparers of non-financial information. Subsequently, the objectives of the intervention – its intended goals – will be articulated. Upon establishing the goals of the intervention, the chapter will identify and examine the key policy activities intended to drive change. Each relevant activity will be presented then followed by its immediate results (outputs), and the medium and long term achievements on the addressee as well as on society or specific stakeholders (outcomes and impacts). The analysis will then undertake a comprehensive examination of the critical provisions within the CSRD, assessing the extent to which these measures contribute to the Directive´s intended outcomes. Furthermore, this analysis will account for key external factors that may impact whether and the extent to which anticipated effects will occur. The chapter will culminate in a discussion that seeks to evaluate whether the CSRD, as an amendment to the NFRD, is optimally structured to fulfil its objectives.

3.1 Rationale for the CSRD

Following the adoption of the NFRD in 2014, several landmark policy developments at both the EU and global levels have occurred (Hummel & Jobst, 2024; European Commission, 2021a). They include inter alia the adoption of the Sustainable Development Goals (2015), the Paris Agreement on climate change (2015), the EU Sustainable Finance Action Plan (2018) and the European Green Deal (2019). The more recently adopted Action Plans particularly reflect "a growing political and social awareness of the intensity of the sustainability crisis. For most sectors of the economy […] sustainability has clearly moved from the margins to the mainstream" (European Commission, 2021a, p.12). In alignment with this rationale, the EU Sustainable Finance

Action Plan identifies three key categories of action: (i) reorientate capital flows toward a more sustainable economy, (ii) integrate sustainability into risk management, and (iii) foster sustainability disclosure and sustainable mechanisms of corporate governance (European Commission, 2018).

Despite these advancements, the European Commission´s Fitness Check has repeatedly shown that the NFRD is unable to adequately address these emerging priorities (European Commission, 2021b). The assessment reveals that the EU framework under the NFRD fails to ensure that investors can adequately consider sustainability-related risks and opportunities for their investment decisions. This is primarily related to the lack of sufficient non-financial information. Additionally, "civil society, citizens, consumers and the general public large encounter greater difficulties in holding companies accountable of their impacts on the environment and society if non-financial reporting is insufficient" (European Commission, 2021b, p.68). This has resulted in a twofold shortcoming of the NFRD: First, it substantially limits the Directive´s effectiveness in achieving its original targets of increasing the relevance, consistency and comparability of information disclosed by certain large companies and groups across the Union. Second, these deficiencies inhibit the Directive´s capacity to substantially contribute to the wider objective of sustainable growth, as outlined in the EGD.

The Commission´s Impact Assessment of the CSRD concludes that the "political choices that shaped the NFRD in 2014, while valid at the time they were made, may not be appropriate in the current circumstances" necessitating a revision of the Directive (European Commission, 2021a, p. 12). This perspective is corroborated by numerous academic publications that underscore the shortcomings of the NFRD and emphasize the need for a revised policy approach (Hummel & Jobst, 2024; Baumüller & Grbenic, 2021; Mittelbach-Hörmanseder et al., 2020; Venturelli et al., 2020). Consequently, it is unsurprising that the Communication on the EGD in 2019, under the section of mainstreaming sustainability in all EU policies, announced the revision of the NFRD (European Commission, 2019).

3.2 Intervention Logic Framework

Following the announcement in the EGD about the revision the NFRD, the European Commission has started drafting a new Directive to revise the requirements of the NFRD.

The initial phase began with a consultation conducted in the first half of 2020, which underscored the necessity for a revised European framework for non-financial reporting (Baumüller & Grbenic, 2021; European Commission, 2021c). In early March 2021, the European Commission published the final reports from the European Lab, culminating in the proposal of the CSRD in April 2021. The consultation period for this proposal remained open until mid-July 2021, during which stakeholders provided their feedback. Initial reactions described the new rules as a “major step forward in sustainability reporting” (Deloitte, 2021). In light of these developments, the following sections are dedicated to, establishing the Intervention Logic Framework of the CSRD as to assess the relationship between its provisions and the potential to reach the intended goals.

3.2.1 Needs & Objectives

As outlined in the section above, the logic behind the CSRD is predicated on addressing significant shortcomings in the current non-financial reporting regime as outlined by the NFRD. Despite the NFRD´s initial advancement in embedding sustainability into corporate reporting within the EU, its scope and content have proven inadequate to meet evolving regulatory needs and the ambitious objectives of the EGD and the Sustainable Finance Action Plan.

The CSRD aims to bring about a transformative change into the landscape of non-financial reporting within the EU, aligning with broader sustainability goals such as the EGD and the United Nations Sustainable Development Goals (UN SDGs). The general objective of the CSRD states to better exploit the potential of the European Single Market and “to contribute to the transition towards a fully sustainable and inclusive economic and financial system in accordance with the European Green Deal and UN Sustainable Development Goals” (European Commission, 2021a, p. 15). Specific objectives of the Directive seek to enhance the quality and usefulness of sustainability reporting at minimal cost. For users of non-financial information, the CSRD sets out the objective to ensure that comprehensive, relevant, and comparable information about companies’ sustainability risks, opportunities, and impacts is publicly available. This includes making reported data reliable and easy to find and utilize (European Commission, 2021a). For preparers, the Directive aims to reduce administrative costs by providing clearer guidelines on what information needs to be reported and the methodologies to be used, thereby improving the efficiency and consistency of reporting processes. Additionally, it seeks to streamline data collection from business partners and mitigate the burden of multiple reporting demands. Overall, the CSRD aspires to elevate the status of non-financial information to a level comparable to financial information within the EU framework, fostering a more transparent and accountable business environment.

3.2.2 Activities

Building on the needs and objectives identified in the preceding section, the intervention logic of the CSRD provides for several activities designed to address the gaps and challenges in the existing non-financial reporting framework. These activities are listed in the following.

The first key activity is the development and implementation of mandatory reporting standards. It involves the creation of the ESRS, which provide a structured and uniform approach to non-financial reporting. These standards ensure that all relevant `sustainability matters´, including environmental, social, and governance factors, are consistently reported by companies within the scope of the CSRD. Another key activity is the mandatory limited assurance of reports. This requirement mandates that sustainability reports undergo an independent verification process. Following that, the third key activity related to the expansion of the scope. The CSRD extends the reporting requirements to a broader range of companies, including all large companies and those listed on regulated markets, significantly increasing the volume of entities that must comply with the new standards. Next, the amendment reporting requirements serves as another essential provision. It consists of three key elements: the clarification of sustainability reporting terms, more detailed reporting requirements for `sustainability matters´ and the implementation of the double materiality principle. In addition to this, the CSRD provides for specific rules on the publication of information.

Lastly, while not a legislative input, the company resources, IT and consultancy fees play a crucial role in ensuring the implementation of the CSRD. Companies must allocate resources to comply with new reporting standards, including administrative and operational costs. The above activities collectively form the foundation of the intervention logic, driving the outputs, outcomes, and impacts necessary to achieve the Directive's goals that are described in the next section.

3.2.3 Outputs, Outcomes, and Impacts

Following the activities, the Directive precipitates a series of effects structured into Outputs, Outcomes, and Impacts. The Outputs include:

- (i) the adoption and implementation of European Sustainability Reporting Standards (ESRS) by companies;
- (ii) the assurance of authenticity and accountability of reports;
- (iii) an increased number of companies reporting;
- (iv) a broadened range of non-financial information that is available, thereby enhancing transparency;
- (v) an increased level of detail in reported information, with companies disclosing the impacts of their influence on sustainability matters as well as the reciprocal impacts of sustainability matters on their operations;
- (vi) a mandate to publish non-financial information as part of the management report resulting in higher publicity of the disclosed information; and
- (vii) an overall improvement in the accuracy and completeness of non-financial information.

These outputs yield several Outcomes:

- (i) increased comparability of information;
- (ii) enhanced quality of information;
- (iii) a greater total volume of available information;
- (iv) increased reliability of information;
- (v) heightened accountability of companies;
- (vi) increased relevance of information;
- (vii) easier access and usability of non-financial information; and
- (viii) reduced administrative burdens on companies.

The cumulative outcomes generate long-term impacts that are closely aligned with the specific and general objectives of Directive 2022/2565/EU. These impacts include:

- (i) harmonization of regulatory requirements and enhancement of the coherence of sustainability reporting across the EU;
- (ii) greater control and scrutiny for users of non-financial information;
- (iii) elevation of the status of non-financial information in order to better match that of financial information within the EU framework;

- (iv) improved decision-making capabilities for both investors and civil society actors; and
- (v) a reduction in reporting costs over the medium to long term.

3.2.4 External Factors

The analysis has identified three key external factors affecting the factors contributing to an effective achievement of the CSRD´s objectives. Firstly, other national or European legislation, such as the Sustainable Finance Disclosure Regulation (SFDR), or the German supply chain law that has repeatedly been subject of criticism for creating unnecessary burdens, may increase administrative costs or lead to double reporting for companies (Reuters, 2024). This concern has been echoed by stakeholders, especially from the financial sector, who argue that EU legislation on reporting needs to be coordinated to avoid gaps and overlaps (European Commission, 2021). The open consultation revealed that 79% of financial sector respondents believe better alignment between different pieces of legislation, such as the revised NFRD, SFDR, and EU Taxonomy, is necessary, while only 3% believe the current alignment is adequate (European Commission, 2020d). This indicates the effect that additional non-aligned legislation can have on companies, with the potential of significantly increasing administrative burdens. It further shows the fundamental importance of the CSRD´s provisions to address this issue and enhance the coherence of EU sustainability reporting requirements.

Secondly, European Single Access Point (ESAP) for published information is a crucial external factor. The Capital Markets Union High-Level Forum's final report invites the Commission to propose legislation for ESMA to establish an EU-wide digital access platform (European Commission, 2020a). The ESAP should provide public information that is freely accessible and free of fees or license use and "include non-financial statements disclosed by companies listed on EU regulated markets pursuant to the Non-Financial Reporting Directive" (European Commission, 2021a, p. 148). This provision is vital for improving access and usability of non-financial information for users.

Lastly, the impact of international reporting standards must be considered. The Commission aims to align the development of the ESRS with established international standards, such as the Global Reporting Initiative (GRI), the International Financial

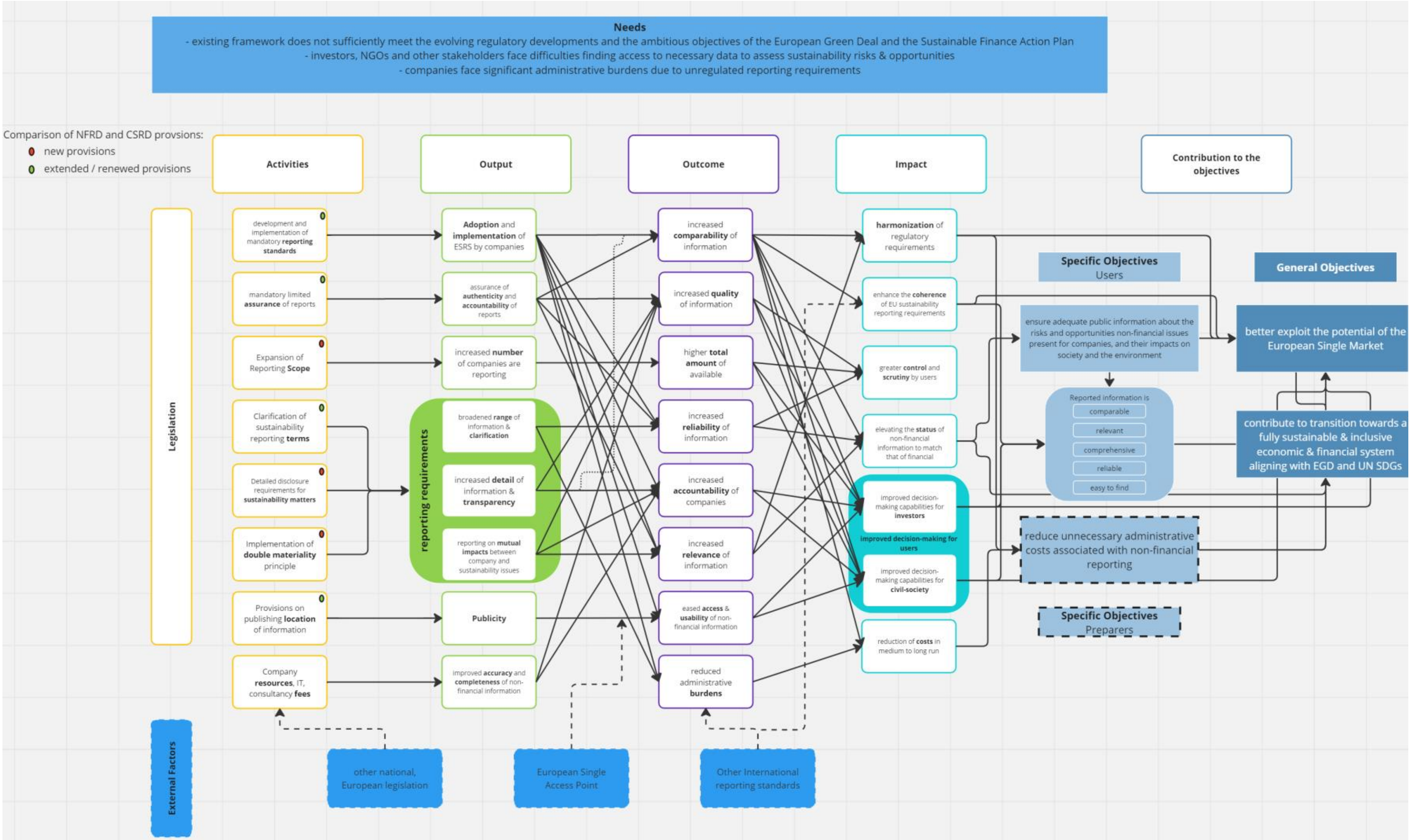
Reporting Standards (IFRS) Foundation, the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). By building on the regimes and contents of existing international standards, the EU intends to ensure continuity and consistency for companies transitioning to new reporting requirements (European Commission, 2021a). This inclusive approach involves all relevant stakeholders, including preparers (including SMEs), and users, including both investors and civil-society participants (European Commission, 2021a). Additionally, partnering with international reporting organizations limits the costs of establishing standards for the EU (European Commission, 2021a, p. 30). Aligning with established standards also benefits companies that have already been active in non-financial reporting before legislation´s establishment.

3.3 Intervention Logic Visualization

The subsequent section presents a visualization of the Intervention Logic Framework. This framework is structured into the components explained above: Needs, Activities, Outputs, Outcomes, Impacts, and finally, Specific and General Objectives. Notably, within the activities, the red and green dots are indicating whether a provisions is new (red dot) or an extension or renewal of existing provisions under the NFRD (green dot). Following the activities which represent the legislative provisions that the Directive provides, the outcomes pertain to the immediate results observed from implementing these provisions in practice. Outcomes reflect the related improvements and benefits each specific provision can yield. The subsequent impacts denote the long-term effects, which align with the specific and general objectives the Directive aims to achieve. Additionally, the Intervention Logic Framework considers the influence of external factors, represented in blue at the bottom of the visualization.

Figure 1

Intervention Logic Visualization



The following analysis will concentrate more in depth on the identified key provisions of the CSRD, outlining the cause-effect relationship between the provisions and the intended impacts. Specifically the mandated use of ESRS, the implementation of mandatory assurance, the expansion of the scope, and the amendment of reporting requirements will be considered.

3.4 Mandatory Standardized Reporting

The ESRS are rooted in the provisions of Article 29b of the CSRD, which mandate the use of specific standards for non-financial reporting. These provisions require the European Commission to adopt delegated acts specifying the sustainability information companies must report, ensuring consistency and comparability in the disclosed data. The development and mandatory implementation of these reporting standards by companies represent a relevant policy activity. The standards encompass a wide range of sustainability matters, including environmental factors such as climate change mitigation and adaptation, resource use, and biodiversity; social factors like equal treatment, working conditions, and human rights; and governance factors including business ethics, anti-corruption measures, and internal control systems (Directive 2022/2464/EU; European Commission, 2021c). By June 30, 2023, the Commission was mandated to specify complementary and sector-specific reporting information. The Impact Assessment by the Commission indicates that the mandatory use of these standards yields several key outcomes: enhanced relevance, comparability, reliability, and usability of non-financial information (European Commission, 2021a). Additionally, the intervention logic suggests further outcomes, including eased access to non-financial information and reduced administrative burdens.

The increased relevance of non-financial information is achieved by mandating companies within the scope to report data deemed relevant by a consensus of all relevant stakeholders, including civil society representatives. This approach aligns with the need for coherence in EU sustainability reporting requirements. Notably, 79% of financial sector respondents in a public consultation highlighted the necessity of streamlining different reporting requirements to meet the obligations of the SFDR and the Taxonomy Regulation (European Commission, 2020d). The standardization of reporting within the EU also harmonizes regulatory requirements and elevates the status of non-financial information to match that of financial information. The comparability of disclosed information is significantly enhanced when companies adhere to the same reporting standards. During the public consultation process, 84% of users indicated that the limited comparability of current information is a major issue (European Commission, 2020d). Improved comparability also contributes to a harmonization of regulatory requirements and the elevation of the status of non-financial information, ensuring better decision-making capabilities for investors and civil society actors. This represents "a significant step in making the status of non-financial information more comparable to that of financial information within the EU framework" (European Commission, 2021a, p. 28). Standardized reporting also enhances the reliability of information, facilitating more effective assurance processes: “mandatory standards would ensure the transparency and robustness of methodologies […] enabling greater control and scrutiny by users themselves” (European Commission, 2021a, p. 28). This provision enables users of non-financial information to profit from greater control and verification. In addition, more reliable information helps to align the status of non-financial information with that of financial information in the EU. The usability of non-financial information is significantly improved as standards are considered a pre-requisite for the digital tagging of information, facilitating the digitalization of reported data and ultimately improving its usability (European Commission, 2021a). This effect is further enhanced through the provision of the ESAP, as articulated in the external factors. The resulting impact of improved access and usability positively affects decision-making capabilities of investors and civil society actors and further elevates the status of non-financial information. These outcomes align with the objectives articulated in Article 29b, paragraph 2, of the CSRD, which establishes the foundations for the creation of the sustainability reporting standards. This provision emphasizes that the standards must ensure the quality of reported information by mandating that it is understandable, relevant, verifiable, comparable, and faithfully represented (Directive 2022/2464/EU).

Another critical outcome is the reduction of administrative burdens. According to the Commission (2021a), standardized reporting reduces costs in the medium to long term because publicly available adequate information decreases the number of additional requests for information, thereby reducing the costs of meeting various users´ demands. Companies benefit from greater clarity and certainty about the information to report, reducing inefficiencies in compliance efforts. Lastly, companies face reduced costs to gather necessary information from suppliers to the extent that "suppliers and clients are also required to use EU standards" (European Commission, 2021a, p. 30).

However, the mandatory adoption of standardized reporting under the CSRD has not been without criticism. Critics argue that the ESRS may impose significant administrative and financial burdens, particularly on smaller companies and family businesses. The Family Business Foundation and Politics (German "Stiftung Familienunternehmen und Politik"), a German lobby organisation for family businesses, criticise that smaller companies, which constitute a large percentage of businesses in the EU, are to be disproportionately burdened by the detailed reporting obligations of the CSRD (Stiftung Familienunternehmen und Politik, n.d.). For instance, the average cost per company associated with the initial CSRD proposal is estimated at around EUR 100.000 for the first year alone (EFRAG, 2022). This figure represents a significant financial strain, especially for smaller firms that lack the resources of larger corporations. Additionally, while the ESRS aims to improve the reliability and comparability of non-financial information, it also introduces complexity that could be challenging for businesses with limited experience in sustainability reporting. The extensive and detailed nature of the standards may require companies to divert resources from actual sustainable projects to compliance efforts, potentially undermining their long-term sustainability goals.

In conclusion, the mandatory adoption of the ESRS ensures that information disclosed by companies falling under the Directive is more relevant, comparable, reliable, and usable, while also providing easier access and expected to reduce overall administrative burdens for preparers. This development, as articulated by the Commission, would benefit both users and preparers of non-financial information. Investors and other stakeholders gain improved access to consistent and reliable information, facilitating better decision-making processes and enhancing market efficiency (European Commission, 2021a). Preparers benefit from clarity and certainty regarding required disclosures, ultimately reducing the costs associated with meeting multiple reporting requirements (European Commission, 2021a.). However, the Commission´s perspective contrasts sharply with that of companies, who voice apprehensions regarding potential overburdening requirements and associated costs (Stiftung Familienunternehmen und Politik, n.d.; Baumüller & Grbenic, 2021; Interview). Nonetheless, the analysis, visually depicted in

Section 3.3, substantiates a causal link between the enforcement of reporting standards, their resultant impacts, and the effect on the overarching objective of enhancing the quality of disclosed information.

3.5 Independent Assurance of Reports

As stipulated in Article 26a, the CSRD mandates the independent assurance of non-financial reports, specifically through limited assurance engagements (Directive 2022/2464/EU). This regulatory framework requires companies to subject their non-financial information to limited assurance by statutory auditors or accredited independent assurance service providers. The European Commission's Impact Assessment (2021a) identified two policy options for mandating the independent assurance of non-financial information: limited and reasonable assurance. Although reasonable assurance, involving more extensive testing, would more significantly enhance the reliability, comparability, and relevance of the information, its associated costs for preparers were deemed to outweigh the benefits (European Commission, 2021a). This decision aligns with public consultation findings, where 67% of respondents favoured stronger audit requirements, but among preparers, 52% preferred limited assurance compared to 35% who favoured reasonable assurance (European Commission, 2020d). Consequently, the CSRD mandates limited assurance of non-financial reports, with a potential transition to reasonable assurance envisaged for 2028, as articulated in Article 26a, paragraph 3 (Directive 2022/2464/EU).

Under the NFRD, non-financial statements are exempt from mandatory audit opinions in management reports (European Commission, 2021a). The implementation of mandatory limited assurance addresses this gap, leading to improved reliability of reported information (Accountancy Europe, 2020; European Commission, 2021a). Subsequently, this policy activity results in multiple long-term impacts on non-financial reporting. Above all, it significantly enhances the overall transparency and accountability of corporate non-financial reporting, thereby contributing to the specific objectives set out in the Directive. It improves stakeholders' access to reliable and consistent information, benefiting investors, regulators, and civil society representatives who require dependable and uniform data to assess companies' ESG performance and to make informed decisions. However, this provision also increases administrative burdens, notably the costs for companies within the Directive's scope, with the Commission estimating an annual incremental cost of 80 million euro for companies (European Commission, 2021a).

Moreover, various assessments indicate that the assurance provisions contribute, albeit to a lesser extent, to increased comparability and relevance of reported information (European Commission, 2021c; European Commission 2021a). Enhanced comparability and reliability aid investors and other market participants in making better-informed decisions, leading to more efficient allocation of resources within the market and enabling stakeholders to more accurately assess the sustainability and risk profiles of companies.

Mandatory limited assurance of non-financial reports results in significant impacts that derive from several outcomes. For instance, as argued in the example of mandatory reporting standards, improved comparability leads to the harmonization of regulatory requirements and enhanced coherence of EU sustainability reporting, while increased quality and reliability of information contribute to greater control and scrutiny by users.

In sum, the Intervention Logic Framework analysis reveals a clear relationship between the objective of enhancing the quality, relevance, and reliability of disclosed non-financial information and the impacts observed through the policy activity of mandating limited assurance. This relationship, visually presented in Section 3.3, illustrates the comprehensive impact of the assurance provisions on the comparability, reliability, relevance and quality of non-financial information. By mandating limited assurance, the CSRD fosters a more robust and transparent reporting environment, benefiting both preparers and users of non-financial information. Preparers gain from clear guidelines and reduced compliance inefficiencies, while users, including investors and civil society actors, receive more reliable and comparable data, enhancing their decision-making processes. In return, this leads to a more efficient allocation of resources within the market, as stakeholders can more accurately assess the sustainability and risk profiles of companies. The assurance provisions therefore play a crucial role in achieving the Directive´s overarching goals of ensure the provision of adequate publicly available information as well as better exploiting the potential of the Single Market.

3.6 Expansion of the Scope

Following the provision of mandatory reporting standards and mandatory limited assurance of reports, the CSRD significantly broadens the scope of the NFRD. The immediate output of this policy activity is a regulatory framework that mandates a wider array of entities to report non-financial information, thereby providing a more comprehensive and consistent dataset on corporate non-financial information. The scope of the NFRD is limited to large public interest entities with more than 500 employees, defined as those exceeding at least two of the three criteria: a balance sheet total of EUR 20,000,000, net turnover of EUR 40,000,000, and an average number of employees during the financial year of 250. In contrast, the CSRD expands this scope to include large European and non-European companies, all public interest entities, all other large EU companies, and listed SMEs on EU regulated markets, excluding micro-enterprises (Directive 2022/2464/EU). According to the European Commission (2021a), this expansion brings approximately 37.500 additional companies under the Directive's scope. Consequently, the primary outcome is a substantial increase in the total amount of available information. The Commission´s (2021a) assessment highlights that the inclusion of listed SMEs is particularly significant, as they constitute 26% of all listed companies in the EU. Their inclusion is deemed highly effective in meeting investors' needs (European Commission, 2021a, p. 47). Furthermore, the broader scope ensures that nearly 100% of the total EU market capitalization is covered, significantly contributing to the achievement of the Directive´s specific objectives (European Commission, 2021a; European Commission, 2021c). This expansion also aligns with user preferences, as 74% of non-financial information users favour the inclusion of listed SMEs in the Directive´s scope (European Commission, 2020d).

This expansion is expected to lead to several long-term impacts. First, it enhances overall transparency and accountability as more companies are required to disclose non-financial information, providing users with a greater volume of reliable data for informed decision-making. Second, the broadened scope supports investors and other users of non-financial information with improved decision-making capabilities which backs the Directive´s contribution to the broader objectives of the EU, such as the transition to a sustainable economy, the effective functioning of the single market, and alignment with the EGD and the UN SDGs. The increased number of reporting companies and the significant rise in reliable and quality information enable investors to make decisions based on sustainable factors.

However, the provisions also raises significant concerns. First, the inclusion of approximately 37.500 companies is expected to result in severe increases in both incremental and recurring costs for companies (EFRAG, 2022; European Commission, 2020c). The specific issue of costs will be explored in Chapter 4 of this thesis. Second, smaller companies and SMEs, in particular, may face disproportionate challenges due to regulatory costs, which can be more burdensome relative to their resources and operational scale (Stiftung Familienunternehmen und Politik, n.d.; Baumüller & Grbenic, 2021). This concern is supported by findings indicating that smaller entities anticipate higher relative administrative burdens under the new ESRS regime compared to larger counterparts (EFRAG, 2022).

In conclusion, while broadening the scope of the CSRD enhances transparency and accountability across a wider spectrum of companies, it necessitates careful consideration of its potential economic implications, particularly for smaller enterprises. The incorporation of additional companies, notably listed SMEs, responds to stakeholder preferences and fulfils investors' demands for reliable and comparable data. Consequently, this provision supports investors in making informed decisions that promote a transition towards a sustainable economy aligned with the EGD and the UN SDGs. Moreover, ongoing monitoring is imperative due to the disproportionate burden the directive imposes on smaller companies. This monitoring ensures that regulatory frameworks such as the CSRD achieve their intended objectives without unduly hampering the operational capabilities and growth prospects of smaller market participants. Hence, continuous evaluation and adaptation of regulatory measures are essential to mitigate adverse effects and optimize the overall effectiveness of sustainability reporting mandates.

3.7 Amendment of Reporting Requirements

In addition to the provisions outlined above, the CSRD significantly amends reporting requirements to cover more specific and comprehensive sustainability information. The amendment involves three primary activities: the clarification of terms and definitions, provisions of comprehensive reporting requirements, and reinforcement of the double materiality principle (Directive 2022/2464/EU). Each of these activities leads to distinct outputs, outcomes and impacts, contributing to the overarching goals of the Directive.

The first activity focuses on the clarification of terms and definitions. Article 2 of the CSRD introduces and defines the key terms “sustainability matters” and “sustainability reporting”, providing a clearer framework for companies to follow (Directive 2022/2464/EU). Sustainability matters encompass environmental, social, human rights, governance factors, as well as anti-corruption and anti-bribery matters while sustainability reporting pertains to reporting information related to these sustainability matters. The resulting output of this activity translates into a broadened range of information that are reported ensuring a common understanding and consistent application across all reporting entities. Reporting companies benefit from clarification and a reduction of inconsistencies in reporting practices. In fact, within the public consultation on the CSRD, a total of 66% of preparers of non-financial information reports have at least partially agreed to the fact that companies under the scope of the NFRD are facing uncertainties and complexities when deciding what information to publish (European Commission, 2020d). Respondents have further raised the issue of administrative burdens and costs arising from the uncertainty of what needs to be reported (European Commission, 2020d). By creating clarity and certainty around the terms, the Directive aims to reduce the burden on companies and improve compliance as well as the production of higher quality sustainability reports. The clarification also enhances the reliability of non-financial information, as it allows users to make informed decisions based on clearer and more consistent data.

The second activity builds directly on the objectives of the first. Companies are now mandated to disclose detailed information about their sustainability strategies, targets, management roles and methodologies, in short, medium and long term perspectives. Specific requirements of Article 19a include describing the resilience of business models and strategies in relation to sustainability risks, opportunities related to sustainability matters, description of time-bound targets, and plans of the undertaking to limiting global warming in line with the Paris Agreement under the United Nations Framework Convention on Climate Change (Directive 2022/2464/EU). As an outcome of the provision, an increased accountability allows stakeholders to gain deeper insights into companies’ sustainability practices and impacts. This further enhances decision-making capabilities, predominantly for investors, as they can profit from comprehensive and detailed information (European Commission, 2021a). Ultimately, the provision´s alignment of corporate practices with sustainability goals and wider objectives contributes to the overall transition to a sustainable economy.

The third activity emphasizes the reinforcement of the double materiality principle. This principle mandates that companies report information necessary to understand both the impact of sustainability matters on the company and the company´s impact on people and the environment (European Commission, 2021a). This dual perspective aims to enhance the relevance and utility of the reported information for stakeholders. The provision´s output relates to the findings of the Fitness Check, which finds that one reason why "many companies fail to disclose relevant non-financial information, while also disclosing information that is not relevant" is the fact that provisions, specifically related to the double materiality principle, are not clear enough and not well understood (European Commission, 2021b. p. 58). The provisions of the CSRD are supposed to result in a more thorough evaluation of the company´s impact on sustainability issues and the impact of these issues on the company, aiming to provide a holistic understanding of the mutual relationship. Consequently, the disclosed information can benefit from higher data quality and improved relevance. Improved quality creates a positive effect on improving users´ capabilities of decision-making when assessing non-financial information, while an enhanced relevance positively contributes to the elevation of the status of non-financial information to match that of financial information.

De Cristofaro and Gulluscio (2023) highlight that while the CSRD aims to clarify terms and definitions, the actual adoption and implementation of concepts like double materiality remain varied among companies. Their study suggests that while European companies, especially in service industries, have shown proactive approaches to DM in their sustainability reports, global adoption remains limited. This indicates that while the CSRD clarifies definitions, practical application and understanding of terms like DM may still present challenges, impacting how companies interpret and disclose sustainability impacts. Moreover, the article highlights potential difficulties that companies may face in maintaining consistent and clear reporting narratives when using the double materiality principle. The CEPS study, commissioned by the European Financial Reporting Advisory Group (EFRAG) (2022), adds another layer to this discussion by pointing out concerns regarding the competitive implications of non-financial reporting regimes. The existing literature indicates that while mandatory disclosure regimes can enhance transparency and accountability, they also introduce challenges related to competitive positioning of companies. For instance, preparers are cautious about disclosing sector-specific risks and opportunities, fearing that competitors could exploit this information (Au & Tan, 2021; Chen et al., 2022; Minnis & Shroff, 2017). This concern is compounded by the global nature of markets, where disclosure of proprietary information could potentially disadvantage firms in competitive markets (EFRAG, 2022).

In summary, the amendment of reporting requirements under the CSRD through clarification of terms, provision of comprehensive reporting requirements, and reinforcement of the double materiality principle significantly enhances the quality, relevance and usability of non-financial information and thus non-financial reports. However, concerns raised by companies regarding competitive disadvantages highlight potential challenges in achieving widespread adoption and effective implementation of the double materiality principle. Despite these challenges, the CSRD´s interventions contribute to its overarching objective of fostering the availability of high-quality non-financial information on companies and their impacts on society and the environment.

3.8 Conclusion

The primary objective of this chapter was to describe the CSRD by analysing its key provisions, the related outcomes and impacts. This conclusions aims to summarize these findings and determine whether the CSRD is equipped with the right provisions in order to achieve its intended targets. Since the companies falling under the CSRD need to start reporting from the financial year of 2024 onwards, the actual effects of the provisions cannot yet be analysed, but they would be well-suited for future study. However, this conclusion will offer insights on the provisions of how effects are intended to be monitored.

The CSRD requires all companies within its scope to report in accordance with the ESRS, aiming to ensure a consistent, comparable, and reliable framework of non-financial reporting. The Intervention Logic analysis finds that the mandatory use of the ESRS enhances the relevance, comparability, and usability of non-financial information, aiding investors and civil society in better decision-making. Clearer reporting guidelines can reduce uncertainties and administrative burdens, ultimately lowering compliance costs for companies.

Under the regulatory framework of the NFRD, an estimate of 30% of all companies sought some form of assurance. The CSRD mandates limited assurance for reported information, which enhances the reliability, accountability, and credibility of non-financial reports. Additionally, the CSRD extends its scope to include all large companies and all companies listed on EU regulated markets, except listed micro-companies. This includes non-EU companies listed on EU regulated markets and the EU subsidiaries of non-EU companies. This expansion will ensure that approximately 49.000 companies, representing 75% of the turnover of all limited liability companies, report on sustainability information (European Commission, 2021c). A significant shift compared to the regime of the NFRD, encompassing around 11.700 companies, representing 47% of the turnover of all limited liability companies (European Commission, 2021c). Furthermore, the provisions on renewed reporting requirements have a dual positive effect. Companies benefit from clarified terms and definitions, while users gain access to more detailed and relevant data, addressing the issue of irrelevant data reported under the NFRD.

These outcomes lead to a number of long term impacts that relate to the set objectives. The expanded scope and the mandatory standardized reporting regime significantly enhance the volume, reliability and comparability of reported information, positively affecting the general goal of providing adequate publicly available information about non-financial issues. The provision further impacts the specific objective of ensuring that reported information is a) what users want, b) relevant, c) comparable, and d) reliable and therefore presents a suitable intervention to address the underlying issues that have been identified in the reporting regime of the NFRD. Mandatory assurance of reports will increase the number of companies providing assurance and ensure that users can rely on the reported information. This creates a long term impact of improved decision-making capabilities for users, including both investors and civil-society representatives, of non-financial information, corresponding with the specific objective of providing adequate public information about the risks and opportunities non-financial issues present for companies. In the eyes of the Commission, the mandatory standards as well as the provision of mandatory limited assurance "will provide savers and investors who want to invest sustainably with the possibility to do so” (European Commission, 2021c, p. 10). Furthermore, among the general public, including inter alia policy makers, there is a strong consensus that using a common standard helps addressing the existing issues, as 82% of the respondents to the public consultation agree that the use of a common standard would help to increase the relevance, comparability and reliability of the reported information (European Commission, 2020d; European Commission, 2021a).

The provision to include sustainability reports within the general management report and the establishment of a European Single Access Point significantly enhance user benefits. These measures ensure that investors and other stakeholders have access to higher quality, more relevant and readily accessible non-financial information. Bettering the conditions for investors and civil society stakeholders aligns with CSRD´s objective of fostering a sustainable and inclusive economic system, in accordance with the European Green Deal and the UN SDGs in the EU. Another key element is the elevation of non-financial information to a status comparable to that of financial information. This elevation is driven by enhanced reliability through mandatory assurance and increased relevance due to update reporting requirements.

Moreover, the increased comparability and relevance of the reported information play a crucial role in harmonizing regulatory requirements and enhancing the coherence of EU sustainability reporting. Harmonized regulations reduce complexities and compliance costs, thus a) contributing to the specific objective of reducing unnecessary burdens and b) contributing to better exploit the potential of the Single Market. Likewise, the increased coherence of European sustainability reporting requirements specifically contributes to the specific objectives of enhancing the overall quality of reported information and thus ensuring the CSRD´s alignment with its intended targets.

In summary, the CSRD´s provisions are effectively designed to achieve its intended targets. Each provision individually contributes to the achievement of the specific and the general objectives, outlined by the legislation. The Intervention Logic visualization indicates that several shortcomings of the NFRD are directly addressed. For examples, mandatory standards and the expansion of the scope prevent companies to fully abstain or to report on irrelevant information. According to the European Commission’s Fitness Check evaluation criteria, the CSRD demonstrates to be a relevant intervention, confirming that its objectives address current needs appropriately. The anticipated improvement in informed decision-making for users of non-financial information aligns with the effectiveness criterion, suggesting that the EU framework will likely enhance stakeholders' ability to make well-informed decisions. Finally, the efficiency criterion, which evaluates whether the framework´s costs are justified and proportionate to its benefits, will be examined in detail in Chapter 4.

However, several questions remain. First, as the CSRD will take effect from the financial year of 2024, with reports being published in 2025, effective implementation and consistent monitoring across member states will be crucial to ensure that the intended benefits can materialize. Second, while the provisions of limited assurance improves the reliability of non-financial information, it may not be as robust as reasonable assurance. Lastly, companies, particularly SMEs, may face significant initial costs to comply with new reporting standards and assurance requirements. Total costs are estimated to be around 1.200 million in one-off costs and 3.600 million in annual recurring costs, placing a significant burden on companies (European Commission, 2021c). This challenge will be subject to further analysis in Chapter 4 of this thesis.

Looking ahead, the Impact Assessment (2021a) has identified several options for tracking objectives and progress. To monitor advancements towards meeting the CSRD´s objectives, the Commission plans to organize periodic surveys of users and preparers, depending on the financial resources (European Commission, 2021a). These surveys will assess users' perceptions of non-financial reporting evolution and the costs and benefits for preparers. Progress can also be monitored through analyses of company transparency ratings and the convergence of ESG scores from various rating agencies, indicating more comparable data. Monitoring the general objectives is more complex, but trends in sustainable investments and assessments by banking supervisors on systemic financial risks will provide further insights. Reports by civil society organizations, rating agencies, and other stakeholders will complement the Commission's monitoring efforts. While the CSRD appears to be well-equipped with robust provisions, its ultimate effectiveness will be determined by its implementation and consistent monitoring across member states.

Chapter 4: Counting the Costs: Balancing Compliance and Burdens under the CSRD

Having established the Intervention Logic, it is evident that the CSRD incorporates several provisions that position it effectively to achieve its intended objectives. As discussed in Chapter 3, these provisions also impact the administrative burdens and associated costs borne by companies due to the revised reporting requirements. Given that one of the CSRD's specific objectives is to reduce unnecessary administrative costs, this chapter will undertake a detailed examination of the Directive´s effects on the financial costs that disclosing or not disclosing impose on companies. Administrative costs are a specific type of compliance costs incurred by enterprises, public authorities, and citizens in meeting obligations under regulatory frameworks. They encompass a wide range of expenses such as company resources, staff training, IT tools, provision of data, or costs of external service such as legal advice (European Commission, 2023b). As outlined in the Better Regulation Toolbox of the European Commission (2023b), the EU Standard Cost Model (SCM) provides a structured approach to assess these administrative costs, considering both recurring and one-off expenses. Recurring administrative costs include regular activities needed to fulfil ongoing obligations, while one-off costs arise from initial compliance efforts. Additionally, it accounts for the removal of existing administrative obligations to determine the net impact of new regulations. This chapter is structured into several parts. It begins with a literature review to provide an overview of the challenges and implications that have been identified by academia. Following this, separate sections will assess both the administrative burdens under the framework of the NFRD and the anticipated burdens faced by companies under the regime of the CSRD. Subsequently, in alignment with the findings of the intervention logic, the chapter will evaluate the Commission´s argument that several provisions of the Directive will help reduce administrative burdens and costs in the medium to long term. Additionally, there will be a brief consideration of the challenges faced by SMEs. The chapter concludes by synthesizing the findings and contextualizing them within the broader scope of this thesis.

4.1 Literature Review

In 2018, Grewal et al. (2018), investigate the market reaction to the introduction of required non-financial disclosure by the NFRD. Their research provides valuable insights into how markets responded to this mandate, revealing three critical issues relevant for this Chapter. First, the study highlights a general negative market reaction to the introduction of the NFRD, with an average decrease in market value by 0,79% (Grewal et al., 2018). These findings demonstrate that the equity market perceived the introduction of the NFRD as imposing net costs on firms, leading to a decline in their market value (Grewal et al., 2018). Second, their findings suggest that firms with stronger pre-existing ESG performance and disclosures experienced a less negative or even a positive market reaction (Grewal et al., 2018). This implies a rewarding market reaction for companies engaged in "predirective ESG performance and disclosure" and a likely negative cost-benefit trade-off for companies who have not provided information voluntarily beforehand (Grewal et al, 2018, p. 18). Third, companies with weaker ESG practices encounter higher costs of compliance with the NFRD that outweigh the benefits, reinforcing the idea that mandating disclosure can be seen as a burden for companies (Grewal et al., 2018).

In light of this chapter´s assessment of the burdens faced by companies, these results are particularly relevant. Given that the scope of the NFRD is significantly narrower than that of the CSRD, and considering that factors such as the use of standards, assurance, or specifications on reporting requirements are typically non-binding under the NFRD, the mandated provisions under the CSRD, identified in Chapter 3, could impose substantially greater burdens on companies. This line of argument aligns with the views of Baumüller and Grbenic (2021), who emphasize that the CSRD´s provisions "will require additional efforts and considerable investments from companies that already fall under the regime of the NFRD", and even more challenges, including high reporting costs, are expected for companies not yet under the Directive´s scope (Baumüller & Grbenic, 2021, p. 377). Similarly, Hummel and Jobst (2024) outline a significant burden related to mandated reporting for companies. They specifically highlight that the increased scope, now covering approximately 50.000 companies, disproportionally impacts SMEs, particularly given their smaller impact on sustainability. This literature review underscores the significant administrative and financial burdens imposed by the CSRD, setting the stage for a detailed examination of these impacts in the following sections.

4.2 Administrative burdens under the NFRD

Before coming up with the proposal for the CSRD, the European Commission (2020c) has tasked the Centre for European Policy Studies (CEPS) to develop a report on the effects of the NFRD. Following that, the NFRD has imposed significant costs on companies within its scope, particularly in terms of administrative and incremental expenses[6]. The recurring administrative costs for providing non-financial statements under the NFRD are on average 82.000 euro per year (European Commission, 2020c). These costs vary depending on factors such as company size, sector, and the level of assurance and comprehensiveness of the reporting. Despite the NFRD not mandating any form of assurance for reports, about two thirds of the surveyed companies incurred additional assurance costs, averaging 76.000 annually (European Commission, 2020c).

The report finds that across all sectors the costs of the first year are on average higher than the recurring costs of the following years (European Commission, 2020c). Examples of these first year costs, also `one-off´ or `start-up´ costs, related to activities as familiarizing with regulatory requirements, seeking legal advice for compliance, acquiring or developing IT tools, or establishing data collection procedures (European Commission, 2020c).

Smaller companies face relatively higher incremental costs, constituting to, on average, 53% of administrative costs in the first year of compliance and 49% in the subsequent years (European Commission, 2020c). This implies that approximately 47% of the costs incurred by smaller companies in the first year of compliance, and 51% in subsequent years, are business-as-usual (BAU) costs. Accordingly, these are expenses companies would have incurred anyway for internal management, CSR purposes, or voluntary disclosure, even without the existence of the NFRD (European Commission, 2020c). For bigger companies a different picture arises: the ratio between administrative and

[6] Administrative costs refer to the overall expenses incurred by companies to comply with non-financial reporting requirements, while incremental costs, also known as administrative burdens, represent the additional costs beyond what would be considered business-as-usual (BAU) practices, which include activities companies would perform even without the mandate, such as internal management or voluntary CSR disclosures.

incremental costs "goes down to about 34% in the first year (33% in the following years), thus showing that most of their compliance costs fall within the BAU factor (66% in the first year of compliance, 67% in the following years)" (European Commission, 2020c, p. 63). According to the authors, these findings can be explained by the fact that large companies are often times already experienced in reporting non-financial information and thus considered frontrunners (European Commission, 2020c). This aligns with the argumentation of Grewal et al. (2018), mentioning a rewarding market reaction and a positive cost-benefit trade-off for companies that show pre-directive engagement into disclosure of non-financial information.

Overall, the total administrative costs for the first year of compliance with the NFRD were estimated at about 200 million euro, decreasing to just below 140 million euro in subsequent years (European Commission, 2020c). Incremental costs were estimated at 120 million euro for the first year and 80 million euro thereafter. While these costs represent a negligible share of the regulated companies' turnover on average (0.009% for administrative and 0.005% for incremental costs in the first year), they are proportionally higher for smaller companies (European Commission, 2020c). Factors such as company size, type of business, and the Member State of the reporting company significantly influence the magnitude of these costs. Companies that publish non-financial statements within management reports generally incur lower costs compared to those publishing separate reports (European Commission, 2020c).

Building on this discussion of the costs associated with the NFRD, it is crucial to examine how the CSRD, which amends numerous provisions and introduces new ones as presented in Chapter 3, impacts these reporting costs. Given that one of the CSRD´s specific objectives is to `reduce unnecessary burdens´ and the general objectives state the goal of "improving EU non-financial reporting at the least possible cost", it is essential to assess how these pre-existing costs of complying with the NFRD have evolved (European Commission, 2021a, p. 15).

4.3 Administrative burdens under the CSRD

The CSRD represents a substantial advancement in the regulatory framework for non-financial reporting within the EU, expanding upon the groundwork established by its predecessor. The evolution of costs under this Directive is influenced by several provisions, with the introduction of mandatory standards being a key factor. They are projected to generate annual incremental costs of approximately 210 million euro (European Commission, 2021a). In addition, one-off incremental costs account to 29 million euro which the Commission considers to be relatively moderate, as around half of the companies currently subject to the NFRD already apply a similarly detailed standard (European Commission, 2021a). The annual average costs of reporting against EU standards for a company is estimated to be about 106.000 euro (European Commission, 2021). However, for the large companies under the NFRD, the CEPS survey highlights a wide variation in reporting costs. Costs ranged from 437 euro to 800.000 euro, with a median of 61.000 euro (European Commission, 2020c). Therefore, with the expansion of the CSRD and the inclusion of a substantial number of smaller companies, it is anticipated that the average reporting costs for these smaller entities will be below the current estimated average of 106.000 euro. Nevertheless, reporting in accordance with European standards entails substantial increases in both annual and one-off costs. To compare: under the NFRD regime, the overall compliance costs averaged 82.000 euro (European Commission, 2020c).

However, a more detailed analysis by another study conducted by CEPS, on behalf of EFRAG, on the cost-benefit analysis of the first draft of the ESRS offers more accurate estimates (EFRAG, 2022). The study reveals that administrative costs for preparers are expected to increase significantly, with large variances observed across different company sizes, sectors, and value chain characteristics. In absolute terms, NFRD listed undertakings, typically larger firms, anticipate facing substantial costs. They expect an average total of 287.000 euro as a one-off cost and about 320,000 euro annually for ESRS reporting, which includes 173.000 euro for internal costs equivalent to between 2 and 2.5 full-time employees on average (EFRAG, 2022). Conversely, non-NFRD non-listed undertakings, generally smaller in size, foresee lower administrative costs, averaging 36.000 euro for one-off expenses and 40.000 euro annually (EFRAG, 2022). In relative terms, NFRD listed companies experience the smallest burden of reporting costs as a percentage of turnover. They report minimal intention to outsource ESRS reporting tasks. In contrast, NFRD non-listed undertakings, typically smaller entities, encounter the highest relative administrative costs. These costs are approximately double those of their listed counterparts, largely due to their smaller scale. For these preparers, the costs are split fairly equally between internal expenses and external consultancy fees. The CEPS study, reveals significantly higher and potentially more accurate cost estimates for the CSRD´s mandatory ESRS standards compared to the earlier European Commission impact assessment, due to its detailed analysis conducted after the standards were defined. This suggests a greater financial impact on companies, emphasizing the need for ongoing evaluation and support mechanisms, especially for smaller entities and high-impact sectors, to ensure compliance and smooth transition. Furthermore, as various studies point out, while all companies may face increased costs due to the mandatory standard, those without prior experience in non-financial reporting before the introduction of the NFRD or CSRD are likely to incur the highest costs, with substantial increases in both initial and recurring expenses (EFRAG, 2022; European Commission, 2020c, Grewal et al., 2018).

Similarly, the provision of mandatory limited assurance for reports of non-financial information is estimated to result in annual incremental costs of approximately 80 million euro for companies under the scope (European Commission, 2021a). For this estimate, companies from Spain, Italy and France where excluded, where assurance is already a mandatory requirement (European Commission, 2021a). Compared to the form of reasonable assurance, limited assurance presents the cheaper version of requiring the assurance of reports, while a significant increase in costs would need to be considered in case the EU decides to transition to reasonable assurance in 2028 (European Commission, 2021c).

The European Commission´s Impact Assessment divides the analysis of extending the Directive´s scope into four policy packages. Each package presents the preferred policy options which are mandatory European standards for reporting and mandatory limited assurance of non-financial reports, with varying options regarding the Directive´s scope. For instance, Package Zero calculates the costs incurred if the Directive mandates the use of standards and limited assurance but makes no changes to the scope, maintaining the status quo of the NFRD. As each policy package adds a group of undertakings to the scope, the associated costs increase. In the selected Policy Package 3, which includes large public interest entities, other large undertaking categories, and listed SMEs within the Directive´s scope, additional costs amount to 3.040 billion euro in annual incremental costs and 630 million euro one off incremental costs (European Union, 2021a). Consequently, the Commission´s (2021a) final cost calculation reveals that the CSRD´s provisions will lead to recurring incremental costs of 3.567 billion euro[7] and total one-off incremental costs of 1.164 billion euro[8], indicating a significant increase in overall costs compared to the previous NFRD regime.

Notably, these factors are not the only ones driving the costs for companies under the scope of the Directive. However, as evident in the Impact Assessment, they are among the most influential (European Commission, 2021a). Another significant cost factor is digitalisation, specifically the digital tagging of non-financial information to enhance searchability and usability. This process is estimated to amount to 9.800 euro in one-off costs and 1.700 euro in recurring costs per company (European Commission, 2021a). Since, tagging of non-financial information has been introduced by the CSRD, it will be entirely considered as incremental costs.

Despite the substantial initial costs, multiple studies have presented evidence that companies can experience notable cost savings in the medium to long term (European Commission, 2021c; European Commission, 2021a; European Commission, 2020c; EFRAG, 2022). As outlined in section 3.3 of this thesis, three factors can contribute to decreasing costs for companies in the medium to long term. First, more publicly available information, being guaranteed through the mandatory use of ESRS, reduces the number of requests for additional information reducing costs associated with meeting diverse users' demands. As evident from the Commission´s Study on Sustainability Related Ratings, Data and Research (2020b), European companies incur costs between 24.200 euro and 41.700 euro annually as a results of answering to such ad hoc information requests. Following the analysis and based on the assumption that mandatory standards would entirely eliminate the need for preparers to respond to additional information requests, the annual cost savings are estimated to be 280-490 million euro for the current NFRD population and 1.200-2.000 million euro of annual savings for the expanded policy scope of the CSRD (European Commission, 2021c; European Commission, 2020b).

Second, set standards lead to greater clarity and certainty for companies, consequently minimizing inefficient investments in time and resources to comply with European legislation. Enhanced clarity in reporting obligations due to comprehensive standards is

[7] Out of the total 3.567 recurring incremental costs, a total of 2.118 relates to administrative costs, while 1.366 relate to the assurance and 84 to tagging costs.
[8] Out of the 1.164 incremental one-off costs, a total of 682 relate to administrative costs while the other 482 relate to the costs occurring in the process of digital tagging of non-financial information.

projected to reduce total reporting costs by around 20%, or approximately 600 million euro, as companies will find it easier to determine the information to disclose (European Commission, 2020c; European Commission, 2021a). Third, higher total numbers of entities reporting to European standards also reduce costs for companies to obtain information from suppliers and clients (European Commission, 2021a). The presented figures indicate the potential for substantial cost savings, though the actual impact has yet to be determined. Nevertheless, the Directive´s provisions hold great potential and are expected to significantly reduce costs compared to the current reporting regime. Additionally, as noted in the CSRD proposal, failing to address the factors mentioned above and taking no action at the EU level will likely result in increased costs for preparers: “If the EU takes no action, costs for preparers are in any case expected to increase substantially” (European Commission, 2021, p. 10).

In conclusion, while the initial implementation of the CSRD may introduce higher costs for companies, particularly those new to non-financial reporting, the standardization and clarity provided by mandatory EU reporting standards are expected to streamline processes and ultimately result in long-term cost savings for preparers. However, the realization of the European Commission's projected cost reductions and the actual materialization of potential cost savings remain uncertain. Nonetheless, the CSRD demonstrates significant potential to meet its specific objectives of minimizing unnecessary burdens and costs for companies.

4.4 Challenges faced by SMEs

In 2022 about 24.3 million small and medium sized enterprises (SMEs) were active in the 27 member states of the EU, accounting for 99,8% of all enterprises in the non-financial business sector and employing 84.9 million people (European Commission, 2023a). Given this significant economic role SMEs play, the CSRD cannot overlook the specific needs and challenges faced by these entities. As outlined in Chapter 3, the CSRD expands its scope to include listed SMEs, encompassing around 1.000 companies (European Commission, 2021a). This inclusion aims to provide investors with equal access to information from all listed companies, as listed SMEs comprise around a quarter of all listed companies in the EU. Additionally, it ensures that nearly 100% of the total EU market capitalization will report relevant, comparable, and reliable non-financial information (European Commission, 2021a). A substantial majority of users (74%) of public consultation respondents supported this extension to listed SMEs (European Commission, 2021a; European Commission, 2020d).

Listed SMEs are faced with concrete burdens under the Directive, including an estimated 39 million euro in additional incremental costs (European Commission, 2021a). Related to these costs is the risk that companies could be discouraged from listing, potentially contradicting objectives of the CMU and the Single Market (European Commission, 2021a). However, as argued by the Commission, costs of reporting on non-financial reporting are very low compared to overall costs of listing and hence are not likely to be the decisive reason for an SME to list or not (European Commission, 2021a).

Moreover, non-listed SMEs, while not directly under the scope of the CSRD, will experience significant indirect impacts. These SMEs, often suppliers or clients to larger companies under the NFRD, will encounter an increased demand for detailed non-financial information. This is due to the increased scope, which will expand the total number of reporting companies from approximately 11.700 to over 49.000, driving a broader requirement for comprehensive data across supply chains including a large number of suppliers that need to fulfil the demands of providing information for the reporting companies. As part of the broader shift towards a sustainable economic system, SMEs will inevitably need to disclose more non-financial information. Market dynamics, evolving consumer preferences, and existing EU legislation like the Taxonomy Regulation and the SFDR will further heighten these requirements. Large companies and brands increasingly seek to understand the social and environmental risks in their supply chains, while financial institutions require detailed information to assess the sustainability of their financing activities. Data from the SME Panel, a targeted survey designed to capture the views and experiences of micro, small and medium enterprises, underscores these indirect impacts of the CSRD. It reveals that 48% of SMEs have already received requests for non-financial information, primarily from large company buyers (28%) and public administrations (24%) (European Commission, 2021a). Medium-sized companies, in particular, are more likely to face such demands, with 76% of medium-sized SMEs in large supply chains having received information requests, compared to 43% of all SMEs (European Commission, 2021a). These findings confirm the expectation that the CSRD will significantly intensify reporting obligations for SMEs and require more transparency and compliance with sustainability standards. This aligns with the argumentation of Hummel and Jobst (2024), who underscore that the increased scope and additional reporting burdens can disproportionately affect SMEs. This is particularly concerning given the relatively smaller sustainability impact of SMEs compared to larger enterprises.

Acknowledging this issue, EFRAG has developed two distinct sets of standards to address the sustainability reporting needs of SMEs: the LSME for listed SMEs, small non-complex banks and captive insurance and a voluntary standard for non-listed SMEs, the VSME. The LSME, aims to provide a simplified reporting framework that is proportionate to the scale and complexity of these entities' activities (EFRAG, n.d.-a). The standard, effective from January 2026[9], seeks to enhance access to finance and prevent discrimination by financial market participants by standardizing sustainability information (EFRAG, n.d.-a). Conversely, the VSME is a voluntary standard for non-listed SMEs, created to streamline the response to sustainability information requests from banks, investors, and larger companies (EFRAG, n.d.-b). This standard is intended to reduce the burden of multiple, uncoordinated ESG data requests, thereby facilitating better access to sustainable finance and participation in the transition to a sustainable economy (EFRAG, n.d.-b). Both sets of standards incorporate feedback from extensive consultations and field tests to ensure feasibility, cost-effectiveness, and relevance.

Insights from interviews conducted on behalf of EFRAG reveal valuable perspectives on the burdens SMEs face under upcoming requirements of the CSRD. SMEs generally welcome the differentiation and creation of simplified and voluntary standards (Interview). This sentiment aligns with the findings of the SME Panel survey, where 68% of respondents expressed support for a simplified standard, whether on a voluntary (53%) or mandatory (15%) basis (European Commission, 2021a). However, there is a notable desire for greater flexibility. Individual respondents have expressed the need for the ability to combine the VSME standards with their existing reporting practices, emphasizing that the information burden should be minimized (Interview). Smaller SMEs, struggle to see the direct benefits of reporting and face challenges in estimating the associated costs, which can be significant (Interview). For instance, one respondent

[9] The CSRD provides the opportunity for companies to opt out of the reporting requirements for an additional two years. Effectively, companies that chose to do so would need to report under the CSRD and following the simplified standards from 2028.

estimated the cost of the basic module at around 5000 euro, with additional modules costing between 1000 and 2000 euro (Interview). Moreover, respondents highlighted that the most substantial and costly aspects of the voluntary standards involve assessing and reporting greenhouse gas emissions and energy consumption (Interview). This observation is consistent with the macro-level findings of the European Commission´s SME Panel survey, which revealed that only around 17% of participating SMEs collect data on pollution, and only 14% collect data on carbon emissions (European Commission, 2021a). Others indicate the double materiality analysis to be particularly burdensome due to its time-consuming nature (Interview). The positive feedback on having a common standard is tempered by the need for a minimal information burden to make compliance feasible. The potential benefits of green finance and easier access to credit through VSME reporting are undercut by national regulations that allow access to green credit through simpler criteria, diminishing the incentive to adopt VSME (Interview). These insights underscore how complex and varied the impact of the CSRD is on SMEs, emphasizing the need for tailored, flexible, and proportionate reporting requirements, especially for non-listed SMEs.

4.5 Conclusion

This chapter has provided a comprehensive analysis of the administrative burdens and associated costs imposed by the CSRD on companies, focusing particularly on its implications for SMEs. By examining both the theoretical underpinnings and empirical evidence, this thesis has illuminated key facets of the CSRD´s impact on businesses across the EU and has evaluated the Directive´s efficacy in reducing unnecessary administrative expenses, one of its primary objectives.

The findings indicate that while the NFRD imposed significant administrative costs, the CSRD's broader scope and mandatory provisions are likely to lead to substantial initial compliance costs. Notably, the CSRD´s mandatory standards and assurance requirements represent major cost drivers. However, evidence suggests that in the medium to long term, the standardized approach of the CSRD could reduce overall reporting costs, particularly by eliminating the need for companies to respond to diverse information requests and by streamlining compliance processes. This analysis aligns with the broader literature, which highlights the high compliance costs associated with the NFRD and anticipates similar or increased burdens under the CSRD. Studies by Grewal et al. (2018) and the European Commission (2020c; 2021a) provide a foundational understanding of these costs, emphasizing that while the initial compliance costs are significant, the benefits of standardization could lead to cost efficiencies over time.

The chapter´s findings also underscore the differential impact on companies based on their size and prior experience with non-financial reporting. Smaller companies and those new to non-financial reporting are likely to face higher relative costs, which could pose a significant challenge, particularly for SMEs. This concern is corroborated by the European Commission´s impact assessments and the studies by Baumüller and Grbenic (2021) and Hummel and Jobst (2024), which stress the disproportionate burden on SMEs. The implications of these findings are twofold. Firstly, while the CSRD may initially increase administrative burdens and costs, its standardized framework promises long-term efficiencies and cost reductions. Secondly, the specific challenges faced by SMEs necessitate tailored support measures to ensure that these entities can comply without unreasonable burdens. The development of simplified reporting standards for SMEs, as proposed by the EFRAG, is a step in the right direction, aiming to balance the need for comprehensive reporting with the capabilities of smaller enterprises. Despite the projected benefits, offering a potential relief to companies subject to the Directive, the research also highlights limitations. Thus, as first results of the CSRD´s implementation are available, evaluation of the development of costs will be crucial to ensure that its objectives are met effectively without imposing undue burdens on companies.

Chapter 5: Conclusion

The Corporate Sustainability Reporting Directive has fundamentally transformed the landscape of corporate non-financial reporting within the EU. Its adoption in 2022 and implementation starting in 2024 marks significant changes, as "it ultimately abandons the idea of voluntary (reporting) practices or the sole reliance on market mechanisms to drive company reporting" (Baumüller & Grbenic, 2021, p. 377). This thesis has examined the transition from the NFRD to the CSRD, analysing its key provisions, impacts on corporate non-financial reporting, and potential administrative burdens on companies. By applying the Intervention Logic Framework, this study assessed the relationships between the Directive's regulatory provisions, resulting impacts, and the achievement of intended objectives.

The increased societal and environmental challenges of the past decade have driven the evolution of non-financial reporting in the EU. The NFRD, adopted in 2014, aimed to enhance corporate transparency and accountability by mandating very large EU undertakings to report on material ESG indicators. However, the NFRD revealed shortcomings in relevance, comparability, and reliability of disclosed information, alongside administrative burdens for companies due to unclear reporting requirements and fragmented data requests. These issues impeded the broader objectives of fostering a sustainable and inclusive economic system within the EU.

In order to address these shortcomings, the EU Commission introduced the CSRD. As detailed in Chapter 3, the CSRD incorporates several key provisions: mandatory use of the ESRS, limited assurance of reports, expanded scope, and the amendment of reporting requirements. The mandatory use of ESRS standardizes non-financial reporting, enhancing its relevance, comparability, usability, and reliability, thus aiding investors and civil society in making better-informed decisions while reducing administrative burdens for companies. These two-folded positive impacts for both users and preparers of non-financial information directly contribute to achieving the specific objectives of the CSRD, namely, `ensuring adequate public information about the risks and opportunities non-financial issues present for companies´ and `reduce unnecessary administrative costs associated with non-financial reporting´ (Directive 2022/2464/EU). Limited assurance of reports significantly enhances the quality and reliability of non-financial information, benefiting both preparers and users by improving decision-making and resource allocation. The expanded scope of the CSRD now encompasses nearly 50,000 companies, significantly increasing the volume of non-financial data available and contributing to addressing users' preferences and investor´s needs for reliable and comparable data, hence supporting decision-making in sustainable investments and ultimately the shift towards a sustainable economy in alignment with the EGD and the UN SDGs. Lastly, the expansion of existing reporting requirements has shown that the quality, relevance, and usability can be significantly improved, further contributing to the overall objectives of the CSRD.

Despite the overall indication that the CSRD provisions establish clear cause-effect relationships with the intended objectives, the analysis of burdens faced by companies under the CSRD reveals discrepancies between the Commission's estimates and those of the affected companies. Chapter 4 identifies the administrative burdens and costs associated with the CSRD, emphasizing its varying impact on companies based on their size and experience with non-financial reporting. Larger firms may achieve operational efficiencies due to their greater resources and capabilities, whereas SMEs encounter disproportionate challenges due to resource constraints and limited prior experience. The European Commission's assessment suggests that, despite initial compliance costs, the standardized approach of the CSRD could yield long-term efficiencies and cost reductions by streamlining reporting processes. However, given the more critical perspective of companies, it remains uncertain to what extent these projected cost savings will materialize.

In light of the research question: *to what extent is the CSRD, as an amendment of the NFRD, suitable to achieve its intended objectives* the findings suggest that the CSRD is generally well-positioned in meeting its intended targets. The four key provisions identified in this thesis contribute significantly to the attainment of these objectives. Several provisions directly enhance the relevance, comparability, and reliability of publicly available non-financial data, thus facilitating better decision-making for users of non-financial information. Both investors and civil-society representatives, are poised to greatly benefit from the Directive´s requirements. Additionally, the provisions are expected to help reduce unnecessary burdens for companies, though the extent of these reductions requires further investigation. SMEs, in particular, face significant cost increases, despite the European Commission´s efforts to mitigate this through extended timelines and simplified or voluntary standards.

Overall, the result of enhanced quality of non-financial information, combined with provisions aimed at reducing administrative burdens and potentially leading to cost savings, supports the general objectives of a) `better exploiting the potential of the European Single Market´ and b) `contributing to transitioning towards a fully sustainable and inclusive economic financial system aligning with EGD and UN SDG´. The Directive and its intended effects therefore integrate harmoniously into the overall picture of a "modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050" (European Commission, 2021a, p. 1).

As the CSRD successfully addresses the shortcomings of its predecessor by introducing necessary regulatory changes that positively affect the achievement of its intended objectives, the Directive remains on track to influence the landscape of non-financial reporting by companies in the EU. Whether the Directive and its mandatory standards *“strike the right balance between limiting the burden on reporting companies while at the same time enabling companies to show the effort they are making to meet the green deal agenda”* as Maired McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union, put it, remains up for further discussion (European Commission, 2023c).

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