CONFERENCE PROCEEDINGS

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INDICE

FROM NFRD TO CSRD: PRACTICAL IMPLICATIONS AND FUTURE RESEARCH DIRECTIONS

Daniela Rupo, Nicola Rappazzo and Alberto Caratozzolo

Table of Contents

Abstract

In light of the institutional debate on Corporate Sustainability Reporting Directive (CSRD – 2022/2464/EU), the study aims to investigate the main changes of sustainability reporting, the relevant implications and open questions deriving from the ongoing extensive application of legal requirement in the European scenario.

The research methodology combines an in-depth analysis of the CSRD, within the evolutionary path designed by the European regulation in the field and a comprehensive literature review on the impact of the mandatory regime of Non-Financial Reporting Directive (NFRD – 2014/95/EU).

The study explores the key provisions, implications, and potential challenges associated with the Directive implementation, providing insights into the current knowledge and research trends in this field. It allows for the interpretation of significant reporting changes under a comprehensive view of corporate results. Research findings represent one of the initial endeavors in this domain, aiming to contribute to a deeper understanding of the Directive implications and stimulate further scholarly investigations.

Keywords: CSRD; NFRD; Sustainability reporting; ESG; future research directions.

1. *INTRODUCTION*

In recent years, there has been a significant shift towards prioritizing sustainable development, with businesses, academics, and policymakers all-embracing its importance, also fueled by the 2030 Agenda for Sustainable Development by the United Nations in 2015. The disclosure of various dimensions of corporate performance through non-financial reports has gained prominence, boosting the adoption of mandatory regimes for non-financial disclosure.

The content and quality of non-financial reports and their adherence to non-voluntary reporting standards, have been extensively investigated (Velte and Stawinoga, 2017). Some scholars have explored the correlation between this reporting practice and the achievement of social outcomes, revealing positive effects (Gray et al., 1996; Vurro and Perrini, 2011). Under a different lens, based on signaling and greenwashing theories, other studies found that companies with higher levels of sustainability performance (SP) are more inclined to disclose social and environmental results (Clarkson et al., 2013; Mahoney et al., 2013).

With the introduction of mandatory regimes (Non-Financial Reporting Directive (NFRD – 2014/95/EU), specific analyses have examined their impact on the quality and extent of disclosure (Ioannou and Serafeim, 2017; Pulejo et al., 2018; Mion and Loza Adaui, 2019; Jackson et al., 2020), and explored the effects of Non-Financial Reporting (NFR) on corporate performance and market value (Barth et al., 2017; Loprevite et al., 2020).

The recent EU "Corporate Sustainability Reporting Directive n° 2022/2464/EU" is expected to drive relevant changes in management and reporting fields.

With the increasing demand for non-financial information, and enforcement from institutional and political realms, various NFR bodies are trying to converge towards a universal standard. To this end, the International Integrated Reporting Council (IIRC) has merged with the International Sustainability Standards Board (ISSB), an initiative of the

International Reporting Standards (IFRS) Foundation, to promote internationally accepted sustainability standards. Notably, the ISSB shares a similar perspective with the IIRC, more aligned with the needs of investors rather than the multistakeholder approach. However, the emerging trend in corporate disclosure demands a substantial integration of diverse reporting tools. This call for organisational change is considered a precondition to achieving the sustainability agenda (De Villiers and Dimes, 2023).

Given the above, the CSRD represents a significant milestone in the realm of sustainability reporting (SR) for European companies. Building upon NFRD, it is expected to dramatically impact in corporate transparency, accountability, and sustainable practices.

This study aims to investigate the main changes in SR, the relevant implications, and open questions deriving from the ongoing extensive application of legal requirements in the European scenario.

2. *METHODOLOGY*

This study combines the analysis of the legal requirements for CSRD with a comprehensive literature review on the impact of the mandatory regime on NFR.

The analysis adopts Scopus, the largest citation database of peer-reviewed academic research literature (Zhao and Strotmann, 2015). The data extraction refers to July 2023, drawing on a search string suitable for including studies with explicit references to NFRD and CSRD.

To include the largest number of articles on the topics investigated, we applied a filter to studies belonging to the following areas:

- Business, Management and Accounting;
- Environmental Science;
- Social Sciences;
- Economics, Econometrics and Finance;
- Decision Sciences;
- Energy.

The research protocol is synthesised in Table 1.

Table 1. Search Protocol and results

Database	Scopus
Data extraction	July 2023
Search string	"Non-Financial Reporting Directive" OR "NFRD" OR "Corporate Sustainability Reporting Directive"
Elegibility Criteria	Articles retrieved from Scopus with selected keywords; Articles in English, peer-reviewed. Publication stage: final and articles in press
Subject Area	Business, Management and Accounting; Environmental Science; Social Sciences; Economics, Econometrics and Finance; Decision Sciences; Energy
Initial sample	78 documents
Filtering process	Independent reading of the abstracts by authors. The authors compared the results obtained and resolved contrasting records. After the filtering process 11 papers were exlcuded
Final sample	67 documents

Source: our elaboration

3. *BACKGROUND AND LITERATURE REVIEW*

NFR finds its roots in social and environmental accounting theory and practice (Rupo, 2001), originating from three primary sources: social audit reports, environmental disclosures in annual reports, and environmental reports (Gray, 2001).

Environmental and social responsibility reports were initially voluntary, mainly prepared by firms operating in sensitive industries such as oil extraction and chemicals. Over time, NFR has undergone significant evolution, including information on organizational policies and performance indicators that are not covered in mainstream financial reporting and is sourced from publicly available data (Stolowy and Paugam, 2018).

Starting from the 1990s, among the multitude of initiatives aimed at enhancing NFR, notable are the Global Compact guidelines, GRI standards, and IR frameworks. Until this millennium, participation in these initiatives remained voluntary. Nevertheless, policymakers in various global jurisdictions have taken steps towards formalizing the implementation of NFR.

A part of the literature has placed significant emphasis on the value relevance of NFR, with investigations based on non-financial voluntary or mandatory reporting, compared to the backdrop of traditional accounting-based information. A research stream has sought to validate the value relevance of voluntary disclosures through independent reports, including corporate social reports (Mallouh and Tahtamouni, 2018; Qiu et al., 2016), environmental reports (Bernardi and Stark, 2018), and SR (Coluccia et al., 2017; Giacosa et al., 2017) in diverse global contexts. Though these studies have occasionally presented conflicting results, they converge in supporting a positive correlation between disclosure and market behavior, as well as a favorable response from stakeholders. In this vein, Loprevite et al. (2019) investigate the implications of voluntary adoption of IR in Europe within the <IR> framework for the value relevance of condensed accounting information, finding that adopting of an IR substantially influences the value relevance of accounting information.

From a different perspective, after the introduction of mandatory requirements for nonfinancial disclosure (Gulenko, 2018), Ioannou and Serafeim (2017) have emphasized that it remains uncertain whether a new regulation will inherently lead to an increase in the level of sustainability disclosure. Several factors can explain why certain firms may not disclose additional information following the mandate. These reasons include the absence of a strict enforcement or sanctioning system, variations in the transposition of the regulation into national laws, diverse firm-level responses to the disclosure mandate, or the possibility that some firms were already in compliance with the legal requirements prior to the regulation (La Torre et al., 2018; Leuz, 2010).

Various studies endeavored to assess reporting quality often yielded contradictory findings (Venturelli et al., 2018). Initial evidence on reporting quality in response to the NFRD is provided on a single-country level. For instance, Pellens et al. (2018) observed increased reporting quality for German firms in reporting year 2017. Additionally, Venturelli et al. (2017) led to the expectation of an increase in reporting quality for Italian firms; however, in contrast, Carungu et al. (2021) demonstrate that the NFRD did not improve reporting quality.

Undeniably, the NFRD has prompted companies to improve the comparability of their information by preparing their SR in line with a high-quality, broadly recognized national, EU-based or international framework, such as the GRI Standards.

Furthermore, within the framework of the NFRD, Venturelli and Pizzi (2020) examine the correlation between mandatory SR, transparency, and external assurance, finding that external assurance serves as a significant catalyst for achieving higher levels of transparency. Building upon existing literature (Martínez-Ferrero and García-Sanchez, 2017), it is plausible to anticipate a rise in voluntary assurance of SR following the implementation of the CSRD.

4. *THE CSRD: MAIN CHANGES IN SR AND PRACTICAL IMPLICATIONS*

The CSRD represents a substantial shift in the scope of companies required to report on sustainability matters within the European Union, being a pivotal step towards greater corporate transparency and accountability in terms of sustainability. Notably, the ambit of reporting requirements will gradually extend beyond its previous confines, encompassing not only large-listed entities but also unlisted companies operating on the stock exchange. Moreover, its jurisdiction is not confined solely to European Union member states, as companies operating beyond the EU's borders but generating a turnover exceeding 150 million euros within Europe will also fall under its purview.

This development is poised to dramatically increase the total number of companies subject to these regulations, with an anticipated figure of around 50,000 companies falling under its requirements. By comparison, the preceding NFRD regime (Ottenstein et al., 2022; Fiandrino et al., 2022) applied to roughly 11,000 companies.

The CSRD's broader application fosters greater transparency in SR, as it reduces the potential for selective disclosure or greenwashing practices. Investors, consumers, employees, and other stakeholders seek comprehensive and reliable information about companies' sustainability efforts.

In addition, the CSRD introduces several key changes that significantly impact SR practices for companies, including:

- Mandatory Digital Reporting: Under the CSRD, aimed to enhance accessibility, comparability, and data usability for investors, stakeholders and regulators;
- Double Materiality: requires companies to disclose both the impact of their activities on the environment and society (external) and the impact of sustainability issues on their own business (internal);
- Minimum Reporting Requirements: a range of ESG indicators is required, ensuring a consistent and standardised approach to SR;
- Assurance Requirements: the mandatory assurance framework for SR under the CSRD aims to enhance the credibility and trustworthiness of sustainability disclosures.

In terms of practical implications, expanding of the reporting scope and introducing stringent assurance requirements in the CSRD reinforce corporate accountability for SP (Esteban-Arrea and Garcia-Torea, 2022).

Investors will also be critical in holding companies accountable for their SP (Cicchiello et al., 2023). Non-compliance or inadequate SP may lead to reputational damage, loss of stakeholder trust, and even potential divestment by ethical investors, incentivising companies to adopt more sustainable practices (Odriozola and Baraibar-Diez, 2017; Pulejo and Rappazzo, 2016; Rappazzo, 2013).

The CSRD aims to provide investors with more reliable and comparable ESG information, empowering them to make better-informed investment decisions (Villiers, 2022; Förster, 2022), driving investments towards environmentally and socially responsible businesses (Rahman et al., 2023). This shift can lead to a competitive race to improve SP across industries, driving innovation and positive changes in business strategies and operations (Shahzad et al., 2021).

The CSRD's focus on sustainability and transparency is expected to motivate companies to actively address pressing environmental and social challenges, moving the corporate sector towards a more sustainable and responsible future (Primec and Belak, 2022).

5. *CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS*

Since Freeman's stakeholder approach (1984), there has been a noticeable shift in focus on CSR issues (Chaffee, 2017) with various forms of CSR reporting practices emerged over time. Political and institutional bodies are actively working to align financial and non-financial information, thereby necessitating a comprehensive disclosure model that incorporates sustainability issues.

This new landscape presents numerous organisational and professional challenges (Lai and Stacchezzini, 2021), foreseeing the eventual expansion of comprehensive sustainability disclosure from large firms and public entities to smaller businesses.

The paper makes significant contributions to the investigated subject by providing a systematic approach to scientific knowledge and identifying the practical implications of the CSRD. Furthermore, it highlights ongoing open questions for future research directions.

Among the open questions, as the CSRD does not specify a single reporting standard or framework, there could be a variety of reporting methodologies used, potentially leading to diversity in reporting practices. Consequently, the pressing challenge is to establish a harmonized and universally accepted reporting framework that can be uniformly applied across the board and research future research could add insights into the avenues of such standardisation.

Other issues regard the capability and willingness of regulatory bodies to ensure companies' adherence to the reporting requirements. Striking the right balance between encouraging compliance and deterring non-compliance remains a significant aspect to be addressed.

Finally, the extension of reporting requirements to encompass all firms brings about concerns regarding the potential burden on small and medium-sized enterprises (SMEs). Balancing the costs associated with compliance against the benefits of reporting is undeniably challenging. Policymakers need to carefully consider how to implement the CSRD in a way that supports SMEs while still achieving its overall objectives.

The challenge ahead is to move effectively towards a holistic view, achieving a real integration of accounting and ESG information into a unique report that addresses the complex needs of various stakeholders, overcoming the dichotomy between financial and non-financial results (De Villers and Sharma, 2020; De Villers et al., 2022).

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