
Considerations Regarding the Sustainability Reporting Under the European Sustainability Reporting Standard in the Context of the Corporate Sustainability Reporting Directive

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Abstract

Climate change is one of the greatest threats facing the entire world. It affects not just individuals, but each of us directly and personally. The threat of global destruction driven by climate change must be reduced with the help of the European Green Deal. The European Green Deal is the growth strategy of the European Union (EU) with the goal of developing the EU into a modern, resource-efficient, and competitive economy with zero net greenhouse gas emissions by 2050. As part of the European Green Deal, the European Commission (EU Commission) is committed to transforming sustainability reporting. The redesign of sustainability reporting is necessary to improve the quality of sustainability reporting. Quality problems mean that stakeholders, especially investors, lack a reliable overview of the sustainability-related risks affecting companies. An accurate representation of companies' sustainability-related impacts is crucial to directing investments into sustainable activities and thus mitigating the threat of climate change. To optimize the quality of sustainability information and provide companies with improved access to sustainable financing, the EU Commission has introduced uniform European standards, known as the European Sustainability Reporting Standards (ESRS). These standards are consistent with the Corporate Sustainability Reporting Directive (CSRD), which serves as a guideline for corporate sustainability reporting. The CSRD stipulates that companies must apply uniform standards to fulfill their sustainability reporting obligations. The question of how the ESRS can improve the quality of sustainability reporting will be discussed in the following paper. The objective of this paper is to present a critical discussion of sustainability reporting in accordance with the ESRS, with a particular focus on the objectives of the CSRD. First, we will define a theoretical framework for sustainability reporting, after which we will proceed to a critical discussion of the ESRS, taking into account the selected objectives of the CSRD. The objective of this paper is to evaluate the merits of introducing uniform standards.

Keywords: Climate, CSRD, ESRS, Resilience, Sustainability

Abbreviations and acronyms should be defined the first time they are used in the text.

Examples of abbreviations and acronyms:

ASCG	- Accounting Standards Committee e.V.
CSRD	- Corporate Sustainability Reporting Directive
EU	- European Union
EU Commission	- European Commission
ESG	- Environmental, Social and Governance
ESRS	- European Sustainability Reporting Standards
HGB	- German Commercial Code
NFRD	- Non-Financial Reporting Directive
SFDR	- Sustainable Finance Disclosure Regulation
SME	- small and medium-sized enterprises

1. Introduction

In light of the mounting challenges posed by climate change, the imperative to pursue sustainability has become increasingly urgent. Climate change represents one of the most significant risks facing the global community. The objective is to mitigate the impact of climate change through the implementation of the European Green Deal. The European Green Deal is the growth strategy of the European Union (EU) with the aim of developing the EU into a modern, resource-efficient and competitive economy with zero net greenhouse gas emissions by 2050. As part of the European Green Deal, the European Commission (EU Commission) is committed to transforming sustainability reporting.

The redesign of sustainability reporting is necessary to improve the quality of sustainability reporting. Quality problems mean that intended users, especially investors, do not have a reliable overview of the sustainability-related risks that companies are exposed to. A precise presentation of the sustainability-related impacts of companies is crucial to channel investments into sustainable activities and thus to mitigate the threat of climate change. To enhance the quality of sustainability information and facilitate access to sustainable financing, the European Commission has introduced uniform European standards, known as the European Sustainability Reporting Standards (ESRS). These standards align with the Corporate Sustainability Reporting Directive (CSRD), which serves as a framework for corporate sustainability reporting. The CSRD mandates that companies apply uniform standards to fulfill their sustainability reporting obligations.

This paper addresses the legal necessity and the aggravating problem of climate change through a critical discussion of sustainability reporting in accordance with the ESRS, with a focus on the objectives of the CSRD.

2. Current approaches/scientific context

The Action Plan on Financing Sustainable Growth and its subsequent extension under the European Green Deal serve as the foundation for the CSRD (DRSC, 2023). The Action Plan outlines three key objectives: redirecting capital flows towards sustainable investments in order to achieve sustainable and inclusive growth; managing financial risks associated with climate change, resource scarcity, environmental degradation and social problems; and promoting transparency and long-term in financial and economic activity (Commission Communication, 2018). In order to achieve the aforementioned goals, the disclosure of relevant, comparable and reliable sustainability information is a fundamental requirement (Directive EU, 2022). Accordingly, a total of ten measures have been developed to achieve these goals (Commission Communication, 2018). The ninth measure involves strengthening the provisions on the disclosure of sustainability information and on accounting, which is reflected, among other things, in the CSRD. In accordance with this measure, Regulation (EU) 2019/2088 (Directive EU, 2022), also known as the Sustainable Finance Disclosure Regulation (SFDR), has already been adopted (EU Commission, 2023). In accordance with Art. 1, the SFDR establishes uniform regulations for financial market participants and financial advisers with the objective of ensuring transparency with regard to the integration of sustainability risks (in accordance with Art. 2, Sec. 22 of the SFDR, sustainability risks are defined as events or conditions within the three ESG areas that have an actual or potential material adverse effect on the value of the investment) and the consideration of adverse sustainability impacts in their processes and when providing information on the sustainability of financial products.

The ninth measure in the Action Plan was further specified as part of the European Green Deal (Commission Communication, 2019). The European Commission thus committed to reviewing Directive 2013/34/EU on sustainability reporting (Directive EU, 2022). The 2013/34/EU Directive was amended in 2014 by the 2014/95/EU Directive (Directive (EU), 2024, p. L330/1), which is referred to as the Non-Financial Reporting Directive (NFRD) (European Parliament, 2021). The NFRD was previously considered the first directive on sustainability reporting (Lorenz/Regnery, 2022). However, the lack of completeness, comparability and reliability of the sustainability information published on the basis of the NFRD has been criticised (Directive EU, 2022). The CSRD is intended to address the aforementioned points of criticism of the NFRD and thus represents a primary objective of the CSRD (Zülch/Schneider/Thun, 2023). The CSRD came into force on 5 January 2023 in accordance with Art. 7 of the CSRD and is to be transposed into national law by 6 July 2024 (Deloitte, 2023). During the course of the CSRD, the term sustainability reporting was replaced by the term sustainability reporting (Directive EU, 2022). This not only requires companies to report on their sustainability practices, but also to operate in a sustainable manner.

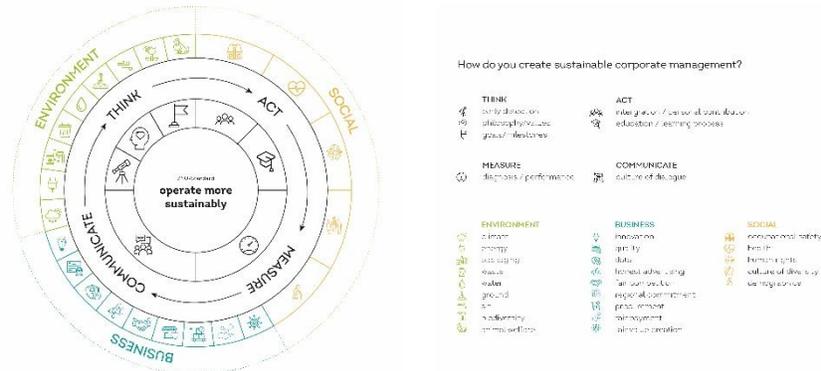


Figure no. 1. Standard for sustainable management

3. Area of application

The growing demand for sustainability information by intended users is driving the expansion of its scope of application (Directive EU, 2022). According to estimates by the German Accounting Standards Committee e.V. (ASCG), the current disclosure requirement for approximately 500 companies in Germany will be increased to 15,000 companies (DRSC, 2021). Furthermore, the Institute of Public Auditors in Germany (IDW) anticipates that the number of companies directly or indirectly affected and subject to reporting requirements will increase to 18,500 public companies (IDW, 2022).



Figure no. 2. Own illustration: Content and scope of the CSRD

The CSRD is to be applied by companies that were already required (Directive EU, 2014) to report under the NFRD from 1 January 2024 (Art. 5 para. 2a CSRD). In accordance with Art. 5, para. 2a of the CSRD, these are large public interest entities within the meaning of Sec. 316a, sentence 2 of the German Commercial Code (HGB), which employ an average of more than 500 employees. The reporting requirement will apply from 1 January 2025 to all large corporations as defined in Sec. 267, para. 3 of the German Commercial Code (HGB) and to equivalent partnerships as defined in Sec. 264a of the HGB. This also applies to all large insurance companies and large credit institutions, regardless of their legal form. In the following year, capital market-oriented small and medium-sized enterprises (SMEs), small and non-complex institutions and captive insurance and reinsurance undertakings will also be subject to reporting requirements in accordance with Art. 5, para. 2c of the CSRD. Although the reporting requirement only applies to capital market-oriented SMEs, non-capital market-oriented SMEs are indirectly affected, as they are part of the value chain of companies that are in turn subject to reporting requirements (Needham/Warnke/Müller, 2023). In accordance with Art. 1, No. 4, para. 3 of the CSRD, an exemption applies for the first three years if information on the company's value chain is missing. Furthermore, under certain conditions, third-country companies are obliged to prepare a sustainability report in accordance with Art. 1, No. 14, para. 1 of the CSRD. Micro-capital companies are still excluded from the reporting requirement in accordance with Art. 1, No. 1, para. 3 of the CSRD.

4. Content requirements

The content requirements for sustainability reporting have increased under the CSRD compared to the previously applicable content of the non-financial statement pursuant to Sec. 289c of the German Commercial Code (HGB) (Needham/Warnke/Müller, 2023).

Art. 1, No. 2b, No. 17 of the CSRD stipulates that sustainability reporting must include the following four aspects: environmental, social and human rights factors, as well as governance factors. The basis for determining the content to be reported is the principle of double materiality (Directive EU, 2022), which is explained in detail in Sec. 3.3.1. The content requirements are specified in Art. 1, No. 4, para. 2 of the CSRD and for consolidated sustainability reporting in Art. 1 No. 7, para. 2, according to which sustainability reporting is divided into the following eight subject areas: business model and strategy, sustainability objectives, role of administrative, management and supervisory bodies, corporate policy, incentive systems for members of the administrative, management and supervisory bodies and their connection with sustainability aspects, due diligence process, as well as the most important negative impacts and measures to prevent them, sustainability risks and further indicators that are relevant for the disclosure of the topics mentioned. The content requirements are specified in the sustainability reporting standards (Warnke/Thomas/Müller, 2023). In accordance with Art. 1, Sec. 4, para. 1 of the CSRD, the sustainability report must be presented in a clearly recognisable and separate section of the management report. Furthermore, In accordance with Art. 1, Sec. 9, para. 1 of the CSRD, it must be prepared in a uniform electronic reporting format. Previously, the use of national, European or international frameworks for preparing the non-financial statement was optional under the NFRD

(Directive EU, 2022). The lack of comparability, completeness and reliability of the information published on the basis of the NFRD justifies the need for uniform standards (Baumüller, 2023). In addition, uniform standards are necessary to achieve the goal of equal treatment of financial and sustainability reporting (Directive EU, 2022). The CSRD forms the legal framework for the development and adoption of the ESRS in European accounting law. Consequently, companies falling within the scope of the CSRD are required to apply the ESRS (Mazars, 2022). The CSRD already contains comprehensive guidelines on reporting content and systems, which are then specified in the ESRS (Baumüller/Schönauer, 2023). The ESRS is structured as follows.

Structure of European Sustainability Reporting Standards (reserve of materiality)

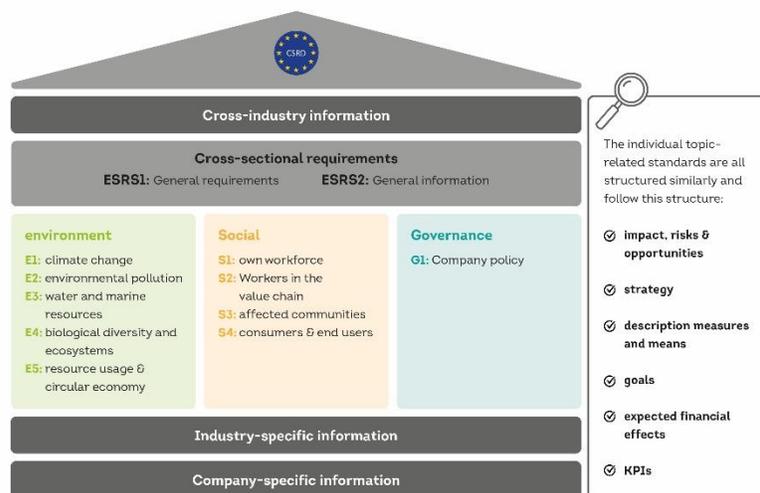


Figure no. 3. Own illustration

A critical discussion of the ESRS, with particular reference to selected CSRD objectives

Comparable, complete and reliable sustainability information

As previously stated, companies are at liberty to determine whether a sustainability issue is material and thus determine what content they report on. Consequently, the scope of sustainability reporting is contingent upon the materiality assessment conducted by the company in question. The concept of materiality assessment is generally regarded as a positive development, as companies are best placed to assess whether information is material for their activities and for internal and external stakeholders. The resulting reduction in mandatory reporting requirements is viewed positively, as companies do not have to report on superfluous sustainability information. This approach saves costs and effort on the one hand and avoids information overload for readers on the other. By focusing on relevant topics that are useful for decision-making, the quality of sustainability reporting is improved, which is in line with the objectives of the CSRD.

It can be concluded on this basis that the materiality assessment forms the basis for the provision of sustainability information. With regard to the goal of comparable, complete and reliable information, comparability is limited. In order to ensure uniform implementation and to prevent limitations in comparability between companies and over several years, clear instructions on the implementation of the materiality assessment are essential. The problems in implementation will be reduced in the future by the provision of more guidelines. In addition to comparability, completeness and reliability are limited due to the scope in the assessment of materiality. In order to limit the scope in the assessment of materiality and to achieve comparable, complete and reliable sustainability information, mandatory elements are required. In this context, it is apparent that the stakeholders are primarily interested in the content relating to climate change (ESRS E-1) and biodiversity (ESRS E-4), which is closely linked to climate change. The demands from stakeholders underscore the necessity for the ESRS to effectively combat climate change, as previously stated.

Redirecting capital flows into sustainable investments.

The new requirements for sustainability reporting in accordance with the CSRD and their concretisation in the ESRS are of paramount importance in order to achieve the goal of redirecting capital flows into sustainable investments (BVI, 2023). As previously outlined in Sec. 2.1, a fundamental prerequisite for this is that comparable, complete and reliable information is available to financial market participants. It can be concluded from this that the two objectives of the CSRD, namely the provision of comparable, complete and reliable sustainability information and the diversion of capital flows into sustainable investments, are interdependent. The former is necessary so that financial market participants can adequately assess sustainability opportunities and risks and thus take sustainable factors into account in their investment decisions (BVI, 2023). It is similarly of great importance for investors to be furnished with comprehensive data concerning the sustainability-related impacts of the companies in which they intend to invest (EU Commission, 2023). In this context, investors should be informed about the impacts of companies on people and the environment, as well as future measures to reduce these impacts. Without such information, it is impossible to direct capital into sustainable investments in a targeted manner.

The materiality assessment is also criticised in the context of the objective of redirecting capital flows into sustainable investments due to the relationship between the two CSRD objectives. In particular, the lack of comparability means that investors are unable to make fully informed investment decisions (ClientEarth, 2023). The lack of consistency in sustainability reports makes it difficult to assess the sustainability performance and risks of companies in the same industry (Nabu, 2023). On the other hand, it also impairs the assessment of progress in sustainability reporting (Climate & Company, 2023). In order to enhance comparability, it is recommended that a greater number of report contents be made mandatory (Environment Agency Austria, 2023). This would facilitate the identification of companies that are particularly well positioned in the area of climate alignment, thereby enabling more targeted investments in the form of transition financing. In particular, the disclosure of the climate-related standard ESRS E1 should

be made mandatory (LSEG, 2023). In particular, information on greenhouse gas emissions, transition plans and climate targets should be disclosed in view of the EU's climate targets and the individual climate commitments of investors (BVI, 2023). Investors require information from ESRS E1 in order to better assess investment risks related to climate change in terms of type, scope and timing (MSCI ESG Research UK, 2023). This will enable investors and banks to make informed decisions and redirect capital in line with global sustainability goals (LSEG, 2023). The disclosure of information on climate-related aspects serves to reinforce confidence in the market for sustainable investment products, particularly with regard to Environmental, Social and Governance (ESG) ratings. In this area, there are often concerns about the reliability, comparability and quality of the information.

A comparison of the European Sustainability Reporting Standards (ESRS) with other global frameworks—particularly the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB)—is essential to understand the position of the ESRS in an international context. This is especially helpful for SMEs that operate internationally or are part of global supply chains, as it enables them to strategically align their reporting efforts.

Feature	ESRS (EU/CSRD)	ISSB (IFRS S1 & S2)
Issuer	EFRAG on behalf of the European Commission	International Sustainability Standards Board (ISSB), part of the IFRS Foundation
Scope	Mandatory across the EU for large companies & capital market-oriented SMEs	Globally applicable; voluntary or regulatorily implemented by individual countries
Legal Basis	Part of the CSRD (Corporate Sustainability Reporting Directive)	Part of the IFRS accounting framework; complementary to financial reporting
Materiality Concept	Double materiality (financial and impact-based)	Single materiality (only financial materiality, i.e., “enterprise value”)
Reporting Scope	Very broad: ESG criteria, governance, value chain, due diligence, strategy, risks, indicators	Focused on climate-related information (S2) and sustainability risks with financial impact (S1)
Level of Detail	High granularity, binding sector-wide and sector-specific standards in development	Principle-based with fewer detail requirements; focus on climate-related disclosures.
Value Chain (Supply Chain)	Obligation to collect and disclose data across the entire supply and value chain	Focus on material financial risks inside and outside the company's own operations.
SME Relevance	Indirect relevance due to supply chain obligations; separate ESRS for SMEs in progress	Less direct relevance, but requirements may be passed on by investors or business partners.
Link to Other EU Regulations	Close integration with German Supply Chain Act (LkSG), EU Taxonomy, Green Deal	Independent, without regulatory integration with due diligence rules

Figure no. 4. Own illustration: Comparison

The preceding explanations demonstrate the interconnection between the two objectives of CSRD. They illustrate that the limitations regarding the comparability and reliability of sustainability information also impede the reallocation of capital flows into sustainable investments. Furthermore, it is evident that the needs of the intended users are considered in the context of materiality assessment, particularly those of the users of sustainability reports, especially investors, in the case of financial materiality. It can be concluded that including this intended user group will help achieve the overarching goal of the overarching goal of parity between financial and sustainability reporting. This is because the primary audiences of financial reporting are adequately taken into account. However, the explanations indicate that companies face the challenge of meeting the information needs of all intended users due to the broad

stakeholder concept, which appears to be difficult to implement. To achieve the goal of redirecting capital flows into sustainable investments, it is necessary to place a stronger focus on the group of users of sustainability information, in particular on investors.

Making European business more accountable

In addition to the general increase in the reporting burden on companies, the challenge lies in the reporting obligation along the value chain. As explained in Sec. 2.2, non-capital-market-oriented companies are indirectly affected by the reporting requirements as they are part of the value chain of companies that are themselves subject to reporting requirements. The importance of these regulations for SMEs becomes clear when one considers that they are closely intertwined with large companies and that the value chains of large companies in Europe are often served by SMEs (Baumüller/Scheid, 2023a). However, SMEs are not only part of the value chains of companies in the real economy, but also of financial institutions. The reporting requirements for financial institutions under the ESRS cover all financing activity, with bank financing being an important source of financing for SMEs. Overall, the number of SMEs indirectly affected by the reporting requirement is significantly higher and therefore more relevant than the number of capital-market-oriented SMEs subject to the reporting requirement.

Despite the transitional provisions for the disclosure of sustainability information along the upstream and downstream value chain and the limitation of the requirements for non-capital-market-oriented SMEs, which also apply to capital-market-oriented SMEs, the pressure and bureaucratic burden on non-capital-market-oriented SMEs is increasing (SMEunited and SBS, 2023). There is considerable time pressure to deal with the ESRS and to take the necessary preparatory measures (Baumüller/Scheid, 2023a). Large companies that are already preparing for their reporting obligations are already demanding sustainability information from SMEs (SMEunited and SBS, 2023). This could lead to a market concentration towards fewer companies that are better able to cope with the introduction of standards. This could lead to SMEs losing business relationships with large companies. This is compounded by the challenge of accessing finance (Baumüller/Scheid, 2023a, p. 746) and developing new business relationships (DRSC, 2023). In addition, SMEs are unable to assess whether the information required by companies is proportionate and what the consequences will be if they are unable to comply (See SME United and SBS, 2023). As a result, there are no clear boundaries for defining the value chain (Siemens AG, 2023). Challenges exist not only for SMEs with indirect reporting obligations but also for companies with reporting obligations that need to disclose sustainability information along the entire value chain, as the information is inaccessible, missing or unavailable (International Organization of Employers, 2023). In addition, companies do not have the legal authority to force their business partners to provide the data (Shell, 2023).

The implementation of the Corporate Sustainability Reporting Directive (CSRD) and the associated European Sustainability Reporting Standards (ESRS) presents significant challenges for small and medium-sized enterprises (SMEs), particularly those listed on capital markets. The complexity of reporting obligations increases substantially due to new concepts such as double

materiality and the detailed consideration of the value chain. The following provides an in-depth analysis of the specific challenges faced by SMEs under these regulations. Double materiality requires companies to assess sustainability issues from both a financial (outside-in) and an impact-related (inside-out) perspective:

- Financial materiality: Which sustainability issues have (or are likely to have) significant financial effects on the company?
- Impact materiality: What impact does the company have on environmental, social, and governance (ESG) factors?

Specific challenges for SMEs:

- Limited resources: SMEs often lack dedicated sustainability departments or specialized personnel to conduct the complex analyses required for double materiality.
- Methodological uncertainty: Applying the concept requires structured materiality assessments, stakeholder dialogues, and risk analyses—tasks with which many SMEs have had little prior experience.
- Subjectivity and lack of standards: The assessment of what is “material” can vary greatly depending on perspective. While the ESRS provide guidelines, practical implementation remains challenging.
- Costs for external support: Hiring external consultants to determine materiality can be expensive, posing a financial burden that many SMEs find difficult to bear.

From the above, it can be concluded that the accountability obligations have increased for all companies subject to reporting requirements. This increase in accountability is reflected in the fact that even companies that were already subject to reporting requirements under the NFRD continue to face challenges in implementing the reporting requirements. In addition, both international companies and SMEs are finding it difficult to meet the reporting requirements and, as a result, the increased accountability obligations. The main challenges are the increased reporting burden, the demanding implementation timetable and the lack of resources and expertise. However, the challenges vary in accordance with the size of the company and there is a lack of differentiation in the ESRS. Due to their size and complexity, international companies in particular need time to build the necessary reporting capacity and infrastructure. Without sufficient time, these companies cannot ensure comprehensive and accurate sustainability reporting and thus cannot meet their accountability obligations. For SMEs, however, it is not so much a lack of time as a lack of administrative capacity, as they are disproportionately affected by the reporting requirements. In order to meet the increased accountability obligations, the reporting requirements must also be feasible for SMEs. At present, it is not possible to make a final assessment of the affordability for SMEs, as specific standards for listed SMEs are being developed in addition to Set 1 of the ESRS. In addition, the European Financial Reporting Advisory Group (EFRAG) and the ASCG are providing support that is essential to meet the increased accountability requirements.

5. Conclusion

The increasing importance of sustainability reporting, driven by the challenges of climate change, is reflected in the progressive development of sustainability reporting in the wake of the CSRD and the ESRS. The aim of this paper has been to discuss whether the ESRS effectively supports the underlying objectives of the CSRD.

The introduction of uniform standards fundamentally supports the goal of comparable, complete and reliable sustainability information. The introduction of uniform standards and increasing interoperability with the International Financial Reporting Standards Sustainability Disclosure Standards (IFRS SDS) strengthens the basis for comparable, complete and reliable sustainability information. Interoperability between the two standards also promotes alignment between financial and sustainability reporting. However, ambiguities in implementation and the scope for materiality assessment are challenging and limit the desired improvement. In summary, the ESRS generally supports the objectives of the CSRD but contradicts them in some respects. In the future, the development of guidance on the implementation of materiality assessment and reporting requirements along the value chain could provide further clarity. It also remains to be seen when the standards for listed SMEs will be published and to what extent the reporting requirements will differ from Set 1 of the ESRS. Overall, the ESRS is moving closer to financial reporting but has not yet achieved full equivalence. This will help companies to communicate their relevant sustainability issues.



Figure no. 4. Own illustration: Sustainability issues relevant to SMEs

Critical Statement on the European Sustainability Reporting Standards (ESRS)

The ESRS, developed under the EU's Corporate Sustainability Reporting Directive (CSRD), aim to enhance transparency and accountability in sustainability reporting. While the intention is commendable, several issues raise concern:

1. **Overcomplexity:** The standards are highly detailed and burdensome, especially for small and medium-sized enterprises (SMEs). The reporting effort may outweigh the benefits and divert resources from real sustainability action.
2. **Risk of Formalism:** The ESRS could promote a "box-ticking" mentality rather than meaningful engagement with sustainability, undermining the credibility of reported information.
3. **Unclear Materiality:** The "double materiality" approach lacks clear guidelines, leaving room for selective reporting and potential greenwashing.
4. **Limited Global Compatibility:** Differences with global standards (e.g., ISSB, GRI) create challenges for multinational companies and hinder international comparability.
5. **Questionable Usefulness:** The volume and complexity of required disclosures may overwhelm stakeholders rather than support informed decision-making.

Conclusion: The ESRS represent progress, but without simplification, clearer guidance, and better alignment with global frameworks, their effectiveness and acceptance may be limited.

The introduction of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) marks a milestone in the EU's sustainability reporting landscape. Small and medium-sized enterprises (SMEs), in particular, face substantial challenges due to increasing requirements in areas such as double materiality and value chain reporting. This article analyzes the implications for governance and investment while placing the ESRS in the context of global frameworks, especially in comparison to the IFRS Sustainability Disclosure Standards. Finally, research gaps are identified.

1. Double Materiality and SME-Specific Challenges

Double materiality in the ESRS combines financial materiality with an impact-based perspective. SMEs encounter both methodological and resource-related obstacles. The need for stakeholder engagement, risk assessment, and the definition of sustainability topics often overwhelms existing governance and controlling structures.

2. Reporting Obligations Along the Value Chain

The ESRS require transparency across the entire supply and value chain. SMEs often lack the data or leverage over suppliers to meet this obligation. This creates not only operational burdens but also legal liability and reputational risks.

3. Comparison with IFRS Sustainability Disclosure Standards (ISSB)

The IFRS Sustainability Disclosure Standards (IFRS S1 & S2) issued by the ISSB focus on financial materiality (enterprise value) and emphasize climate-related risks. In contrast, the ESRS are much broader in scope. Key differences include:

- ESRS: Double materiality, high level of detail, comprehensive ESG coverage
- IFRS S1/S2: Financial materiality, risk- and opportunity-focused, principle-based approach

For internationally active SMEs, this creates a tension between EU legal obligations and alignment with global capital market expectations.

4. Impacts on Governance

The CSRD embeds ESG considerations into corporate governance. For SMEs, this means:

- Expansion of sustainability governance
- Integration of ESG into risk management and internal control systems
- Professionalization of supervisory and reporting structures

This results in a structural transformation of corporate management, which was previously focused solely on financial metrics.

5. Impacts on Investment

Increased ESG transparency influences investor behavior:

- Access to sustainable capital becomes easier for companies compliant with ESRS
- ESG data becomes part of due diligence and risk assessments
- Capital allocation shifts in favor of transparent and resilient companies

However, SMEs may face higher capital costs if they fail to provide ESG reporting aligned with the standard.

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