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A political business strategy of EU green reporting rules

An analysis of the non-market environment of companies affected by the European Sustainability Reporting Standards

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Thesis submitted to obtain the degree of

MASTER OF BUSINESS ECONOMICS

International Business, Strategy and Innovation

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Academic year 2023-2024

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Over time, increasing regulations have been established regarding corporate responses to climate concerns. It is crucial to maintain an understanding of the diverse EU green reporting regulations. This thesis investigates the non-market environment of companies affected by the European Sustainability Reporting Standards (ESRS) with the objective of developing an effective political business strategy. The study employed qualitative research methods, specifically interviews. The challenge lies in ensuring uniformity and coherence in compliance expectations, especially for multinational enterprises (MNEs) operating across varied regulatory landscapes. The results indicate that regulatory authorities need to strike a balance between rigor and acknowledgment that compliance with EU green reporting rules is an evolutionary process. Companies operating within Europe seek comprehensive and supportive regulatory frameworks, along with customised solutions, support mechanisms, and accessible guidance for small and medium-sized enterprises (SMEs).

Acknowledgements

We would like to thank everyone that has helped us to write this master thesis. Especially our supervisor, prof. dr. Christophe Crombez, and coach, Matthieu Vanderschommen, deserve a special thanks for the guidance they provided during the writing process. We could not have realised the thesis without the suggestions made, and answers provided to our questions. In addition, we would like to thank our interviewees. Thanks to them, we were able to substantiate our research qualitatively and draw meaningful conclusions from the literature study that preceded it. We would also like to thank our parents, Britt's sister-in-law, and our friends for their support over the past year. Besides, we would like to thank K.U. Leuven for the provision of various databases that made it possible to write this thesis.

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General Introduction

The contemporary era is marked by a crucial crisis of exceptional proportions, characterised by an immense scale and irreversible impact, namely the causes that lead to global warming and climate change. Therefore, the European Union (EU) has implemented green reporting regulations with the objective of aligning the economy with environmental sustainability goals, striving towards achieving a climate-neutral continent by 2050 (World Meteorological Organization, 2023). This thesis offers an exploration of the European Sustainability Reporting Standards (ESRS) to ensure companies with clarity regarding the reporting requirements beginning in 2024 and thereby contributing value to the purpose of the EU.

The methodology applied in this thesis is of qualitative nature. Using a combination of scholar articles with insights from interviews in the business landscape. This thesis was written on behalf of the Catholic University of Leuven within the Faculty of Economics and Business. The recommendations provided in this thesis can be expanded to companies operational in other sectors in Europe and more accurately in Belgium.

The thesis seeks to narrow the gap between academic literature and the practical business environment by offering recommendations for companies on how to adjust to the evolving European regulatory sustainability framework. Furthermore, it endeavours to propose essential elements that companies should incorporate into their political business strategies. The research questions addressed in this thesis include: What are the ESRS? How to assess the impact of the ESRS on companies' business strategies? What observable changes have occurred in the non-market environment of affected companies since the inception of the ESRS? How does the existence of the ESRS influence companies' business practices and overarching strategies, particularly regarding their adaptation to the evolving non-market environment?

First, the literature review offers an overview of the European sustainability regulatory framework, followed by a more thorough analysis of the ESRS. The literature review aims to provide a clear description of the ESRS, addressing the first research question. The second chapter delves into the interviews. To start, it defines the methods for measuring the impact of the ESRS on companies' business strategies, drawing insights from internal and external motivators of companies, thus addressing the second research question. Moreover, this chapter addresses the third research question by identifying the changes in the non-market environment. The final research question is addressed in both Interviews and Analysis by providing guidance and offering recommendations on how companies can adapt to the evolving non-market environment.

Literature Review

With the recent replacement of the Non-Financial Reporting Directive (NFRD) by the Corporate Reporting Sustainability Directive (CSRD) on the first of January 2024, an increasing number of companies are required to prioritise sustainability due to the evolving European sustainability regulatory framework (Voskoboinikova et al., 2023a). However, a clear overview of the regulations and their interconnections often remains elusive. Therefore, the literature review contributes to the scientific literature by including a general overview of the European sustainability regulatory framework as it is generally not included in scientific articles. The literature review is pertinent as it draws from scholarly articles.

To begin with, the European sustainability regulatory framework currently applied to several companies, is defined. This is followed by examining various aspects of the European Sustainability Reporting Standards (ESRS). This literature review is focused solely on Europe, and the timeframe is limited, commencing from the earliest relevant date, namely when the NFRD came into effect. However, to formulate an effective political business strategy at the end of this thesis, it is necessary to analyse the regulatory context in which companies operate. The main purpose of the literature review is to clarify different concepts, offering a thorough understanding for companies. It serves as a guide to help navigate companies through the diverse regulations that companies must comply with and the numerous regulatory bodies they must report to. The second objective of the literature review is to lay the foundation for the findings of the conducted interviews, and subsequently the critical analysis of political business strategies for companies in case of the changing environment regarding green reporting rules. The ESRS is interesting to explore since it is a new regulation with a broad scope, posing challenges to companies.

The European Sustainability Regulatory Framework

The framework delineating the current regulations of the European green reporting rules is outlined. The regulatory sustainability framework is essential to understand the non-market environment influencing company operations. The European Green Deal (EGD) stands as a transformative initiative spearheaded by the European Commission (EC), embodying a pivotal response to the urgent need for sustainable development. Following the motivation for this initiative and its purpose, attention is directed towards the Non-Financial Reporting Directive (NFRD), mandating large public corporations to disclose environmental, societal, and governance (ESG) information since 2014. However, the NFRD's efficacy was limited by inherent shortcomings, catalysing the imminent enactment of the Corporate Sustainability Reporting Directive (CSRD) to replace its predecessor. Companies that must comply with the new directive will be discussed in more detail. Finally, the European Financial Reporting Advisory Group (EFRAG) is outlined. An understanding of the concepts outlined in the framework are essential to obtain a profound comprehension of how the European Sustainability Reporting Standards (ESRS) are positioned within this. In turn, it will aid in clarifying the pivotal significance of the ESRS in the changing non-market environment of companies. Table 1 provides a brief overview of the different concepts used within the literature review (Crombez, 2023; EFRAG, n.d; Feijao, 2021; Giner & Luque-Vílchez, 2022; KBCBankEnVerzekering, 2023; NBA, n.d.; Ponthieu et. al, 2023). A more extensive table of abbreviations used throughout this thesis is provided in Table B1 Appendix B (CFA institute, 2019; Crombez, 2023; EFRAG, n.d.; Eurostat, n.d.; European Commission, 2003; European Commission, n.d.-g; Feijao, 2021; Giner & Luque-Vílchez, 2022; GRI, n.d.; IFRS, n.d.; KBCBankEnVerzekering, 2023; NBA, n.d.; Ponthieu et. al, 2023; Splawki & Lukacks, n.d.).

According to Saha and Darnton (2005), the process of writing sustainability reporting standards started more than forty years ago. The surge of environmental awareness during the 1960s, which grew throughout the 1970s was catalysed by emerging political influences

in Germany and the United Kingdom (UK). This momentum saw ecological parties gaining ground within the European Union (EU) prompting the inclusion of environmental concerns on electoral agendas for the first time. Consequently, this wave peaked with the introduction of various forms of novel environmental legislation across multiple nations. Therefore, companies became subject to public, political, and legal pressures to become greener. This push for environmental sustainability has been observed in Europe over the last decade, as reflected in the increasing emphasis on green initiatives. This trend is exemplified by the regulations implemented by the EU to encourage environmentally friendly practises.

Table 1

Overview of Different Concepts

Abbreviation	Concept	Information
EC	European Commission	The EC is part of the executive of the European Union. This body starts the legislative process and are charged with making sure that European Union law is implemented.
EGD	European Green Deal	The EGD is the pivotal sustainability initiative presented by the EC. The goal is to make Europe the first climate-neutral continent and to achieve a carbon-free economy by 2050.
NFRD	Non-Financial Reporting Directive	The NFRD is a guideline that states that from 2014 large public corporations are obligated to report environmental, societal and governance (ESG) information.
CSRD	Corporate Sustainability Reporting Directive	The CRSD is a guideline that states that from 2024 more companies are required to report on their sustainability impact. The framework focuses on who is obligated to report.
EFRAG	European Financial Reporting Advisory Group	The EFRAG provides technical help to the EC. In this thesis, the focus is specifically on their role in drafting standards or making amendments to the European Sustainability Reporting Standards.
ESRS	European Sustainability Reporting Standards	The content of the CRSD is determined in the ESRS. The goal is to make sustainability information available, to ensure alignment and to increase comparability.

The European Green Deal

The European Green Deal, hereafter the EGD, is the umbrella of various initiatives to make the European Union, hereafter the EU or referred to as Europe[1], more sustainable and tackle the external threats caused by global warming and ecological decline. It is the pivotal sustainability initiative presented by the European Commission, hereafter the EC, in December 2019 aimed at achieving a carbon-free economy by the year 2050. The development of the EGD started in November 2019 when the European Parliament[2] declared a climate and environmental emergency. Since then, there have been many initiatives to achieve the targets of the EGD. For example, the Green Deal Investment Plan[3] to mobilise investments supporting green infrastructure, the Just Transition Fund[4] to retrain people employed in unsustainable sectors, and the Farm to Fork strategy[5] to protect biodiversity (*Parliament and the European Green Deal - Multimedia Centre*, 2020).

Resulting from this goal, the first key figure of the EGD is to make Europe the first climate-neutral continent. This initiative not only deals with pressing challenges posed by change, but also endeavours to enhance the competitiveness and resource efficiency of the European economy, visualising a transformation towards a contemporary, resource-savvy, and competitive economic landscape (*The European Green Deal*, 2021). The EGD

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[1] For more information, see Table B1 in Appendix B.

[2] The European Parliament serves as a significant platform for political discussions and decision making within the EU. They possess the legislative and budgetary powers. Its members are elected directly by citizens across EU member states to advocate for their interests in the development of EU legislation and to oversee the democratic functioning of other EU institutions (European Parliament, n.d.). They vote with simple majority (Crombez, 2023).

[3] The financial arm of the Green Deal, aiming to mobilise a minimum of €1 trillion for sustainable investments over the next decade (European Commission, 2020).

[4] The Just Transition Fund will receive €7.5 billion in fresh EU budget funds to support regions heavily affected by the shift towards climate neutrality (European Commission, n.d.-f).

[5] The Farm to Fork Strategy, a key aspect of the European Green Deal, seeks to make food systems equitable, healthy, and environmentally sustainable by addressing issues such as greenhouse gas emissions, resource depletion, biodiversity loss, and health impacts related to nutrition. This strategy aims to promote sustainable practices that support economic opportunities while ensuring food security, public health, and fair economic returns within a global context (European Commission, n.d.-d).

aims to provide a clean environment, cheaper energy, smart transport, new jobs, and a better quality of life (*Green Deal, Fit for 55, Climate Law. . . What Are They? - Multimedia Centre*, 2022). As a result, the Energy Efficiency Directive, included in the Fit for 55 packages, states that greenhouse gas emissions will be reduced by at least 55% by 2030 compared to 1990 levels (European Council - Council of the European Union, 2023). This is the second key figure of the EGD (*The European Green Deal*, 2021). The European Parliament adopted the EU Climate Law[6] to make the target of reducing emissions by 2030, legally binding and thus obligatory. The Fit for 55 packages ensure the realisation of the EGD by aligning and updating the legislation of the EU with the objectives set for 2030. It covers topics such as aviation fuel, land use and emissions reduction schemes, such as the Emission Trading System[7] to put a price on carbon (European Council - Council of the European Union, 2023; *Green Deal, Fit for 55, Climate Law. . . What Are They? - Multimedia Centre*, 2022). The final pillars of the Fit for 55, presented in July 2021, were adopted on 9 October 2023 (European Commission, 2023e). Lastly, the three billion additional trees to be planted in the EU by 2030 are the third key figure of the EGD (*The European Green Deal*, 2021).

In conclusion, the EGD is a comprehensive set of policy initiatives by the EC aimed at decreasing carbon emissions, enhancing the utilisation of eco-friendly energy, advocating for a zero-waste economy, and safeguarding the ecosystem to ensure a better quality of life (KBCBankEnVerzekering, 2023; Ponthieu et al., 2023). Subsequently, Europe’s policies are increasingly pushed towards more focus on sustainability matters (Bongardt & Torres, 2022).

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[6] This specific legislative instrument establishes the EU's legally binding commitment to achieving climate neutrality by 2050 (European Commission, n.d.-b).

[7] This fundamental component of the EU’s climate change strategy is a cap-and-trade mechanism, established in 2005. It is currently in its fourth phase and remains the world’s largest carbon market (European Commission, n.d.-b).

The Non-Financial Reporting Directive

According to the Non-Financial Reporting Directive, hereafter the b, exclusively large corporations which are defined as having a workforce of over 500 employees, both listed and non-listed, are required to reveal not just financial information, but also sustainability reports, information on societal issues, and employee welfare details. The approximately 11,700 European companies are required to consider human rights, measures against corruption and bribery, and inclusivity in board diversity in their reporting practises. Within a corporate group, subsidiaries could be eligible for an exemption if their relevant details are assimilated within the comprehensive report of the holding corporation (European Commission, 2013).

Given that most companies struggle to meet stakeholders' expectations regarding transparent reporting on non-financial matters, a crucial need arises for additional regulations to facilitate this requirement. The NFRD exhibits significant shortcomings, leading to a need for additional regulatory intervention. On the one hand, the implementation of the NFRD suffers due to a scarcity of companies reporting on information, with only 2,500 out of 42,000 large European enterprises doing so prior to the implementation of the NFRD. On the other hand, apart from the quantitative dimension, there is a necessity for an enhancement in the quality of the content required to report according to the NFRD. This is due to the lack of precision, outdated information, and imbalance within it. Moreover, shortcomings existed in information concerning policies and risk management. This problem arises from both a market failure and a regulatory failure. While the former signifies insufficient market incentives for disclosing clear non-financial data due to the uncertain advantages in contrast to substantial immediate expenses, the latter highlights the necessity for international regulations to mitigate conflicts among national regulations due to the considerable divergence in national requirements. The variety in requirements presented obstacles when comparing companies across the internal market. Consequently, the key focus of the EC’s efforts through this directive is to

enhance the disclosure and transparency regarding non-financial information (European Commission, 2013).

The regulations established under the NFRD continued to be effective until companies were required to comply with the new Corporate Sustainability Reporting Directive (CSRD) regulations (European Commission, n.d.-a). The NFRD, enforced in December 2014, is officially replaced by the CSRD as of January 2023 (Boeykens, 2022; “The Corporate Sustainability Reporting Directive (CSRD) at a Glance,” 2023).

In summary, the NFRD has been pivotal in mandating large corporations to disclose not only financial data, but also crucial non-financial information. Nevertheless, persistent challenges due to low reporting rates and shortcomings in content quality, which stem from market and regulatory failures, underscore the necessity for further regulatory interventions. With an estimated impact on 11,700 European companies, the NFRD's influence is substantial but succeeded by the CSRD in January 2024 (European Commission, 2013).

The Corporate Sustainability Reporting Directive

In April 2021, the EC adopted the legislative proposal for the Corporate Sustainability Reporting Directive, hereafter the CSRD. Companies subject to this directive must include information on how the company’s activities impact sustainability matters and must report information on how sustainability matters have an influence on the company’s growth trajectory, achievements, and market position (European Commission, n.d.-a). This clarifies the company’s stance on environmental, social and governance, hereafter the ESG[8], factors, increasing comparability across firms and enabling the derivation of an ESG rating. This refers to the introduction of the double materiality principle. The CSRD makes

[8] For more information, see Table B1 in Appendix B.

companies more accountable for their actions and necessitates a greater inclusion of sustainability information in annual reports since it imposes non-financial reporting standards and the pursuit of confirmation for reporting information (KBCBankEnVerzekering, 2023; Norga, 2023).

For companies that need to provide stakeholders with non-financial data, it is necessary to present this information in a way that ensures relevance, comparability, reliability, and effortless accessibility for practical use. Providing transparent non-financial data is beneficial since the risk of investing in companies mitigates and the increase in financial flows has a positive social and environmental impact (European Commission, 2021a). Moreover, this new regulation aims to end greenwashing practises[9] and should harmonise global sustainability reporting practises (Norga, 2023).

The most important aspect of the CSRD is that it results in a 28% increase in the number of obligated reporting entities, as stated in the legislative proposal (European Commission, 2021a). This increase in scope is due to the proposal's expansion of existing reporting requirements, affecting 50,000 companies, compromising all large and publicly listed companies including SMEs (European Commission, n.d.-a; KBCBankEnVerzekering, 2023; Norga, 2023). The CRSD applies to any company meeting at least two of the following criteria: a net turnover exceeding 50 million euros, a balance sheet total surpassing 25 million euros, and/or a workforce of 250 employees or more (Norga, 2023). Formerly, sustainability reporting was mandatory for only a limited number of companies. In Belgium, with the advent of this new regulation, the mandate for sustainability reporting has expanded from a hundred to approximately 3,000 companies (KBCBankEnVerzekering, 2023).

[9] Greenwashing practises are defined as superficial adherence to environmental principles without substantive action (Norga, 2023).

As stated above, the CSRD encompasses a broader spectrum of required information, aimed at enhancing comparability, among other factors. The information covers both the short, medium, and long term (European Commission, n.d.-a). More specifically, it is crucial for companies to extend their reported initiatives beyond the scope of the previous year. Consequently, transition plans enacted prior to the implementation of the European Sustainability Reporting Standards (ESRS) should also be disclosed. This regulation requires companies to publish a long-term transition plan, highlighting transparency regarding their efforts to foster a more sustainable economy (Norga, 2023). The required information encompasses a description of the business, sustainability objectives, and the role of management. Policies regarding sustainability and incentives should also be included. To obtain this information, a thorough analysis of sustainability issues, opportunities and the resulting existing or potential impacts related to its own activities or the activities of companies in the value chain should be inferred (European Commission, n.d.-a). Additionally, sustainability reports are required to undergo an examination by an independent auditor and companies are required to furnish a digitally readable document that they must upload to a centrally determined portal (Norga, 2023).

The European Financial Reporting Advisory Group

The European Financial Reporting Advisory Group, hereafter EFRAG, was established to achieve the 2050 target by standardising sustainability rules, aiming to change companies' behaviour (Bongardt & Torres, 2022; European Commission, n.d.-a; Ponthieu et al., 2023). The institution improves both financial and sustainability reporting practises across Europe (European Commission, n.d.-a). The standards that this institution creates are developed in consultation with investors, enterprises, trade unions, academics, and national standard-setters (European Commission, 2023c). The EFRAG is an important European body as it consists of 30 representatives from various EU member states and is involved in sustainability standardisation such as, amongst others, the European Banking Authority, the European Central Bank, and trade unions (Afolabi et al., 2023). Together with

the Global Reporting Initiative, hereafter GRI[10], the EFRAG develops sustainability reporting standards of which the CSRD is an example (Giner & Luque-Vílchez, 2022).

The European Sustainability Reporting Standards

To demonstrate the impact of the European Sustainability Reporting Standards (ESRS) on companies' strategies, it is necessary to start by taking a closer look at the concept. Envisioned as a critical component of the EU's green reporting framework, the ESRS reflects a strategic response to the imperative for comprehensive sustainability reporting even though the first set was only published in 2023. The enactment of the NFRD marked a pivotal milestone in fostering sustainability disclosure, underscoring the EU's commitment to corporate transparency and accountability beyond financial metrics. Tasked with formulating the ESRS, the European Financial Reporting Advisory Group (EFRAG) embarked on a mission to establish robust standards that transcend traditional reporting paradigms. A defining aspect of the ESRS lies in delineating what companies must report. Complementary to the Corporate Sustainability Reporting Directive (CSRD), which focuses on determining which companies must report, the ESRS encapsulates twelve standards categorised into general principles, environmental and climate standards, social standards, and corporate governance standards (KBCBankEnVerzekering, 2023).

Central to the implementation of the ESRS is the double materiality principle, ensuring robust reporting on both financial and sustainability dimensions. The primary goal of the ESRS is to enhance transparency and comparability among companies by equipping stakeholders with comprehensive sustainability information alongside financial data. Additionally, the ESRS should strike a balance between gathering necessary data and avoiding undue burdens on companies (European Commission, n.d.-d). While compliance

[10] For more information, see Table B1 in Appendix B.

with the ESRS is mandatory, the implementation timeline varies depending on the assigned category of companies, ensuring a balanced approach that mitigates undue burdens on businesses while advancing sustainability imperatives. Furthermore, situating the ESRS within the evolving landscape of European regulatory frameworks and global sustainability initiatives offers critical insights into its coherence and distinctiveness. In summary, its strategic positioning within the broader EU green reporting rules underscores its pivotal role in shaping corporate strategies aligned with sustainable development goals.

The Development of the European Sustainability Reporting Standards

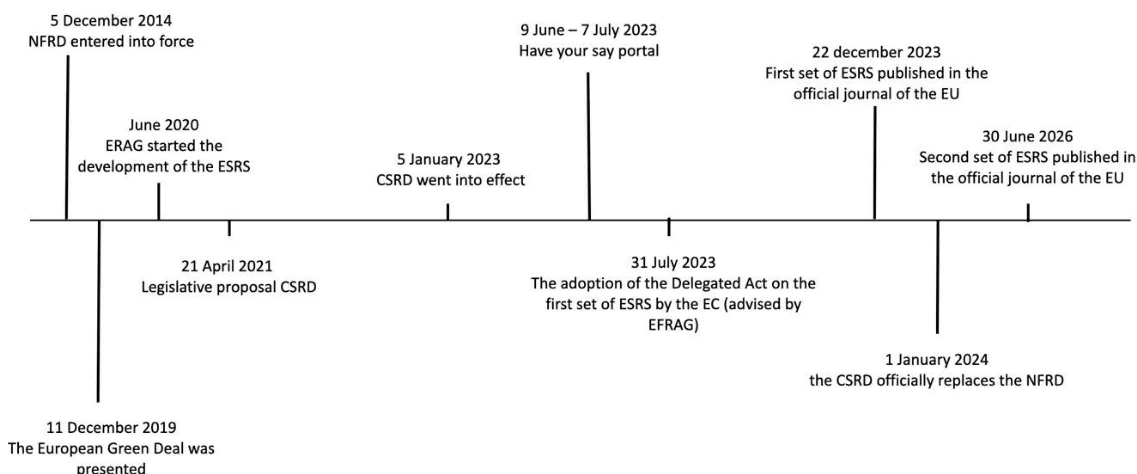
The NFRD was enacted on 5 December 2014 to furnish stakeholders with sustainability data for evaluating a company's value creation and sustainability-related risks. Simultaneously, it promotes the adoption of ESG responsibilities among European enterprises (Boeykens, 2022). On 11 December 2019, the EC introduced the EGD aimed at addressing environmental concerns and achieving a carbon-neutral economy by 2050. As part of this initiative, several policies were devised to enhance sustainability, one of which is the European Sustainability Reporting Standards, hereafter ESRS (European Commission*, 2019*). In June 2020, the EFRAG was tasked by the EC with initiating activities aimed at formulating the ESRS (Afolabi et al., 2023). This preparatory phase for the first set of draft ESRS started in parallel with the further development of the legislative procedure of the CRSD. On 21 April 2021, the EC unveiled a proposal for the CRSD, seeking to enhance the existing regulatory frameworks for large corporations (Feijao, 2021). On 5 January 2023, the CRSD went into effect, expanding the sustainability reporting obligations to 38,000 entities in public and private sectors (Clipsham & Fagan, 2022; European Commission, n.d.-a). Notably, the CRSD introduced enhanced standards for ESG reporting. Entities falling under the scope of the CRSD are mandated to conform to the ESRS (European Commission, n.d.-a). The CRSD positions the EU as a pioneer in defining criteria for sustainable finance (European Commission, 2021b). From 9 June 2023 to 7 July 2023, the EC launched the “Have Your Say” portal, inviting public input on the forthcoming regulatory guidelines. This initiative is part of the EC’s standard practise of

seeking public feedback for each proposal, enabling adjustments, and ensuring the feasibility of new regulations for corporations (European Commission, n.d.-d). On 31 July 2023, the EC implemented the delegated act to introduce the first ESRS under the CSRD, specifying regulations and implementation timelines for companies (Ducoulombier, 2023). Moreover, on 22 December 2023, the first set of ESRS were published in the Official Journal of the EU[11]. These are directly applicable in all member states from 1 January 2024, coinciding with the official transition of the CRSD to the NFRD (Voskoboinikova et al., 2023a). The first set of companies should implement the ESRS for the financial year starting on 1 January 2024, with subsequent compliance deadlines outlined until 2028. The subsequent release of ESRS, featuring sector-specific guidelines, is anticipated to be endorsed by June 2026. These ESRS delineate mandatory criteria tailored to the operational domain of individual companies. The implementation of sector-specific ESRS is scheduled for two years after the introduction of the initial set of ESRS. This temporary spacing is intended to facilitate companies in prioritising the assimilation of the initial ESRS framework. Non-EU companies are required to start reporting the ESRS from the financial year 2028, allowing adequate preparation time for compliance with the CRSD reporting standards (Voskoboinikova et al., 2023b). Figure 1 shows all the milestones in a timeline (Boeykens, 2022; Ducoulombier, 2023; European Commission, 2019; European Commission, 2021b; European Commission, n.d.-a; European Commission, n.d.-d; “The Corporate Sustainability Reporting Directive (CSRD) at a glance,” 2023; Voskoboinikova, 2023a).

[11] For more information, see European Commission (2023d).

Figure 1

Timeline: Milestones in the Development of the European Sustainability Reporting Standards



The Content of the ESRS

In contrast to the CSRD, which describes which companies must report, the ESRS describes the content of what must be reported. In total, twelve ESRS cover different domains of sustainability. As presented in Table 2, each ESRS is categorised into one of four groups (European Commission, 2023c). This encompasses two general standards on fundamental principles and on general reporting requirements, followed by a delineation of five standards focusing on environmental and climatic considerations, which include aspects such as biodiversity, water management, and circular economy practises. Furthermore, four standards are dedicated to social considerations, encompassing factors such as the welfare of employees and the broader societal context in which the organisation operates. Additionally, one standard is specifically dedicated to corporate governance (KBCBankEnVerzekering, 2023).

Beyond these groups and the unique numbers, the ESRS can be further divided into three categories. Firstly, ESRS 1 contains general principles that must be applied if the company is subject to the ESRS. However, this standard does not set requirements.

Secondly, ESRS 2 specifies essential information that must be contained within the sustainability reports regardless of which matter is considered. Thus, this standard is compensatory for all the companies within the ESRS scope. The other ten standards fall under the materiality assessment, which means companies are only required to report on important sustainability information for their activities. Nevertheless, this does not mean that the requirements regarding the last category are voluntary. Companies are obligated to conduct a materiality assessment to ensure that the essential objectives and requirements are met. If a company chooses not to report on a certain issue, it must state why it is not material to its operations (European Commission, 2023c). This is further explained in The Double Materiality Principle.

Table 2

What do Companies Have to Report?

Group	Number	Subject
Cross-cutting	ESRS 1	General Requirements
Cross-cutting	ESRS 2	General Disclosures
Environment	ESRS E1	Climate
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources
Environment	ESRS E4	Biodiversity and ecosystem
Environment	ESRS E5	Resource use and circular Economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end users
Governance	ESRS G1	Business conduct

Note. Adapted from *Questions and answers on the adoption of European Sustainability Reporting Standards*, by European Commission, 2023c.

The Double Materiality Principle

Upon the implementation of the ESRS, companies are subject to a novel principle at European level, namely the double materiality assessment. The assessment obliges companies to evaluate issues from two perspectives. First, the inside-out perspective scrutinises companies for their direct and value chain-related impacts over short, medium, and long-term horizons. For instance, a company claiming climate neutrality while engaging with polluting suppliers illustrates this interconnectedness between the companies' operations and the operations of the companies in the value chain. Second, the outside-in perspective, where companies assess the (financial) risks and opportunities regarding various ESG topics, such as a production line in a flood-prone area since this poses inherent risks to the company. Consequently, the double materiality assessment mandates reporting on any topic with material impact, risk, or financial significance. There is a certain degree of objectivity within the double materiality assessment, but engaging with stakeholders, employees, consumers, and experts, among others, is essential. The reporting obligation of the ESRS must be met, however, the double materiality assessment is a reflective tool which urges companies to develop sustainable policies and adjust a firm's business strategy accordingly. Amidst this challenge, transparency and honesty are paramount, reflecting not just financial performance but also sustainability practises. The combination of sustainability and financial reporting, both included in the annual report and therefore at the same level, is an integration process necessitating top-level organisational engagement (KBCBankEnVerzekering, 2023).

In conclusion, the ESRS falls under the principle of double materiality, necessitating companies to report both financial and sustainability aspects (Ducoulombier, 2023). Companies are obligated to conduct a materiality assessment to ensure alignment with essential objectives and requirements and if certain issues are not reported, justification for their insignificance must be provided (European Commission, 2023c). The assessment of their materiality encourages companies to integrate sustainability concerns into strategic management (Ducoulombier, 2023).

The Goal of the ESRS

The ESRS are complementary to International Financial Reporting Standards, hereafter IFRS[12], as the former focuses on enhancing reporting on sustainability issues and the latter focuses on financial reporting. Consequently, the ESRS are a necessary complement to ensure that stakeholders can compare companies based on both financial and sustainability issues (Giner & Luque-Vílchez, 2022). The new standards are an important initiative for three main reasons. First, the sustainability information that companies currently report is not sufficient for stakeholders. According to them, the impact of their environment on the environment is still difficult to assess, as companies often exclude significant information. Second, the available sustainability information of companies is hard to compare. Lastly, stakeholders do not know how trustworthy the sustainability information available is. Therefore, the EC is implementing the ESRS to make sure companies communicate clearly about their sustainability performance and have access to sustainable finance (European Commission, 2023c).

As Giner and Luque-Vílchez (2022) suggest, developing sustainability reporting standards is difficult, because it plays such a crucial role in decision-making and the successive consequences of the different issues at the different levels. The information must be relevant, accurate, and complete and this can best be achieved by using reliable tools, initiatives, and standards. The ESRS endeavours to address these challenges by facilitating the monitoring and sharing of sustainability information in a comprehensive and efficient manner (Fleacă et al., 2023). Thus, the main goal of the ESRS is to make sustainability information available and to ensure its alignment and compatibility (Giner & Luque-Vílchez, 2022). Moreover, the ESRS should ensure that reported sustainability information is of high-quality while being administratively easy to process. It should specify the forward-looking, backward-looking, qualitative, and quantitative information that companies should report on environmental, social, human rights and governance matters.

[12] For more information, see Table B1 in Appendix B.

Furthermore, companies are expected to take responsibility for their own sustainability reporting as well as for the sustainability reporting of companies in their value chain. Companies should be aware of the potential challenges caused by this information gathering. However, the ESRS should ensure that large companies are not mandated to obtain information from small and medium-sized enterprises (SMEs) in their value chain that exceeds the information to be disclosed following the ESRS. Nevertheless, the objective of the ESRS is not to ensure that sustainability reporting standards place a burden on large companies by requiring them to gather excessive information from SMEs within their supply chain. The aim is to strike a balance between gathering necessary data for reporting purposes while avoiding overly demanding requirements for large enterprises (European Commission, n.d.-d). Specifically, the ESRS aims to inform stakeholders about the sustainability impact of companies. For instance, insufficient sustainability reporting can make an investor incapable of assessing risks to which the company is exposed. Additionally, the expectation is that the ESRS will ensure that EU countries include energy efficiency[13] in their policies, planning major investment decisions in the energy sector and more (European Commission, 2023a). Also, member states have the freedom to impose fines for non-compliance[14] (Hogan Lovells International LLP, 2023).

Which and When Companies Must Implement the European Sustainability Reporting Standards

Table 3 delineates the four categories and waves of the implementation of the ESRS (European Commission, 2023c; KBCBankEnVerzekering, 2023; Spinaci, 2024). When companies must implement the regulations depends on which category the company

[13] Under the EU Energy Efficiency Directive, a deal made to achieve the EGD, 1,49% is saved every year on average of the total final energy consumption. Compared to the current level of 0.8%, this is expected to increase by 1.9% by the end of 2030. Local heating and cooling plans are also mandatory for large municipalities with a population above 45,000 (European Commission, 2023a).

[14] Germany issues fines for violations of the ESRS between 50,000 and 10 million euros (Fortmüller, 2024).

belongs to (European Commission, 2023c). However, a major shift is not expected until 2026, when unlisted companies will also be mandated to report (KBCBankEnVerzekering, 2023). Subsidiaries that are part of a corporate group are also obliged to furnish reports to ensure stakeholders have detailed information about ESG aspects across companies (Deloitte Belgium, 2023).

Table 3

Which and When Companies Are Affected by the European Sustainability Reporting Standards?

Types of enterprises	Time of implementation
Enterprises already required to report non-financial information in line with the NFRD: large public-interest companies with over 500 employees	From 1 January 2024: publish their first sustainability report the following year (reports due in 2025)
Large non-EU and EU listed enterprises that are not yet subject to the NFRD: with more than 250 employees and/or €50 million in turnover and/or €25 assets	From 1 January 2025: publish their first sustainability report the following year (reports due in 2026)
Non-EU and EU listed SMEs	From 1 January 2026: publish their first sustainability statement the following year (reports due in 2027) Nonetheless these companies can choose to delay the reporting requirements for two years: possibility to opt-out until 2028
Non-EU enterprises that yield more than 150 million euros per year in the EU and have a have a department that generates more than € 40 million or a subsidiary that falls under one of the previous categories	The company must implement the ESRS in 2028 and must publish their first sustainability report in the following year

Link Between the ESRS and Other Standards

As Nobes (1990) denoted, it is important that the different standards are harmonised. The advantages of avoiding similarity of reporting practises are clarity and less diversity between countries, which can be achieved through reducing variation between different standards. Therefore, some researchers have written that public intervention would be a good thing to improve the quality of standards (Giner & Luque-

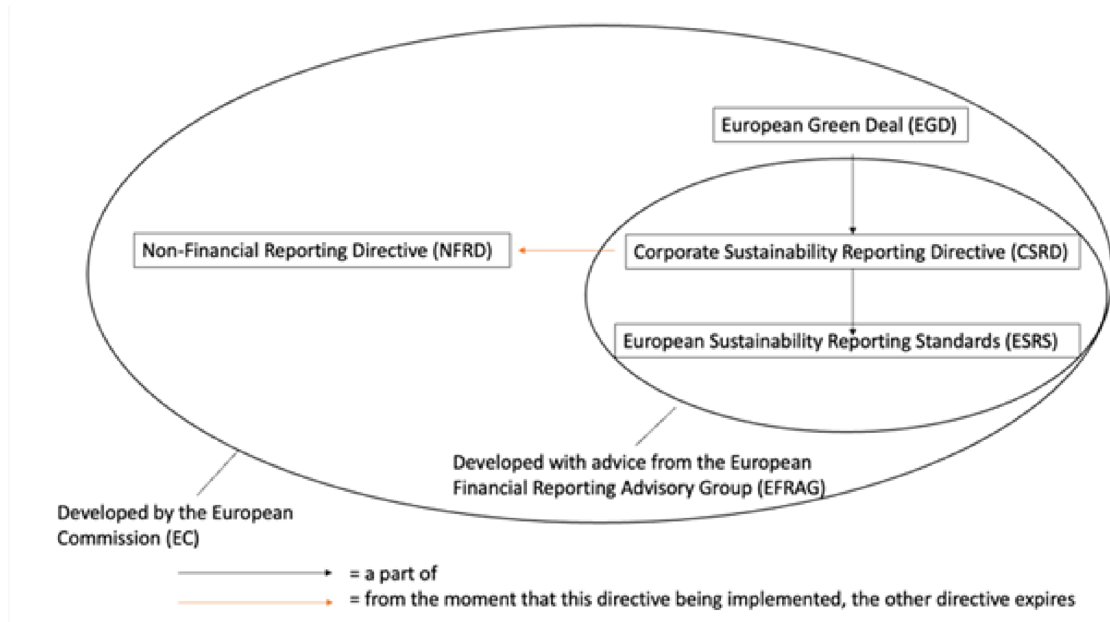
Vílchez, 2022). Consequently, the harmonisation between the ESRS and the concepts outlined in Framework, and other international standards are delineated.

Overview of the Coherence of Different Bodies Developed by the EC. An overview of the coherence of the various entities and initiatives established by the EC in recent years regarding green reporting rules is provided, and the relationship between the concepts is illustrated in Figure 2.

The EGD is the pivotal sustainability initiative presented by the EC and introduced in 2019. The EGD strives to achieve a carbon-free economy by 2050, positioning Europe as a pioneer in becoming the first climate-neutral continent (Ponthieu et al., 2023). In alignment with this ambitious goal, Europe has introduced various initiatives, one of which is promoting sustainable financing through the establishment of the CSRD. In 2024, the CSRD officially replaced the NFRD, which entered into force in 2014 (Boeykens, 2022; European Commission, n.d.-a; "The Corporate Sustainability Reporting Directive (CSRD) at a Glance," 2023). The NFRD, initially implemented solely by large corporations, has been succeeded by the CSRD, which extends reporting obligations to a broader range of companies, emphasising the need for sustainability impact disclosure (European Commission, 2021b; NBA, n.d.). The ESRS delineates the content of sustainability reporting, aiming to make sustainability information available, ensure alignment and increase comparability (Giner & Luque-Vílchez, 2022). Currently, the ESRS comprises twelve standards (KBCBankEnVerzekering, 2023). The mandated reporting information is established by delegated acts of the EC, as these define the content and, if applicable, the format for presenting the information (European Commission, n.d.-d). Additionally, the EFRAG provides technical help to the EC (EFRAG, n.d.). It was established to standardise and improve green reporting rules. The various initiatives and entities that the EC has developed show that the EU is increasingly focused on sustainability concerns (Bongardt & Torres, 2022).

Figure 2

Overview of the Initiatives Established in Recent Years Regarding Green Reporting Rules



Source: This figure is created by the authors based on the literature review of this thesis.

Alignment with other standards. There exists a significant level of harmonisation between the ESRS and other global standards, with particular attention paid to aligning them with the standards of the International Sustainability Standards Board, hereafter the ISSB[15], and the Global Reporting Initiative, hereafter the GRI[16]. The ESRS development was inspired by the GRI standards, while two ISSB's standards were established alongside the ESRS. As a result, companies mandated to report information under the ESRS are also required to disclose similar data as those adhering to ISSB standards. This strategic alignment between global standards aims to streamline reporting obligations for companies complying with both the ESRS and the ISSB standards, eliminating the need for separate

[15] For more information, see Table B1 in Appendix B.

[16] For more information, see Table B1 in Appendix B.

reporting mechanisms. Moreover, the ESRS expands upon the ISSB standards by incorporating considerations of the societal and environmental impacts of corporate activities, extending beyond the ISSB's focus solely on social and environmental concerns. Furthermore, the EC ensures no excessive overlap of the ESRS and other European standards to prevent companies from reporting the same information to multiple entities, which would unnecessarily complicate administrative procedures (European Commission, 2023c; Giner & Luque-Vílchez, 2022).

Interviews

An analysis of the non-market environment is of great importance to formulate an effective political business strategy that companies can implement. Although the existing academic literature has primarily focused on examining organisations for evaluating impact, its application to measure the effects of the ESRS on political strategies remains nascent due to the recent enactment of this legislation (Giner & Luque-Vílchez, 2022). The interviews serve as a bridge between the scholarly discourse and the empirical analysis, and the relevance of the ESRS established by the EU is assessed. This chapter expands upon the exploration of ESRS by investigating their impact on the evolving non-market environment and the necessary adjustments in corporate strategies. By combining theory with insights gleaned from interviews, valuable conclusions can be conducted.

The methodology employed in this thesis is predominantly qualitative, leveraging both an extensive literature review and interviews to gain comprehensive insights. The interviews, comprising a set of 20 open-ended questions, facilitated an in-depth understanding of perspectives regarding the integration of green reporting rules into strategic frameworks. In Appendix A the interview questions are included, distinguishing between queries directed at companies and those aimed at government, employee organisations, and employer organisations. This division was necessary because companies may not always provide detailed insights into how they assist others with implementing green reporting rules, especially beyond those directly in their value chain. Similarly, governments may struggle to provide comprehensive perspectives on how legislation affects them. Each interview had a duration of approximately one hour, with a total of nine interviews conducted. To ensure a diverse range of perspectives, interviewees represented various industry sectors and positions within their companies. Table 4 displays the industry or sector in which each interviewee works, along with their respective position within their companies. To maintain confidentiality, pseudonyms are assigned, as neither the company nor the individual's name is disclosed. Consequently, all statements made

during the interviews can be utilised in accordance with confidentiality protocols. If the company is a multinational enterprise, hence forward MNE[17], or a small and medium-sized enterprise, hence forward SME[18], is displayed in the second column.

Now that a comprehensive understanding of the ESRS regulatory framework has been established, this knowledge is being applied to the Belgian business landscape. The first key question addressed are the ways to measure the impact on a companies' business strategy. Internal and external motivators play an important role in the quality and quantity of implementing sustainable practises. Secondly, the changes in the non-market environment of companies since sustainability reporting has been established are observed. The company's value chain is the main focus within this research question. Thirdly, an examination on the adaptation of the changing environment and the presence of the ESRS is conducted, including guidance, shortcomings and challenges, and opportunities. As the shift towards environmental management requires more than only maintaining an overview of the government regulations, it is important to emphasise reasons for companies to become more sustainable. Some companies adapt more easily to a changing non-market environment than others. Lastly, the shortcomings of the methodology on which this section is based are emphasised.

[17] For more information, see Table B1 in Appendix B.

[18] For more information, see Table B1 in Appendix B.

Table 4

Interviewees Breakdown by Industry and Function

Pseudonym company	MNE or SME	Sector	Position	Pseudonym respondent
A1	MNE	Financial services	Programme manager sustainable finance	R1
A2	SME	Transport, logistics, supply chain and storage	Account manager	R2
A3	SME	Recycling and containers	General manager	R3
A4	MNE	Health care: pharmaceutical industry	Senior director, environmental product compliance and sustainability	R4
A5	MNE	Retail, wholesale, and food service	Staff member sustainability	R5
A6	MNE	Consumer discretionary	Sustainability manager EMEA logistics	R6
A7	MNE	Water management, waste management and energy services	Project and public affairs	R7
A8	/	Flemish government	Policy sustainability officer	R8
A9	MNE	Accounting and consulting	Professional business advisor and equity partner	R9

Source: This table is created by the authors based on the interviews.

Ways to Measure the Impact of the ESRS on Companies' Business Strategies

To formulate an efficient political business strategy of EU green reporting rules, it is important to first investigate the impact of these regulations on companies and their strategy. This thesis focuses specifically on the ESRS, but because it is still such a new

standard, the general concept is sometimes discussed. Interviews are used to research the organisations, a method to determine the impact denoted by Giner and Luque-Vílchez (2022). Assessing the mediating role of corporate entrepreneurial strategies could be a second method as this provides insights into the internal governance environment of companies (Zhang et al., 2022). Another perspective is to look at the consequences that arise if the standards are not applied. If large energy consumers fail to implement energy management systems, they are subject to an energy audit (European Commission, 2023a). Energy efficiency financing is being strengthened to facilitate the necessary investments, but as an interviewee mentioned in the research by Uecker-Mercado and Walker (2012), it seems certainly possible to be environmentally responsible and profitable at the same time. As Inchausti and Luque-Vílchez (2022) suggest, standards can be enablers to change a company's strategy because there is a financial incentive. Furthermore, Fleacă et al. (2023) note that the reason why there are more and more concrete rules regarding sustainability information is the positive effects associated with such regulatory measures.

A problem arises if organisations adopt a sustainable business strategy, without this being necessary for the ESRS obligation or other EU green reporting rules. A distinction is therefore made between internal and external motivators for implementing sustainable practises, both in theory and in the experiences of the interviews. All these motivators ensure that companies will design a sustainability strategy, but in conclusion, the legislation itself is the factor that carries the most weight.

Internal Motivators

The effectiveness of implementing sustainable practises is notably influenced by internal motivators. Consequently, it is important to investigate these motivators to enable the separate examination of legislation in the subsequent research questions.

Theory. Financial considerations play a pivotal role in motivating companies to integrate the green rules established by the EC into their business strategies. Cost savings

are the first internal motivator in this category of financial reasons (Howes et al., 1997; Saha & Darnton, 2005). Remaining profitable, the prospect of lower expenses and utilising sustainable initiatives as a marketing strategy to attract environmentally conscious consumers might serve as another internal motivator for embracing eco-friendly approaches. By strategically segmenting their market based on these clientele preferences, companies can effectively command higher prices and augment profits (Florida & Davison, 2001; Saha & Darnton, 2005). Companies used to have a regulation-driven approach to green management, but in recent years this changed to a proactive approach characterised by integrating management frameworks aligning environmental concerns with traditional managerial functions. Environmental liabilities, compliance costs, and risk collectively drive the adoption of a comprehensive environmental management system (Khanna & Anton, 2002). Consequently, a greater emphasis on sustainability emerges within larger corporations that are deeply committed to quality management and innovation. The capacities of these corporations for substantial long-term investments, promising positive long-term revenue impacts, directs their attention towards sustainable initiatives (Florida & Davison, 2001).

Furthermore, Howes et al. (1997) showed that a sense of responsibility for the community, and therefore the influence of altruistic feelings, is an incentive for companies to adhere to the green reporting rules or to anchor green management in their strategy. Altruistic feelings also serve to maintain and enhance public relations, mitigate risks, facilitate entry into global markets, and act as a valuable asset for attracting new employees. The strategies employed to capitalise on these opportunities may vary in terms of their short- or long-term nature. Conversely, businesses may feel obligated to address sustainability issues based on the nature of their operations and their consequential impact (Saha & Darnton, 2005). As shown in previous studies, the motivation and characteristics of a company's executives are an important driver of green innovation. They have a significant influence on the firm's decision-making regarding this topic (Uecker-Mercado & Walker, 2012; Zhang et al., 2022). According to Aragón-Correa (1998), an active business strategy within a company stimulates anticipation of environmental issues, often utilising

innovative preventive approaches alongside traditional corrective measures. Moreover, increasing productivity, reducing waste by production efficacy, and minimising carbon footprint are the main reasons to invest in green options (Florida & Davison, 2001; Howes et al., 1997). Also, ecological responsibilities should not be forgotten as an internal motivator (Bansal & Roth, 2000). Lastly, the opportunities of EU green reporting rules are reasons why companies are intrinsically motivated to comply with these regulations and will be further discussed in How can Companies Adapt to the Changing Environment.

Insights From Interviews. Firstly, *financial reasons* to invest in sustainable initiatives came up strongly in the interviews. R3, R4, R5 and R6, respectively employed in the recycling, health care, retail, and consumer discretionary firm, state that improving sustainability and beneficial economic impact are closely related because in many cases it involves *cost savings*. Furthermore, R6 emphasises that sustainability frequently aligns with efficiency, resulting in decreased expenses. Therefore, these companies underscore the financial benefits of tackling environmental issues. Furthermore, R5 demonstrates the cost-effectiveness of reducing energy consumption, as it not only lowers costs but also diminishes CO_2 emissions. Only two companies, A1 and A3, the financial services and the recycling firm, admit that they focus on sustainability for *marketing reasons*. *Penalties* for not following sustainability regulations are only mentioned by R2 and R7, operating in the field of transport and waste, since this creates an internal incentive to comply.

Secondly, the significance of *altruistic feelings* was paramount in the interview with R1 as the company approaches its societal role as a financial institution with utmost seriousness. A1 strives to contribute to a more sustainable economy, given its integral involvement in the economy and society of the countries in which it operates. The interview with the company underscored its keen sense of responsibility towards the community and its consistent consideration of altruistic principles. Clear objectives have been established and exemplified by incentivising customers with discounts on loans when the Energy

Performance Certificate (EPC) value[19] of a house improves. This not only demonstrates tangible progress to external stakeholders, but also encourages customers to adopt sustainable practises such as installing solar panels or meeting sustainability key performance indicators (KPIs)[20]. Additionally, there was no company intrinsically motivated to develop a sustainability strategy to enter global markets.

A third reason cited was *the reduction of risks* as companies prioritise sustainability. Consider the consequences of crises, such as the potential for increased prices of electricity and gas. The pharmaceutical enterprise A4 consciously chose to mitigate this unpredictable cost and associated risks by internally producing the raw materials needed for their products. More precisely, the company has constructed a drill to heat its production site, considering the substantial electricity demand for its operations. Being a large enterprise, they have the resources to install such a drill, enabling them to ease the impacts of the crises. In the interview with the firm that works for the Flemish government, R8 talks about a win-win situation. For them, there are no disadvantages to being sustainable, because the impact is always positive on the long-term. For example, their recent investment in a new building which cost a lot of money, however, if they look at the long-term horizon, which will be one of their cheapest buildings because of efficient use of space and energy.

Fourth, within the consumer discretionary company A6, sustainability is *a source of pride for employees*. They find joy in working for A6 because of the company's substantial investment in becoming more sustainable. Companies stand to gain from focusing on sustainability, as it enhances their ability to *attract talent*, stated by the programme manager

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[19] An EPC shows how energy efficient a building is. This label ranges from a red letter F (poor score) to a dark green A+ (very good score) (Vlaamse Overheid, n.d.)

[20] This will help a company towards creating sustainable improvements. Examples are to track your water use and make it cleaner or to higher your load density (Blue Bite, 2023).

sustainable finance at the financial services company R1. The landscape has shifted with the emergence of a new generation entering the workforce, assuming leadership roles, and instigating a paradigm shift towards greater sustainability integration, as cited by R9, the equity partner of the accounting and consulting firm. Nowadays, sustainability is involved in everyone's job in a company. This was highlighted by R4, who works for the pharmaceutical company, since the firm always looks at how to eco-design a product, which means considering different options regarding materials and innovation. This serves as an internal motivator for employees within the company, as everyone wants to play their part in addressing the sustainability issue.

Fifth, several businesses underscored the significance of *the motivation and characteristics of executives* regarding sustainability matters. R9, working in accounting and consulting, underscores the significance of management's altruistic tendency in driving sustainable practises within organisations. Some companies naturally embody sustainability and have consequently made significant progress in ESG initiatives, whereas others have not. Furthermore, R8, working for the Flemish government, stresses the necessity of incorporating sustainability into the fundamental business plan rather than viewing it as an adjunct to operations.

A sixth reason to become sustainable is anticipating on external factors by *using an active business strategy*. Many businesses, such as A1, A4, and A5 which operate in financial services, the pharmaceutical industry, and the retail industry, were already dealing with sustainability prior to the implementation of green reporting regulations. They anticipated environmental concerns through preventive measures. For example, A5 sustainability into its strategy, underscoring the importance of prevention rather than relying solely on legislation to shape its approach.

Lastly, there was no company intrinsically motivated to develop a sustainability strategy to enter global markets.

External Motivators

The effectiveness of sustainable practice implementation is significantly shaped by external motivators. Therefore, delving into these motivators is essential to facilitate the independent analysis of legislation in subsequent research inquiries.

Theory. The first, and most obvious, external motivation is legislation. As stated in Ways to Measure the Impact of the ESRS on Companies' Business Strategies, this is the most important factor this thesis explores and the impact of the various frameworks that exist to correctly implement sustainability reporting is examined. Examples are good practises, with GRI, ISO 26000[21] and SASB[22] as examples (Bansal & Roth, 2000; Fleacă et al., 2023). As Afolabi et al. (2023) emphasised, initiatives such as the ESRS are used to achieve the objectives outlined in the EGD. Over the years, the EC has been working on implementing policy initiatives to protect society and their people along with offering a sustainable financial structure to investors. Transparency is expected to determine which companies are on the right track. The greatest hope, but also expectation, is that the new green reporting rules attain comparability. They want companies to be encouraged to increase corporate engagement and shareholders to be empowered to scrutinise a firm's sustainability performance, fostering greater involvement and accountability. Furthermore, the verification of this information by independent auditors, subsequently integrated into financial reporting, underscores a shared commitment towards sustainability objectives (KBCBankEnVerzekering, 2023).

A company's political connection is another reason why some companies are concerned with corporate environmental responsibility (Zhang et al., 2022). Furthermore,

[21] An international ISO standard, focussing on corporate social responsibility and published in November 2010. It intends to help companies by providing guidance on its implementation. The standard is not mandatory (Manutan, 2021).

[22] An independent non-profit organisation aimed at developing sustainability accounting standards. It was developed in 2011, and is part of the IFRS (SASB, 2024).

there could be pressures from several stakeholders such as customers, government, interest and pressure groups, media, investors, or the local community (Saha & Darnton, 2005). Other reasons cited in the scientific literature why companies are concerned with ESG issues are the development of environmental reports, funding of environmental development, the use of ecological reminders in marketing, market dynamics, public scrutiny of firms exhibiting high on-site toxic emissions and achieving competitive advantage on a broader scale (Bansal & Roth, 2000; Khanna & Anton, 2002; Uecker-Mercado & Walker, 2012). These motivators vary depending on the industry in which companies operate (Fleacă et al., 2023).

Insights From Interviews. The primary external motivator identified in the interviews is *legislation*, encompassing international standards and policy initiatives such as the EGD, as well as requirements for developing reports. R1, employed in financial services, mentioned that European sustainability reporting regulations, such as the EGD, helped to accelerate their sustainability efforts. However, regional policies also play a pivotal role, especially in smaller companies. Compliance with legislation is mandatory, and its significance has increased over time. Notably, R3 and R4 respectively working in the recycling and the health care industry indicate that heightened regulatory pressure has prompted strategic adjustments. Legislation serves as a stimulus for internal deliberations concerning sustainability ambitions. In the health care sector, the impact of sustainability on product approval processes is becoming increasingly apparent, with R4 highlighting the possibility of market exclusion due to unacceptable environmental effects. Legislative bodies are further intensifying their sustainability requirements, leading to the establishment of dedicated sustainability departments within many companies. R5, employed in the retail sector, emphasises the need for transparency regarding sustainability initiatives and their financing and in doing so their sustainability team primarily focuses on strategic oversight and action within the organisation. Finally, R9, working in an accounting and consulting firm mentions clients who prepare contracts for their customers, including sustainability plans. Equally, the government establishes in its contracts strict

requirements that contractors must comply with to be approved and consequently, not be pushed out of the market.

What initially started internally has been complemented with a lot of regulations, especially within the financial sector. Reporting practises align with strategic objectives, yet legislation delineates areas justifying heightened attention. There has been an increase in expectations concerning reporting standards, risk identification, and management, as well as the depth of commitment. Consequently, striking a balance between external mandates and internal strategies is paramount. At A1, from the financial services, this translates into focus points, underscoring the importance of strengthening their strategies. Legislative motivation has encouraged A5, from the retail industry, to make advancements on the maturity scale level of sustainability[23] encouraging more companies to establish dedicated sustainability departments in recognition of the escalating importance of addressing this issue.

Political connection is a second external motivator for companies to enhance sustainability efforts. Following COP26 in Glasgow[24], the health care sector has underscored its significant global impact on sustainability. Companies within this sector, such as A4, are feeling more external pressure to take quick action: an explicit link has been made between climate change and people's health. Political connection plays an important role, and this partly determines how the company approaches decisions. More examples of political connections are discussed in Guidance on the Application of the ESRS.

[23] The maturity scale level of sustainability is a measurement tool used to assess the maturity or stage of development of sustainability practises within a firm (Quist, 2024).

[24] In the 2021 United National Climate Change Conference green technologies was the main focus of attention (WIPO GREEN, 2021).

A third factor driving companies towards sustainability is *the pressure exerted by various stakeholders*. In the interviews conducted, there was inquired about the significance that companies attribute to their clients' and competitors' perceptions of their investments in sustainability or green management. The primary and most significant insight gleaned from interviews with R2, R5, R6, and R7, respectively employed in the logistics sector, the retail sector, the consumer discretionary sector, and the waste management sector is that *customers* exhibit resistance to altering their behaviours towards sustainability. Instead, their focus remains predominantly on price considerations. Priority is placed on maintaining low prices, with secondary consideration given to factors such as distance, transportation methods, and other carbon emissions-related concerns. R2, employed in the logistics industry, provides an illustrative example of consumers still prioritising prices over sustainability. The respondent contrasts the availability of subsidies in the Netherlands for sustainable practises with the absence of such incentives in Belgium, where diesel remains a more cost-effective option. Despite presenting this information, there is minimal responsiveness from customers. This indicates a prevailing disinterest in sustainability-related changes. Furthermore, an example by R6, working in consumer discretionary, underscores this statement of price priority by clients: the reluctance of delays in receiving their packages, often leading to less sustainable transportation options for the company. Therefore, there is a pressing need to develop sustainable solutions that do not necessitate alterations in customer behaviour. This entails either introducing sustainable practises that align with customer preferences or devising alternative approaches that offer both customer satisfaction and sustainability benefits. A6 is actively engaged in ongoing projects aimed at enhancing the sustainability of popular, widely recognised products with high sales volumes, thereby mitigating their environmental impact. However, R6 also suggests that sustainability serves to attract return customer. Additionally, it is noted that a shift in regulations towards mandatory sustainability measures could potentially instigate a transformative dynamic in consumer behaviour. As stated by R4, working in the health care sector, market demand emerges as the primary influencer and serves as the foremost motivator. When customers inquire more about a product's

sustainability and this influences their purchasing decisions, it becomes imperative for companies to prioritise sustainability considerations. Similarly, R2 from the logistics sector, observes a growing awareness among customers regarding companies' sustainability efforts. Additionally, the respondent from financial services R1 emphasises that prioritising sustainability initiatives signals a company's overall health and performance, thereby attracting increased attention from investors. Moreover, R8, employed in governmental services, highlights the expectations and pressures voiced by their clients. For example, during events where representatives from the Agency of Agriculture and Fisheries[25] aim to encourage farmers to adopt more sustainable practises, they frequently receive inquiries about the government's own sustainability initiatives.

Three interviews, specifically those with R4, R5 and R9, respectively working in the health care sector, retail sector, and in accounting and consulting highlighted the role of *competition* in driving sustainability efforts. Firstly, according to R4, sustainability typically becomes more prominent in a product's lifecycle when its exclusivity diminishes due to patent expiration, leading to intensified competition. Currently, within the pharmaceutical industry, there is limited competitive advantage based on sustainability, as products often maintain market exclusivity. Nonetheless, intrinsic values in prioritising sustainability efforts and competitors are actively engaged in similar pursuits. Secondly, R5 recognised competitors as a stimulus for embracing sustainability. However, A5 primarily follows its internal values rather than solely responding to competitors' priorities. Thirdly, R9 notes that legislation will affect the competitiveness of firms since strategic thinking is essential to stay relevant and in doing so a firm might not be pushed out of the market when the legislation is extensive.

[25] One of the policy areas of the Flemish administration. For more information, see Agentschap Landbouw en Zeevisserij (n.d.).

In contrast to the theory, no company has indicated that it is driven by ecological reminders in marketing as an external motivator, but public scrutiny does seem important. R4 and R5, working in the health care sector and the retail sector, express that it is important for the reputation of their firms that they are concerned about sustainability.

Changes in the Non-market Environment

The ESRS, and more generally the implementation of green reporting rules, will cause changes within companies, however, in this thesis the focus is on the non-market environment. The double materiality principle ensures that the impact on a company's entire value and supply chain is affected, and therefore creating a standard that is good for every company remains a challenge. Various stakeholders have different interests, needing a nuanced approach to standard creation.

The main focus in the literature on the changes caused by EU green reporting rules is on the value and supply chain. From a corporate perspective, examining issues can be done from two perspectives. Firstly, there is the internal assessment, where companies evaluate their direct and indirect impacts, whether through their operations or along the value chain. This evaluation necessitates a comprehensive consideration of short, medium, and long-term implications. For instance, a company might boast climate neutrality while engaging with a supplier whose practises contribute to pollution, thus indirectly affecting the climate through its supply chain (KBCBankEnVerzekering, 2023). Secondly, there is the external perspective, requiring companies to examine the risks and opportunities associated with various ESG factors. For instance, a company operating a product line in a flood-prone area faces a tangible risk. Therefore, the principle of double materiality dictates that if a topic holds material impact, risk and/or financial significance, it warrants attention and reporting. There is a certain degree of objectivity as the dual materiality assessment is described in the ESRS, but engaging with stakeholders, employees,

consumers, and experts, among others, is essential. It remains a reporting obligation that must be met, but by holding up a mirror during the double materiality assessment, Europe wants to get companies to develop a sustainability policy and adjust its business strategy to this new requirement. Upholding transparency and integrity are of greatest importance in addressing this substantial challenge, as it reflects not only on the company's financial performance but also on its sustainability practises. Directing attention toward sustainability issues not only strengthens ties within the community but also simplifies engagement with stakeholder clusters regarding contentious environmental concerns (Florida & Davison, 2001). Another change due to the EU green reporting rules is that companies will have to collaborate more internally to comply with the standards. The convergence of sustainability reporting and financial reporting within annual reports underscores an integration process that mandates top-level organisational involvement due to the importance of the value chain, ensuring both aspects receive equal prominence (KBCBankEnVerzekering, 2023).

In the interview, when questioned about the internal dynamics of the value chain, A6, the customer discretionary firm, perceives a need to exert pressure on its partners to adopt more sustainable practises. This strategic tendency is aimed at minimising the environmental footprint across their value chain, specifically in terms of their climate impact. However, R6 acknowledges that the facilitation of sustainability goals across the value chain has become notably more feasible for MNEs in the presence of robust sustainability regulations. Under such regulations, partner entities are compelled to align with greener practises, thereby streamlining the process of enhancing the sustainability of the value chain. As noted by R6, an example of this occurrence can be observed in the establishment of low emission zones in prominent urban areas like Antwerp or Paris. These specified zones restrict the usage of environmentally harmful vehicles, thereby encouraging transportation companies to transition towards electric vehicles. As a result, the presence of sustainability regulations substantially aids in achieving positive internal evaluations, consequently reducing both direct and indirect environmental effects within the value chain.

However, in the context of assessing the external dynamics, R1, employed in the financial services, emphasise the importance of external pressures exerted throughout the value chain. Specifically, SMEs with limited involvement in sustainability legislation are becoming subject to stricter requirements, as they must collaborate with their major customers or institutions who help them finance operations. These SMEs will experience pressure due to the obligation for reporting shared by others, as adherence to reporting standards is universally sought. Additionally, R5, a staff member sustainability of the consumer discretionary firm, highlights the implications of due diligence legislation on new companies, suggesting that they will need to request information from smaller firms. Failure to provide such information could potentially lead to smaller firms being displaced from the market, as clients may turn to alternative suppliers. Additionally, A4, the health care firm, imposes sustainability requirements on its suppliers, who perceive the company as an innovative and sustainable entity. Consequently, suppliers often seek collaboration to explore potential opportunities. Large companies have the resources to bypass suppliers in unstable markets and produce raw materials internally. Hence, A4 endeavours to reduce its reliance on external suppliers and instead focus on enhancing its internal production capabilities. R9, operating in the accounting and consulting industry, claims that it is no longer the case that external pressure only comes from banks, where you must pay higher interest rates and financing is pushed in one direction: it comes from all sides.

Finally, during the interview with R4, working in the healthcare industry, the significance of simplified engagement with stakeholder clusters emerged as relevant. Specifically, the influence of distributors on the company was highlighted. These distributors prioritise the production of medicines with minimal waste. They emphasise the importance of sustainable packaging, as any deviation from this standard would incur significant costs for them. Consequently, they anticipate improved performance from A6 from the consumer discretionary sector in this aspect. This, in turn, would lead to cost reduction for the distributors and enhance the efficiency of engagement between both

parties. Moreover, directing attention towards sustainability issues strengthens ties with the value chain. Another example was given by R4, working in the pharmaceutical firm, where they focus on how sustainable the products are. Less material, material with a lower footprint and optimising this in such a way that the processes to make those products are also sustainable. They want to create a circular product by dismantling old products, and this has advantages because the prescribing behaviour of doctors is positively influenced.

Engaging in collaborative projects within your value chain can also foster stronger community connections, as noted in interviews with R2, R4, and R6, respectively employees of the logistics, health care, and consumer discretionary sector. For instance, as articulated by R2, account manager in the logistics industry, the company is undertaking a test project aimed at enhancing operational efficiency. This project involves three key partners: the supplier of goods, the end-user, and the company itself as the logistics partner.

How can Companies Adapt to the Changing Environment?

From 2024, the first types of enterprises affected by the ESRS have started reporting. Companies can no longer ignore the standards since, as described in The European Sustainability Reporting Standards, even non-EU enterprises will gradually have to comply. This research question explores how businesses can adapt to a changing environment concerning sustainability reporting. Each company is unique, and for each, it will be a trial-and-error process to determine what works best for them. However, the research question is relevant to consider given the many similarities across companies. This section explores how businesses can adapt to a changing environment concerning sustainability reporting. The objective is to build upon this research question in the Analysis part and provide a clear answer to the effective political business strategy. It fits within the broader context of the interviews conducted with companies' representatives on this topic, but the findings are substantiated by scholarly literature. First, it is crucial to understand the

guidance available for implementing the ESRS to see the limitations that are still there. By discussing the gap, recommendations can be made later to close it. Second, the shortcomings and challenges posed by reporting obligations are examined. Last, the opportunities are highlighted because it is considered logical that companies adapt without too much effort when there are positive elements attached to it.

Guidance on the Application of the ESRS

The guidance currently provided to companies by governments or other actors is substantial, yet there is room for improvement. A brief overview of existing guidance in the literature is provided, but is expanded by explicitly questioning guidance in the conducted interviews. Implementing the ESRS is certainly challenging, but guidance aids in examining the impact of regulations and discovering how companies can adapt to the evolving non-market environment.

Theory. The guidance for the application of the ESRS mainly comes from the EC, the body which introduced the standards, but there are also independent actors who help companies. Since the aim of the thesis is to formulate an effective political business strategy, this section shows how companies feel guided and where additional attention can be given. The guidance starts from the finding that there are limitations to the ESRS, further clarified in Shortcomings and Challenges. The limitations of the ESRS are apparent in the numerous revisions made to its standards in response to feedback raised from enterprises through the EC's "Have Your Say" portal. Key amendments, made in November 2022, include the introduction of phase-in provisions for companies with fewer than 750 employees, allowing them additional time to comply with reporting requirements. Furthermore, in line with the flexibility granted to companies regarding the relevance of sustainability information and the voluntary nature of certain reporting requirements aimed at mitigating financial burdens, it is mandated that reporting is validated by an authorised independent auditor or certifier (European Commission, 2023c; Naeem et al., 2022). In support of the application of the ESRS, the EFRAG intends to publish guidance concerning

the double materiality assessment and value chain considerations (European Commission, 2023c).

Since the Sustainability Development Goals (SDGs), which must be achieved by 2030, are used as a framework to initiate national action plans, programmes and initiatives, scientifically based research is in high demand. This is an example of how countries must also adapt to increasing climate legislation. In recent years, the demand for high-quality information and sustainability data has risen enormously, since there are various government laws, growing expectations of investors and shareholders, and international voluntary initiatives (Fleacă et al., 2023). The SDGs compromise 17 interconnected goals and constitute a global initiative established within the 2030 Agenda for Sustainable Development. The aim is to foster worldwide collaboration among nations to address poverty, inequality, health, education, economic growth, climate change and environmental conservation for present and future generations (United Nations, n.d.).

Insights From Interviews. Insights gleaned from interviews indicate that significant guidance is available to large enterprises regarding their adaptation to the non-market environment. There remains a notable gap in guidance tailored to SMEs. SMEs often lack foresight into future developments, highlighting the need for further support and clarity in navigating forthcoming challenges. In this section, there are some examples discussed as to how companies are guided in the application of the green reporting rules.

As highlighted by R1, program manager sustainable finance from the financial services, the European Central Bank (ECB)[26] has issued extensive and detailed guidelines for banks regarding the management and reporting of climate and environmental risks. These guidelines include expectations for banks to develop and implement action plans, which are subject to annual review to assess progress and identify any existing limitations.

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[26] The ECB is the central bank responsible for monetary policy in the eurozone aimed at maintaining price stability (European Central Bank, 2024).

Failure to take sufficient action may result in fines imposed by the ECB, with sustainability reports serving as a pivotal factor in this process. Additionally, *specific regulatory bodies* have imposed additional reporting requirements for financial markets. Additionally, they engage in close *collaboration with the United Nations* to develop methods that can be applied worldwide. While there is encouragement for the adoption of standardised practises, it is essential to ensure that such initiatives do not excessively affect competition dynamics.

Moreover, *discussions with governments* are occasionally conducted, as noted by R1, R3, R5, R6, and R7, respectively operating in the financial services, retail sector, consumer discretionary sector, and the waste management sector. This is often undertaken to evaluate the feasibility of expectations, either directly or more commonly, particularly when involving SMEs, through overarching entities. While these discussions may bear resemblance to lobbying activities, the primary aim is to improve the transparency of legislation regarding corporate sustainability communication. Furthermore, companies perceive these discussions as valuable for ensuring that laws and regulations are practicable for them. All respondents concur that a clear legal framework is of paramount importance.

As over 90% of businesses in Belgium are SMEs, companies and governments acknowledge the importance of finding a way for SMEs to become more sustainable. As A1 operates in financial services, it is important for their clients that they are aware of the European sustainability rules. Therefore, the EGD has ensured that A1 must discover opportunities that exist for their customers but also, banks must ensure that there are no laggards in their customer base regarding sustainability reporting. They aim to anticipate on upcoming legislation by constantly gaining insight into the forthcoming sustainability regulations since their clients expect them to know what the latest legislation entails. Similarly, the consultancy firm A9 aids their clients in navigating the complexities of sustainability legislation and ensuring they are adequately prepared. They conduct *three*

to four monthly webinars, distribute *newsletters* focusing on green reporting rules, and provide *personalised assistance* to companies, all while endeavouring to reassure SMEs by highlighting the potential opportunities within these demanding tasks and underscoring the critical importance of providing timely support to companies. Likewise, A6 from the consumer discretionary sector, adheres to *science-based targets*, which are universally recognised goals that transcend individual companies. This commitment necessitates a gradual reduction in the company's carbon emissions each year. Although this poses a significant challenge, it offers a clear framework for guiding the company's actions.

Shortcomings and Challenges

In this section, shortcomings are defined as aspects frequently neglected within policy frameworks, while challenges are understood as obstacles encountered by businesses due to the implementation of sustainable regulations.

Unfortunately, the ESRS exhibits significant shortcomings. First, *paradoxical insights* regarding the pace of regulation surfaced during the interviews. The process of legislation enactment within the EU is acknowledged as slow-moving, prompting frustration among respondents such as R7, operating the waste management industry, who feels progress in sustainability legislation is insufficient. Consequently, close monitoring of developments is deemed essential, although respondent R6, employed in consumer discretionary, emphasises the need for understanding that achieving objectives is a gradual learning process. It is recognised that certain goals may not be immediately attainable, and experimentation is necessary. However, a major concern raised is whether and to what extent other parties value this as an experimental approach entails risk of failure, inherent to innovation processes. Moreover, R5 perceives a positive impact of the EGD on the retail sector and their operations yet stresses the importance of considering feasibility and timing. R8, employed in governmental services, highlights the risk of becoming too severe in requirements, risking the fact of setting companies that cannot follow the pace of the regulation out of business.

Second, there is an *unclear impact of the regulation*. Firstly, the necessity to assess whether the ESRS effectively meets the needs of investors, as this could potentially endanger the confidentiality of sensitive information and undermine the reporting's purpose. Similar unintended consequences were observed with the IFRS (Giner & Luque-Vílchez, 2022). The example from respondent R4, operating in the health care sector, emphasises the unclear impact of the ESRS. Merely the process of collecting the requisite data for reporting purposes is anticipated to yield an impact. Hence, it is imperative to mitigate bureaucratic hurdles. Additionally, it is crucial to acknowledge that substantial sustainability information is already disclosed in annual reports, as exemplified by the practises of A4, thereby underscoring the need for synergy with the existing reporting frameworks. Furthermore, R7, representing the waste management industry, explains that often clear national-level regulations are lacking, resulting in uncertainty for industries and uneven competition dynamics where adopting environmental practises may incur higher costs, putting businesses at a disadvantage in competitive markets. Moreover, R6, employed in consumer discretionary, underscores the importance of cautious external communication to avoid undue criticism of imperfection. Sustainability has yet to significantly influence competitive dynamics within various industries, indicating a broader cultural shift is required. Furthermore, R9, employed in accounting and consultancy, underscores the existence of a disparity, as not everyone comprehends the forthcoming implications for SMEs stemming from the ESRS. In other words, R9 states that achieving excellence while maintaining simplicity can position Belgium as a trailblazer in Europe. However, there is a widespread concern among companies that stringent adherence to sustainability reporting standards may inadvertently render them less competitive in the market. This underscores the apprehension regarding the uncertain impact of green reporting regulations on companies. Clarifying that sustainability efforts enhance resilience can foster greater comprehension and acceptance among stakeholders. Hence, there is a pressing need for clearer communication regarding the rationale behind these initiatives since this could motivate the implementation of the requirements as emphasised by R8 and

R9, respectively employed in governmental services and accounting and consulting. Additionally, according to R3, who works in the recycling industry, the sustainability legislation will have far-reaching impacts across various domains of their company, posing challenges unfamiliar to their daily operations. Additionally, R1, employed in financial services, emphasises the presence of reputational risk, highlighting a significant challenge that necessitates a strong moral framework for thoroughly assessing such decisions.

Third, doubts have been raised regarding the *potential undermining of the objectives* outlined in the CSRD, particularly in terms of enhancing the quality of sustainability information and combating greenwashing practises (Ducoulombier, 2023). The evidence of these doubts can be seen in interviews conducted with R7 and R9, respectively operating in the waste management industry and accounting and consulting. For instance, R7 denotes that action is only taken when the problem arises, and prevention rarely happens. If no change occurs in practise, then the goals of the CRSD have been undermined. Consistent with this significant challenge of prioritising sustainability initiatives, SMEs often pay large sums to consultancy companies to ensure compliance with all regulations and standards, instead of investing in sustainable projects. With that, R9 emphasises the necessity of crafting solutions that are inclusive of the entire economy, advocating for approaches tailored to SMEs that are deprived of excessive regulatory complexity and complicated terminology.

A fourth shortcoming concerns the *vagueness of metrics and indicators of regulation*. One such adequacy lies in the mandate for financial institutions to disclose crucial sustainability indicators, which must align with existing European sustainability regulations (Ducoulombier, 2023). Company A1, the financial services, experiences challenges because of this shortcoming. R1 highlights the absence of metrics to handle quantitative data. Consequently, translating legislation into actionable measures proves challenging despite the presence of methodologies. Additionally, R8, employed in governmental services, admits that understanding sustainability regulations proves difficult,

presenting obstacles for companies. Equally, in transport, logistics, R2 working in the transportation sector, expressed dissatisfaction with the vagueness surrounding the green reporting obligations, and more specifically around the ESRS objectives. While the respondent was aware of targets to be achieved by 2030, there remains a lack of clear directives. This sentiment is repeated by others, including the programme manager sustainable finance in A1, who suggest that clearer communication and promotion by the government are needed to ensure compliance among small businesses, particularly in regions like Flanders. Notably, not all SMEs strictly adhere to governmental requirements unless they are explicitly outlined, making the regulations even more complicated.

The last shortcoming concerns the *difference in the readiness of companies to comply with these regulations*, reflecting variance in organisational starting points and capabilities (KBCBankEnVerzekering, 2023). This gives rise to several challenges for companies. First, according to R1, employed in financial services, the ESRS demands significant efforts from companies as it requires considerable time and resources to gain minimal insights into companies' impacts on ESG factors, posing a substantial challenge. This challenge is particularly pronounced for SMEs as highlighted in the interview with the recycling sector, where R3 acknowledged having an insufficient number of employees to anticipate upcoming legislation. Sustainability legislation primarily targets publicly listed companies, and while efforts are being made to extend regulations to SMEs, they are typically formulated by MNEs, which may not align well with the needs of SMEs. This imbalance raises concerns as stated by R9, employed in accounting and consulting, as SMEs may find it challenging to comply with standards designed with larger corporations in mind. Although attempts have been made by bodies like EFRAG to draft standards tailored to self-employed individuals and SMEs, the resulting documents, even if simplified, remain daunting for solo entrepreneurs. Furthermore, there is apprehension stemming from the fact that sustainability initiatives often originate from the capital market, where stock exchanges and banks drive the discourse. While this top-down approach is logical, it fails to account for the unique language and operational realities of SMEs. Despite efforts to

accommodate SMEs, individuals crafting legislation may lack first-hand experience with the challenges faced by solo entrepreneurs, having predominantly worked in larger corporate environments. Subsequently, according to the criteria of the ESRS, larger enterprises such as MNEs are required to report on their sustainability issues, including those of their value chain. This presents a challenge since, as highlighted by R5 employed in the retail industry, MNEs lack visibility into the sustainability performance of their value chain, which comprises SMEs. Consequently, MNEs may need to resort to estimations and proxies to gather the requisite data. Thus, given the significant role of SMEs in Belgium's economy, including SMEs in the scope of sustainability reporting is crucial. The sustainability landscape is dynamic, and it is crucial for businesses to keep pace with the increasing volume of regulations, which undoubtedly pose challenges. It is unrealistic for companies to address everything simultaneously, and not every business comprehends the expectations fully. The standards set are ambitious, as even indirectly, numerous companies are required to provide data.

One of the prominent challenges highlighted by interviewees pertains to *the disparity between international and local legislation and its implementation*. According to R1, working in the financial services sector, a typical scenario involves the formulation of a global framework at the European level, which is subsequently adapted into national plans or laws. Hence, it is essential to analyse the local implications of any given law. Issues arise when a country's government demonstrates carelessness, resulting in a failure to meet sustainability objectives. Even within Europe, regulatory authorities may not uniformly enforce compliance measures. Consequently, when regulations are introduced in a specific country, determining whether the entire group should comply becomes complex. The pace of regulatory impact varies while some regulations take effect immediately, others necessitate translation into local legislation. This process may lead to diverse interpretations across countries, not due to contextual disparities, but owing to differing political realities. Additionally, achieving consistency in sustainability accounting methods remains a work in progress, requiring phased development efforts. R8 from governmental

services agrees that struggling with this complexity constitutes a significant risk for companies. Furthermore, R7, the respondent from the waste management firm, highlights that while there is a trend towards harmonisation of European legislation across member states, variations in interpretation and implementation persist, leading to inconsistencies in compliance. To address these challenges, urgent governmental action is needed to implement legislation that standardises practises and encourages equitable compliance with environmental directives. Such concrete efforts are crucial for businesses to navigate green reporting rules effectively while maintaining competitiveness in the global market. Notably, international companies like A4, an MNE in the health care sector, must navigate differing regulations across countries and regions. The variety of regulations across different governmental bodies complicates the operations of A3, the recycling firm, leading to varying regulations and interpretations across jurisdictions. For instance, a material may be classified as a raw material in one country but deemed waste in another, adding layers of complexity to compliance efforts.

Despite widespread recognition of the urgency to address global warming, the reliance on profitable investments maintains a problem within the sustainability discourse. *Financial viability* remains a significant determinant of sustainability initiatives, presenting a barrier for businesses seeking to prioritise environmental responsibility. The prevalence of greenwashing underscores the need for robust regulatory standards with enforceable penalties to drive meaningful change. However, the cost-intensive nature of sustainability endeavours, exemplified by the substantial price differentials between conventional and eco-friendly technologies, complicates the transition towards sustainability. To conclude the opinion of the respondent of the waste management firm R7, businesses must transcend short-term profit motives and prioritise long-term sustainability to effectively address the challenges posed by green reporting rules. As R3 mentioned, the adoption of solar panels represents a compelling case where sustainability aligns with financial interests, as it could directly translate into cost savings or revenue generation over time. However, sustainability projects lacking such financial advantages are often met with hesitation or dismissal. This

dynamic underscore the complex interplay between financial motivations and environmental imperatives within the corporate landscape, highlighting the challenges posed by green reporting rules. The biggest reason why companies are only interested in a project that is financially beneficial is because there are risks involved. This contrasts with the opportunity perspective R1 working in financial services mentions. However, it happens that companies are (partly) pushed out of the market when they are or are not engaged in sustainable investments. R4, the respondent of the pharmaceutical firm, puts figures on it and indicates that an investment can easily cost up to 40 to 50 million euros. If it is not yet clear whether there is a sufficient chance of success, then this is a balance that must be made. The balance between doing what is right for the climate and the environment and the impact this has on a company is difficult to achieve. In addition, scoring poorly on sustainability can have a negative impact on financing, but this does not mean that the increased pressure on legislation will suddenly make it clear or that an investment will suddenly be successful. The retail firm respondent reiterates that sustainability costs a lot of money since it requires investments. Sustainability and profitability often go hand in hand, but, but it depends on the specific issues. Awareness of this disadvantage is important. As stated above, navigating the challenges of green reporting rules requires businesses to strike a delicate balance between short-term profitability and long-term sustainability. While immediate financial gains may tempt investments in conventional, less environmentally friendly ventures such as oil companies, companies like A1 opt for restrictions to align with broader sustainability objectives. This strategic decision acknowledges the potential loss of immediate profits but recognises the importance of mitigating risks associated with stakeholder disengagement.

The final challenge is that green reporting rules ensure that *competition* is increased in certain sectors, but only the bank interviewed mentions this. R1 said that banks are keen to acquire green projects and competition is strong here. Everyone wants to clearly demonstrate their contribution to the greening of the world and is therefore interested.

Opportunities of Green Reporting Rules

Green reporting rules, particularly the ESRS, offer various opportunities for businesses. It is crucial to recognise these opportunities so that companies can adapt to their evolving environment. First, we will explore the opportunities highlighted in the literature, and then we will supplement these with the opportunities mentioned by the interviewees.

Theory. The shift from the existing labels and certificates to newly established standards presents both external opportunities and internal cost-saving potential for companies. As stated in Internal Motivators, opportunities from EU green reporting rules are reasons why companies comply with regulation. Adapting to the changing environment is therefore easiest when there are opportunities: it gives companies a competitive advantage in their marketing and sales, and for the human resource department it creates an impact on hiring. Moreover, the standardised approach serves as a pivotal tool in combatting instances of greenwashing, ensuring fairness, transparency, and comprehensive reporting practises (KBCBankEnVerzekering, 2023). Establishing a dedicated department, rather than relying solely on a Corporate Sustainability Officer[27] to oversee compliance with this regulation, can further enhance a company's capacity to navigate and capitalise on these opportunities (London: Euromoney Institutional Investor PLC, 2023).

Insights From Interviews. As a financial institution, A1 possesses influence over the local economy by directing financing towards certain endeavours, in this case most likely sustainable initiatives, while abstaining from funding others. Consequently, there is a *joint effort to enhance positive impacts and mitigate negative ones*. While investment interest rates remain important, there is a growing trend towards sustainable investment

[27] The main tasks of a CSO consist of overseeing and facilitating both the internal and external environmental impact of the company. S/he will need to achieve the sustainability goals by operating on a daily, and long-term basis (Vanderbilt Business School, 2023).

funds. The *array of products offered extends* beyond mere financial solutions, presenting a competitive advantage rooted in sustainability. The consultancy firm A9 states that there used to be minimal emphasis on sustainability within companies due to the absence of robust frameworks like the EU green reporting rules. While some efforts were made, the focus was limited, as illustrated by the example provided by R9, where sustainability was equated with simple practises such as double-sided printing. Although energy conservation was pursued, primarily driven by economic incentives, the depth of commitment was lacking. R9 currently sees an opportunity to guide companies through the complicated frameworks of the EU.

The legislative body is tasked with a crucial responsibility, and according to R9 employed in the accounting and consulting sector, they are effectively raising awareness among stakeholders. Moreover, they are strategically allocating responsibilities to appropriate entities, such as banks and companies heavily reliant on private equity financing. *Competitive advantages arise* from sustainable entrepreneurship as legislation compels firms to contemplate the possibilities. R9 mentions that if a production facility in northern France can only operate every two weeks due to water scarcity, it necessitates strategic planning. This leads businesses to consider how they can remain sustainably relevant in the future. The strategic shift of A5, a retail company, exemplifies another opportunity by transitioning from a traditional fuel supplier to an electric supplier and thus the adaptability of firms to these new regulations. In the health care sector, A4's collaborative efforts on sustainability initiatives are yielding opportunities for larger-scale projects that might otherwise have been unattainable. This not only amplifies their impact but also generates economic benefits.

R6, sustainability manager in the consumer discretionary industry, underscores the *facilitative role* of legislation and regulations in implementing sustainability. Operating on a global scale, R6 observes that the EU is exerting pressure on companies to improve their sustainability practises rapidly. Legislation serves as a compelling driver for compliance, as it obligates companies to implement sustainable initiatives. The universality of regulations

presents opportunities, particularly advantageous for larger enterprises like A4 from the health care sector. Moreover, R2, account manager in the logistics firm, anticipates that once green reporting regulations offer financial incentives and streamline implementation, widespread adoption will follow quickly. Notably, while not all companies have yet embraced sustainability standards, the legislation provides clear guidance on some expected norms. For instance, the mandate for electric commercial vehicles by 2050 is cited multiple times as a clear regulation.

Furthermore, the respondent of the waste management firm R7, perceives a significant opportunity in the ESRS as it is the first instance where companies are *mandated* to submit a sustainability report alongside their financial report. Previously, reporting sustainable metrics remained voluntary. Therefore, this new regulation is an opportunity for making the economy significantly more sustainable as legislation serves to persuade management of the imperative for action.

Shortcomings of the Interviews

It is essential to recognise that qualitative interviews as a research method are associated with several limitations. The study conducted nine in-depth one-hour interviews, containing a set of 20 questions. It is noteworthy that the interview questions were formulated broadly to allow respondents to elaborate freely on each topic area. Following the interviews, the data was organised thematically by the researchers. In response to logistical and financial considerations, all interviews are conducted via video calling, ensuring continuity, despite potential limitations in capturing non-verbal cues and nuances, although audio recordings were available.

Furthermore, the uniqueness and size of the sample must be acknowledged as factors limiting the generalisability of the findings. The purposeful selection of informants may introduce bias, thereby influencing the breadth of perspectives represented in the study.

These limitations should be carefully considered when interpreting the research results and their implications. However, it is crucial to contextualise these limitations against the valuable contributions that the study offers to the existing literature. Despite these challenges, the insights derived from the qualitative interviews provide valuable qualitative data that enriches understanding of the field. Therefore, while acknowledging these limitations, the significance of the study is emphasised in advancing knowledge and fostering discourse within the subject domain and literature.

Analysis

This chapter presents an analysis of the non-market environment affecting companies impacted by the ESRS. Building upon the literature review, this study focuses on connecting the evolving non-market environment's influence with the insights gathered from interviews. It offers an analysis of the non-market environment for the companies under examination, with potential applicability to businesses across Belgium and Europe. Also, the relevance extends to other sectors, bridging a gap in existing literature.

Interview findings reveal that companies are struggling with the rapidly changing non-market landscape. The primary goal of the analysis is to empower companies in the studied sectors to effectively navigate and respond to the dynamic non-market environment. This objective is pursued through the recommendations detailed in Critical Reflection. Further, this chapter proposes a political business strategy tailored to enterprises of different sized and types, informed by interview data. Methodologically, the section links theoretical frameworks from scholarly articles with practical business dynamics through insights gleaned from interviews.

Commencing with theoretical foundations such as The Non-market Environment of EU Green Reporting Rules and the Four I framework, the chapter conducts an analysis of the non-market environment, identifying which actors are likely to engage in political action. It explores the non-market environment's scope, defines a non-market strategy, examines approaches to environmental protection, defines the issue under investigation, identifies prevailing interests, evaluates institutional significance, and assesses information availability. The Critical Reflection concludes by offering recommendations for companies to adapt to the non-market environment.

The Non-market Environment of EU Green Reporting Rules

This section provides a comprehensive overview of the relevant non-market environment and the dynamics of political competition within the sustainability issue. Public institutions and private interest groups make up a company's non-market environment. Frequently, identifying the optimal societal policy proves challenging, and even when clarity emerges this is no guarantee an optimal societal policy can be reached. Additionally, within a pluralistic society, where the interests of businesses intersect with the public interest, there may be a tendency for businesses to exert a disproportionate influence in the short term. Nonetheless, over the long term, businesses cannot sustain this influence if their interests do not align with the interests of the majority of the voters (Baron, 2013).

A non-market strategy is defined as a company's strategy aimed at generating superior performance through means that are not directly linked to market activities (Parnell, 2019). Political analysis' outcome depends on the preferences of the players, the structure of the political process and the location of the status quo. The decision to take political action is based on the analysis of the important issues, affected interests, institutions involved, and informational advantage and the nature of political competition. Thereafter, a company specifies their objectives and chooses a strategy. This depends on political assets or on political competition. The effectiveness with which strategies can be implemented determines the choice of strategy (Baron, 2013).

From the standpoint of public policy, addressing environmental protection poses a significant challenge, particularly as companies may question their role in this endeavour. This issue presents three potential approaches: allowing market forces to operate unhindered, implementing responsibility allocation mechanisms, or enacting regulatory measures. Furthermore, consideration arises regarding whether to assess the socially optimal level of environmental safeguarding. While this thesis primarily focuses on exploring sustainability standards for companies, alternative methods for environmental

protection include employing engineering controls through technological mandates or decentralised systems like emission charges. The Coase theorem consequently raises the crucial question of cost distribution, particularly concerning public goods, where the assignment of rights significantly influences outcomes. In current economic discussions within, public goods are defined by their characteristics being "non-excludable" and "non-rivalrous." This denotes their accessibility to all individuals without exclusion, and consumption by one party doesn't diminish availability to others. Climate change mitigation serves as a prime example of a global public good. Within the sphere of international law, addressing the challenge of free-riding is complicated due to the voluntary nature of international agreements. As a result, these agreements don't have strong methods in place to guarantee adherence or punish violations. The fact that international climate agreements are voluntary has led to some countries becoming free-riders, wherein they benefit from reduced greenhouse gas emissions without bearing the associated costs. This underscores the necessity for globally recognised legally binding obligations to prevent environmental exploitation. This often leads to a situation resembling chaos in climate negotiations, where powerful countries cooperate mainly when it benefits them (Utkarsh & Nidhi, 2022).

The Four I Framework

The four I framework is a concept used to comprehend the different elements influencing the political behaviour of companies. The framework consists of four components, namely issues, interests, institutions, and information. By applying this, the political dynamics that companies encounter become clear, enabling them to develop strategies for effective operation within the non-market environment (Baron, 2013).

Issues. Issues refer to matters pertinent to a company and upon which they aim to focus. Identifying the issues is the first step towards a successful political strategy. The issue of discussion are the green reporting rules and more specifically the ESRS developed by the EC. Issues have a lifecycle, as shown in Figure 3 (Baron, 2013). It is challenging to

pinpoint exactly where the sustainability issue lies along the red line. This thesis focuses on examining the impact on firms, which is the dependent variable as it is affected by the change, and time is the independent factor since it is the variable that is changed. A majority of the population personally views climate change as one of society's greatest challenges (Andries et al., 2023[28]; Center For Climate Change Communication et al., 2023). Hence, issue identification has been achieved, and interest group formation began years ago. Examples include students following Greta Thunberg's lead in 2019, or Greenpeace raising awareness through targeted actions with smaller activist groups (Van Dam, 2021). However, this activism traces back further: in 1972, the UN organised the first major conference on international environmental issues; seven years later, the first World Climate Conference took place in Geneva, and another eight years later, the renowned Montreal Protocol was adopted to limit chemicals damaging the ozone layer (Europees Parlement, n.d.). Such conferences provided activists with opportunities to organise actions, raise awareness among broader audiences, find potential allies, and pressure politicians. The literature review discusses various European initiatives, one of which is the ESRS, representing legislation as a stage beyond which the sustainability issue resides, with the potential for additional legislative developments in the (near) future. As a result, the ESRS issue lies in the lifecycle between legislation and enforcement. Another reason for its placement is its dependence on individual companies. Consequently, the impact on companies will vary, but the strategy will either focus on adjustments needed to effect change or on compliance and damage control. In what follows, factors that enhance and diminish the probability of political action in addressing sustainability issues will be explored.

[28] For more information, see Figure 1.

Figure 3

The Non-Market Issue Lifecycle

Note. Adopted from *Business and its environment*, by D. Baron, 2013, p.19.

Interests. The decision to engage in political action depends on the interests of the involved parties. Interests are affected by various issues on the agenda. Interests are an important topic in political business strategy because enterprises can convince politicians that their interests are the most important and worth taking up in their policy. This can be done alone, referred to as unorganised interests, or in groups via an industry association or a coalition, referred to as organised interests. The effectiveness of political action depends on factors such as the presence of substitutes, the costs and benefits associated with political action, the numbers of companies affected, the coverage of the issue discussed, the availability of resources, and the costs of organising. The purpose of the subsequent section is to create and reason the Distributive Politics Spreadsheet, shown in Figure 4.

Presence of Substitutes. There is a wide recognition that there are few viable substitutes to drive companies towards sustainability, without regulation, both in case of supporting interests as well as in case of opposing interests. Consequently, the EU broadened its scope regarding the sustainability regulation by replacing the NFRD by the CRSD as of 1 January 2024 (Boeykens, 2022; "The Corporate Sustainability Reporting Directive (CSRD) at a Glance," 2023). Nevertheless, alternatives for traditional legislation do exist.

According to the OECD these alternatives encompass market-based instruments, self-regulation and co-regulation and information and education. Market-based instruments function as mechanisms to alter behaviour by employing economic incentives for both individuals and businesses. Their primary method of operation involves manipulation of relative prices or the creation of new opportunities within the market. For example, governments may introduce trading schemes wherein they establish a set limit for certain activities, such as carbon dioxide production, and subsequently allocate emission permits to various firms. These permits can then be freely traded among firms, allowing for flexibility in meeting overall emission targets without imposing direct restrictions on individual entities (Hepburn, 2009) However, the integration of market-based instruments across different jurisdictions present challenges. In the case of the ESRS, efforts have been made to harmonise these regulations with international standards from the ISSB and the GRI. This alignment aims to simplify reporting processes for companies adhering to both ESRS and global standards, thereby reducing the need for separate reporting mechanisms (European Commission, 2023c; Hepburn, 2009). Nevertheless, interviews conducted with R1 and R7 respectively from the financial services and the waste management sector, highlighted areas where sustainability legislation convergence could be improved. Achieving consistency in sustainability accounting methods is recognised as an ongoing process, requiring incremental development efforts. Furthermore, while there is a trend towards harmonisation of European legislation, variations in interpretation and implementation persist, resulting in inconsistencies in compliance.

A second alternative for legislation highlighted by the OECD is self-regulation and co-regulation. Self-regulation typically involves collaboration among economic entities, such as firms within a specific industry or a professional association. Together, they voluntarily establish rules or codes of conduct to regulate and guide the behaviour actions, and standards of their members. Meanwhile, co-regulation entails explicit government involvement in regulatory frameworks. However, caution is warranted as there is a risk of these frameworks being co-opted by industry interests, potentially prioritising narrow interests over broader community concerns (Hepburn, 2009). Hence, this may not be a suitable alternative for the ESRS, especially considering the risk of free riding where the benefits of sustainability are distributed widely. Professor William Nordhaus's suggestion to establish a climate club model[29] aimed at addressing free riding by incentivising cooperation represents a promising step toward solving the problem. The EU Carbon Border Adjustment Mechanism, designed to prevent carbon leakage, operates on a similar principle of using trade policy to encourage climate protection (Utkarsh & Nidhi, 2022).

Lastly, information and education initiatives aim to modify behaviour by either increasing the accessibility or redistribution of information. Nonetheless, these approaches may not be suitable in situations where policy objectives or the policy landscape are evolving rapidly (Hepburn, 2009). This issue is particularly pertinent, as highlighted by all companies in the interviews, where the sustainability regulatory landscape is experiencing significant changes. In conclusion, there exists multiple alternatives to traditional legislation, such as market-based instruments, self-regulation, and information initiatives, each presents its own challenges if applied to the ESRS. More specifically, integration issues, industry capture risks, and the fast-paced policy landscape are key considerations. As a result, probability of political action for both the supporting and opposing interest

[29] This model demonstrates how a coalition of nations could implement carbon pricing and impose trade penalties on non-participating countries to internalise cross-border externalities (Utkarsh & Nidhi, 2022).

groups is likely to be increased: there are alternatives, but since these have considerable limitations, the Distributive Politics Spreadsheet concludes that both groups have few alternatives they can support.

Cost-benefit Analysis. In the cost-benefit analysis, a distinction is made between MNEs, SMEs, and consumers and investors. For the benefits, a distinction is made between the aggregate benefits and the per capita benefits of a company, both contributing to a higher probability of political action being taken. Afterwards, the costs companies and stakeholders might face is discussed, which the action itself depends on.

Examining the aggregate advantages gained by MNEs, the significant influence exerted on and by partners, to include sustainability practises in their operations, emerges as a pivotal factor. Together companies can do more than alone. This emphasis on sustainability across the value chain is exemplified by the pharmaceutical company A4, as their efforts to enhance the sustainability of their products positively impact the prescribing practices of doctors. For consumers, ensuring environmental transparency allows them to make better purchasing decisions, making the aggregate benefits for consumers decisive (European Commission, 2024). Thirdly, for investors, aggregate benefits are seen in the trend of companies thriving in sustainability practises, gaining a competitive edge over their peers. Research shows that companies prioritising ESG factors typically demonstrates improved financial performance and risk management fostering long-term stability and expansion (Aditya Birla Sun Life Mutual Fund, 2023). Lastly, the aggregate advantages for SMEs are reduced as they typically adhere to the basic environmental standards mandated by law. Only a minority of SMEs go beyond mere compliance, actively examining their processes to mitigate environmental impacts. The primary focus of most SMEs remains internal, with limited consideration given to extending sustainable practices to their supply chains. The integration and alignment of green initiatives with operational improvements are deemed crucial for developing an efficient green supply chain (Kumar et. al., 2019). Consequently, SMEs may realise fewer aggregate benefits from the implemented ESRS

compared to MNEs. During the interviews with SMEs, it became clear that the focus often remains internal, often considering financial considerations, rather than external.

Second, competitive advantages as a consequence of sustainable entrepreneurship in MNEs might serve as a per capita benefit (Bansal & Roth, 2000). An example was cited in the interview with the pharmaceutical company A4: if a patent expires, they can have an advantage in terms of competitiveness. Sustainability regulations can therefore be an advantage for companies as it helps them to make strategic adjustments (Fleacã et al., 2023). Moreover, in Internal Motivators, four main per capita benefits of an MNE were made clear. Firstly, as Saha and Darnton (2005) confirm, MNEs will be able to realise cost savings by setting up sustainable initiatives. Secondly, MNEs will be able to improve their brand reputation if they demonstrate a commitment to sustainability (Howest et al., 1997). Thirdly, implementing sustainable initiatives will reduce risks, but naturally there remains a difficult dynamic between the financial factors and the environmental imperatives. Furthermore, sustainable initiatives are also beneficial to the company in terms of employees, who experience a certain pride, and future talent that they want to attract (Saha & Darnton, 2005). All these per capita benefits were confirmed several times during the interviews. Second, both consumers and investors experience considerable per capita benefits. The first advantage is that both stakeholders enjoy greater transparency and comparability, aligning with the objectives of green reporting rules. Consequently, enhanced sustainability legislation leads to more informed investment decisions. Furthermore, these stakeholders can better align their values and investment decisions or purchases, something that was more difficult before adequate sustainability reporting legislation (Clarasight, 2024; Trevor, 2021). Lastly, only one per capita benefit for SMEs was cited during the interviews. As the case for MNEs, an important per capita benefit for SMEs are costs savings because of embracing sustainability initiatives (Saha & Darnton, 2005). During the interview, this was confirmed in the interview conducted with A3. However, this per capita benefit is smaller as in the case of MNEs.

Lastly, in contrast to the benefits there are also costs associated with green reporting regulations. During the interviews, it became evident that adhering to green reporting regulations results in heightened expenses as the implementation of sustainable initiatives is costly. This cost was cited by multiple MNEs in the study. No evidence of costs as a consequence of the ESRS was found for consumers and investors, leading to the conclusion that these stakeholders only obtain benefits by the implementation of this regulation. In contrast, SMEs confront several challenges stemming from limitations in workforce and financial constraints (Alipour & Rahimpour, 2020). The limitations in human resources are cited during the interview with A3, admitting having an insufficient number of employees to anticipate on upcoming legislation. Hence, when compelled to prepare for upcoming legislation, SMEs face elevated expenses compared to MNEs due to the necessity of allocating a greater proportion of their workforce to this endeavour. Nevertheless, although sustainability initiatives can lead to cost savings, their implementation is frequently financially demanding, which presents challenges in transitioning to sustainability amidst financial constraints. Therefore, as highlighted by both SMEs in the study, the implementation of sustainability typically occurs only when there are immediate financial benefits. Initiatives lacking clear financial incentives are often met with hesitation or outright rejection.

In conclusion, while MNEs, consumers, and investors stand to gain considerable benefits from sustainability initiatives, SMEs face a more unstable balance, where the costs of implementation and compliance may outweigh the immediate benefits, decussating careful consideration of financial incentives and constraints in the pursuit of sustainability. Moreover, in the sustainability issue, which is marked by concentrated costs and widespread benefits, the likelihood of taking political action tends to be reduced. This is especially the case for SMEs as they face higher concentrated costs compared to MNEs.

Numbers and Coverage. By the end of 2022, the Belgian market was home to over one million SMEs, representing the predominant force in the business landscape, comprising more than 99% of all firms, as indicated in Interviews ("Financing SMEs and

Entrepreneurs 2022," 2022; Walker, 2024). Nevertheless, Belgian companies affiliated with multinational groups contribute to over 40% of Belgium's gross domestic product[30] (Lyons, 2022). These numbers depict Belgium's economy, yet there remains a disparity in coverage, referring to the ability to generate meaningful political action.

The absence of data regarding the number of companies affected by the ESRS complicates the assessment of both the figures and the extent of coverage concerning companies impacted by the ESRS. However, the reach of the ESRS is extensive, with MNEs, SMEs, consumers, and investors all profoundly affected (European Commission, 2023c; Norga, 2023). In January 2023, with the transition from the NFRD to the CRSD, the most notable development was the significant increase of 38,000 companies adhering to European green reporting rules (Clipsham & Fagan, 2022; European Commission, n.d.-a). The implementation of the CRSD seems a favourable development undertaken by Europe, as highlighted by several MNEs in the interviews. They emphasised that observing how competitors are addressing sustainability serves as a catalyst for the company's strategic considerations. The primary benefit of the comprehensive reporting requirements for MNEs is the facilitation of collaborative efforts among companies. This strengthens community ties and expands opportunities for companies to enact improvements on a broader scale, which would be challenging to achieve independently. As stated in Interviews, opportunities ensure companies to adapt to the changing environment.

However, some SMEs do not view the extensive list of companies obligated to report as a positive development. This is because they collaborate with partners in the value chain who are required to report more swiftly or comprehensively. Consequently, this creates a disparity between MNEs and SMEs. Also, SMEs are concerned about the competitiveness of the market, which is constantly changing, because people do not yet

[30] This is a measure of the size of the economy, and equal to the total added value of all final goods and services produced in a country (OECD, 2024).

fully understand the impact. Effective communication and the reasoning behind initiatives from the government is crucial for SMEs to comply with the regulations (Norga, 2023).

Consumers and investors experience indirect impacts as they encounter the consequences of the ESRS only when engaging in purchases or investments with companies falling under its scope. This further complicates efforts to quantify the number of affected consumers and investors.

Nevertheless, it can be inferred that the implementation of the ESRS results in a broader range of entities being required to comply with sustainability regulations. This is evident as the legislation encompasses a majority of firms, amplifies representation, and heightens politicians' interest in addressing the issue. However, if the political action taken by others is high, this may decrease the incentives for further engagement. While the coverage of the ESRS is particularly comprehensive for MNEs and SMEs, the influence on consumers and investors is more indirect.

Available Resources. The expenditure on corporate lobbying has seen a significant surge since 2012, surpassing the €500 million mark by 2019 (Chalmers & Macedo, 2020). As noted by several respondents in the research set, governments are occasionally conducted, depicting lobbying power of MNEs and SMEs. The primary aim is to improve the transparency of legislation regarding corporate sustainability communication. Furthermore, companies perceive these discussions as valuable for ensuring that laws and regulations are practicable for them. This positions them as influential drivers of policy decisions related to the ESRS.

This substantial financial commitment suggests that firms anticipate substantial benefits from engaging in lobbying activities, as highlighted by various scholars (Aizenberg & Hanegraaff, 2020; Arggarwal et al., 2012). Alternatively, it would not be logical to invest such substantial resources in this type of corporate political involvement. Notably, the list of leading lobbying organisations in the EU is predominantly composed of MNEs, underscoring the growing importance of this practice in recent years (Meens, 2022). Also,

MNEs obtain substantial financial resources and are capable of investing money in the political process. Moreover, MNEs exert significant influence on the political decision-making due to their large employment base and technological knowledge. This influence allows them to impact political decisions, shape resource allocation, and align political agendas with their own objectives whenever feasible (Rizopoulos & Sergakis, 2010)

However, SMEs encounter obstacles related to an insufficient amount of human and financial resources (Alipour & Rahimpour, 2020). The limitations in human resources are cited during the interview with A3, admitting having an insufficient number of employees to anticipate on upcoming legislation. If SMEs fail to foresee impending legislation, they will encounter greater difficulty in engaging in political advocacy compared to MNEs. Therefore, SMEs typically have fewer resources available for generating political action compared to MNEs, resulting in a more moderate level of influence on policymaking processes.

In contrast, consumers and investors obtain less human and financial resources, facing constraints in their ability to shape political agendas as they are often not as organised as MNEs and SMEs. This is further discussed in Cost of Organising.

In summary, MNEs possess abundant resources, whereas SMEs have a moderate level of resources, encountering limitations in both human and financial aspects. Conversely, consumers and investors have limited resources at their disposal.

Cost of Organising. Expenses can take on organisational aspects, influenced by the free rider issue due to group size, effectiveness impacted by group size, or they can be direct due to implementation. These costs are elevated due to the widespread impact of climate change on everyone. However, since the benefits per individual are significant, the likelihood of the free rider problem is reduced. Industry associations also play a crucial role in mitigating the free rider problem. Overall, since the ESRS is mandatory, the free rider problem is not expected to be significant. Moreover, MNEs exert significant influence on the global economy through their extensive worldwide operations and their capacity to shape foreign policy. Economic globalisation has diminished the relative costs associated

with political engagement for these entities, while their large-scale transnational activities enhance the advantages of influencing policymaking on an individual basis (Kim & Milner, 2019).

Furthermore, consumers and investors also exhibit moderate cost of organising. Regarding topics like climate change, the dynamic relationship and interdependence between investors, businesses, and governments has never been more important. Investors are on the forefront of ESG concerns, exemplified by their commitments to avoid from financing projects that undermine sustainability. They possess the ability to shape the sustainable landscape by opting for sustainable investments and actively participating in the political process. Through both individual and collaborative endeavours, sustainable investors exercise significant influence over government policies, utilising engagement, divestment, and raising environmental and social concerns to prominence in the public consciousness (Trevor, 2021). Moreover, consumers can use their purchasing power to support companies and buy products that align with their values. By buying environmentally friendly products, consumers can signal the importance towards companies, leading them to adopt sustainable practises. Nonetheless, companies like A9 observe that consumers often prioritise price considerations over sustainability matters. However, it is important to note that consumers alone cannot solve the climate problem and it should be handled by collaborative efforts from businesses, governments, investors, consumers, and other stakeholders (Clarasight, 2024) Additionally, it is challenging to organise consumers and investors into interest groups that can effectively advocate for their interests. Evidence of this is seen in the EC's "Have your say" portal, inviting public feedback for each proposal in which no feedback is given by consumers nor by investors (European Commission, n.d.-d). However, the EU is doing efforts in setting up consumer associations to tackle this challenge and including consumer opinions in the regulatory framework (BEUC, n.d.).

Lastly, there also exist interest groups for SMEs such as SMEUnited that lobby the European SME policy indicating that the organisational costs for SMEs are low (SMEUnited, n.d.). Consequently, the Distributive Politics Spreadsheet concludes that

MNEs and SMEs have low costs of organising, while investors have a moderate cost of organising and consumers have a high cost of organising.

Distributive Politics Spreadsheet. The distributive politics spreadsheet is depicted in Figure 4, showing the supporting interests, and opposing interests of the implementation of the ESRS (Baron, 2013). In advocating for the ESRS, various stakeholders' interests must be considered. This includes both demand and supply-side factors, as well as predictions regarding the potential political actions that may ensue.

Supporting Interests. On the demand side, there are strong incentives for MNEs, customers, and investors to support the implementation of the ESRS. There is a recognition that there are few viable substitutes to drive companies towards sustainability without the ESRS. The aggregate benefits of implementing the ESRS for MNEs are substantial and wide-reaching and they stand to reap large per capita benefits. Consumers and investors similarly anticipate large benefits per capita from the adoption of the ESRS, reflecting a broad consensus on the positive impact of these standards. However, their aggregate benefits are smaller. As highlighted in the cost-benefit analysis, the supporting interests stand to gain more benefits than costs from the implementation of the ESRS (European Commission, 2023c; Norga, 2023). All supporting interests are high in numbers and have an extensive coverage. Furthermore, MNEs obtain substantial intangible and tangible resources to participate in the political process, while consumers and investors obtain less resources, facing challenges in their ability to take political action. Moreover, the cost of organising for MNEs are small while those of consumers and investors are moderate since those stakeholders have a more indirect impact on the policy. However, in recent years the relationship and interdependence between investors, businesses, and governments increased. For instance, consumers can use their purchase power to support sustainability companies.

Looking ahead, it is anticipated that MNEs will mobilise high levels of political action in support of the ESRS, aligning with the EU's vested interests in promoting sustainability and maintaining market competitiveness. More specifically, the EU is focusing to maintain

their competitive advantage in green dimensions by implementing EU green regulations such as the ESRS. In parallel, the EC tries to align the business needs with the regulatory and administrative framework (European Commission, 2023b). Controversy, investors and consumers have a low influence on the political influence due to their indirect impact on the political decisions.

Opposing Interests. Resistance to implementing the ESRS primarily arises from the concerns of SMEs, who anticipate significant costs resulting from its implementation, as outlined in the cost-benefit analysis. From the demand side, SMEs perceive few viable substitutes to drive sustainability without the ESRS for the same reasons as in the case of supporting interests. While the potential aggregate benefits and per capita benefits are substantial, they are smaller as those of MNEs while the costs are also significantly higher as those of MNEs. Although per capita benefits for SMEs are smaller compared to MNEs, this is largely due to the significant costs associated with compliance, which could threaten their market viability. On the supply side, the impact of the ESRS is extensive, affecting a large proportion of SMEs. The coverage of the ESRS is extensive, as almost all SMEs are subject to these standards. Additionally, SMEs possess a moderate level of resources, encountering limitations in both human and financial resources. The costs of organising are small since interest groups facilitate this issue. Looking ahead, it is anticipated that SMEs will mobilise high levels of political action against the implementation of the ESRS. This stems from their concerns about the potential adverse effects on their market competitiveness and viability, reflecting the significant stakes involved for SMEs in the sustainability regulatory landscape.

Figure 4

Distributive Politics Spreadsheet: Issue Being Analysed are the European Sustainability Reporting Standards

Supporting interests	Demand side			Supply side				Prediction
	Benefits from supporting			Ability to generate political action				
	Substitutes	Aggregate	Per capita	Numbers	Coverage	Resources	Costs of organising	Amount of political action
MNEs	few	large	large	large	extensive	high	low	high
Consumers	few	small	large	large	extensive	few	high	low
Investors	few	small	large	large	extensive	moderate	moderate	low
Opposing interests	Demand side			Supply side				Prediction
	Benefits from supporting			Ability to generate political action				
	Substitutes	Aggregate	Per capita	Numbers	Coverage	Resources	Costs of organising	Amount of political action
SMEs	few	small	considerable	large	extensive	high	low	high

Note. Adopted from *Business and its environment*, by D. Baron, 2013, p.165.

The Nature of Political Competition. As depicted in Figure 5, there are four main types of political competition: interest group politics, entrepreneurial politics, client politics, and majoritarian politics (Baron, 2013). Each type of interest group configuration displays different politics, requires different non-market strategies and implementation activities.

Interest group politics occurs when both opponents and proponents of a policy are well-organised into interest groups. This often results in distributive consequences, where one party's loss translates to the other party's gain. They are likely to engage in non-market action and make use of bargaining, coalition building or focus on pivotal policymakers, in this case Europe. The outcome is determined by the effectiveness of nonmarket actions and is likely to be a compromise. In the case of EU green reporting rules, and more specifically the ESRS, the proponents are MNEs, consumers and investors and the opponents are SMEs. Both groups are organised, as stated in The Four I Framework. The generic non-market strategy that interest groups will most likely apply is the representation strategy. It is important for them both to make their own interests clear, and they can do this in different ways. The first way is to have a connection between officeholders and constituents, but this does have consequences for the alternatives. Also, they can

represent stakeholders or organise the rent chain[31]. Strategy implementation activities are typically grassroots campaigns, which are built by an organisation in order to get (more) organised. Consequently, this requires mobilisation (Baron, 2013).

Figure 5

The Nature of Political Competition

		Proponents of political action	
		Organized	Not organized
Oppenents of political action	Organized	Interests groups politics	Entrepreneurial politics
	Not organized	Client politics	Majoritain politics

Note. Adopted from *Business and its environment*, by D. Baron, 2013, p.156.

Institutions. The third component in the framework pertains to institutions. The EU decision-making process involves three primary institutions: the European Parliament, which acts on behalf of EU citizens; the Council of the European Unions, representing member state governments; and the European Commission, tasked with advocating for the EU's collective interests. Typically, EU policies are determined through the ordinary legislative procedure. This process entails the three main institutions reaching consensus on legislative matters (European Union, n.d.). The ESRS and other sustainability laws originate from this process. Nevertheless, as suggested in the interviews, the local governments of member states exert considerable influence, given their power to implement and interpret these regulations based on their own judgment. This means they can opt for stricter or more lenient enforcement of EU regulations within their respective jurisdictions.

[31] If you have an economic profit, you will not be the only one benefiting. Other people in the rent chain will benefit from this abnormal profit too. Therefore, it is in everyone's interest to protect the rent chain. This can be an important asset to gain influence in the non-market environment (Baron, 2013).

Information. The concept of the public interest encompasses a multifaceted approach, wherein informing policymakers about a company's concerns and striving for the most advantageous outcome forms an integral part of the political landscape. However, this communication process carries certain drawbacks, including the potential for manipulation by entities with greater resources and the distribution of inaccurate information. Distinguishing between manipulation, genuine participation, and the provision of information can often be challenging within political dynamics (Baron, 2013). Given that the climate crisis is widely recognised as the most pressing issue of our time, it is evident that addressing it should be a top priority. There exists a wealth of available information on this matter, but the problem definition of this thesis started from the fact that a clear overview is often lacking. However, the assumption that most companies are organised into interest groups could facilitate lobbying efforts, making it easier to advocate for their interests compared to individual customers.

Critical Reflection

The analysis of the non-market environment of companies regarding European Union (EU) green reporting rules, particularly the European Sustainability Reporting Standards (ESRS), is crucial because companies are advised to develop a political business strategy to efficiently meet the criteria at the right time. It presents a complex landscape as various stakeholders are involved. Each company's strategy will vary due to differences in size, management style, sector, and numerous other factors. Accordingly, recommendations are offered concerning the significant factors that must be considered in the formulation of a political business strategy. The thesis highlights the repercussions of political business strategies that companies may adopt and discusses why certain elements may or may not assist in complying with EU green reporting rules and this critical reflection aims to synthesise key insights drawn from the research findings in adhering to evolving sustainability mandates. Recommendations are made and a comprehensive political business strategy is formulated.

It is necessary to find a balance between regulatory stringency and recognising that complying with EU green reporting rules is a gradual process. On the one hand, it is important that effective improvements are made in practice, but on the other hand, the introduction of new regulations will imply experimentation. Operational feasibility and timing are of great importance, otherwise the fears of SMEs[32] regarding their competitiveness will become reality. According to the research findings, adopting an overly stringent approach is not advisable for governments. Consulting firms raise a notable concern about companies depending on consultancy services to enhancing their sustainability endeavours, channelling significant financial resources into these services, rather than utilising these resources to implement truly effective sustainability measures within their operations. Moreover, companies are advocating for clarity and the implementation of

[32] For more information, see Table B1 in Appendix B.

specific metrics to evaluate qualitative data effectively. A recurring emphasise of interviewees was the necessity of proactive measures to address environmental concerns. This aligns with the call for urgent governmental actions to standardise practises and promote compliance. The need for clearer communication regarding the rationale behind sustainability initiatives emerges as a fundamental driver for motivating businesses to implement these requirements. Without transparent and persuasive communication, businesses may struggle to prioritise sustainability amidst competing operational considerations.

The change in sustainability practices could potentially instigate a transformative dynamic in consumer behaviour. Market demand is the foremost influencer to prioritise sustainability initiatives and it should be underscored that consumers already attach great importance to sustainability, adjusting their purchasing preferences accordingly. However, there is no consensus whether this is the best option. According to Alipour and Rahimpour (2020), numerous SME representatives expressed concerns during interviews that investing in environmental initiatives would lead to higher costs for their final products, thereby undermining their competitiveness, given the limited consumer willingness to pay a premium for greener research. This insight was also prevalent in the interviews conducted for this thesis. Consequently, it remains important to impose regulations on companies, but it seems interesting to impose rules whose sole purpose is to make consumers more sustainable. Examples include requiring companies to always send packages in the most sustainable way, so that customers can never choose a more affordable option that requires less sustainable transportation options.

The role of legislation emerges as a critical enabler for sustainability goals, particularly for MNEs[33], signalling a gap with SMEs who raise a significant concern about the potential exclusion resulting from the complexities of reporting. Another discrepancy lies in the fact that SMEs frequently lack the resources and personnel required to anticipate

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[33] For more information, see Table B1 in Appendix B.

and prepare for forthcoming sustainability regulations, whereas MNEs have plentiful human resources to fulfil this need. Hence, SMEs face greater challenges in achieving sustainability compared to MNEs. A way to mitigate these gaps is to develop inclusive and supportive regulatory frameworks for SMEs since MNEs agree that sustainability may become a competitive advantage. However, robust sustainability regulations streamline value chain improvements by compelling partner entities to adopt greener entities. Tailored solutions, support mechanisms and accessible guidance that account for SMEs' resource constraints and organisational limitations are needed. Additionally, bureaucratic hurdles need to be mitigated.

The high investment costs and uncertainties associated with green projects pose significant challenges, recognising the delicate balance between costs implications and long-term sustainability. Clear guidance, foresight into future developments and viable implementation strategies could foster meaningful change. Like the SDGs[34], which provide sustainability goals for countries, clear end goals should also be set for companies. The research shows that formulating an ideal end scenario could have a positive impact on improving business strategies. Another significant aspect highlighted is the imperative to minimise variation in interpretation and implementation between international and national contexts. The challenge lies in ensuring consistency and coherence in compliance expectations, particularly for MNEs operating in diverse regulatory landscapes.

In conclusion, the analysis of the non-market environment regarding EU green reporting rules, and particularly the ESRS, illuminates a multifaceted landscape characterised by operational challenges for businesses, especially SMEs, regulatory dynamics, and evolving consumer expectations. The synthesis of these insights underscores the imperative for inclusive, actionable, and transparent sustainability frameworks that transcend short-term profit motives, thereby advancing the collective goal

[34] For more information, see How can Companies Adapt to the Changing Environment?, Guidance on the Application of the ESRS, Theory.

of sustainable development within the European context. Efforts to bridge the gap in guidance between MNEs and SMEs, while ensuring affordability and regulatory clarity, are essential to foster widespread adoption of the ESRS.

General Conclusion

In this thesis, a comprehensive overview of the EU green reporting rules is provided, along with an analysis of the non-market environment of affected companies. The European Sustainability Reporting Standards (ESRS) are the newest green reporting standards of the European Union (EU), applicable in all member states from 1 January 2024 (Voskoboinikova et al., 2023a). In total there are twelve standards, regarding the concepts cross-cutting, environment, social and governance (European Commission, 2023c). The implementation of the ESRS introduces the double materiality principle, which entails companies being accountable for entities in their value chain and necessitates reporting on any issue with material impact, risk, or financial significance. This dual obligation extends to companies reporting on such matters independently, in addition to those within their value chain (KBCBankEnVerzekering, 2023). The aim of the ESRS is to ensure that stakeholders can compare companies on sustainability issues and striking a balance between gathering necessary data while avoiding overly demanding requirements (European Commission, n.d.-d; Giner & Luque-Vílchez, 2022). Companies should comply with the ESRS, depending to which category the company belongs (KBCBankEnVerzekering, 2023). Lastly, the ESRS aligns with other global standards, ensuring a low administrative burden on companies (European Commission, 2023c; Giner & Luque-Vílchez, 2022). All these elements are examined in the literature review, preceding an extensive framework on the existing EU green reporting rules.

The interviews function as a link connecting academic discourse with empirical analysis. The initial focus is on determining methods to assess the influence on a company's business strategy. Both internal and external incentives significantly impact the extent and effectiveness of sustainable practises implementation. An issue emerges when organisations embrace a sustainable business approach unnecessarily, outside the scope of the ESRS obligation or other EU green reporting rules. By making the division, legislation can be examined separately in the following research questions. Moreover, the most

important change in the non-market environment is within the value chain as the ESRS obligated companies to take environmental responsibilities beyond their own activities, including companies in their value chain (KBCBankEnVerzekering, 2023).

Additionally, companies can adapt to the non-market environment in several ways. Firstly, guidance is offered by the EC's "Have Your Say" portal, asking for public feedback. Moreover, frameworks such as the SDG's, guidelines offered by the ECB and science-based targets can be used to guide companies through the sustainability legislation. Additionally, webinars, newsletters and personalised assistance might help companies to effectively implement the new regulations. Secondly, it is essential for companies to comprehend both the limitations and obstacles of the ESRS to acknowledge these drawbacks and adapt accordingly. The interviews conducted for this thesis revealed paradoxal insights regarding the pace of the regulation, the unclear impact of the regulation, potential undermining of the objectives outlined in the CSRD, the vagueness of metrics and indicators of regulation, differences in companies' readiness to comply, disparity between international and local legislation and its implementation, financial viability, and increased competition. On the contrary, it is crucial to analyse the opportunities, as companies can adjust their strategies accordingly. Key opportunities include collaborative efforts to amplify positive impacts and alleviate negative ones, gaining competitive advantages, and leveraging the facilitative role of legislation. Third, companies should realise that sustainability is a gradual learning process with risks inherent to these initiatives. Additionally, companies should not only channel significant financial resources to consultancy and should rather focus on using those resources to invest in effective sustainability initiatives. Moreover, governments could also improve the sustainability measures on various aspects. Firstly, the government must realise that the feasibility and timing of introducing green reporting rules such as the ESRS are of great importance, trying to avoid SMEs losing their competitiveness. Secondly, clarity of measures and communication could be enhanced. Moreover, regulations aimed at fostering consumer sustainability via corporate channels could significantly influence the overall sustainability

of the economy. Fourthly, governments could establish supportive regulatory frameworks tailored to SMEs, aiming to bridge the gap between the advantages enjoyed by MNEs in comparison to the limited benefits available to SMEs resulting from sustainability regulations. This measure would safeguard the competitiveness of SMEs and prevent them from being jeopardised. Lastly, governments could reduce the risks associated with sustainability by offering clear guidance, foresight into future development and viable implementation strategies.

Building on the insights gleaned from the interviews conducted with Belgian companies, further research could expand its scope by conducting interviews with companies across Europe. By doing so, researchers could ascertain whether the findings observed in Belgium are similarly applicable and relevant in other EU member states. This comparative analysis would provide a broader understanding of the implications of sustainability regulations on businesses throughout the European context, thus enriching the academic discourse and potentially informing policy decisions at both national and EU levels. Thus, conducting supplementary interviews could provide further data to either support or challenge the conclusions drawn in this study, enhancing the depth of understanding. Such efforts could offer additional guidance to companies and governments navigating the complex landscape of regulatory frameworks. This may lead to the development of tailored recommendations that address the evolving needs of stakeholders in response to regulatory changes.

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Appendix A

Interview Questions

The questions that do not specifically state to which interviewees they were asked are general and therefore answered in every interview. Some questions could only be asked to specific companies, so it is stated to which ones.

Mogen we het interview opnemen?

Dit is om achteraf het interview uit te schrijven, en in te voegen als kwalitatief bronnenonderzoek van de thesis.

We zullen uw naam niet gebruiken, en ook niet de naam van het bedrijf, maar als u het oké vindt dan vermelden we wel graag de sector en uw functie binnen het bedrijf. Is dit oké voor u?

Wat is uw functie binnen het bedrijf?

Korte introductie van het bedrijf

Flemish government (A8) and accounting and consulting firm (A9): Zijn er concrete initiatieven die jullie momenteel doen om bedrijven te helpen om duurzamer te zijn, maar ook om de wetgeving op te volgen?

Others: Zijn er concrete initiatieven die jullie momenteel doen om duurzamer te zijn?

Welke voordelen zien jullie in duurzaam ondernemen?

Heeft het een invloed op:

- Concurrentievermogen: externe druk van concurrenten
- Stakeholders
- Klanten: vanzelfsprekend of wel heel belangrijk
- Werknemers en nieuw talent

Wat zijn de competitieve voordelen?

Welke nadelen zien jullie in duurzaam ondernemen?

Merkt u dat naast de externe druk van bijvoorbeeld klanten, concurrenten en ook de wetgeving waarover we het nog zullen hebben, er een interne drijfveer is om aan duurzaamheidsbeleid te doen?

A1-7: Hoeveel mensen werken er in jullie bedrijf die een functie hebben die (on)rechtstreeks gelinkt is aan duurzaamheid?

Flemish government (A8) and accounting and consulting firm (A9): Hoe is jullie rol in het begeleiden van bedrijven op vlak van duurzaamheid geëvolueerd doorheen de jaren?
Others: In welke mate is de rol van duurzaamheid geëvolueerd doorheen de jaren?

Welk beleidsniveau speelt de grootste rol: het Vlaamse, het Belgische of het Europese?

Is er een verandering in te zien doorheen de jaren?

Helpt internationale regelgeving? Zijn er nadelen verbonden aan de wetgeving?

Flemisch government (A8): Met welke vakbonden, werkgeversorganisaties of bedrijven werken jullie samen om de wetgeving zo te maken dat zoveel mogelijk mensen tevreden zijn? (Als dit het geval is)
Accounting en consulting firm (A9): Met welke politieke instituties werken jullie samen om te lobbyen voor aanpassingen aan het beleid? (Als deze er zijn natuurlijk)
Others: Met welke politieke instituties, vakbonden en/of wergeversorganisaties werken jullie samen? Aan welke politieke instituties moeten jullie rapporteren? (Als deze er zijn natuurlijk)

Flemish government (A8) and accounting and consulting firm (A9): Hoe merken jullie dat de European Green Deal een impact heeft gehad op bedrijven?
Others: Heeft de European Green Deal een impact gehad op jullie bedrijfs- of politieke strategie?

Flemish government (A8) and accounting and consulting firm (A9): Hebben de European Sustainability Reporting Standards een impact op bedrijven?
Others: Hebben de European Sustainability Reporting Standards een impact op jullie bedrijfs- of politieke strategie?

Flemish government (A8) and accounting and consulting firm (A9): Welke veranderingen merkt u in de non-market environment van bedrijven?

Flemish government (A8) and accounting and consulting firm (A9): Hoe kunnen bedrijven zich volgens u aanpassen aan de veranderende omgeving van bedrijven?

Flemish government (A8) and accounting and consulting firm (A9): Welke tekortkomingen hebben de ESRS of andere duurzaamheidswetgeving?

Flemish government (A8) and accounting and consulting firm (A9): Welke opportuniteiten hebben de ESRS of andere duurzaamheidswetgeving?

Zijn er vragen die we niet gesteld hebben, maar waarvan u verwacht dat het antwoord nuttig kan zijn voor onze thesis?

Appendix B

Abbreviations

Table B1

Abbreviations in alphabetical order with definitions

Abbreviation	Concept	Definition
CRSD	Corporate Sustainability Reporting Directive	The CRSD is a guideline that states that from 2024 more companies are required to report on their sustainability impact. The framework focuses on who is obligated to report.
EC	European Commission	The EC is part of the executive of the European Union. This body starts the legislative process and are charged with making sure that European Union law is implemented.
EFRAG	European Financial Reporting Advisory Group	The EFRAG provides technical help to the EC. In this thesis, the focus is specifically on their role in drafting standards or making amendments to the European Sustainability Reporting Standards.
EGD	European Green Deal	The EGD is the pivotal sustainability initiative presented by the EC. The goal is to make Europe the first climate-neutral continent and to achieve a carbon-free economy by 2050.
ESRS	European Sustainability Reporting Standards	The content of the CRSD is determined in the ESRS. The goal of the ESRS is to make sustainability information available, to ensure alignment and to increase comparability.
EU	European Union (i.e. also referred to as Europe)	The EU is an alliance of 27 European nation, both economically and politically.

Abbreviation	Concept	Definition
GRI	Global Reporting Directive	In aiding businesses and other entities to take responsibility for their impacts, GRI serves as an independent, international organisation, furnishing them with a universal language for communicating these impacts.
IFRS	International Financial Reporting Standards	The IFRS are guidelines for accounting that regulate the reporting of specific transactions and events in financial statements.
ISSB	International Sustainability Standards Board	The ISSB is creating standards, with a focus on public interest, to generate thorough sustainability disclosures globally. These standards are tailored to meet the requirements of stockholders and capital markets
MNE(s)	Multinational Enterprise(s)	A MNE is defined as a company that manufactures goods or provides services across multiple nations.
NFRD	Non-Financial Reporting Directive	The NFRD is a guideline that states that from 2014 large public corporations are obligated to report environmental, societal and governance (ESG) information.
SME(s)	Small and Medium-sized enterprise(s)	SMEs compromises businesses with fewer than 250 employees, an annual turnover below 50 million euros, and/or an annual balance sheet value of less than 43 million euros.

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