

## **From Reporting to Responsibility: Legal Innovations in Corporate Law and Governance under the examples of the EU's "Corporate Sustainability Reporting Directive (CSRD)"**

***Magda Ositashvili, LL.M***

University of Hamburg, Germany

University of Pompeu Fabra, Barcelona, Spain

Ilia State University, Georgia

Doi: 10.19044/esipreprint.8.2025.p306

Approved: 13 August 2025

Posted: 15 August 2025

Copyright 2025 Author(s)

Under Creative Commons CC-BY 4.0

OPEN ACCESS

*Cite As:*

Ositashvili, M. (2025). *From Reporting to Responsibility: Legal Innovations in Corporate Law and Governance under the examples of the EU's "Corporate Sustainability Reporting Directive (CSRD)"*. ESI Preprints. <https://doi.org/10.19044/esipreprint.8.2025.p306>

### **Abstract**

The topic of this research is as practical as it is theoretical and cognitive. It is based on the example of the EU's Corporate Sustainability Reporting Directive (CSRD). The practical relevance of the research issue is considered in terms of global environmental, social, labour and governance issues, as well as regulatory issues, which have affected the entire EU and given rise to the need for a mechanism to protect corporations from inefficient outcomes and create a more transparent, accountable and sustainable corporate environment within the EU. In the modern digital era, companies have started to take action for sustainability after facing the failures of corporations to make efficient reporting efforts, which leads to poor risk management, increased costs and decreased innovation. However, it is obvious that the global community has not created the mechanisms that would vitally promote sustainable economic development over the last decade. In the paper *Principles of Political Economy* by the renowned English philosopher John Stuart Mill, we read that 'the most cogent reason for establishing a rule of conduct is that it promotes general happiness; it has been found to do so by experience, and that constitutes its title to be respected as a rule'. In order to improve transparency and accountability within companies, promote sustainable business practices, support informed

decision-making and contribute to the EU's Green Deal, the EU consolidated the directive, the meaning of which is considered within the context of recent history (Guerman, 2021). The Volkswagen emissions scandal (also known as 'Dieselgate', 2015) revealed the problem of environmental degradation when it was discovered that the company had installed software in its diesel vehicles to cheat emissions tests. This allowed the cars to emit nitrogen oxides at levels up to 40 times higher than the legal limit. The scandal has highlighted the need for greater transparency and accountability in corporate environmental practices. Similarly, Amazon has faced ongoing criticism for its labour practices, including reports of harsh working conditions, inadequate breaks and high injury rates in its warehouses (Guerman, 2021). Repeated investigations and media reports have brought these issues to light, demonstrating the need for greater transparency and accountability in how companies treat their employees. However, the legal process is ongoing. In 2018, Facebook faced intense scrutiny following the Cambridge Analytica scandal, in which the personal data of millions of users was harvested without consent and used for political advertising. The lack of transparency in data handling practices and inadequate accountability measures were widely discussed, highlighting the need for more robust reporting and user privacy protection. These examples illustrate the diverse range of problems that corporations have faced, demonstrating the urgent need for the EU's Corporate Sustainability Reporting Directive. The dilemmas between 'reporting' and 'responsibilities' are evident in the market, and the legal and economic analysis of innovations in the corporate sustainability process is a fascinating area of research.

---

**Keywords:** CSRD, Corporate Responsibility, Compliance, Corporate Sustainability, Corporate Governance, Reporting Directive, Legal Innovations

## Introduction

In recent years, there has been a significant shift in the evolution of corporate governance, particularly within the European Union (EU), where legal reforms have placed greater emphasis on sustainability and corporate responsibility (Wamsler, 2018). This change is largely due to global issues such as social justice and climate change, as well as mounting pressure from stakeholders such as investors and customers to adopt more ethical business practices. The Corporate Sustainability Reporting Directive (CSRD), which is intended to improve transparency regarding environmental, social and governance (ESG) factors, is one of the most significant legal developments in this area (Freiberg, 2022).

Undoubtedly, the CSRD is a significant advancement in ensuring that companies disclose their true environmental and social impacts. To meet the growing demand for thorough, standardised and reliable ESG data, the CSRD introduces several innovations to the previous Non-Financial Reporting Directive (NFRD) (Wamsler, 2018). This study examines these legal developments, their impact on corporate governance, and the shift from reporting to real corporate responsibility. In doing so, it examines the CSRD in light of the evolving corporate responsibility landscape and EU legal reforms (Zimmermann, 2020).

## **Background and Context**

Despite the fact that corporate governance systems have historically placed a strong emphasis on the financial performance of businesses, particularly profitability and shareholder value (Guerman, 2021), this shareholder-centric model is coming under increasing scrutiny. Businesses used to frequently ignore the wider societal and environmental effects of their practices. However, corporate governance practices have changed as a result of growing awareness of the social and environmental consequences of business decisions, even though financial profitability remains crucial.

Global accords such as the United Nations Sustainable Development Goals (SDGs) and the 2015 Paris Agreement on climate change demonstrate the growing understanding that a company's financial performance is inextricably linked to its social and environmental obligations. In this respect, the EU has established itself as a pioneer in advancing corporate governance and sustainability. The EU has recognised the importance of integrating sustainability into business operations through various legislative initiatives.

Notably, the Non-Financial Reporting Directive (NFRD), implemented in 2014, had gaps that the CSRD directly addressed. While the NFRD required large public-interest companies to disclose non-financial information, it soon became clear that these requirements were inadequate. Inconsistent and insufficient disclosures caused by the NFRD's lack of standardised, auditable reporting criteria made it challenging to determine a company's actual social and environmental impact. To overcome these drawbacks, the CSRD was created to mandate more thorough, open and consistent sustainability reporting.

## **Research Aims, Objectives & Questions**

This study aims to critically assess the legal innovations brought about by the CSRD and investigate their impact on corporate governance in the EU. The study will analyse how the CSRD enhances corporate accountability and transparency in terms of sustainability reporting, and

examine how it builds upon earlier frameworks, particularly the NFRD. While the CSRD's primary objective is to enhance transparency, this research will also examine how the directive encourages companies to adopt sustainability practices as integral components of their core business strategies. It is important to understand not only how businesses report on sustainability, but also whether these reports lead to sustainable business practices and genuine corporate responsibility (Wamsler, 2018).

The study will address the CSRD's practical and legal ramifications by answering several important research questions: What legal innovations does the CSRD introduce, and how does it enhance the NFRD? (Zimmermann, 2020). While it is evident that the CSRD builds upon the NFRD's framework, the heightened demand for transparency is evident in its more comprehensive reporting requirements. This study will examine the CSRD's unique innovations, such as the requirement for third-party auditing of sustainability reports and the extension of reporting obligations to smaller businesses (Freiberg, 2022).

**In practical terms, how does the CSRD affect businesses in terms of accountability, transparency, and sustainability reporting?** Although the CSRD is intended to improve corporate responsibility, it has a variety of real-world applications for companies. This inquiry will examine how businesses are responding to the new reporting requirements, the tools they are using to evaluate their sustainability impact, and the challenges they face in meeting these demanding requirements. What impact does the CSRD have on the transition to sustainable business practices and corporate responsibility?

While enhancing transparency is the CSRD's primary objective, it also seeks to transform business practices. This study will evaluate the extent to which the CSRD motivates businesses to prioritise sustainability in their operations and decision-making processes (Guerman, 2021).

What difficulties do businesses encounter when adhering to the CSRD, and how have certain businesses overcome these challenges? For businesses, especially those not accustomed to thorough ESG reporting, complying with the CSRD poses significant challenges. This study will examine the challenges businesses face and provide examples of businesses that have successfully complied with the CSRD's regulations (Zimmermann, 2020). How does the CSRD align with international sustainability trends and reporting guidelines such as the TCFD and GRI? The alignment of the CSRD with global reporting standards raises the question of whether it can promote greater international consistency in sustainability reporting. This study will examine how the CSRD enhances the EU's influence over global sustainability practices and its interaction with other international

frameworks.

### **The Evolution of Corporate Sustainability Reporting**

Over the past few decades, corporate sustainability reporting has changed significantly. This evolution has been driven by increasing demands for corporate transparency, social inequality and environmental degradation. While financial reporting has long been a pillar of corporate governance, sustainability reporting is now just as significant in determining a company's long-term viability (Zimmermann, 2020). This change signifies a shift away from solely assessing financial performance towards taking into account a business's broader impact on the environment and society (MaxWealth, 2022).

This section will examine the historical evolution of corporate sustainability reporting, the legal developments that have influenced its current structure, and the crucial role that corporate law has played in promoting this development (Lehmann, 2017).

### **Historical Development of Corporate Sustainability Reporting**

As environmental concerns began to receive international attention in the early 1970s, the concept of corporate sustainability reporting emerged. During this time, companies prioritised making as much money as possible, often at the expense of social and environmental concerns. However, as environmental issues such as pollution, resource depletion and climate change began to dominate public discourse, businesses were increasingly asked to incorporate these concerns into their operations (Freiberg, 2022).

Despite the fact that early sustainability initiatives were frequently voluntary and disorganised, the 1980s saw the start of more structured reporting frameworks. The concept of sustainable development was formalised in the 1987 Brundtland Report, also known as Our Common Future, which emphasised the importance of companies integrating social, economic, and environmental factors into their long-term plans. As mentioned, this report paved the way for corporate responsibility in the following decades and laid the groundwork for modern sustainability thinking (Sörensson, 2021).

A significant milestone in the development of sustainability reporting was reached in the 1990s with the establishment of the Global Reporting Initiative (GRI). To encourage businesses to reveal their environmental, social and governance (ESG) practices in a uniform manner, the GRI created the first internationally accepted set of guidelines for corporate sustainability reporting. These voluntary guidelines were widely adopted by large multinational corporations, signalling the beginning of more organised and uniform sustainability reporting procedures (Zimmermann, 2020).

Other frameworks emerged in the early 2000s, such as the International Financial Reporting Standards (IFRS) Foundation and the UN Global Compact. Although these frameworks had different scopes and methodologies, they collectively demonstrated an increasing awareness that sustainability should be integrated into the core principles of corporate governance (Cinquini & De Luca, 2022). As the need for thorough corporate accountability grew, sustainability reporting gradually expanded to encompass social and governance issues alongside environmental performance.

This historical overview demonstrates that sustainability reporting evolved gradually, with the development of international frameworks and guidelines representing significant milestones. However, these initiatives lacked the legal authority to enforce uniform reporting guidelines, resulting in irregular and occasionally cursory disclosures.

### **Legal Innovations in Corporate Governance**

Despite the fact that sustainability reporting has been developing for several decades, legal frameworks that require companies to provide more thorough, trustworthy and comparable reports have only recently been introduced. The most recent legal innovation in this area is the Corporate Sustainability Reporting Directive (CSRD), which came into force in 2024. Compared to its predecessors, such as the Non-Financial Reporting Directive (NFRD), the CSRD greatly expands the breadth and depth of sustainability reporting (Guerman, 2021).

Enacted in 2014, the NFRD required large public-interest entities to disclose non-financial information relating to governance, social issues, and the environment. However, it became clear that the absence of precise and uniform reporting guidelines in the NFRD resulted in inconsistent disclosures from businesses and sectors. As a result, stakeholders could not rely on the reported data to determine the true impact of businesses on society and the environment, which reduced the directive's effectiveness.

By contrast, the CSRD introduces a number of significant legal innovations to address these shortcomings. Firstly, it expands the reporting requirements to include small and medium-sized enterprises (SMEs) listed on EU-regulated markets, as well as large public-interest corporations. The CSRD now requires SMEs to submit comprehensive and consistent sustainability reports, despite having been exempt from the NFRD previously. To guarantee that sustainability practices are embraced at all corporate levels, extending the reporting requirements is essential (Zimmermann, 2020).

Another significant innovation is the CSRD's requirement for third-party audits of sustainability reports. While companies could self-certify

their non-financial disclosures under the NFRD, the CSRD stipulates that these reports must be independently audited to ensure their accuracy and reliability. This is a significant development in enhancing the credibility of corporate sustainability reports and ensuring that businesses are held accountable for their statements (Wamsler, 2018).

The CSRD also introduces a more standardised approach to sustainability reporting, which is in line with international frameworks such as the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). The CSRD aims to create a more consistent and comparable reporting environment across jurisdictions by adhering to these widely accepted frameworks. Despite the possibility of difficulties in reaching global alignment, the CSRD is a major attempt to encourage uniformity and transparency in sustainability reporting.

Building on the groundwork of earlier frameworks such as the NFRD, the CSRD introduces important legal innovations to enhance corporate accountability, transparency, and responsibility in sustainability. These innovations are necessary to build trust between businesses and their stakeholders, and the growing need for trustworthy, comparable, and auditable ESG data can only be met by them (Sörensson, 2021).

### **The Role of Corporate Law in Sustainability Reporting**

Corporate law is a major influence on how sustainability reporting practices are developed and implemented. It is well known that holding businesses accountable for their social and environmental impact hinges heavily on the legal framework governing corporate governance. The development of corporate sustainability reporting cannot be understood without considering the influence of law on these developments (Freiberg, 2022).

Although voluntary frameworks such as the GRI were crucial in raising awareness of sustainability issues, the legal requirements imposed by regulations such as the CSRD have had the biggest influence on corporate behaviour (Freiberg, 2022). The legal requirement to report on sustainability issues strongly encourages businesses to take their social and environmental obligations seriously. Consequently, when businesses are legally required to report on their ESG performance and practices, they are more likely to prioritise sustainability.

According to Sörensson (2021), corporate law contributes to the promotion of transparency and the initial adoption of sustainable practices by businesses. The broader goals of sustainable development align with the increasing focus on corporate responsibility within legal frameworks. However, sustainability is not just a corporate issue; it is a global issue that



requires coordinated action from all sectors of society, including businesses, as emphasised by international agreements such as the Paris Agreement.

Despite the fact that there are still many obstacles to overcome in order to ensure compliance with sustainability reporting requirements, corporate law continues to change in response to the increasing demand for sustainability (Zimmermann, 2020). For instance, the CSRD is putting increasing pressure on businesses to address environmental and social issues, as well as report on their ESG performance. This shift demonstrates a move away from mere transparency towards true corporate responsibility, where businesses are accountable for the real-world effects of their operations in addition to their reported performance (Wamsler, 2018).

In summary, corporate law has had a significant influence on the development of sustainability reporting. The introduction of mandatory legal requirements, such as the Corporate Sustainability Reporting Directive (CSRD), has had the greatest impact on corporate governance, although voluntary reporting frameworks have also played a crucial role in raising awareness. Corporate law ensures that businesses adhere to higher sustainability standards, making them more likely to take significant action to address social inequality, climate change and governance issues by demanding transparency, accountability and third-party verification.

## **Overview of the EU Corporate Sustainability Reporting Directive (CSRD)**

A significant development in the regulation of corporate sustainability reporting is the Corporate Sustainability Reporting Directive (CSRD) introduced by the European Union. As is well known, the directive aims to improve the comparability, accountability and transparency of corporate sustainability practices. This section provides a detailed overview of the CSRD's introduction, goals, scope, important provisions and comparisons with the Non-Financial Reporting Directive (NFRD), the CSRD's predecessor.

Building on the framework established by the NFRD, the CSRD addresses the NFRD's shortcomings and broadens the scope of sustainability reporting requirements. Despite sustainability reporting having been in place for many years, the CSRD highlights the EU's commitment to incorporating sustainability into its regulatory frameworks by introducing more comprehensive measures. This section examines the CSRD's main elements, emphasising its objectives, parameters, key provisions, and impact on business reporting procedures (Lehmann, 2017).



## **Introduction to the CSRD**

The introduction of the Corporate Sustainability Reporting Directive marks an important turning point in the EU's continuous attempts to incorporate sustainability into corporate governance. As has been said many times, the CSRD is a more complete and reliable framework than the NFRD (German, 2021). When the NFRD was first implemented in 2014, it required large public-interest companies to disclose non-financial information, primarily focusing on environmental, social and governance (ESG) factors. However, the lack of clarity, uniformity and enforcement mechanisms in this regulation drew criticism and frequently resulted in disparate reporting practices among businesses (Guerman, 2021).

In response to these problems, the European Commission proposed the CSRD in 2021 to improve corporate sustainability reporting and replace the NFRD. To help companies disclose their sustainability practices in a comparable and useful way for stakeholders, the CSRD seeks to establish a more standardised, transparent and reliable reporting framework (Sörensson, 2021). Consequently, the CSRD aligns with global sustainability frameworks such as the Paris Agreement and forms part of the EU's broader strategy to achieve climate neutrality by 2050.

The CSRD clarifies what sustainability information should be disclosed and how, adds new requirements for businesses and broadens the list of entities that must report (Wamsler, 2018). Despite certain difficulties, especially with regard to implementation and compliance costs, the CSRD is a major advancement in corporate sustainability regulation.

## **Objectives and Scope of the CSRD**

The main goal of the CSRD (Blokdyk, 2024) is to ensure that businesses disclose trustworthy, consistent and comparable sustainability information that provides a more complete picture of their environmental, social and governance impacts. By promoting corporate transparency and encouraging companies to adopt sustainable practices, the CSRD supports the EU's long-term sustainability goals, as emphasised by the EU Commission. Under the CSRD, more businesses must now report on their sustainability performance, and the CSRD has a far wider scope than the NFRD (Freiberg, 2022).

Large public-interest corporations, listed SMEs and non-EU businesses operating in the EU are all subject to the CSRD's reporting requirements. Specifically, the directive applies to non-EU businesses with significant operations in the EU, all EU businesses with more than 250 employees, and all businesses listed on EU-regulated markets. Unlike the NFRD, the CSRD guarantees that a wider range of businesses, including SMEs, report on sustainability issues. To fully capture the broader effects of

corporate operations on the environment and society, this expansion is essential (Sörensson, 2021).

The CSRD seeks to increase the calibre and dependability of sustainability reports by requiring businesses to submit more thorough information about their governance framework, risk management procedures, and approaches to addressing social and environmental issues. This represents a significant departure from the NFRD, which did not specify what businesses had to report. In line with global frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI), the CSRD sets out clear standards for measuring and reporting on various sustainability issues, including resource usage, social equality, climate change and human rights (Cinquini & De Luca, 2022).

### **Key Provisions of the CSRD**

It is worth noting that the CSRD introduces several significant clauses aimed at strengthening corporate sustainability reporting in the EU and addressing the shortcomings of previous legislation. The most noteworthy clause is the requirement for businesses to submit thorough sustainability reports that are open to third-party audits (Zimmermann, 2020). Unlike the NFRD, which permitted businesses to self-certify their sustainability reports, the CSRD requires independent verification of these disclosures. This is critical in guaranteeing the data's accuracy and dependability for investors, stakeholders, and policymakers who depend on the reported data for decision-making (Wamsler, 2018).

Another significant clause is the requirement for businesses to reveal how their sustainability initiatives complement the EU's larger environmental and climate goals, particularly its objective of achieving net-zero emissions by 2050. This clause aims to make companies more accountable for their contribution to social inequality, environmental degradation and climate change, as noted by the European Commission. According to the CSRD, companies must also report how they handle sustainability risks and how these risks may affect their financial performance (Sörensson, 2021). This crucial step is required to incorporate sustainability into corporate governance and decision-making procedures. The CSRD establishes a legal requirement for businesses to integrate sustainability risks into their business plans, although some have already started to do so consistently and transparently (Zimmermann, 2020).

The CSRD also emphasises the importance of businesses disclosing information about their supply chains, including the social and environmental policies of their suppliers. This clause aims to address concerns about environmental damage, human rights abuses and other ethical

issues in international supply chains. It reflects the growing recognition of the interconnectedness of businesses and the need for more ethical business practices.

### **Comparison with Previous Regulations (Non-financial Reporting Directive)**

Despite being a pioneering regulation in the field of corporate sustainability reporting, the NFRD was criticised for a number of reasons, which the CSRD aims to address. One of the NFRD's main drawbacks was its lack of precise and uniform reporting guidelines, as is often mentioned. As businesses were free to select the sustainability metrics and reporting formats that best suited them, the information disclosed was not comparable or transparent. The CSRD, on the other hand, establishes more precise rules and reporting requirements, ensuring that sustainability reports are reliable, comparable and consistent across businesses and sectors (Wamsler, 2018).

Another significant distinction is the extent of the regulations. The CSRD extends reporting requirements to a much broader range of businesses, including SMEs listed on EU-regulated markets, whereas the NFRD only applied to large public-interest entities. Since SMEs account for a significant proportion of the EU economy and are increasingly being held accountable for their social and environmental impact, this expansion is particularly important. While SMEs may struggle to comply with the CSRD's reporting requirements, the directive provides the necessary framework to ensure they contribute to the EU's sustainability goals (Zimmermann, 2020).

Questions were raised about the accuracy of the information revealed because the NFRD did not require third-party verification of sustainability reports. However, the CSRD requires sustainability reports to be independently audited, thereby raising the legitimacy and accountability of the information. This is an important development, as consumers, stakeholders and investors are increasingly relying on reliable and accurate sustainability data to inform their decisions (Sörensson, 2021).

In summary, the CSRD constitutes a substantial improvement over the NFRD by establishing more thorough and uniform reporting requirements, broadening the scope of applicability, and guaranteeing the accuracy of sustainability disclosures through third-party audits (Wamsler, 2018). The CSRD takes corporate sustainability reporting to a new level by meeting the growing demand for greater corporate accountability and aligning with the EU's wider climate and sustainability goals. Nevertheless, the NFRD was a useful first step (Lehmann, 2017).

## **Enhancing Legal Accountability through the CSRD**

An important step towards improving legal accountability in corporate governance is the Corporate Sustainability Reporting Directive (CSRD). As sustainability becomes a top priority for stakeholders and businesses alike, legal frameworks are changing to require more transparency in how businesses handle environmental, social, and governance (ESG) issues. The CSRD strengthens these regulations to guarantee that businesses take legal responsibility for the environmental and social impacts of their operations, as well as disclosing relevant sustainability data (Freiberg, 2022).

This section explores how the CSRD establishes clearer legal obligations for corporations, clarifies the implications for corporate directors and officers, and enhances legal accountability by mandating comprehensive reporting on environmental and social impacts. It also covers the compliance procedures and penalties for non-compliance, both of which are essential to the effective execution of the directive (Freiberg, 2022).

## **Environmental and Social Impacts Reporting**

The CSRD pays special attention to the requirement for businesses to disclose their environmental and social impacts in a clear, accountable and uniform way. It is becoming increasingly widely acknowledged that businesses have a significant impact on the environment and society through their labour practices, resource consumption, and carbon emissions. The CSRD ensures that businesses are aware of their environmental and social footprints and are legally required to disclose them in a comprehensible and comparable manner by stipulating comprehensive reporting on these impacts (Blokdyk, 2024).

Concerns over corporate actions that damage the environment or transgress social norms have led to the implementation of this reporting requirement. The CSRD's mandatory approach ensures that all relevant companies are legally required to provide accurate, comparable and audited reports on their sustainability performance, even though some companies already voluntarily report on sustainability issues. This is particularly true of topics that the CSRD requires businesses to address in full, such as working conditions, biodiversity, climate change, and human rights.

The CSRD has a particularly significant impact on environmental reporting because it requires companies to report not only their direct environmental impacts, but also their strategies for mitigating climate change and adapting to environmental challenges. For example, companies must disclose how they are pursuing the goals of the EU's Green Deal, such as achieving carbon neutrality by 2050. As a result, this kind of reporting improves transparency and fortifies legal accountability by requiring

businesses to demonstrate their actions and progress towards sustainability goals.

Furthermore, reporting on social impact is equally important. Businesses must reveal how they handle matters such as diversity, equity, inclusion and labour rights in their supply chains and internal operations. This mandate coincides with heightened public scrutiny of corporate social responsibility initiatives. In response to these demands, the CSRD imposes a legal requirement on businesses to demonstrate that their actions promote societal well-being beyond generating profits. By integrating social responsibility into corporate governance, the CSRD is thus transforming the corporate environment (Lehmann, 2017).

### **The Volkswagen Emission Scandal and Its Connection to the Corporate Sustainability Reporting Directive (CSRD)**

The Volkswagen emission scandal, known by many as 'Dieselgate', is one of the biggest business scandals of the twenty-first century. To pass emissions tests in the US and Europe, the Volkswagen Group — one of the world's leading car manufacturers — manipulated diesel engines. This dishonest practice exposed significant deficiencies in regulatory compliance and corporate governance, emphasising the inadequacies of existing environmental legislation and corporate reporting guidelines. The Volkswagen case illustrates the need for thorough corporate sustainability reporting and legal accountability, and highlights the effectiveness of the European Union's Corporate Sustainability Reporting Directive (CSRD) in tackling this kind of corporate misconduct (Sörensson, 2021).

### **The Volkswagen Emission Scandal: An Overview**

In 2015, the US Environmental Protection Agency (EPA) found that Volkswagen had installed 'defeat devices' in its diesel vehicles. These devices were software applications designed to recognise when a car was undergoing emissions testing and adjust engine performance to comply with regulations (Wamsler, 2018). However, when driven normally, the cars released nitrogen oxide (NOx) pollutants at levels up to 40 times higher than the legal limit.

The scandal had far-reaching effects for Volkswagen. The company had to recall millions of cars worldwide and faced legal action, including lawsuits and substantial fines. The scandal damaged Volkswagen's reputation and sparked a discussion among industry participants about the need for stronger emissions controls and increased corporate transparency regarding environmental impacts (Freiberg, 2022).

The Volkswagen scandal made the consequences of poor corporate governance and lax regulatory oversight clear. It emphasised the importance

of having robust mechanisms in place to ensure corporate accountability and transparency regarding environmental issues. This is precisely the purpose of the CSRD, a significant development in the promotion of comprehensive and transparent corporate reporting, particularly with regard to sustainability and environmental impact.

### **The CSRD and Its Relevance to the Volkswagen Scandal**

The scope of corporate sustainability reporting for EU-based businesses is greatly expanded by the Corporate Sustainability Reporting Directive (CSRD), which came into effect in 2023. It requires companies to disclose a wide range of sustainability-related information, including details of their governance, social and environmental practices (ESG). By mandating more thorough and uniform disclosures than the previous Non-Financial Reporting Directive (NFRD), the CSRD improves the comparability, reliability, and transparency of corporate sustainability reports (Reimer, 2024).

One of the main ways that the CSRD relates to the Volkswagen emissions scandal is through its emphasis on strengthening legal accountability for corporate environmental practices. Under the CSRD, companies must report on their environmental impact, including specific disclosures about how they are managing climate change-related risks and their carbon footprints (Lepore & Pisano, 2022). This is particularly relevant in the context of the Volkswagen scandal, where the company faced severe legal and reputational consequences for manipulating emissions testing and inadequately disclosing the environmental impact of its vehicles (Lehmann, 2017).

If Volkswagen had been operating under the CSRD's framework at the time of the scandal, it would have had to make more thorough and open disclosures about its environmental policies and practices. Specifically, the company would have been required to disclose information about its emissions testing procedures, its compliance with national and international environmental standards, and the risks associated with non-compliance. The company would also have had to provide information on how it managed environmental risks, including the potential long-term impact on public health and air quality of its diesel engine technology (Lepore & Pisano, 2022).

If these disclosures had been required, regulators, investors and consumers could have discovered contradictions and inconsistencies in Volkswagen's environmental claims considerably sooner. The CSRD's emphasis on accountability and transparency aims to prevent incidents like the Volkswagen scandal by making it difficult for businesses to conceal their environmental impact with falsified or insufficient data.

## **Facebook, the Cambridge Analytica Scandal, and the Corporate Sustainability Reporting Directive (CSRD)**

In 2018, Facebook shot to international prominence when it was discovered that the political consulting firm Cambridge Analytica had obtained the personal information of millions of users without their consent. The Cambridge Analytica scandal raised serious issues regarding corporate governance, data security, privacy and the responsibility of tech companies to protect user data. It also revealed the potential for personal information to be misused to influence democratic processes (Guerman, 2021).

Against this backdrop, the European Union's Corporate Sustainability Reporting Directive (CSRD) emerged, aiming to enhance corporate transparency and accountability, particularly with regard to environmental, social, and governance (ESG) factors. The scandal exposed shortcomings in corporate reporting, particularly concerning data privacy and corporate accountability, and the CSRD gained significant support in its aftermath.

### **The Cambridge Analytica Scandal: A Brief Overview**

The Cambridge Analytica scandal broke out when it was revealed that Facebook had permitted third-party apps to gather enormous volumes of user data without their knowledge or consent (Lehmann, 2017). In particular, a Facebook app developed by researcher Aleksandr Kogan collected personal information from users and their friends, totalling over 87 million people. The political consultancy Cambridge Analytica then used this data to create detailed psychological profiles of voters, which were reportedly used to target political adverts during significant events such as the Brexit referendum and the 2016 US presidential election (Wamsler, 2018).

The data harvesting itself was a major factor in the scandal, as was Facebook's lack of accountability and transparency in its handling of user data. Many users were unaware of the extent to which third-party applications were using their personal information because Facebook's privacy policies and data usage practices had been opaque for years. Furthermore, Facebook's management was accused of failing to take the necessary actions to protect user privacy, and the company did not adequately address early warnings about data misuse.

The scandal resulted in public indignation, legal inquiries and regulatory scrutiny, particularly from the European Union, which had already begun to take action to strengthen data protection regulations. The scandal also raised important issues regarding accountability and transparency in corporate governance, as well as the responsibility of companies like Facebook to protect user data.



## **The Connection Between the Cambridge Analytica Scandal and the CSRD**

The CSRD, which is set to be implemented in 2023, marks a substantial advancement in corporate sustainability reporting. In an effort to increase transparency, uniformity and comparability in corporate reporting, the directive requires businesses to provide comprehensive information about their environmental, social and governance (ESG) practices. Given the CSRD's increased focus on social issues such as data privacy, ethical governance, and the societal impact of business operations, this is particularly relevant in the context of the Facebook-Cambridge Analytica scandal (Sörensson, 2021).

Under the CSRD framework, businesses like Facebook would have to reveal much more specific information about how they manage cybersecurity and data privacy risks, both of which were major concerns in the Cambridge Analytica scandal. Specifically, Facebook would have to provide clear reports on its user data collection policies, its monitoring of third-party apps using its platform, and the precautions it takes against data misuse.

The CSRD seeks to bridge the accountability gap observed in cases such as Cambridge Analytica by requiring businesses to reveal the risks they face when managing their data, the governance mechanisms in place to supervise such operations, and the efficacy of those mechanisms in guaranteeing compliance with data protection laws. For Facebook, this would mean disclosing details of its internal controls relating to privacy, how it handles user consent, and the safeguards it has in place to prevent illegal access to user information (Wamsler, 2018).

The CSRD enforces these reporting requirements to ensure that businesses cannot simply hide their data protection procedures. This is in stark contrast to the circumstances surrounding the Cambridge Analytica scandal, when Facebook failed to accurately, comprehensibly and clearly disclose its data usage practices. Advocating openness, the CSRD pushes businesses to embrace ethical practices that prioritise people's rights and privacy (Lehmann, 2017).

## **Impact of the CSRD on Corporate Governance**

A significant development in corporate governance is the Corporate Sustainability Reporting Directive (CSRD), which requires corporate leaders to prioritise long-term sustainable development over short-term profit maximisation. The CSRD requires companies to disclose a great deal of information about environmental, social, and governance (ESG) factors, so a change in the structure, management, and implementation of corporate governance is necessary. The CSRD is transforming governance practices, the roles of corporate boards and executives, and the functions of other

governance bodies as companies strive to comply with these new reporting and accountability requirements (Wamsler, 2018).

This section examines the CSRD's significant influence on corporate governance, exploring how the directive modifies legal obligations, integrates sustainability into strategies, and affects governance structures and practices. We also examine case studies that demonstrate how businesses are adapting their governance structures to address these novel issues.

### **Corporate Governance Structures and Practices**

As companies are now expected to integrate sustainability into their core business strategies and operations, the CSRD is set to transform corporate governance structures and practices. Prior to the CSRD, many organisations used traditional governance models that were primarily focused on shareholder returns and financial performance. However, the CSRD requires businesses to re-evaluate their governance models to ensure they align with sustainability goals, given the increased focus on ESG considerations (Zimmermann, 2020).

One significant change brought about by the CSRD is the requirement for specific sustainability oversight at the highest levels of governance. Consequently, roles such as Chief Sustainability Officers (CSOs) and corporate boards' sustainability committees have been established or strengthened (Guerman, 2021). These governance frameworks are intended to ensure that sustainability is considered an integral part of business operations and strategy, rather than a secondary issue. The CSRD provides the legal basis for sustainability committees to be mandatory for businesses of a certain size and in certain industries. However, large multinational corporations such as Unilever and Nestlé have had them on their boards for some time (Wamsler, 2018).

These committees are responsible for monitoring the business's sustainability reporting, ensuring that the data is accurate, relevant and compliant with the CSRD's legal requirements. Similarly, sustainability officers are increasingly being included in executive teams to help develop corporate strategy and ensure that ESG considerations are taken into account when making decisions.

Another recommendation made by the CSRD is to involve all tiers of governance in coordinating corporate goals with sustainable development objectives. The composition of boards reflects this shift towards a more inclusive approach to governance. Board discussions occasionally include diverse stakeholders, such as social activists, environmental specialists, and other external consultants, because they offer a broader perspective. There is a growing acknowledgement that incorporating different perspectives leads

to stronger sustainability plans that can solve long-term environmental and social issues while complying with the law.

While businesses may find it challenging to adapt their governance structures to align with the CSRD's requirements, those that successfully accomplish this will be better positioned to achieve long-term sustainability goals. This will ultimately enhance their resilience and competitiveness within the ever-evolving global marketplace.

### **Integration of Sustainability into Corporate Governance**

One of the most significant effects of the CSRD is the incorporation of sustainability into corporate governance. Rather than being a supplementary or optional practice, sustainability is now a key component of governance under the directive. Consequently, businesses must align their strategic and operational objectives with broader societal goals, including social justice, climate change mitigation, and ethical governance (Zimmermann, 2020).

One example of how sustainability is being incorporated into corporate governance practices is the way businesses are integrating ESG considerations into their long-term strategies. For instance, alongside traditional financial targets, many companies now include specific ESG goals in their annual business reports (Lehmann, 2017). Attaining sustainability goals is directly linked to corporate governance practices because these goals are linked to executive compensation packages. This approach helps to reinforce sustainability within the governance structure and incentivises leaders to prioritise long-term value creation over short-term profit maximisation (Sörensson, 2021).

Furthermore, as companies are required to report on the methods they use to manage sustainability risks and opportunities, the CSRD has prompted a more proactive approach to sustainability. This involves providing detailed information on how businesses are addressing risks related to climate change, human rights, supply chain ethics and community impact.

Siemens AG, for example, is a company that plays a significant role in creating sustainable infrastructure. It now provides comprehensive reports on its efforts to reduce its carbon footprint and on how it integrates sustainability into the development of new products. By incorporating sustainability into the core of its business model, Siemens satisfies CSRD reporting requirements and aligns its long-term strategy with global environmental and social goals (Freiberg, 2022).

However, there are difficulties in incorporating sustainability into governance. Some businesses may struggle to adapt their business models and legacy systems to meet these new requirements. However, the directive positions sustainability as a crucial driver of value creation in contemporary

corporate governance, offering a clear legal framework that motivates companies to innovate and implement more sustainable practices.

### **Legal Responsibilities of Corporate Governance Bodies**

The legal obligations of corporate governance bodies have changed since the introduction of the CSRD. Historically, executives and corporate boards have been legally responsible for ensuring that businesses adhere to industry regulations and financial reporting standards. However, the CSRD has expanded the scope of these responsibilities to include legal requirements relating to ESG factors, such as labour practices, corporate ethics, and environmental impact (Guerman, 2021).

One of the main changes is the CSRD's requirement that boards monitor sustainability risks and ensure the right management systems are in place (Zimmermann, 2020). This involves ensuring that sustainability disclosures are truthful, thorough and in line with the CSRD's legal framework. As the directive emphasises, boards are now legally responsible for the sustainability data that their companies publish, and must ensure that their reports adhere to the new EU rules (Freiberg, 2022).

Failure to meet the CSRD's reporting requirements may result in severe legal repercussions. For example, failing to comply with sustainability reporting requirements could result in financial penalties or reputational damage (Vemula, 2024). Therefore, corporate governance bodies must ensure they have mechanisms in place to efficiently manage these risks. Consequently, new risk management frameworks that consider ESG factors have been developed, enhancing the ability of corporate governance systems to anticipate and mitigate sustainability-related risks (Sörensson, 2021).

Furthermore, the CSRD requires businesses to ensure their governance procedures align with broader EU policy objectives, such as the European Green Deal. As well as being legally required to report on their contributions, corporate boards are now responsible for ensuring that their organisations help to achieve these policy objectives. This signifies a change in governance that incorporates environmental, social and legal considerations as integral components of corporate leadership.

### **CSRD and Harmonization of Corporate Law Across EU Member States**

One of the main objectives of the Corporate Sustainability Reporting Directive (CSRD) is to promote greater uniformity of corporate law among EU member states. The CSRD aims to ensure that companies throughout the EU comply with consistent legal requirements regarding the disclosure of their environmental, social and governance (ESG) impacts, by establishing a standardised framework for corporate sustainability reporting. It is anticipated that this harmonisation will improve transparency, create a level

playing field, and make corporate sustainability data more comparable across national boundaries (Freiberg, 2022).

However, there are a number of difficulties in implementing this directive in various member states, despite the CSRD offering a uniform framework at the EU level. These difficulties are caused by the various legal, regulatory, and cultural contexts that exist within the EU. This section examines the legal systems of different EU member states, the challenges of standardising the CSRD among these jurisdictions, and the vital role of national regulatory bodies in ensuring compliance with the law (Wamsler, 2018).

### **Legal Frameworks in Different EU Member States**

Before the Corporate Sustainability Reporting Directive (CSRD) came into effect, corporate sustainability reporting was approached differently in each EU member state, each of which had its own rules, policies and reporting requirements (Lepore & Pisano, 2022). The Non-Financial Reporting Directive (NFRD) was already in effect, for example, but member states' interpretations and applications of it varied greatly. In some countries, companies were required to report on social and environmental issues more strictly than in others (Zimmermann, 2020).

The CSRD therefore offers a unified, consistent legal framework for sustainability reporting in order to increase uniformity. However, the implementation and enforcement of the CSRD may be impacted by the fact that member states continue to function under their own legal frameworks. Countries such as Germany and the Netherlands, for instance, have robust environmental legislation and a long-standing commitment to sustainability, which could facilitate compliance with the CSRD's requirements. However, countries with weaker environmental regulations may struggle to align their national frameworks with the EU's comprehensive sustainability agenda (Freiberg, 2022).

Furthermore, in certain countries, the CSRD's rules on the disclosure of sustainability-related data may conflict with existing national legislation. For example, France's Duty of Vigilance Law requires large companies to publish detailed reports on environmental and human rights risks in their supply chains. The French legal system requires businesses to go further in some areas, which could lead to overlap and confusion, despite the fact that the CSRD aims to standardise such disclosures at EU level.

Member states may still have difficulty integrating the CSRD with their own national legislation, despite the fact that it provides a uniform framework. This is particularly the case when local laws go beyond EU regulations (Sörensson, 2021).

To prevent legal inconsistencies and ensure companies can comply without excessive burden or confusion, the EU and national governments must coordinate closely (Langert, 2019).

### **Challenges in Harmonizing the CSRD**

Although the CSRD aims to standardise sustainability reporting throughout the EU, there are still a number of obstacles to its implementation. The most important of these is the difference between the legal and regulatory traditions of the various EU member states. While the CSRD provides a consistent regulatory framework, national legal contexts can influence how its provisions are interpreted and implemented (Wamsler, 2018).

For example, case law and judicial interpretation carry significant weight in countries with a common law tradition, such as the United Kingdom (pre-Brexit). The civil law systems of countries such as France and Germany, which prioritise codified statutes and legal certainty, contrast with this approach. Different legal traditions may result in different degrees of latitude in applying the CSRD. Some jurisdictions may permit more complex interpretations that could make compliance more challenging, while others may adopt a stricter approach to implementation (Zimmermann, 2020).

Furthermore, member states differ in terms of experience and skill when it comes to corporate sustainability reporting. Certain nations, such as the Nordic states, have long incorporated sustainability reporting into their corporate governance practices (Guerman, 2021). These countries may therefore find it simpler to adopt the reporting requirements of the CSRD. Other member states, especially those with less advanced sustainability frameworks, may struggle to develop the necessary knowledge and infrastructure to comply with the new regulations.

Another difficulty is the possible conflict between national regulatory strategies and EU-wide goals. For instance, certain member states may wish to implement stricter guidelines for corporate sustainability disclosures, particularly with regard to supply chain transparency and climate risk reporting. While the CSRD establishes minimum requirements, member states may advocate for more stringent laws, potentially causing conflicts between national aspirations and EU-wide harmonisation.

Despite these challenges, the CSRD framework provides nations with an opportunity to enhance their corporate sustainability policies and align them with the EU's broader sustainability objectives. If national governments and regulators collaborate and adapt to the EU's vision, the legal harmonisation process could eventually lead to greater convergence in reporting practices among member states.

## **Role of National Regulatory Bodies in Enforcement**

National regulatory agencies play a key role in ensuring that businesses adhere to the CSRD's guidelines. Given the challenges of harmonising the CSRD across different legal systems, the role of these bodies in interpreting and implementing the directive at a national level is paramount. The responsibility of national regulators is to establish the systems required to monitor companies' adherence to sustainability reporting guidelines and to take appropriate action when non-compliance occurs (Wamsler, 2018).

In Germany, for instance, the Federal Financial Supervisory Authority (BaFin) is responsible for monitoring the application of sustainability reporting laws. To ensure that businesses adhere to the German Corporate Governance Code, which includes additional sustainability reporting requirements, as well as the CSRD, BaFin collaborates closely with other national regulatory bodies. Similarly, national regulators in countries such as France and Spain ensure that companies accurately and completely disclose sustainability information in compliance with the CSRD and any other applicable national laws.

The success of the CSRD depends on the ability of national regulatory agencies to implement the new regulations effectively (Lehmann, 2017).

This involves providing businesses with clear guidelines on how to submit sustainability data, establishing systems to monitor compliance, and implementing sanctions for non-compliance. Furthermore, to guarantee uniform implementation of sustainability reporting requirements, national regulators must cooperate with other EU authorities (Langert, 2019).

One issue that national regulatory agencies must deal with is the difficulty of evaluating the correctness and quality of sustainability reports. This is because sustainability reports often contain qualitative and non-financial data, which is generally more difficult to verify than financial reports. To guarantee the accuracy and reliability of the information disclosed, regulators must develop new auditing standards and procedures (Guerman, 2021).

This involves providing companies with clear guidance on submitting sustainability data, implementing compliance monitoring mechanisms, and imposing penalties for non-compliance. Furthermore, national regulators must collaborate with other EU authorities to ensure consistency in the application of sustainability reporting requirements.

One challenge for national regulatory agencies is assessing the accuracy and calibre of sustainability reports. Unlike financial reports, which are usually auditable, sustainability reports often contain qualitative and non-financial data that is more difficult to validate. Regulators must therefore



develop new auditing standards and practices to ensure the reliability and accuracy of the disclosed information (Zimmermann, 2020).

### **Effectiveness of National Regulatory Bodies**

Ultimately, the success of the directive in achieving its objectives of increased corporate accountability and transparency will depend on how effectively national regulatory agencies implement the CSRD. Some member states have regulatory agencies with a proven track record of upholding sustainability laws and established procedures for monitoring business compliance. Implementing the CSRD is likely to be more straightforward in these countries, with few enforcement obstacles.

Sweden, for example, has long been a pioneer in corporate sustainability reporting, and its regulatory bodies are experienced in implementing sustainability-related legislation. The Swedish Financial Supervisory Authority (Finansinspektionen) is well placed to oversee the implementation of the CSRD, as it has robust mechanisms in place to monitor businesses' social and environmental performance. Similarly, to ensure compliance with national and EU-level regulations, the Dutch Authority for the Financial Markets (AFM) has set out clear reporting guidelines for businesses on ESG factors (Wamsler, 2018).

By contrast, regulatory agencies may find it more challenging to implement the CSRD's provisions in countries with limited experience of sustainability reporting. These authorities may need to invest more in creating the necessary infrastructure, educating companies about the new regulations and training employees. Without this support, there is a risk that the CSRD will not be applied consistently or effectively in certain regions.

Nevertheless, national regulatory agencies play a vital role in ensuring that companies adhere to the CSRD's reporting guidelines. The success of the CSRD in achieving its broader objectives of transparency, corporate responsibility and sustainable business practices throughout the EU will depend on how effectively they enforce these rules (Zimmermann, 2020).

In conclusion, EU member states face opportunities and challenges as a result of the CSRD's harmonisation of corporate law. While the directive provides a consistent legal framework for sustainability reporting, its implementation is complicated by the various legal and regulatory frameworks within the EU. While national regulatory bodies are essential for ensuring the CSRD is enforced effectively, the effectiveness of these bodies will depend on each member state's infrastructure, resources, and experience. To achieve greater legal consistency and ensure the directive's ambitious goals are met throughout the EU, continued collaboration between national and EU regulators will be crucial as the CSRD evolves (Sörensson, 2021).

## **Legal Implications of the CSRD for Small and Medium-Sized Enterprises (SMEs)**

The corporate sustainability reporting environment in the European Union has undergone significant changes since the introduction of the Corporate Sustainability Reporting Directive (CSRD). While large corporations with well-established reporting frameworks and resources may find it simpler to adjust to the new requirements, small and medium-sized enterprises (SMEs) encounter particular difficulties in fulfilling the CSRD's requirements (Lehmann, 2017). SMEs are vital to the EU economy, making up two-thirds of private sector employment and approximately 99% of all businesses. To ensure that these companies can comply with the directive without facing excessive burdens, it is essential to understand the legal implications of the CSRD for SMEs and explore potential solutions and legal support (Guerman, 2021).

The following section examines the specific challenges faced by SMEs in relation to the CSRD, suggests potential solutions to help them comply, and assesses the impact of the CSRD on SMEs' legal obligations.

### **Challenges Faced by SMEs**

Small and medium-sized enterprises (SMEs) face several obstacles in their efforts to comply with the CSRD. The scarcity of resources is one of the most urgent problems. Unlike large corporations, which often have specialised teams to handle sustainability reporting and compliance, SMEs usually lack the infrastructure, funding, and staff needed to meet the new reporting requirements (Zimmermann, 2020). Under the CSRD, companies are subject to stringent requirements to disclose a variety of environmental, social, and governance (ESG) data, such as details regarding their supply chain operations, workforce conditions, and environmental impact. As many SMEs may lack the internal resources to collect, evaluate and report such comprehensive data, this can be particularly challenging for them.

In addition, SMEs often operate in a less formal manner than larger corporations. They may not have systems in place to monitor and report on sustainability issues, and their internal procedures may not be standardised. Larger businesses often have advanced data management systems to track water consumption, carbon emissions and other environmental metrics, but many SMEs may not even gather this information (Lepore & Pisano, 2022). Consequently, they may struggle to meet the CSRD's requirements, particularly with regard to the disclosure of non-financial information.

Another major obstacle that SMEs must overcome is the complexity of the legal and regulatory framework pertaining to sustainability reporting. Even though the CSRD aims to standardise reporting throughout the EU,

businesses must still manage a complicated array of requirements (Guerman, 2021).

SMEs may struggle to understand these rules, particularly in countries where sustainability legislation is less well-established. Despite the growing importance of sustainability in business operations, the added burden of understanding and adhering to complex legal frameworks may deter SMEs from participating in sustainability reporting entirely (Guerman, 2021).

Additionally, the CSRD incorporates the 'double materiality' concept, which requires companies to evaluate the impact of their operations on society and the environment (from an outside-in perspective), as well as the effect of sustainability issues on their bottom line (from an inside-out perspective) (Ruell, 2023). This dual requirement may be especially challenging for SMEs as it requires a comprehensive understanding of the company's ESG risks and their potential impact on long-term profitability. Many SMEs may lack the knowledge and resources necessary to conduct this thorough analysis.

### **Possible Solutions and Legal Support for SMEs**

Considering the difficulties SMEs encounter in adhering to the CSRD, there are a number of potential remedies and types of legal assistance that could facilitate their transition to the new reporting requirements. First and foremost, it is crucial to provide SMEs with the guidance and resources necessary to understand and comply with the CSRD's provisions. This could involve providing easily understandable legal frameworks, streamlined reporting guidelines and useful tools for collecting and analysing data (Freiberg, 2022).

One potential remedy is the implementation of tiered reporting requirements. Compared to large businesses, SMEs could be granted exemptions or have less stringent reporting requirements. For instance, companies with fewer than 250 employees or lower turnover thresholds might be permitted to report on a smaller range of ESG factors, focusing on those most pertinent to their operations (Lehmann, 2017). To simplify the reporting process, the European Commission could provide SMEs with streamlined templates for creating their sustainability reports. Furthermore, such a tiered approach would ensure that the reporting burden remains proportionate to the size and capacity of the business, enabling SMEs to focus on the most relevant ESG risks and impacts (Zimmermann, 2020).

Supporting SMEs financially and legally is essential, as is streamlining reporting requirements. National governments and EU organisations could implement support systems to help SMEs fulfil their reporting requirements. For example, SMEs investing in sustainability

projects or building the capacity to comply with the CSRD could receive financial incentives, such as tax breaks or grants. Such financial incentives would reduce the costs of compliance, particularly for SMEs with limited funding (Sörensson, 2021).

Additionally, legal aid could help SMEs understand their responsibilities under the CSRD. Legal professionals could support SMEs in overcoming the challenges of sustainability reporting by offering workshops, training courses and consultancy services. Clear guidance on evaluating ESG risks, understanding the concept of double materiality, and determining which information should be disclosed would be particularly beneficial for SMEs. Legal assistance could also help SMEs avoid potential legal pitfalls, such as fines for non-compliance or reputational damage resulting from inaccurate reporting (Wamsler, 2018).

Furthermore, cooperation and information exchange between SMEs could reduce the reporting burden. Business networks, industry associations and sustainability-focused platforms may offer SMEs the opportunity to share resources, reporting tools and best practices. By facilitating collaborative efforts on sustainability reporting, these platforms could also enable SMEs to share compliance costs and collaborate on addressing shared issues.

### **Impact of the CSRD on SMEs' Legal Responsibilities**

The legal obligations of SMEs in the EU have been significantly affected by the introduction of the CSRD. The directive imposes new legal requirements on SMEs while seeking to increase corporate accountability and transparency regarding their ESG practices. In order to comply with these new reporting requirements and ensure adherence to the legal framework outlined by the CSRD, SMEs will need to modify their internal governance structures (Freiberg, 2022).

The CSRD requires businesses to provide comprehensive information about their governance structures, diversity and inclusion initiatives, human rights policies, and environmental impact. For SMEs, this means ensuring that ESG issues are properly addressed at board level and integrating sustainability considerations into corporate decision-making processes. This change in emphasis may require SMEs to update their corporate governance frameworks, implement new guidelines and allocate funds to ensure compliance with the CSRD's reporting requirements. To monitor ESG issues and direct reporting efforts, SMEs may need to establish sustainability committees or designate specialised sustainability officers (Wamsler, 2018). Furthermore, the CSRD imposes greater legal obligations on executives and corporate directors to ensure the completeness and accuracy of sustainability reports. Directors are responsible for ensuring that businesses provide

accurate, verifiable and transparent information about their environmental, social and governance (ESG) practices in accordance with the directive (Zimmermann, 2020). Executives of SMEs may face greater legal risks as a result of this increased accountability, particularly if it is discovered that the business has falsified its sustainability data. Directors and officers of SMEs will therefore need to familiarise themselves with the CSRD's provisions and ensure that the correct procedures are in place to adhere to the reporting requirements (Guerman, 2021).

Verifying SMEs' sustainability reports will also be part of their legal obligations. Due to the CSRD's requirement that sustainability reports be audited, SMEs must hire external auditors to confirm the veracity and accuracy of their disclosures. This requirement places a particular burden on SMEs because external audits can be costly and logistically challenging. However, this issue could be mitigated by implementing uniform auditing practices and providing reasonably priced audit services for SMEs (Ruell, 2023).

Lastly, noncompliance with the CSRD may result in legal repercussions, including fines, reputational damage, and missed business opportunities. These risks could be particularly severe for SMEs as non-compliance could result in a decline in investor confidence or the loss of contracts with customers who prioritise sustainability in their supply chains. Therefore, SMEs may be disproportionately affected by the legal repercussions of non-compliance compared to larger companies, highlighting the need for targeted support and customised solutions to help SMEs fulfil their legal obligations under the CSRD (Lehmann, 2017).

In conclusion, the CSRD has significant legal implications for SMEs in the EU, particularly given the challenges these companies face in complying with the directive's requirements. While the CSRD aims to encourage increased accountability and transparency in corporate sustainability practices, SMEs must navigate a challenging legal and regulatory landscape to comply with these standards. To lessen the compliance burden, SMEs must have access to specialised guidance, financial and legal support, and streamlined reporting frameworks. By doing so, the EU can ensure that SMEs fulfil their legal obligations under the CSRD and support the broader goal of promoting sustainable economic growth by addressing the specific challenges these companies face.

### **The CSRD and Its Interaction with Other EU Regulations**

The Corporate Sustainability Reporting Directive (CSRD) is one of the main components of the European Union's larger plan to encourage sustainability and accountability in corporate practices. However, to promote sustainable finance and corporate responsibility, the CSRD interacts with

other significant EU regulations. Understanding these relationships is crucial because they influence how sustainability is incorporated into corporate governance, reporting and decision-making, and how this shapes the regulatory landscape for businesses (Wamsler, 2018).

In this section, I will examine how the CSRD interacts with other key EU legislation, including the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation. Alongside discussing the legal innovations resulting from these interactions, I will also examine the conflicts and synergies that arise (Ulfbeck, 2019).

### **The EU Taxonomy Regulation**

The EU Taxonomy Regulation is one crucial law that attempts to establish a uniform classification scheme for sustainable economic activity. Intended to assist investors, companies and policymakers in identifying environmentally sustainable practices, it is also a component of the EU's broader green finance agenda. In other words, it provides a framework for identifying the types of economic activity that qualify for green investment and can be considered environmentally sustainable (Freiberg, 2022).

As both the CSRD and the EU Taxonomy Regulation aim to enhance corporate transparency regarding sustainability issues and promote the transition to a more sustainable economy, I believe their goals are closely aligned (Zimmermann, 2020). The CSRD requires companies to report on their sustainability practices and their effects, including how their operations meet the requirements for environmentally sustainable activities set out in the EU Taxonomy. For example, businesses must report how much of their revenue, capital expenditure and operating expenses relate to activities that the Taxonomy Regulation defines as sustainable.

For example, companies in industries such as energy and construction might be required to reveal whether their operations support the development of low-carbon technologies or renewable energy, both of which are specifically listed as sustainable activities in the EU Taxonomy. Thanks to these disclosures, investors and other stakeholders will be better able to determine whether a company is actually making a difference to environmental sustainability or just making empty claims.

### **The Sustainable Finance Disclosure Regulation (SFDR)**

The Sustainable Finance Disclosure Regulation (SFDR) aims to improve financial market transparency by offering consistent, comparable, and trustworthy information on how financial products relate to sustainability goals (Freiberg, 2022). As the SFDR requires financial institutions to disclose how they incorporate environmental, social and governance (ESG) risks into investment decisions, it is highly relevant to



companies covered by the Corporate Sustainability Reporting Directive (CSRD), despite primarily applying to financial market participants such as asset managers, institutional investors and financial advisors (Zimmermann, 2020).

In my opinion, the requirement for businesses to submit data that financial institutions can use to assess their ESG performance and make investment decisions is where the CSRD and SFDR interact. For example, the SFDR requires financial products to reveal how they incorporate sustainability risks into their investment strategy. To enable asset managers and investors to evaluate a company's ESG performance, the company must disclose comprehensive ESG data that satisfies the standards outlined in the SFDR, provided that it is subject to the CSRD (Zimmermann, 2020).

In order for sustainability information to be accurate and consistent across various sectors, it is essential that the two regulations interact with each other. According to the SFDR, financial institutions must disclose how their investments support sustainability objectives, using the disclosures made in the CSRD to determine whether businesses are meeting these requirements. This creates an accountability system in which companies are responsible for their sustainability practices and for providing the necessary data for the financial market to support sustainable development goals (Sörensson, 2021).

The interaction between the two regulations is essential for sustainability information to be accurate and consistent across various sectors. According to the SFDR, financial institutions must disclose how their investments support sustainability objectives, and use the CSRD disclosures to assess whether businesses are meeting these objectives. This establishes a system of accountability in which companies are held responsible for their sustainability practices and for providing the necessary data for the financial market to support sustainable development goals.

### **Synergies and Conflicts with Other Regulations**

The interaction of the CSRD with other EU regulations, such as the SFDR and the EU Taxonomy, creates potential conflicts as well as synergies. One of the main synergies is the shared goal of advancing sustainability and transparency. Together, the SFDR, the EU Taxonomy and the CSRD provide a comprehensive and consistent framework for corporate governance, investment and sustainability reporting. The EU aims to establish a unified framework that promotes accountability and accelerates the transition to a more environmentally friendly economy by harmonising these regulations (Lehmann, 2017).

For example, the CSRD's alignment with the EU Taxonomy Regulation guarantees that businesses reveal information that accurately



depicts their environmental impact and how they support sustainable economic practices. This synergy makes it easier for stakeholders and investors to compare and evaluate businesses' sustainability performance (Wamsler, 2018).

Nevertheless, these regulations may conflict despite these synergies. One such conflict arises from the intricacy of each regulation and the disparate deadlines and standards they impose (Zimmermann, 2020). For instance, while the EU Taxonomy Regulation focuses exclusively on environmental sustainability, the CSRD requires businesses to report on a variety of ESG factors. As a result, companies may find it difficult to align their reporting procedures with both sets of requirements. They may be unsure of how to present their sustainability data to meet the more focused emphasis on environmental sustainability of the EU Taxonomy, as well as the more comprehensive ESG disclosures of the CSRD (Freiberg, 2022).

Furthermore, misunderstandings may arise regarding the types of sustainability data businesses must disclose under the CSRD due to the SFDR, which primarily targets financial market participants. Inconsistencies in reporting standards may arise when financial institutions request specific data points for investment decisions that fall outside the scope of the CSRD.

### **Legal Innovations Resulting from Interactions**

Significant legal innovations have emerged from the interaction between the CSRD and other EU regulations, particularly in the areas of corporate governance and sustainability reporting. One such innovation is the concept of 'double materiality', whereby businesses must evaluate the impact of their operations on the environment and society, as well as the effect of sustainability issues on their financial performance. This concept lies at the core of the CSRD's reporting requirements and is also being adopted in the SFDR and the EU Taxonomy Regulation (Guerman, 2021).

Another new development in the law is the heightened focus on standardised reporting frameworks. According to the CSRD, businesses must use the European Sustainability Reporting Standards (ESRS), which provide a consistent format for disclosing sustainability information. These standards are designed to align with other EU regulations, such as the SFDR and the EU Taxonomy Regulation, to ensure consistency and comparability (Freiberg, 2022).

Additionally, the CSRD and SFDR being in alignment has resulted in a more integrated approach to ESG risk management emerging. Businesses must now report on their sustainability policies, as well as the risks these pose to their operations and to the financial system as a whole. This change in emphasis has led to legal innovations in the assessment and management of sustainability risks, with many businesses now adopting comprehensive

ESG risk frameworks to comply with the new regulations (Zimmermann, 2020).

In conclusion, the interactions between the CSRD and other EU laws, including the SFDR and the EU Taxonomy Regulation, produce a complex yet coherent legal framework for corporate governance and sustainability reporting. The regulations' synergies support accountability, transparency, and consistency in sustainability practices by ensuring that businesses reveal pertinent and trustworthy ESG data. However, there are still difficulties, particularly in navigating the complexities of the various reporting requirements and ensuring uniformity across different legal frameworks. Ultimately, the legal advancements brought about by these interactions are influencing the business environment and driving the transition to a more responsible and sustainable economy.

### **Comparative Analysis of Legal Approaches**

In order to fully comprehend the scope of the CSRD's legal innovations, it is crucial to contrast them with comparable regulatory frameworks outside of the EU and with the EU's legacy systems. This comparison highlights the distinctive features of the CSRD and the insights gained from other legal systems (Freiberg, 2022).

The CSRD's legal framework closely reflects developments in international sustainability reporting standards, including those of the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI). However, one of the main differences is that EU regulations are legally binding (Wamsler, 2018). For instance, the CSRD legally obliges businesses to disclose sustainability-related information, ensuring compliance, whereas the GRI guidelines provide voluntary frameworks for sustainability reporting (Zimmermann, 2020).

Notable distinctions also exist when compared to the sustainability reporting environment in the United States. Currently, there are no federal requirements for sustainability reporting in the United States, and some businesses choose to adhere to frameworks such as the TCFD or GRI. This results in a disjointed and uneven reporting environment, with companies making selective disclosures.

On the other hand, the CSRD's binding nature and uniform reporting standards encourage a more unified and open approach to corporate sustainability (Ulfbeck, 2019).

Additionally, U.S. Securities and Exchange Commission (SEC) regulations mainly focus on the financial materiality of ESG factors and differ from the CSRD in that the latter emphasises double materiality. This distinction highlights the EU's more comprehensive approach to sustainability, taking into account not only the immediate financial impact,

but also social and environmental factors. For example, a European business that causes serious environmental damage may be legally required to report these effects, even if they do not immediately affect the business's profitability.

This is in stark contrast to the US approach, where such disclosures may be optional unless it can be demonstrated that they affect financial performance.

## **Conclusion**

A significant turning point in the development of corporate law and governance in the European Union was the introduction of the Corporate Sustainability Reporting Directive (CSRD). With its comprehensive approach to corporate sustainability reporting, characterised by enhanced accountability and legal innovations, the CSRD marks a significant departure from earlier regulatory frameworks. The final section of the article summarises the main conclusions, suggests future legal and regulatory developments, describes the contributions of the research to the field of corporate law and concludes with thoughts on the wider ramifications of the CSRD.

The CSRD will bring about a number of groundbreaking legal changes that will transform corporate governance and sustainability standards throughout the European Union. One of the most important innovations is the requirement for businesses to embrace the double materiality principle, which requires them to reveal how sustainability factors impact their financial performance and how their operations impact the environment and society. This ensures that businesses cannot disregard their social and environmental impacts, thereby expanding the definition of corporate responsibility (Freiberg, 2022).

Furthermore, the CSRD greatly improves corporate transparency by requiring third-party assurance for sustainability reporting (Zimmermann, 2020). This gives stakeholders more confidence in the accuracy and reliability of corporate disclosures, thereby boosting the credibility of the reported data. For instance, requiring companies to submit verified data on their social impacts, supply chain procedures, and carbon emissions will result in a more reliable and accountable business environment (Wamsler, 2018).

Moreover, the scope of the CSRD has been expanded to include a greater number of businesses, such as smaller and unlisted entities, thereby ensuring the directive's extensive reach. To address disparities observed under earlier regulations, such as the Non-Financial Reporting Directive (NFRD), the CSRD mandates comprehensive and uniform reporting across industries and nations, encouraging comparability and consistency in

sustainability disclosures. To bring corporate reporting into line with the EU's overarching objectives of achieving sustainability and climate neutrality, the European Sustainability Reporting Standards (ESRS) have been introduced.

Additionally, by emphasising the legal responsibilities of corporate boards and directors, the CSRD increases the legal accountability of corporations. The CSRD puts pressure on businesses to incorporate sustainability into their core business plans by requiring sustainability reporting and making it legally binding. As businesses will no longer be able to prioritise short-term profits over long-term environmental and social sustainability, it is anticipated that this will result in significant changes in corporate behaviour.

**Conflict of Interest:** The author reported no conflict of interest.

**Data Availability:** All data are included in the content of the paper.

**Funding Statement:** The author did not obtain any funding for this research.

### **Dedication**

This article is dedicated to the memory of the best CEO, engineer, entrepreneur, and most of all, my beloved dad, Vakhtang Ositashvili.

### **References:**

1. Alan S. Guerman, *Managing Sustainability* (Routledge, 2021).
2. Anand Vemula, *Navigating the European Union's Corporate Sustainability Reporting Directive: A Practical Guide* (3rd ed., 2024).
3. Anna Sörensson, *Corporate Responsibility and Sustainability During the Coronavirus Crisis* (Palgrave Macmillan, 2021).
4. Bob Langert, *The Battle to Do Good: Inside McDonald's Sustainability Journey* (Emerald Group Publishing, 2019).
5. Gerardus Blokdyk, *Mastering Corporate Sustainability Reporting Directive* (The Art of Service, 2024).
6. James Ruell, *Nonprofit Fundraising Strategies: 7 Strategies to Consistently Secure Funding and Ensure Your Organization Doesn't Fail* (2023).
7. Jens Freiberg, *Corporate Sustainability* (Haufe 2022).
8. John MaxWealth, *Non-Financial Reporting Directive (NFRD) 101 - A Beginner's Crash Course* (ESGLA Press, 2022).
9. Julia Reimer, *Nachhaltigkeitsberichterstattung großer Unternehmen: Eine Analyse unter besonderer Berücksichtigung des Konzepts der New Corporate Governance* (Springer Gabler, 2024).

10. Kristina Lehmann, Die Publizität Nachhaltigkeitsbezogener Informationen: Eine Empirische Analyse (Dissertation, Universität Ulm, 2017).
11. Lino Cinquini & Francesco De Luca (eds.), Non-Financial Disclosure and Integrated Reporting: Theoretical Framework and Empirical Evidence (Springer, 2022).
12. Luigi Lepore & Sabrina Pisano, Environmental Disclosure: Critical Issues and New Trends (Routledge, 2022).
13. Salome Zimmermann, How Institutional Logics Shape Corporate Sustainability Strategies (Hagen: FernUniversität in Hagen, 2020).
14. Stefan Wamsler, Corporate Sustainability and Brand Equity (Aachen: Edition Wissenschaft Apprimus, 2018).
15. Stéphanie Bijlmakers, Corporate Social Responsibility, Human Rights and the Law (Routledge, 2018).
16. Suzanne Farver, Mainstreaming Corporate Sustainability: Using Proven Tools to Promote Business Success (2nd ed., J. Ross Publishing, 2019).
17. UN Global Compact Office, Global Corporate Sustainability Report (2013).
18. Vibe Ulfbeck, Alexandra Andhov & Kateřina Mitkidis (eds.), Law and Responsible Supply Chain Management: Contract and Tort Interplay and Overlap (Routledge, 2019).