

Corporate Sustainability Reporting Directive (CSRD) and His Future Application Scenario for Italian SMEs

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Received: March 5, 2024

Accepted: April 10, 2024

Online Published: June 8, 2024

doi:10.5539/ijbm.v19n4p44

URL: <https://doi.org/10.5539/ijbm.v19n4p44>

Abstract

The aim of this paper is to outline the salient points of CSRD (2022/2464/EU Directive) and reflect on its application for smaller enterprises, which typically have fewer resources than their listed counterparts. For these small entities the challenge of sustainability turns out to be more impactful and complex, potentially constituting an “information tsunami” for which they may find themselves completely unprepared. The theoretical framework underpinning this paper is overload theory. This theory, also linked to the economic and accounting background, is deeply rooted in the international academic literature as a “hot topic”, which suggests that processes may lead to increased cognitive overload due to excessive information volume. To test our hypothesis about the potentially overwhelming burden of environmental, social and governance (ESG) reporting for small-medium enterprises (SMEs), we decided to observe how Italian ones use and manage the Sustainability Reporting (SR) as a voluntary tool. For this purpose, we carried out an empirical study related to a descriptive statistic based on a sample of 72 innovative Italian SMEs. To apply the utmost scientific rigor to our judgments, in accordance with the extensive literature reviewed, including in the field of accounting, we have based our empirical study on the established methodological technique of Content Analysis.

Keywords: corporate sustainability reporting directive (CSRD), SMEs, voluntary sustainability reporting standard (VSRS), european sustainability reporting standards (ESRS), overload theory

1. Introduction

In accordance with the literature reviewed, CSRD takes on the task of improving and expanding the project initiated by the European legislature with the Non-Financial Reporting Directive (NFRD - 2014/95/EU) (Baumüller & Grbenic, 2021; Panfilo & Krasodomka, 2022; Delgado-Ceballos et al., 2023; Pizzi et al., 2023). Introduced in 2014, the NFRD marked a significant milestone towards the integration of aspects of sustainability into accounting, requiring listed companies in the EU to disclose non-financial information focused on ESG topics (Breijer & Orij, 2022). The CSRD, instead, zeroes in on rectifying the specific shortcomings identified in the NFRD (Pizzi et al., 2023). Its primary goal is to usher in a new era of sustainability reporting characterized by increased uniformity, comparability and reliability. Departing from the NFRD approach, the CSRD not only introduces a standardized reporting framework, but also meticulously aligns it with globally recognized standards, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-based Financial Disclosures (TCFD). This strategic alignment not only sets the stage for more consistent reporting procedures, but also underscores a commitment to international best practices in sustainable disclosure.

In this context, a key change that cannot be ignored is the expansion of the number of entities affected by this new reporting logic (a point that will be discussed in detail in Section 2.1). Delgado-Ceballos et al. (2023) stress that small entities are now obliged to disclose a more comprehensive range of sustainability information by delving into their environmental impact and social initiatives. Within the framework of the CSRD, the focus not only encompasses the broadening of reporting, but also places emphasis on ensuring and validating the disclosed information. This meticulous approach not only elevates the credibility of reported sustainability data, but also introduces a critical layer that nurtures trust among stakeholders (Durović et al., 2021). As organizations navigate this expanded reporting terrain, the emphasis on accuracy and verification emerges as a cornerstone, fortifying the bedrock of transparency and accountability in sustainable practices.

The burden of these innovations, however, will be applied without proportionality (Dinh et al., 2023). This means that, albeit with slightly longer adaptation times, European SMEs will have to ensure compliance with these provisions just like their “listed sisters”. Indeed, according to overload theory, the challenge that emerges is not just about the quantity of external inputs a company receives, but is intricately tied to the quality of decisions. The premise suggests that an excessive influx of information can potentially impact the decision-making process and highlight the importance of not only managing the volume, but also ensuring the relevance and reliability of external inputs in decision-making. In its wake, an overload of information, if not supported by an adequate structure, can imply a worsening of the accuracy of the information transmitted. The ability to manage the load of information, in fact, varies with the size of companies. For this reason, larger companies will have less difficulty in providing for its integration (Eppler & Mengis, 2008; Edmunds & Morris, 2000).

Faced with this problem, to the best of our knowledge, there is a gap in the literature that does not analyze the current state of the art of SR for SMEs in Europe, even though they will be obliged to prepare such a report in a few years. To date, on this theme, there are valuable and in-depth studies in the international landscape but, however, they are outdated if compared with the new regulatory context (Stubblefield Loucks et al., 2010; Arena & Azzone, 2012; Scagnelli et al., 2013; Caputo et al., 2017). Other more recent studies, on the other hand, are settled on more theoretical than practical considerations, aiding the academic dissemination on the topic, but without providing empirical vision on the state of the art in this field (Kassem & Trenz, 2020; Malesios et al., 2021). Finally, even where there are recent empirical studies, it is still difficult and complex to find explicit references to the exclusively European context and to the CSRD. Some studies, which instead meet the just expressed requirements, have been taken by us as a valuable source of inspiration for our research (Rodrigues et al., 2021; Castilla-Polo & Guerrero-Baena, 2023; Ortiz-Martínez et al., 2023). In our point of view, this gap contributes to the unclear situation that SMEs are experiencing in the European sustainability landscape. At the same time, for the absence of monitoring means, authorities and stakeholders may not have a complete understanding of the challenges and opportunities that are related to sustainability. This knowledge gap could also hinder the development of effective policies and targeted support for smaller companies as they prepare to implement SR.

The main objective of this study is to investigate, and also analyze, the complex lack of correlation between academic research and SMEs’ actual operational practices on sustainability. Indeed, this gap is a critical issue that could substantially influence the effectiveness in the adoption of CSRD at the European level. It is intended to examine how this gap may hinder the adoption of sustainable practices in SMEs, also in relation to the paucity of academic literature on the topic, highlighting the need for targeted strategies that effectively bridge this gap. The guiding idea is to take an integrated approach which combines the richness of academic investigations, with empirical analysis derived from the practical context. The intent is to dive into the essence of this “hot topic” while exploring the challenges and opportunities through in-depth study of SRs issued by the sampled SMEs.

Moreover, this study has both theoretical and practical implications. On the theoretical side, this study could enrich the existing literature by providing a more comprehensive and detailed picture of the relationship between current common practice at SMEs and academic studies on sustainability. In fact, it could contribute to existing theories by offering an additional key to understanding how SMEs approach and prepare for SR. From a practical perspective, the information gathered could provide valuable guidelines for SMEs, helping them navigate the increasingly complex terrain of corporate sustainability by offering practical insights into successful strategies and best practices.

1.1 Roadmap & Research question

The roadmap of this study addresses the following points to promptly answer our research question. The opening paragraph illuminates the underlying motivations that have given rise to the potential issue identified in our examination. The second paragraph articulates our hypothesis, providing a clear direction for the subsequent discussion. Moving forward, the empirical analysis unfolds with a detailed delineation of variables, the chosen sample and the statistical outcomes. Concluding the empirical analysis, we carve out space for the critical examination and interpretation of the results. The subsequent sections encapsulate our final reflections, including conclusions drawn, acknowledgment of limitations and suggestions for future research endeavors.

The research question guiding this study concerns the future implementation of the CSRD. Specifically:

RQ. “Can Italian listed SMEs fulfil the numerous new obligations required by the CSRD regarding Sustainability Reporting?”.

1.2 Theoretical Framework

In common usage, “information overload” is an expression which refers to a situation in which an individual receives too much information for them (or an organization) to be able to process (Eppler & Mengis, 2008). Given this broad application, overload theory is used in many scientific disciplines, including accounting (Schick et al., 1990).

According to the literature reviewed, with the increase in the number of demands and requests related to information, companies (regardless of size) can be overwhelmed by this volume (Bawden et al., 2009; Jackson & Farzaneh, 2012). In agreement with Jackson & Farzaneh (2012), this condition often results in the reduction of productivity while also hindering performance, learning and innovation. In addition, this would be linked to inefficient decision-making, resulting in the expenditure of large amounts of money and the potential loss of opportunities (Bawden et al., 2009).

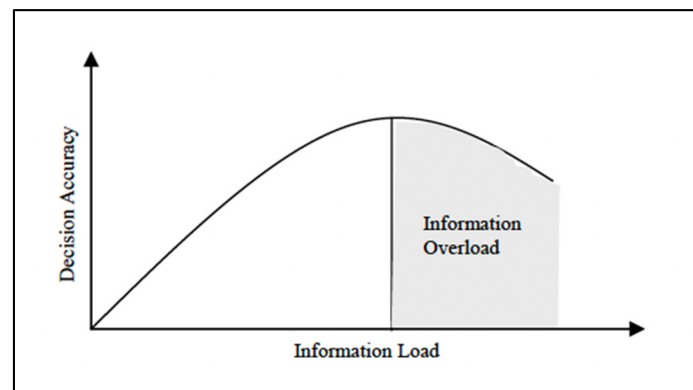


Figure 1. Information overload curve

Source: Schroder et al., 1967.

As represented graphically in Figure 1, according to Schroder et al. (1967), the quality of decisions has a close correlation with the amount of information received from outside. Thus, there is a maximum point after which decision accuracy will decline due to information overload. If more information is provided beyond this point, the organization’s performance will decline rapidly (Chewing & Harrell, 1990). In addition, information provided beyond this point will then be difficult to integrate into the decision-making process, as the volume of information will lead to confusion and affect the ability to prioritize (O’Reilly, 1980).

The ability to cope with the volume of information, in the case of organizations, varies with size (Eppler & Mengis, 2008; Edmunds & Morris, 2000). This means that larger enterprises can support a larger information load than smaller ones, without losing efficiency (Roetzel, 2019). According to Roetzel (2019), information overload, in fact, occurs when decision-making structures are faced with a level of information that exceeds their processing capacity. In the context of SMEs, overload theory refers to the challenges and tensions that arise when firms are overwhelmed by multiple stressors: financial constraints, regulatory requirements, workforce issues and market competition. In fact, this theory explores how cumulative pressures affect a SME’s decision-making, innovation and overall performance by creating a penalizing environment for those with fewer means and resources.

Some authors who studied overload theory have explored the issue related to sustainability (Neumann et al., 2011; Neumann et al., 2012; Harasheh & Provasi, 2023). Indeed, when considering sustainability in the context of SMEs, a question arises as to how the pressure to adopt sustainable practices (e.g. ESG) contributes to the overall burden on these firms (Grewal & Serafeim, 2020). SMEs face the challenge of balancing economic goals with sustainability policy, which may include adopting eco-friendly processes, managing production responsibly and ensuring fair labor practices (Moneva & Hernández-Pajares, 2018).

Overload theory, in this context, examines how additional sustainability demands affect the resources, decision-making processes and overall resilience of SMEs (Beusch et al., 2022). The question that arises is whether SMEs that successfully integrate sustainable practices are better equipped to handle the overload or whether, conversely, sustainability demands create an additional layer of complexity with the risk associated

with the dissemination of incorrect or unreliable information (Arena & Azzone, 2012). The simplest answer is to turn to external support to comply with the required information obligations (Ortiz-Martínez & Marín-Hernández, 2020). This solution, however, would create only a partial benefit, nullifying an individual organization's awareness and responsibility for sustainability and ethics (Ortiz-Martínez & Marín-Hernández, 2022). This, in short, would frustrate the intentions of the legislator in creating a corporate culture that transcends mere reputational gain (Arduini et al., 2023).

2. Literature Review

2.1 Corporate Sustainability Reporting Directive (CSRD - 2022/2464/EU)

Following the literature, the new CSRD Directive marks a milestone regulatory turning point for SR in Europe (Panfilo & Krasodomska, 2022). This Directive aims to “surpass” the NFRD with stricter SR requirements and obligations (Pizzi et al., 2023). At the same time, its main goal includes increasing the number of stakeholders involved in reporting.

The CSRD directive, using a top-down approach, will oblige European companies to a new Sustainability Reporting model. The clear will of the European legislator appears to be to increase the number of actors involved in a more detailed and qualitatively better perspective of mandatory SR. The changeover from the previous NFRD, which officially became effective with the entry into force of the CSRD, will imply an obligatory transition for approximately 49.000 companies (compared to 11.700 previously subject to the NFRD). The implementation logic will be as follows:

- > from 1° January 2024 for large public interest enterprises (with more than 500 employees) already subject to the Non-Financial Reporting Directive, with reporting deadline in 2025;
- > from 1° January 2025 for large enterprises not yet subject to the Non-Financial Reporting Directive (with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets), with reporting deadline in 2026;
- > from 1° January 2026 for SMEs and other listed companies, with reporting deadline in 2027; For listed SMEs, an out-out will be also possible during a transitional period, exempting them from the application of the directive until 2028;
- > reporting in 2029, on the 2028 fiscal year, for non-EU companies that generate a net turnover of €150 million in the EU and have at least one subsidiary or branch in the EU.

In addition to the increased number of stakeholders, the new CSRD will increase the number and quality of information requested, without distinguishing between target companies (Dinh et al., 2023). The European legislature's hoped-for goal, in line with the Green Deal and the United Nations Sustainable Development Goals, is to foster comparability and eliminate discretion in SR, by providing supporting guidelines and standards for companies. Some of the changes also correspond to new actual required labels. Among the most important: the focus on business plans, materiality analysis, sustainability KPIs, policies related to sustainability development, due diligence and the study of key impacts (positive and negative ones) associated with sustainability-related risks/opportunities. In line with these new qualitative and quantitative requirements, companies will also need to include information on material impacts, risks and opportunities related to the entire upstream and downstream value chain resulting, especially, from due diligence and materiality analysis activities.

Compared to the materiality principle, CSRD introduces another significant innovation: double materiality. The concept of double materiality was first introduced by the European Commission in the “2019 Guidelines on Non-Financial Reporting”. The same concept, to date, is included in the new CSRD and ESRS standards issued by EFRAG. In essence, materiality will be addressed in an “Outside-Inside” and “Inside-Outside” perspective. According to the first perspective, the goal will be to look at how sustainability factors affect the company's development, performance and business position. In the second perspective, the goal will be to observe what is the impact of the company's activity on its surrounding environment and people. This dual, and simultaneous, focus would be able to ensure, from the European legislator's perspective, a complete and more accurate picture of sustainable issues.

In addition to increasing the quality and quantity of the required disclosure requirements, the new CSRD introduces another milestone in the positioning of this information. As can be seen directly from the CSRD text, companies are required to integrate SRs directly into management report attached to the balance sheet. Thus, we no longer speak of SRs, eliminating the possibility for companies to publish the required sustainability information in a separate document. This leads to greater integration and accessibility of information, while also ensuring increased responsibility of Boards of Directors in drafting and developing the information in question

(Baumüller & Grbenic, 2021). This innovation represents a significant change in equalizing the importance of non-financial and financial information by positioning them at the same level, allowing the simultaneous publication and the possibility to analyze them in an integrated way (Breijer & Orij, 2022).

As relevant new element, supervised by the European Securities and Markets Authority (ESMA), the CSRD requires digital labeling of published information consistent to a digital taxonomy in XHTML format (Durović et al., 2021). This information will be available through the Single Electronic Reporting Format (ESEF), an electronic reporting format designed to facilitate accessibility, analysis and comparability of annual financial reports (Fradeani et al., 2020). Starting in 2026, in addition, information in digital format will be collected in a single European Single Access Point (ESAP).

In conclusion, CSRD will oblige all companies involved in its guidelines a limited assurance inherent to sustainability information. The goal is to ensure that the data submitted are reliable and accurate (e.g., digital labeling, KPIs, processes and models used). In a subsequent step, the possibility of requesting a more in-depth degree of reasonable assurance will be ensured as a means of higher protection. These reports may be entrusted to statutory auditors (or auditing firms) guarantors of the document's reliability and neutrality.

2.2 EFRAG's ESRS

The CSRD, with exclusive application in the EU, will entail the adoption of ESRS from 2024 for listed companies, starting the process of covering information inherent in SR (Baumüller & Grbenic, 2021). These standards, in line with the mechanism reported in Section 2.1, will cascade to smaller corporate entities, reaching SMEs in 2026. This scenario, valid only at the European level, marks a momentous and revolutionary turning point, putting SR on the same level as financial one (Delgado-Ceballos et al., 2023).

ESRSs, to secure and support this ambitious project, follow a precise logic and complex composition. Their structure, as reported directly by EFRAG in its guidelines, will be arranged by series of "blocks" ordered hierarchically and according to the principle of dual materiality (EFRAG, 2022a). Dual materiality, in EFRAG logic, states that sustainability is material if it is related to significant current or potential impacts of the company on people and the environment (EFRAG, 2022a). The same issue, concurrently with the first condition, is financially material if it has (or could have) significant financial effects on the company regarding the same transaction. The application of ESG criteria, in fact, involves both risks and opportunities, which are materialized under two different contingent material aspects: the financial one and, on the other hand, materiality linked to people and the environment (Delgado-Ceballos et al., 2023).

The first block, termed "cross-cutting", contains two standards that must be applied regardless of the specific topic covered by ESG reporting (EFRAG, 2022b; EFRAG, 2022c):

- > ESRS1: "General Requirements";
- > ESRS2: "General Disclosures".

These principles define the basic architecture of SR in the EU and outline general reporting and disclosure principles for each pillar: E, S and G. They are therefore defined as cross-cutting, in that they will need to be ensured by all companies involved in CSRD, regardless of any size requirements. The goal is to guarantee that sustainability information is reported accurately and articulately, based on a specific core architecture (ESRS1 and ESRS2). This step will be followed by a subsequent in-depth topic-by-topic review under CSRD and community logic (ESG Topical Standards).

According to ESRS1, an entity should disclose any relevant information about its sustainability-related impacts, risks and opportunities with both predictive and confirmatory features (EFRAG, 2022b). ESRS1 does not establish specific disclosure requirements but merely sets out general principles to be applied on reporting. The main ones include: sustainability due diligence, value chain, dual materiality approach and guidance on the structure and presentation of sustainability information. These requirements, cascading affect the ESG Topic Standards, are standing "in parallel" with the ESRS2.

ESRS2, specifically, establishes sustainability disclosure requirements of general disclosure (EFRAG, 2022c). The main ones include: disclosure on strategy, governance, metrics and targets, assessment of materiality of impacts and risks. Just as with ESRS1, this category also cascades over the ESG Topical Standards, while acting in parallel on the general requirements.

Subsequent to this information, "topical standards" on ESG issues were issued with reference to specific topics. The topic standards, in detail: five on the environment (ESRS E1-5), four for the social context (ESRS S1-4) and

one for governance (ESRS G1) offer enrichment over the concise overall architecture presented by EFRAG ESRS1 and ESRS2.

The purpose of the Environmental Standard is to provide recipients of SRs with information on a company's actual and potential significant impacts, both positive and negative, on the following environmental issues: climate change (ESRS E1), pollution (ESRS E2), water and marine resources (ESRS E3), biodiversity and ecosystems (ESRS E4) and circular economy (ESRS E5). Social standards, on the other side, refer to: labor force (ESRS S1), value chain labor force (ESRS S2), affected communities (ESRS S3), consumers and users (ESRS S4). Governance, in its only class ESRS G1, makes explicit business conduct concerning strategy, processes and performance.

What is evident, however, is the clear complexity, as well as the substantial costs attached, of this reporting system. This model, because there is no proportionality regime in place with regard to this architecture, will affect SMEs to a greater extent than large and listed companies that have adequate means and resources for this challenge.

2.3 EFRAG's VSRS for SMEs

As of today SMEs, under the terms of CSRD, are not obliged to prepare SRs (Ahern, 2023). However, even if there is no legal obligation for them, they will still be inexorably affected by this reporting regime, as suppliers of goods and services to companies applying CSRD. According to Ahern (2023), unlisted SMEs could choose to voluntarily engage in SR in relation to their activities through ESG metrics, embracing a straightforward and transparent reporting regime. In any case, even in the absence of this ethical push, SMEs will need to undertake an assessment to determine whether and to what extent they are part of the value chain of their client companies and therefore involved in CSRD. Regardless of the scenarios, then, it seems logical to say that even unlisted SMEs will not be able to exempt themselves from accurate and relevant sustainable data collection and reporting.

In this landscape, the Voluntary Sustainability Reporting Standard (VSRS) represents a fundamental convergence between accounting and sustainability for SMEs. Within this theme, the VSRS, while not mandatory, serve as a beacon for organizations seeking to holistically communicate their ESG performance. In fact, EFRAG has developed this set of indicators to support SMEs not affected by Directive 2022/2464/EU. It offers a more flexible model than the ESRS, tailored for smaller companies with limited resources, simplifying data collection. This type of reporting, which is not overly burdensome, is therefore essential to encourage the adoption of meaningful voluntary SR in the unlisted SMEs sector.

VSRS would apply ESRS reporting principles while aiming for the highest degree of proportionality and simplification to support unlisted SMEs as they begin their sustainability journey. The same SMEs are involved as they represent the counterparts for listed companies, financial institutions and all the organizations called on to demonstrate the sustainability of their value chains. The support given by VSRS could, in addition, make it easier for SMEs to access external funding because of their focus on SR.

As of today, the VSRS are in a public consultation phase that should lead to the publication of a final template in time to allow SMEs, in line with the CSRD's expressions, to report on sustainability in the timeframe foreseen for their "listed sisters". For listed SMEs, in fact, there will be a mandatory reporting requirement starting in 2027 (fiscal year 2026 data). In any case, SMEs, given the complexity of the required information, will be eligible for an extension until 2029.

Given the current lack of defined standards, as well as the absence to date of academic sources in reference to the topic, it is possible to observe the state of the art on VSRS through the guidance provided by EFRAG. Specifically, according to EFRAG (2022d), VSRS will follow a similar architecture to ESRS (context, general and disclosures requirements). This should ensure comparability of data as well as uniformity of treatment of subjects in the EU.

In parallel, directly from EFRAG (2022d)'s explanatory paper, it is possible to observe some exemptions. To ensure a proportionate inclusion process for listed SMEs, disclosure requirements related to SFDR (Sustainable Finance Disclosure Regulation) and Taxonomy Regulation (2020/852/EU) will not be required. These requirements could be used by unlisted SMEs wanting to voluntarily report on sector-specific topics. In conclusion, EFRAG questions the possibility of claiming, with the VSRS, that voluntary reporting for unlisted SMEs be prepared every year (or two years), leaving the possibility to decide on the time requirement later after public consultation. There will also be no requirement for such reporting to be digitized (through the ESEF), leaving the choice up to individual companies.

Although there is no doubt about the usefulness of VSRS as a supporting reporting tool for SMEs, its potential implications are still unexplored and the possible overlaps within the context of SMEs affected by CSRD must be carefully examined. Our hypothesis, therefore, while intriguing, stands as a conceptual framework, awaiting empirical validation and substantial evidence. In order to achieve a meticulous and in-depth exploration, it is appropriate to implement comprehensive research and data-driven insights aimed at testing the true viability and feasibility of VSRS.

3. Methodology

We base our empirical analysis on the Content Analysis methodology (Stemler, 2015). In accordance with academic literature, the methodological technique of Content Analysis represents a valid tool for applying a rigorous investigation of descriptive statistics, applied to textual, visual or audio data (Scott & Kosslyn, 2015; Abrutyn, 2016; Lewis-Beck et al., 2003). Indeed, content inquiry encompasses a broad range of methodologies, both manual and automated (through the use of powerful statistical software), focused on the contextual interpretation of materials originating from communicative activities. These can be strictly textual or broader, including signals and artifacts. Given the enormous expansion of archived linguistic, photographic, video and audio data resulting from the proliferation of technology, the technique of Content Analysis seems to be on the verge of a renaissance.

In our case, we have chosen a manual type of Content Analysis because, in reference to the expression of evaluative judgments, we strongly believe in the added value of human perception, in interpreting nuances and contexts, that automated tools might not capture as effectively. The manual approach, therefore, allowed us to delve deeply into the texts, identifying not only explicit themes, but also implicit ones that emerge from reading “between the lines” (Twedt & Rees, 2012). This has enabled us to construct a complex and nuanced framework of the communications analyzed, providing valuable insights for the formulation of our evaluative judgments.

The main goal of Content Analysis is to generate deductions that are both valid and credible. After establishing the corpus of texts to be studied, it is essential to take care of their internal arrangement and transcription, with particular emphasis on the following critical aspects (Stemler, 2015):

- > the homogeneity among texts to allow for effective comparison;
- > the identification and association of one or more specific attributes for each text segment;
- > the need for an accurate selection of analysis units, which requires a clear definition of which text elements (words, sentences, paragraphs or entire documents) are considered relevant for the analysis, to ensure methodological coherence and accuracy of the results;
- > the valorization of meticulousness and precision that only manual content analysis can offer, allowing for a deep and nuanced understanding of texts that exceeds the capabilities of automated algorithms. This approach enables the capture of meanings, contexts and subtleties that often escape analysis software, ensuring a rich and detailed interpretation of data.

Methodological techniques based on Content Analysis, even manual, have been widely used in the accounting and financial analysis sector (Guthrie & Abeysekera, 2006; Steenkamp & Northcott, 2007). This approach has made it possible to decipher trends and patterns within financial reports, corporate press releases and regulatory documents, providing valuable insights for evaluating company performance and market prospects. Furthermore, Content Analysis has also been widely used for the study of SRs (Amini et al., 2018; Landrum & Ohsowski, 2018; Torelli et al., 2020).

Inspired by these established models, we aimed to infuse the highest level of scientific rigor into the empirical analysis we conducted. To achieve this goal, in the following paragraphs, we will dedicate efforts to thoroughly illustrating both the specific analysis techniques used in our investigation and the criteria adopted for the selection of analyzed data.

3.1 Hypothesis

Our hypothesis, which will be tested with the descriptive research we are going to propose, is that many of the SMEs will struggle to integrate effectively financial data with ESG information. For them, CSRD may turn out to be a sustainability-related “information tsunami”. Compared to listed companies, in fact, SMEs are not obliged (to date) to draw up a SR and only a few of them publish it voluntarily. Often, this practice is carried out only to attract the interest of investors and not as a real opportunity for growth and reflection on how to create value in a sustainable manner. The implementation of a complete and reliable SR, in fact, requires time and considerable costs, especially for companies with fewer resources and funds.

To oblige these companies, in such a tight timeframe and without support, could create a substantial problem regarding the quality of the sustainable information disseminated. As clear evidence of this concern, the European legislator grants listed SMEs more time to fulfil these requirements. This category, for unlisted ones, will benefit from a transition period until 2029.

3.2 Variable Definitions

To bring statistical evidence to this study, we present the definition of the following variables. The first variable analyzed corresponds to a simple observation: the presence (or absence) of SRs published by the companies sampled.

Subsequently, we defined what, according to the reference literature and the CSRD text itself, will be the main new information requirements for the new SR. These classes, in line with the will of the European legislator, will be able to guarantee more information and a higher quality of disclosure. The classes identified are as follows:

- > description of the business model and corporate strategy;
- > sustainability goals;
- > function of administration, management and supervision of sustainability;
- > corporate sustainability policies;
- > sustainability due diligence procedures;
- > sustainability risk analysis.

These variables, highlighted and studied by the SRs themselves, will provide evidence of the state of the art as concerns how sustainability is practiced and reported by listed SMEs.

4. Empirical Analysis

4.1 Sample Selection Criteria

We selected the sample using the AIDA database (Figure 2), created and distributed by Bureau van Dijk S.p.A. From this database, it is possible to extrapolate balance sheets, financial statements and market data of Italian companies.

As the first step of the search, all Italian listed companies were selected (as of 04/08/2023) for a total of 411 companies. As the second step of the research, on the other hand, all innovative SMEs were selected according to the Bureau van Dijk S.p.A. label, for a total of 2.349 companies. The combination of these two research parameters generated a sample of 72 companies. In other words, the 72 sampled companies comply, as summarized graphically in Figure 2, with the stock market listing condition + Innovative SMEs label.

Database	Aida		
Update	318		
Software	105.00		
Data update	28/07/2023 (n° 31803)		
Username	private		
Export date	04/08/2023		
		Result	Result
1. Listed companies		411	411
2. Innovative SMEs		2.349	72
Boolean searches : 1 & 2			
		Total	72

Figure 2. Sample extraction method

Introduced in 2015 with Art. 4 of DL 3/2015, innovative SMEs are now an important and widespread phenomenon in the Italian landscape. To be defined with this label, an SME must guarantee and observe certain objective parameters, specifically:

- > spend at least 3% of the turnover, or cost of production, on R&D and innovation;
- > employ highly qualified staff (at least 20% PhDs, PhD students or researchers, or alternatively, 33% of employees with master's degrees);
- > own, deposit or license at least one patent or own registered software.

Due to all these characteristics, as well as for their constant monitoring to ensure this label, innovative SMEs constitute, in our view, a distinctive study sample on SR.

4.2 Summary statistics

Following the selection of the sample, an analytical study was then carried out on the SRs provided by each single company. Specifically, using classic browser engines and the websites of the individual companies, it was possible to extrapolate a simple, but significant, portion of data. From the pie chart (Figure 3), it is possible to visually note the percentage of companies that draw up a SR and those that, on the contrary, do not.

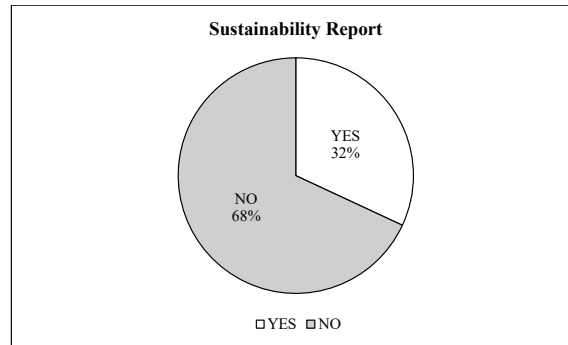


Figure 3. Sustainability Reporting used in the sample (source: Authors)

For obvious reasons, the reference sample was reduced from the original 72 companies to the 23 most virtuous companies that draw up a voluntary SR. As this information is not relevant for the purposes of the discussion, the names of the companies examined will not be mentioned. These companies, however, are collected by market capitalization in descending order.

As a further elaboration of this empirical analysis, each individual balance sheet was read and studied in detail using the Content Analysis methodology. As stated in the previous paragraphs, the balance sheets were read according to the labels expressed in the first row of Table 1. Subsequently, the presence (or absence) of these categories was summarized with a simple judgement, "YES" or "NO", for each company in the sample and each label.

Table 1. Specific sections of Sustainability Reporting (source: Authors)

	Description of the business model and corporate strategy	Sustainability goals	Function of administration, management and supervision of sustainability	Corporate sustainability policies	Sustainability due diligence procedures	Sustainability risk analysis
1	YES	YES	YES	YES	YES	YES
2	YES	YES	(NO)	YES	YES	(NO)
3	YES	YES	YES	YES	YES	YES
4	YES	YES	YES	YES	YES	YES
5	YES	YES	YES	YES	YES	YES
6	YES	YES	(NO)	YES	YES	(NO)
7	YES	YES	(NO)	YES	YES	(NO)
8	YES	YES	(NO)	YES	YES	(NO)
9	YES	YES	(NO)	YES	YES	(NO)
10	YES	YES	(NO)	YES	YES	(NO)
11	YES	YES	(NO)	YES	YES	(NO)
12	YES	YES	YES	YES	YES	YES
13	YES	YES	YES	YES	YES	YES
14	YES	YES	YES	YES	YES	YES

15	YES	YES	(NO)	YES	YES	(NO)
16	YES	YES	YES	YES	YES	YES
17	YES	YES	(NO)	YES	YES	(NO)
18	YES	YES	YES	YES	YES	YES
19	YES	YES	YES	YES	YES	YES
20	YES	YES	(NO)	YES	YES	(NO)
21	YES	YES	(NO)	YES	YES	(NO)
22	YES	YES	(NO)	YES	YES	(NO)
23	YES	YES	(NO)	YES	YES	(NO)

The judgements (YES/NO) included in the previous table, as we report below among the potential weaknesses of the empirical analysis, corresponds to our own assessment, resulting from a reading of their SRs. Specifically, we assessed for each individual label: the presence (or absence) of a specific section in the SR, clarity of presentation and linearity of content. The combination of these three parameters, where satisfactory, generated a positive rating (expressed as “YES”).

4. Results

As described in the literature examined, SR is still a distant practice for most listed SMEs that meet the innovative requirements. Figure 3, in fact, shows that:

- > 23 companies (32% of the sample) have made their voluntary SRs publicly available;
- > 49 companies (68% of the sample), on the other hand, do not draw up a proper SR and often rely on tools such as the Investor Relations Report and the Management Report to communicate their sustainable and ethical policies.

Subsequently, several observations can be extracted from Table 1. Firstly, when there is an SR, the objectives, strategies and sustainable policies practiced by the target company are very clear and well explained. Indeed, the attention and care of all 23 companies in the sample with respect to the concepts made explicit in columns 2, 3, 5 and 6 (description of the business model and corporate strategy; sustainability goals; corporate sustainability policies; sustainability due diligence procedures) of Table 1 is evident. For all the companies, with reference to these parameters, the judgement was always positive.

The discourse is different regarding the management, analysis and monitoring of sustainability risks. In this case, as shown in columns 4 and 7 (Table 1), not all the judgments expressed were positive. Specifically, only 43% of the sample made clear how they assess and manage sustainability risks. It is interesting to see, in fact, that positive results in column 4 lead at the same time to positive results in column 7 (and reciprocally). This means that where risk is assessed, at the same time, it is also managed. In contrast, 57% of the sample does not emphasize this relationship (or does not make this information explicit).

5. Discussion

The empirical analysis demonstrates that in Italy, SR remains limited and immature among SMEs, including those meeting the criteria to be classified as “innovative”. As the results show, in fact, the SR expressed on a voluntary basis is a scarcely present tool for these organizations.

The results, albeit referring to a modest sample, are in line with the literature reviewed. The empirical research shows that only 32% of the selected companies prepare the SR on a voluntary basis and confirms the literature analysis about the difficulties of SMEs in reporting ESG topics. If, in fact, the SR is not mandatory for the observed enterprises, in parallel it is equally true that the drafting of it turns out to be costly in terms of resources and energy. These two aspects have certainly contributed to the low uptake of this tool in SMEs at the current state. This does not prove that innovative SMEs do not internally cultivate the culture of ESG and do not develop sustainability and ethics, but rather, it demonstrates that they are unaccustomed to reporting and presenting this information externally.

In addition to this, even when it is regularly drawn up, there is a lack of fundamental information such as the management and assessment of sustainability risks, on which the EU places great emphasis. This problem, in our judgment, is potentially even more serious. The results of the empirical analysis show that only 10 companies (43%) out of the 23 that issue the SR would be able to meet, as of today, the requirements dictated by CSRD. In its wake, issuing poor, incomplete and/or incorrect information could have worse consequences than not issuing this type of document.

6. Conclusions

The following conclusions address the initial research question (RQ):

RQ. “Can Italian listed SMEs fulfil the numerous new obligations required by the CSRD regarding Sustainability Reporting?”

The European legislator’s intent is clear: to enhance the quality and quantity of sustainability-related information. This objective can only be achieved, as already expressed in this paper, through a transition from a voluntary to a mandatory regulation for SMEs.

The objective, in line with the principle of dual materiality, is to measure the impact European companies have on the community and the environment (“Inside-Outside” perspective), and at the same time, gauge how sustainability impacts the development, performance and business position of the target companies (“Outside-Inside” perspective). This objective is very ambitious. While the challenge of sustainability cannot be set aside and managed superficially, it is equally true that this transition will entail considerable costs and effort for SMEs that are not confident to these logics. The main risks, in our view, would be, on the one hand, the poor quality of the information issued, perhaps so as not to run into sanctions and/or measures, and on the other hand, the uncertainty and inefficiency that this information may bring to the market.

In this vein, overload theory is applied to understand how the demands of sustainable practices place an additional burden on these enterprises. Indeed, SMEs, often limited in resources, face challenges in adapting to sustainability requirements. Such requirements could include investing in environmentally friendly technologies, ensuring ethical practices in the supply chain, and meeting regulatory standards for SR. The cumulative impact of these requirements could contribute to an “overload” scenario for SMEs, affecting their operational capacity and decision-making processes. Such risks, as revealed by the empirical analysis, discourage these entities from becoming familiar with SR before it becomes mandatory for them.

It will therefore be appropriate to make the necessary resources available to SMEs to enable this transition. In our view, in the context of SMEs facing sustainability overload, VSRS could be a potential starting point. Indeed, VSRS provides companies with a framework for voluntary reporting of their sustainability performance. A standardized reporting framework can simplify the SR process, potentially reducing the burden on SMEs and help them manage the overload more effectively. This could translate into many sustainability and ethics-related benefits by promoting transparency to stakeholders, identification of improvement processes and credibility in the eyes of investors.

7. Limitations and Future Research

We are aware that this study has some limitations that could be overcome. First, the empirical evidence refers exclusively to the Italian context. On this issue, to bring more relevant descriptive statistical evidence, the sample could be expanded in a multi-country comparative study (e.g. France, Spain, Portugal and Greece). More descriptive statistical analysis could also complete this research with more quantitative power as other non-financial indicators could be included in the study. Among the main ones which could be examined are: CO2 emissions, GHG (Greenhouse Gases), employee turnover, innovation and social responsibility.

The main weakness of this study is a significant amount of subjectivity in data processing. Although the study on SRs was conducted in a meticulous and detailed manner, the considerations expressed in Table 1 reflect our personal judgement and assessment.

At the same time, this study offers theoretical and practical implications on a “hot topic” for both academics and practitioners. Indeed, from a theoretical perspective, this contribution enriches the literature on the topic of CSRD. This topic, which is constantly growing and expanding, compared to the number of contributions is, however, scarce concerning SMEs. This study, which explores a new topic, could be used as a starting point to delve into specific topics and help fill this gap. In parallel, the contribution could be valuable for practitioners. Indeed, the exploratory study carried out describes not only the new regulatory framework but also offers insights of a practical nature into the line that innovative SMEs are taking on the topic. These insights could avoid mistakes and/or enable a smoother and less traumatic process linked to SR.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Canadian Center of Science and Education.

The journal and publisher adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

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