

CORPORATE SUSTAINABILITY REPORTING – STATE OF PLAY AND CHALLENGES

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Abstract. The transition towards sustainability requires a new approach for doing business and creating value that needs substantial investments, qualified and skilled implementing teams and innovative governance models. In order to accelerate it, the European Union adopted unprecedentedly ambitious legislative framework aiming to induce a large-scale transformation, which is fully documented and reported. These developments impose serious challenges - on the enterprises, as they shall invest mostly in compliance instead in competitiveness, on their staff being at the front line of the transition and on all the experts that shall do the reporting, verification and auditing the performance. The paper aims at analysing ESG legislation influence on the enterprises' activity, and especially on SMEs, and on their performance and accounting. On this basis, relevant challenges will be outlined, opportunities for overcoming them will be drawn and proposals for actions and measure will be formulated.

Key words: Sustainability transition, accountancy, audit, competitiveness, investments.

JEL: D8, H1, L2, M3, P1, Q5.

Received: 23.05.2025

Revised: 14.06.2025

Accepted: 23.06.2025

Published: 30.06.2025

1. Background and aim

Corporate social responsibility is a concept that combines business activities of the enterprises with their societal engagement and commitment to deliver on achieving the SDGs. Following the increase of the public expectations for responsible business conduct and the imperative of accelerating the climate neutrality achievement, the voluntary nature of the corporate social responsibility is upgraded and developed into a legislative framework, which imposes the sustainability as a legal obligation. The European Union's (EU) legislative package¹, adopted with the aim to accelerate the sustainability transition introduces unprecedented – in terms of its scale, scope and ambitious time frame, administrative burden that can only be compared with the recent multi crises such as the Covid-19 pandemic and the wars in Ukraine and Middle East. The gravity of the problem is caused by the extreme complexity of the legislative framework and the changes it requires, the intricacy of documenting and reporting requirements, the lack of clarity about the type and the format of the necessary data, as well as lack of preparedness to present them in a structured way, and to verify and audit them. All these elements pose significant challenges for the enterprises, and especially – for the smallest amongst them, as the latter do not have the necessary substantial financial, administrative and human resources (that shall be made in most of the cases at the expense of the investments for improving the competitiveness). There are also significant shortages of qualified professionals that shall prepare, report, check, verify and audit the required non-financial information.

The paper aims at analysing the influence of the ESG legislation on the enterprises' business activities and their reporting, zooming especially on the small and medium (SMEs) amongst them, at outlining the respective challenges and at identifying possibilities to overcome those. On that basis, particular recommendations will be

¹ On 14th July 2021, the European Commission published Fit for 55, a package of 13 legislative proposals to amend and update existing legislation so that the European Union meets its target of reducing emissions by at least 55% by 2030 (compared to 1990). Further, the EU Green Deal is the European Union's (EU) ambitious plan to transform the EU into a climate-neutral continent by 2050, aiming for a cleaner, healthier, and more sustainable future. It's a comprehensive set of policies addressing various sectors, including climate action, resource efficiency, biodiversity, and pollution reduction.

drawn and certain measures proposed with the view of safeguarding the successful transformation and the achievement of the sustainability goals, while at the same time allowing the enterprises to preserve and improve their competitiveness and buy time to the experts to get ready to perform professionally and effectively their duties.

2. Scope and Methods: Coupling CSRD with Competitiveness

The main requirements for realizing the sustainable transition and for documenting and reporting it are enshrined in the EU Taxonomy Regulation (Regulation 2020/852) and the Green Deal Pact² and are envisaged to be enforced evolutionary. The legislator's intention was to provide for a timeframe that will allow the enterprises to successfully prepare to meet these requirements, together with preparing and up-skilling the professional communities, engaged with the reporting, presentation, check-up, verification and monitoring of the respective data, so that they can perform their duties at their best.

Although the SMEs are meant to be kept outside the scope of these legislative obligations, the requirement for the obliged companies to include in their non-financial reports complete information about all their value chains members imposes the non-financial reporting requirements effectively also on the SMEs, being them part of value chains or when they are looking for funding.

During the last five years, the enterprises have been facing multiple, coinciding crisis and growing challenges – the Covid-19 pandemic, followed by the war of Russia on Ukraine that caused:

- Indirect effects: trade disruptions with Russia and Ukraine, closed airspace, ports, interrupted transport corridors, economic sanctions, payment difficulties;
- Direct effects: spiking prices of electrical energy, energy sources, raw materials, disrupted supply chains, longer times for or discontinued delivery, interrupted value chains and production capacities, increased uncertainty regarding investments, consumer behaviour changes.

The above list can be topped-up with the increasing inflation, the Middle East Crises, the USA new foreign trade policy, growing number of severe natural disasters, skills shortages, and the challenges of twin transition, that cause radical effects over traditional business models.

All these elements produce particularly negative effects over SMEs resulting in decline of their real added value, respectively – production (COMPET 2024: for 2024 it is 60 % of those of large enterprises, and 68 % for 2008, representing missed opportunities for the EU economy of 450 billion euro). SMEs are lagging behind when it comes to their participation in open autonomy projects. Late payments caused problems are aggravating – the average time for business payment settlement increases to 62 days in 2024, compared to 52 days in 2022 (Intrum 2024). Bank loans remain to be the main source of funding, and the overall access to finance is impeded.

Regardless of all these serious challenges, as of 2022 the enterprises had to start their preparation to meet the unprecedented of its scope and volume regulatory acts for sustainability reporting. This legislation introduce entirely new concepts – e.g., double materiality principle, as well as many others that require serious training and up-skilling.

Recent study amongst the European SMEs (Eurochambres & SME United 2023) shows, that they are not ready to meet the sustainability reporting requirements, because of: excessive costs to hire external contractors (51%), extremely complex requirements (30%), lack of capacity (14%), external contractors deficit (3%), other reasons (2%). A recent complex research in Bulgaria³ showed, that SMEs in general are not aware and do not know how to:

- Meet the requirements of the non-financial reporting;
- Define which indicators are material for their activities;
- Elaborate their transition plans and how to calibrate them;
- Choose indicators that shall be used to measure and proof the progress of transition plans implementation and how to collect the necessary data.

Against this background, the value chain leaders and financial services providers have started to demand data related to non-financial reporting of SMEs (Table 1). At the same time, the adoption of the sustainability reporting standards have been delayed, resulting in delays in training the staff, responsible for the reporting and of

² The EU Taxonomy Regulation (Regulation 2020/852) establishes a framework for classifying environmentally sustainable economic activities, creating a common language for identifying "green" investments. It provides a basis for assessing and disclosing sustainability performance, aiming to encourage investment in environmentally friendly activities. The regulation defines six environmental objectives and sets technical screening criteria for each, guiding businesses and investors in identifying sustainable activities. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_bg.

³ Conducted as a combination of a desk, qualitative and quantitative research, in the framework of implementing the project BG05SFPR002-1.005-0004 by the Bulgarian Industrial Capital Association.

the professional communities tasked to check, verify and audit the reports. The start of the new EU institutions legislative mandate have contributed to additional uncertainty and stress, producing diverse signals, related to the latest political imperative for simplification and promotion of competitiveness, which goes in general into the right direction of making Europe attractive for doing business again.

Table 1.

Information required from the SMEs regarding the non-financial reporting

Information typw	Listed SMEs	Non-listed SMEs	SME size			ESG information is requested by				
			Micro	Small	Medium	Gov. body	Banks	Insurers	Other fin. inst.	Large buyers
Greenhouse gas, CO ₂ footprint	10%	8%	8%	16%	13%	13%	6%	4%	18%	8%
Energy consumption	14%	28%	25%	21%	23%	27%	18%	25%	16%	30%
Energy use: clean sources	9%	19%	16%	17%	15%	21%	15%	15%	6%	23%
Water use	14%	15%	15%	14%	16%	11%	13%	11%	20%	19%
Pollution prevention	14%	13%	13%	15%	21%	15%	13%	9%	13%	11%
Risky/dangerous substances	7%	8%	8%	11%	19%	18%	3%	4%	2%	17%
Eco-design of product/service. Life cycle analysis	13%	10%	11%	14%	12%	7%	14%	7%	16%	9%
Electrical and electronic equipment, batteries	19%	14%	16%	6%	13%	22%	12%	8%	20%	30%
Choice of packaging	5%	12%	10%	12%	14%	8%	9%	6%	21%	10%
Physical risk for the climate	7%	7%	7%	9%	10%	7%	7%	12%	9%	2%
Protection and restauration of biodiversity/ecosystems	15%	10%	12%	12%	12%	14%	12%	9%	9%	11%
Governance ecosystems	9%	9%	9%	12%	17%	13%	13%	2%	6%	8%
Corporate governance	10%	6%	7%	12%	12%	10%	8%	7%	10%	7%
Social aspects	9%	15%	13%	15%	13%	17%	7%	20%	13%	10%

Legend – requirements degree: ■ high ■ above average ■ average ■ bellow average ■ low

Source: Giannotti, Bolognini & Pal 2024.

At the same time, the sustainability reporting costs (Table 2) turn to be a serious problem, as they shift the investment focus from promoting competitiveness and improving performance to compliance. The additional reporting costs in substantial amount come for the majority of the enterprises quite suddenly, as they have not been aware about the developments and requirements of the European legislation and are not acquainted with the specificities of its transposing into the national legislative system. All these elements caused massive reactions by business organizations and member states at the end of 2024. Most of them vocally requested tangible simplification of the requirements and more relaxed time line⁴.

Table 2.

SME costs for sustainability reporting (thousands of euro)

	All enterprises (95 % conf.int.)	Micro	Small	Medium	Large
Voluntary reporting	6.8 (4 – 9.6)		5.6	24.3	
ESG requirements	5.9 (3.1 – 8.7)	2.4	4.7	7	
Taxonomy					
Initial investments		22.5 – 27.5	60 – 80	95 -125	230 – 350
Annual investments		3.4 – 6.9	9 – 20	28 – 50	93 – 210

Source: Giannotti, Bolognini & Pal 2024.

As a result, the legislative framework have been amended – both at EU and national level (Table 3). The EC proposal⁵ in fact decreases by 80 % the number of CSRD obliged enterprises and postpones by 2 years the entering into force of the legislation. The overall estimated positive effect if the proposal is adopted shall amount at 4.4 billion of euro, and in the case of the taxonomy regulation – 0.8 billion of euro on annual basis. Additionally, the initial positive financial effect produced by the decreased assurance requirement would amount at 1.6 billion of euro for the SCRD and at 0.9 billion of euro for the taxonomy. If the proposal is adopted, the regulation framework will become clearer and will require less compliance costs. The most significant positive effects in such a case can be expected to materialise in the value chains, favouring the small companies and resulting in economies of 320 million of euro annually for them. An additional element to complement the analysis is the issue of accessibility of the auditors' services market – out of the Big 4. The more diverse are the service providers choices, the better are the conditions for the users.

⁴ BusinessEurope, SME United, EPP, Denmark, Germany, France, Austria, etc.

⁵ Omnibus package, 26.02.2025, https://commission.europa.eu/publications/omnibus-i_en.

Table 3.

Proposed changes to European Sustainability Reporting - the "Omnibus" proposal			
	Element	Current legislation	Proposals
C S R D E S R S	CSRD firm size	> 250 employees and > 40 million turnover or > 25 million balance sheet	> 1000 employees > 50 million turnover or > 25 million balance sheet
	CSRD number of companies covered	> 50 000	> 7 000
	Threshold for companies outside EU	> 150 million turnover	> 450 million turnover
	Verification	Limited verification, transition to reasonable verification	Only limited verification is envisaged
	CSRD Value Chain Reporting	Obtaining data from all suppliers	Applies only the VSME
	Double materiality	Financial and of impact	Maintained
	CSRD reporting deadlines and scope	Set deadlines for first disclosure and audit, sector-specific standards to be introduced 1144 information units	Delays up to 2 years, put on holds or scrapes sector-specific standards, reduction and harmonisation of info points
T a x o n o m y	Size of enterprises and time line	Jan 2023-large enterprises within the scope of NFRD Jan 2025 - large enterprises outside the scope of NFRD Jan 2024 - for banks	Large enterprises with: > 1000 employees and > 450 million turnover
	Green assets obligations for banks	For all customers	Exclude those that are not liable to non-financial reporting
	Taxonomy regulation	Mandatory reporting under taxonomy rules	Potentially made voluntary for firms reporting under CSRD
	Taxonomy DNSH (Do No Significant Harm) Rules	Strict DNSH criteria	Rules may be streamlined
Accountancy law of Bulgaria		art. 48 (12) Those SMEs, which are not envisaged by the provisions of art. 41, may report on their sustainability achievements by applying chosen by them sustainability reporting standard, adopted as a delegated act by the EC. In such a case, they shall not be obliged to give to any third parties information above the scope of the chosen standard.	
Accountancy law of Bulgaria am. - SJ, Issue 17 of 2025, in force as of 28.02.2025.		§ 30. The first reporting period, for which the enterprises shall present a sustainability report, is as follows: ... postponed by 1 year for all types of enterprises	

Source: Authors' elaboration.

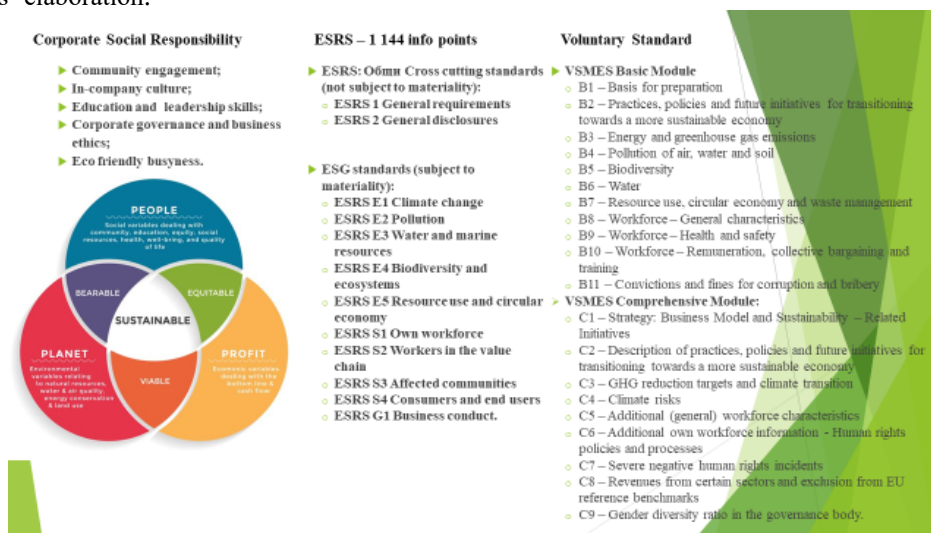


Figure 1. CSOs, obligatory and voluntary CSRS

Source: Authors' elaboration.

It will be interesting to compare the proposed changes and to evaluate them from the point of view of achieving the EU Green Deal goals, in order to draw some measures to accelerate their implementation (fig. 1). Non-financial reporting simplification – and especially for SMEs, shall be carefully planned, taking into consideration the general purpose of the Taxonomy Regulation – namely to prevent greenwashing and to help the investors to identify the economic activities, that correspond to the EU goals for achieving climate neutrality and

preserving the environment, while promoting the overall orientation of investments towards successful sustainability transition.

In the light of all the above elements into consideration, the reporting must be objective, trustworthy, to create and use common terminology, and to allow for comparison between different companies and their investment portfolios. Its requirements shall be clear, easy to be applied and allowing for compliance verification without imposing unnecessary administrative burdens (Regulation (EU) 2020/852).

Hence, the simplification recommendations shall be based on the foundations of all the EU applied policies for promoting competitiveness of SMEs – e.g., the common EU policy, the commitment for reducing red tape and for better regulation, and to take stock of stakeholders' positions.

3. Results and Practical Implications: Recommendations for Simplification and Re-Calibrating the Regulations to Couple Delivering on SDGs with Competitiveness

Based on the analysis of how to align CSRD with competitiveness, a conclusion can be drawn, that the proposals in the "Omnibus" package are contributing to this commitment, as they add value especially to:

- Simplification and standardisation, downsizing the requirements, including the scope and number of information units;
- Proportionality of the reporting requirements;
- Elimination of imprecise or biased criteria – e.g., requirements to "decrease", "minimise", "improve" – without a clear measurement;
- Provision of additional guidelines, manuals, instructions, including internet based;
- Creation of a permanently available unit for technical assistance;
- Clear requirements for application of the DNSH principle, including indicators with "yes/no" question;
- Financial institutions commitment to support SMEs' compliance, including by accepting declarations for using external data basis for checking the facts;
- Clarifying the significance thresholds for reducing the CO₂ emissions or other harmful effects on the climate, data base creation to ease the calculation and comparisons, promoting use of labels and certificates;
- Information and best practices collection and dissemination as to motivate possible technological solutions and ideas to boost the sustainable transition;
- Uptake of simplifies evaluation methods for calculating the scope 3 emissions;
- Clear requirements for independent 3rd parties verification;
- Clearly defined requirements – e.g., regarding the materiality in connection to reducing the risk of doing harm, preparing national, regional and local forecasts about the climate changes.

It is obvious that the Omnibus Regulation proposals do not constitute a withdrawal from the EU goals for achieving climate neutrality, but rather a translation of those goals into understandable, pragmatic, applicable language. At the same time, in spite of the noble intentions enshrined in the European Green Deal, Taxonomy Regulation and CSRD, these legislative initiatives pose serious challenges in front of the competitiveness of the European economy, and of the Bulgarian economy in particular. Environmental protection goals cannot be achieved at the expense of neglecting the economic reality and the SMEs needs. European rivals such as China, India, Türkiye, Russia and USA sadly are not burdened by such requirements. Therefore, they are in a position to enjoy cheaper production that provides them an important competitive advantage over the EU goods.

4. Conclusion and Originality

The administrative burdens, stemming from the climate change prevention, cause unproportioned negative effect on the SMEs, as the later do not have the necessary resources to comply with complex regulatory requirements. Therefore, their business operations are laboured, threatening with growth and job loss. To remedy such a situation it is necessary to reconsider and recalibrate the overall regulatory approach in order to find a more balanced solution that will:

- Simplify the administrative procedures for SMEs, while maintaining the overall goals;
- Provide targeted financial and technical support for the enterprises to uptake cleaner and greener technologies;

- Introduce a more agile and time-friendly approach for applying the eco-standards, while giving time to businesses to adapt;
- Account the specificities of the global competition as not to place the European enterprises in unfavourable position vis-à-vis their international rivals.

Only if such a balanced approach is taken, the sustainability commitment will be successfully coupled with the economic viability of the European enterprises. The European Union shall continue to be a climate neutrality leading, but not at the expense of its economic prosperity. The challenge and the ultimate need is to find a formula of coupling the ecological ambitions with the economic prosperity, as to safeguard sustainable future for all European citizens and enterprises.

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