Master Thesis U.S.E.

The Organizational Effects of Mandatory Non-Financial Reporting

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ABSTRACT - A study with a grounded theory approach was conducted analyzing the organizational effects of the implementation of a non-financial reporting mandate by looking at the Corporate Sustainability Reporting Directive of the European Union. This was set out in the following research question: "*What are companies' organizational responses to the implementation of a non-financial reporting mandate?*" 11 in-depth interviews with executives closely involved with the development and publishing of the non-financial report were conducted. It was found that overall companies respond with enthusiasm at first, involving top-level management, seeing it as something that is inescapable in nowadays society. They start preparing by setting up several initiatives regarding ESG team development, starting initial reporting initiatives, and increasing ESG actions before the directive's entry into force. Gaining insight in these previously underexposed antecedents of organizational change following a non-financial reporting mandate adds to existing literature regarding the financial and non-financial effects of non-financial reporting.

KEYWORDS – mandatory non-financial reporting, organizational responses, grounded theory, sustainability

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1. Introduction

We study the organizational effects of the implementation of a non-financial reporting mandate on the firm and how this leads to organizational change, which is important to better understand since mandatory non-financial reporting is becoming more common. Soon, the number of companies in the European Union that are obliged to report on non-financial impacts of and for the firm will increase from approximately 10.000 to 50.000 due to the entry into force of the Corporate Sustainability Reporting Directive (CSRD). Several effects of a non-financial reporting mandate have been covered in academic literature, mainly financial and non-financial effects. Such as better financial reporting quality (Wang et al., 2018), increased firm value (Ioannou & Serafeim, 2017), effects on investment choices (Shroff, 2017), increased liquidity, lower cost of capital, and optimized capital allocation (Christensen et al., 2021). Also, more specifically, the effects of previous European non-financial reporting mandates have been studied. It was found that markets responded negatively to the implementation of the Non-Financial Reporting Directive (NFRD), the predecessor of the CSRD (Grewal et al., 2019) and that the benchmarking effect of a reporting mandate results in reduced emissions (Fiechter et al., 2022; Tomar, 2023). It was found that the publication of a sustainability report motivates companies to improve sustainability activities (Lozano et al., 2016) and that real sustainable change is supported by a reporting mandate (Christensen et al., 2021). But the organizational and change effects of a non-financial reporting mandate remain underexposed, while there is no bigger challenge for organizational change management than working towards greater sustainability (De Matos & Clegg, 2013). And these two appear to be mutually reinforcing (Lozano et al., 2016). Various theories about management and the organizational dynamics of a firm are explained to understand the background of organizational responses. Sustainability accounting can better create value when all relevant stakeholders are considered (Hörisch et al., 2020) and from the resource-based view, it can be said that valuable, rare, imperfectly imitable, and hardly substitutable resources can lead the company to gain a competitive advantage based on sustainability activities and reporting (McWilliams & Siegel, 2011). It was found that business sustainability is related to organizational learning (Hermelingmeier & Von Wirth, 2021) which can be recognized in the change process occurring when a non-financial reporting mandate is implemented (Lozano et al., 2016). Furthermore, integrated reporting is becoming institutionalized (Higgins et al., 2014), meaning that is expected to engage in this to be seen as 'appropriate' by society. Sustainability reporting has been extensively studied in the accounting field, while it has only become more popular in the organizational field more recently (Garcia-Torea et al., 2022). The two research fields are found to be significantly disconnected in current research, while the importance of understanding this topic is growing. Therefore, it is important to know more about the organizational change processes that are instigated by non-financial reporting (Hahn et al., 2023).

This insight in current literature shed light on the gap in research on the organizational effects of the development and publishing of a mandated non-financial report. This led to the following interdisciplinary research question: "*What are companies' organizational responses to the implementation of a non-financial reporting mandate?*". Which has high managerial relevance due to the changes in reporting legislation that many firms will have to deal with. This study contributes to enabling grounded decision-making in the process of developing a non-financial report. This benefits society since it allows them, as external stakeholders of the firm, to better hold companies responsible for their deeds and their effect on day-to-day lives. Also, answering this research question is academically relevant, because it lays the foundation for future researchers in both the accounting- and organizational research fields. It will allow them to delve deeper into the details of what organizational processes for non-financial reporting fit which companies best. While the research was conducted, there was a focus on finding out what the initial steps are toward fully implementing mandatory non-financial reporting. This allows future researchers to have clear guidance on what elements of the process to possibly study further.

The above-mentioned research question called for qualitative exploratory research because it is exploratory in nature and an inductive approach is used to build theory. This was done through in-depth semi-structured interviews with a diverse set of clients at BDO that have to comply with the criteria of the CSRD in the future. The study followed a grounded theory methodology which allowed for constant comparative analysis to be able to draw useful theories from the data collected (Charmaz, 2014). In this approach, an iterative strategy is used in which the details of the research, like the interview questions and sample, are adjusted along the process.

A deeper understanding is developed about the components of which the initial responses and the antecedents of organizational change due to mandatory non-financial reporting consist, what consequences the CSRD has on the firm, and how further professionalization of the non-financial reporting is expected in the future. The interrelations were presented in a model. This can be of value for managers who are trying to better understand and executive the implementation of a non-financial reporting directive or for academics who can now build on these findings and gain a more in-depth understanding of the elements of initial organization change following the implementation of non-financial reporting in future research.

The remainder of this paper is therefore structured as follows. First, hereafter, in Chapter 2 an extensive literature review delving into the current academic knowledge about the topic can be found together with the theoretical framework of this study. Then, the methodology and the empirical strategy of the research can be found in Chapter 3. Next, in Chapter 4, the results of the study are presented and briefly interpreted. Finally, in Chapter 5 the results are discussed and the implications, limitations, and conclusion of the study are demonstrated.

2. Literature Review & Theoretical Framework

2.1. Non-Financial Reporting Mandate

Corporate Social Responsibility (CSR), a concept whereby companies integrate social and environmental concerns into their business operations and their interaction with their stakeholders (European Commission, 2001), is becoming more and more present in companies. With the rise in importance of this topic, over the last years more and more research has been done on the effects of CSR reporting (Khan et al., 2020). Mostly the performance effects of the implementation of a CSR reporting mandate have been investigated, and both financial and non-financial effects are studied to some extent. With the implementation of the CSRD in Europe, and thus with significantly more companies reporting on non-financial information, this research will only become more relevant in future years. Non-financial reporting has been defined by Eccles and Krzus (2010) as "a broad term that applies to all information reported to shareholders and other stakeholders that are not defined by an accounting standard or a calculation of a measure based on an accounting standard". In this definition, accounting entails financial accounting only. The term 'non-financial reporting' is in practice being used interchangeably with several words that have more or less the same meaning. Examples of these concepts amongst others are 'CSR reports', 'sustainability reports', 'integrated reports', and 'Environment, Social, and Governance (ESG) reports' (Turzo et al., 2022).

Various studies have been done on the effects of a non-financial reporting mandate. A study in China found that information asymmetry is diminished by mandatory CSR disclosure, since such a mandate results in improved financial reporting quality (Wang et al., 2018). More transparency may also constrain earnings management. Ioannou and Serafeim (2017) have stated that increased CSR reporting motivated by a mandate is associated with increases in firm value. Also, they found, the quality of CSR reporting is positively affected by such a mandate by increased comparability and credibility of the disclosed information. According to Shroff (2017), changes to accounting regulations in general also have an impact on investment choices. He finds that the process of complying with accounting rules revisions transforms managers' information sets, which in turn affects the investment decisions they make, particularly in their capital and R&D expenditures and, to a lesser extent, their acquisition expenditures.

In the next paragraphs, more detailed insight into what current academic research has studied related to non-financial reporting will be given. First, the financial effects of non-financial reporting. Second, the non-financial effects of non-financial reporting. Followed by a paragraph on the organizational consequences of a non-financial reporting mandate. And finally, a more in-depth explanation of the establishment of the research question is provided.

2.2. Financial Effects of Non-Financial Reporting

Besides the finding of Ioannou and Serafeim (2017) that mandatory CSR reporting results in increased firm value several other financial effects of mandatory non-financial reporting have been found in academic research. The economic effects of mandated CSR disclosure and its standards are extensively collated by Christensen et al. (2021). To begin with, according to existing research, improved CSR information can have a positive effect on capital markets. Due to increased transparency information asymmetries are mitigated which can lead to multiple outcomes like increased liquidity, lowered cost of capital, improved risk sharing in the economy, improved managerial decision-making leading to more efficient investment strategies, and overall optimized capital allocation.

Other previous research showed that the market showed an average negative reaction to the implementation of the NFRD (Grewal et al., 2019). The negative market reaction was less negative for companies that had better pre-directive ESG performance or that had higher levels of ESG disclosure before the directive was introduced. These results are emphasized for companies that have more severe environmental and social issues.

But on top of the positive capital-market effects of a non-financial reporting mandate reporting on ESG topics also come with costs that may outweigh those benefits (Christensen et al., 2021). The direct financial costs are mostly in the development, publishing, and sometimes third-party verification of the report. Additionally, proprietary costs could arise from a non-financial reporting mandate. Where third parties, such as employees, suppliers, customers, and competitors, are enabled to strengthen their position against the company in negotiations and competitive situations (García-Sánchez & Martínez-Ferrero, 2017).

2.3. Non-Financial Effects of Non-Financial Reporting

Next to financial effects, implementing a non-financial reporting mandate also comes along with non-financial performance effects. Corporate disclosures have the potential to alter a firm's behavior which is particularly relevant if the objective of mandated CSR reporting is to influence companies' CSR actions or to reduce negative externalities of a firm's behavior (Christensen et al., 2021). These effects are more likely to be seen in the situation of a CSR reporting mandate than in the case of voluntary CSR reporting since without a mandate companies can self-select. According to Hummel and Schlick (2016), high-sustainability performers select high-quality sustainability reporting to signal their superior performance, which is in line with voluntary disclosure theory. Also, low-sustainability performing companies, in line with legitimacy theory, choose poor-quality sustainability disclosure to conceal their genuine performance while remaining their legitimacy. A CSR reporting mandate may therefore be a means of promoting social and environmental change. In addition, the literature shows that mandatory CSR disclosures may decrease the possible information asymmetry between a company and its investors and other stakeholders since transparency of business operations increases (Christensen et al., 2021). But the strength of this effect is dependent on the amount of information that is withheld in the previous situation. Furthermore, it is anticipated that a CSR reporting directive will drive enterprises to improve their business processes toward more desirable from a societal viewpoint. In general, businesses respond to a CSR reporting mandate by altering their CSR activities to improve CSR performance.

Further real effects have been researched by Fiechter et al. (2022). As a response to the NFRD firms started increasing their CSR activities, already before the entry-into-force date of the directive. There are several explanations for this adjustment before the entry-into-force date of the non-financial reporting mandate. Peer benchmarking, learning effects, the increased advantage of signaling a commitment to CSR transparency, or stakeholder pressures are some examples. Evidence suggests benchmarking results in emission reductions (Tomar, 2023). In this research, the concern for a reporting mandate, which would reveal one firm's performance relative to another firm's performance, seemed to also play a role in this behavior. Learning effects arise from the presence of uncertainty about investment opportunities (Roychowdhury et al., 2019). A new directive is likely to alter a manager's information set by their own new reported information but also by that of peers.

It could however also be the case that in the situation of mandatory non-financial reporting businesses just engage in CSR activities because they are enforced by legislation (Gatti et al., 2019). As a result, managers take a reactive approach toward CSR instead of an active attitude (Matten & Moon, 2008). Some other negative effects of a CSR reporting mandate that were shown in existing literature are the use of boilerplate language, potential greenwashing, and enforcement challenges (Christensen et al., 2021).

2.4. The Organizational Consequences of a Non-Financial Reporting Mandate

Besides these effects of (mandatory) non-financial reporting that have been found, which are mostly performance effects or operational effects, it would also be interesting to look into the organizational and change effects that could arise. According to De Matos and Clegg (2013), nowadays, there is no bigger challenge for organizational change management than achieving greater sustainability. The key external drivers of sustainability in organizations are reputation, customer demand and expectations, regulation, and legislation (Lozano, 2015). Even more specifically, the development and publication of a sustainability report drive sustainability changes in a company (Lozano et al., 2016). Mutually reinforcing relationships have been found between sustainability reporting and organizational change for sustainability. Therefore, it can be expected that a new non-financial reporting directive, like the European Union's coming CSRD, can have great effects on the sustainability issues within a company. It could be a driver for change.

As mentioned before the motivation for sustainability initiatives within enterprises can have several origins, this is the case as well for compliance with and attitudes towards a non-financial reporting directive. Therefore, various theories about the management of an enterprise and the organizational dynamics of firms will be explained below. These phenomena can all relate to the organizational responses to a non-financial reporting directive in the behavior and strategy of a firm and this will be explained accordingly.

First, stakeholder theory explains how a business can be seen as a connection of relationships between different stakeholders of the firm that all have a 'stake' in the operations of the business (Freeman, 2010). According to this theory, a business is about the interactions between customers, suppliers, employees, financiers, communities, and managers and how these create value. Therefore, it is essential to comprehend these relationships to understand how a business works. When thinking along the lines of stakeholder theory executives play an important role. In addition to taking care of their own stake in the company, they also have to manage the stakes of the other stakeholders. To make sure that the company keeps operating successfully all stakes should be kept in balance. Following Hörisch et al. (2020) sustainability accounting and conventional accounting could together create value in a broader sense when all relevant stakeholders are considered. Highlighting stakeholder theory could make the business model a bit more human which can lead to opportunities to ask ethical questions about for example social and environmental values (Freudenreich et al., 2019), for which the answers are communicated in non-financial reports. The implementation of the CSRD could help highlight stakeholder theory in companies.

Second, resource-based theory suggests that if a company's resources are valuable, rare, imperfectly imitable, and hardly substitutable this can lead to a sustained competitive advantage (Barney, 1991). This model combines the organizational and economic values of a firm to reach the best sustained competitive advantage possible. This could explain why some companies gain competitive advantages by being an 'early adaptor' of non-financial reporting. CSR actions and attributes could also be used as unique resources for a firm to gain a competitive advantage (McWilliams & Siegel, 2011). For these reasons, in the case of mandatory non-financial reporting, it could be important to consider related activities in the light of the resource-based view of the company to understand the effects of such a directive. It is believed that combining stakeholder theory and resource-based theory would give them great potential to help a company by explaining its purpose and living up to its ambitions (Freeman et al., 2021), which is the ultimate goal of a non-financial reporting directive.

Next, the process of organizational learning occurs when the underlying norms and values of the company and its members change (Hermelingmeier & Von Wirth, 2021). It is a dynamic process that happens over time and across stages and creates a tension between new learning – feed forward - and exploiting what has already been learned – feed back (Crossan et al., 1999). Since change is most likely to happen when a non-financial reporting mandate is implemented (Lozano et al., 2016) this organizational learning dynamic can be recognized in the organizational process that occurs. Several articles were reviewed by Hermelingmeier and Von Wirth (2021) regarding the perspectives on how business sustainability is related to organizational learning. Three predominant perspectives were distinguished: organizational learning as a prerequisite for sustainability in firms; sustainability as a catalyst and direction for organizational learning; and organizational learning and business sustainability as mutually reinforcing.

In 2014, Higgins et al. stated that the institutionalization of integrated reporting was on its way. Following institutional theory which referred to, for example, integrated reporting becoming a more common practice since managers would start to see it as something that is expected by social institutions, instead of doing it because of strategic advantages such as reputation effects. Put differently, the social legitimacy of companies is put at stake if managers would not engage in these institutionalized practices and managers wish to be seen as 'normal' and 'appropriate' by their peers. Institutionalism can lead to companies showing similar behaviors for similar reasons, which is also called isomorphism. Institutional isomorphism, where companies are pressured into accommodation of the outside world to gain institutional legitimacy, can be instigated by three mechanisms: coercive isomorphism; mimetic isomorphism; and normative isomorphism (DiMaggio & Powell, 1982). Of which the first results from formal and informal pressures by other organizations and cultural expectations. The second is powered by uncertainty. And the latter is motivated by professionalization which comes with the shared struggle of defining the parameters and methods of the work, managing 'the production of producers', and creating justification for their professional autonomy as a member of a profession.

Exogenous shocks, like adjustments in demand, supply, legislation, or innovation, can lead to companies changing competitive positions when it affects their usual competitive advantage (Argyres et al., 2019). A non-financial reporting directive could have such a ‘shock effect’ on industries since the transparency it brings could alter what a company’s competitive advantage is based on. Shao et al. (2020) have found in recent literature that the enterprise system is optimized with the strengthening of environmental regulation by a higher demand for clean technologies and green raw materials. Also, the enterprise ecology is innovated and optimized.

But, as Garcia-Torea et al. (2022) point out, research in the accounting field has been investigating the potentially transformative effects of sustainability reporting for some time already, while organizational research has only more recently shown increased attention to the phenomenon. The literature shows that the two fields of research, accounting and organizational research, are significantly disconnected when it comes to sustainability accounting and reporting and sustainable change. Since it appears to be the case that real sustainable change is supported by a non-financial reporting mandate Christensen et al. (2021), more has to be known about the organizational change processes that are based on non-financial reporting (Hahn et al., 2023). It would be useful to see how players outside and inside the disclosing enterprises adjust their behavior, structures, and organizational strategies. The same applies to seeing whether there are certain elements or characteristics of firms that affect this process.

Not just any reporting disclosure has the desired effect of motivating companies to take action. When indicators are appropriate for information intermediaries or other intended users, information is provided at the appropriate level of aggregation, data are comparable to external benchmarks and/or other corporations, there exists a linkage to a network of other relevant information, and sufficient popular and political support exists mandatory disclosures are most likely to drive change in a company (Leong & Hazelton, 2019). At this point, most of this seems to hold for the CSRD mandate of the European Union.

2.5. Research Question

What stands out when combining existing literature of different academic fields on non-financial reporting is that the performance effects, non-financial and especially financial, have been researched to a certain amount. However, the internal change process within organizations that comes along with the implementation of compliance to a non-financial reporting mandate has not received a lot of attention in academic literature yet. It is known that companies already start adjusting their policies and actions before an announced directive comes into force Fiechter et al. (2022), which indicates that some changes are happening in the organizational process of a company’s sustainability efforts and construction. Therefore, especially with the unique timing of the coming into force of the CSRD in the coming years, it would be very interesting to see how companies respond to the implementation of non-financial reporting directives concerning their organizational matters.

Thus, the above-mentioned observations from the literature confirm the lack of research on the effects of the introduction of a non-financial reporting mandate on organizational matters. This research aims to create an interdisciplinary insight into the organizational effects of a non-financial reporting mandate. Hence, this research will study the following research question:

“What are companies’ organizational responses to the implementation of a non-financial reporting mandate?”

This could be dependent on certain characteristics of the company, like for example firm size, management structure, previous CSR activities in place, or maybe the industry in which the company operates. This remains to be studied.

By answering this research question a part of the overlapping fields of accounting and organizational research are explored. A gap in research will be filled concerning the organizational effects in the form of structure and management, instead of the performance effects, of a non-financial reporting mandate.

3. Methodology & Empirical Strategy

In the following section the methodology for the research question *“What are companies’ organizational responses to the implementation of a non-financial reporting mandate?”* will be described. First, the empirical setting of the problem identified will be drawn. Second, the grounded theory approach for this methodology is explained. Third, the data collection process is presented. And lastly, a validation for the collected data is provided.

3.1. Empirical Setting

Currently, many developments are happening regarding CSR reporting mandates and legislation in Europe. In 2014, the European Parliament passed the Non-Financial Reporting Directive (NFRD), or EU Directive 2014/95 (Fiechter et al., 2022). Under this, certain listed firms were obliged to prepare non-financial reports covering topics such as policies and risks related to environmental matters, information on social and employee topics, and diversity on the board of directors.

Now, a new directive has entered into force on the fifth of January 2023: the Corporate Sustainability Reporting Directive (CSRD), or EU Directive 2022/2464 (European Commission, 2023). Under this directive, a larger group of enterprises, approximately 50.000 all over Europe, will have to report on social and environmental information. This group exists of listed firms, large firms, but also small- to medium- enterprises, which will gradually have to comply with the requirements of the directive. The goal of the European Union is to ensure that investors and other stakeholders can obtain information about sustainability issues to assess investment risks and to increase the transparency of firms when it comes to their impact on society and the environment. The first companies will have to start reporting on these issues over the fiscal year 2024, which means the first reports will be published in 2025. Under the CSRD a new reporting standard, that is being developed by the EFRAG, has to be used; the European Sustainability Reporting Standards (ESRS). Which will be based on existing international standardization initiatives and EU policies. According to the draft of the ESRS that was released in November 2022, the topics in the reporting standard will be divided into several clusters: cross-cutting standards, environmental, social, and governance standards (EFRAG, 2023).

An outline of the draft of the ESRS can be found in Figure 1 below.

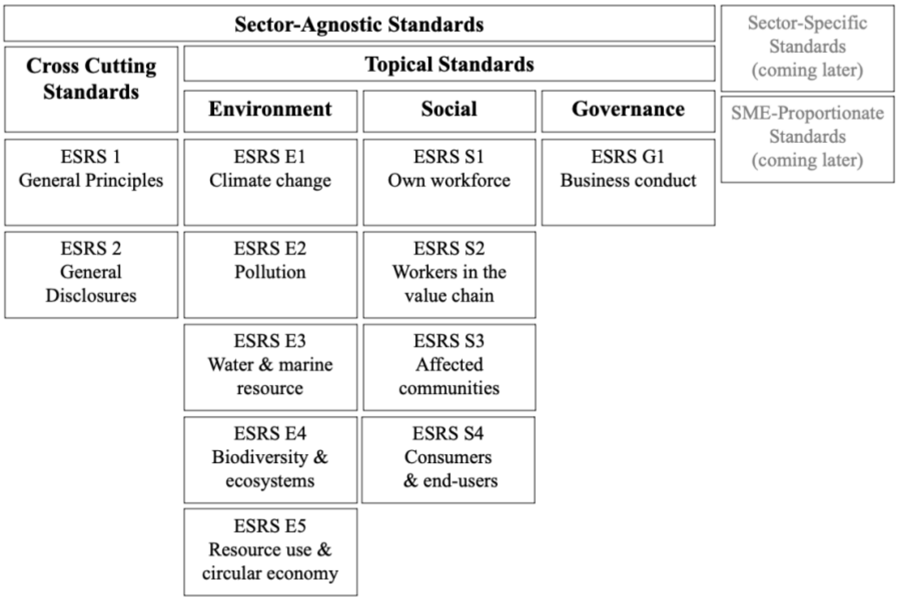

Figure 1: European Sustainability Reporting Standard draft (PwC, n.d.)

Due to these recent changes in the non-financial reporting landscape in the European Union, more and more questions arise in real-life settings about how to approach the development of such a report and what this means for organizational processes within the firm.

3.2. Method

The nature of this research is strongly qualitative since the research is exploratory and an inductive approach is used to build theory. So, the aim is to generate a theory from the data that is collected and analyzed (Clark et al., 2021). To answer the research question of *"What are companies' organizational responses to the implementation of a non-financial reporting mandate?"* a grounded theory approach was used for which in-depth semi-structured interviews were conducted with managers or CSR specialists at several firms.

The grounded theory methodology was developed by Glaser & Strauss (1967) to allow researchers to develop a theory that is 'grounded' in data by using a constant comparative analysis and iterative strategies, and then developing and refining concepts and hypotheses based on that (Charmaz, 2014; Clark et al., 2021; Corbin & Strauss, 2015). So, instead of accepting or rejecting hypotheses based on existing literature and theories with the use of this methodology, the research does the opposite. Where, first, the data is collected and then a new theory is developed. This process keeps researchers engaged and interacting with the data and emerging analyses (Chamaz, 2014) since they constantly have to reflect on their data along the way to collecting more. Or as Gioia et al. (2013) state this style of research is also "get in there and get your hands dirty" research because the researcher has to dig deep and dedicate great effort to truly understanding the experience of the informant.

3.3. Data Collection

3.3.1. Sampling Strategy

Purposive sampling is used for this study, where units of analysis will be selected based on the contribution they have to answer the research question (Bryman, 2012). Through this method, diversification can be guaranteed within the sample. A type of purposive sampling is theoretical sampling, which is very suitable for studies with a grounded theory approach according to Glaser and Strauss (1967) and Corbin and Strauss (2015). The goal of theoretical sampling is '*to discover categories and their properties and to suggest the interrelationships into a theory.*' (Glaser & Strauss, 1967).

Interview ID	Position	Sector	Turn-over in 2022 in millions	Profits in 2022 in millions	Average number of employees in 2022	Interview duration in minutes	Face-to-face or online
1	Strategy Reporting Lead	Financial services	937	234	5324	59	Face-to-face
2	Financial Manager	Metal and tech industry	1.258	48.6	734	52	Online
3	Business Planning & Control and Portfolio management	Transport /mobility sector	69.5	2.7	126	46	Online
4	CEO	Food industry	90	2	90	42	Online
5	Director Finance & Legal	Business services	51	2.8	330	33	Online
6	CFO and Sustainability Manager	ICT /healthcare sector	60	8	275	40	Online
7	Financial Director	Institutional financial services	39.5	1.1	119	40	Online
8	CFO	Retail	236	2.1	731	42	Face-to-face
9	Head of Accounting	Transport /mobility sector	41.2	11.9	103	43	Face-to-face
10	CFO	Financial services	343	48.6	2600	46	Face-to-face
11	Group Controller	Medical products and services	65.6	7.4	420	51	Online

Table 1: Overview of Interviewees

A sample is selected from the clientele of the accountancy firm BDO, which provided the first contact with various companies of different sizes, from different sectors, and with differing levels of engagement in CSR-related topics, and implementation activities of the CSRD within the organization. To be able to say something sensible about the organizational effects of the implementation of a non-financial reporting mandate, all firms in the sample must meet the criteria the European Union set for compliance with the CSRD. To fall in the scope of this directive a firm has to meet at least 2 of the 3 following criteria: balance sheet total greater than or equal to 20 million euros; net turnover greater than or equal to 40 million euros; and/or the average number of employees during the financial year is greater or equal to 250 FTE (BDO, 2023). Or the firm in a small-medium sized enterprise and will have to start reporting a year later. These companies can also be used for the study.

Furthermore, the firm had to live up to this condition: the interviewee (informant) needed to be directly involved in the process of implementing the CSRD into the company and developing the non-financial report. Senior managers and partners at BDO helped me to set up interviews with clients that were willing to cooperate with the study. They sent an email to clients that lived up to the preconditions I set including my explanation of the research with me included in the CC. The ones that responded I got into contact with directly to do the remaining arrangements and planning of the interview.

In total 12 executives at 11 different firms were involved in the sample until theoretical saturation was achieved. This is, put simply, adding new cases up until the point where interviewing more does lead to minimal incremental learning because the same phenomena are detected as seen before (Eisenhardt, 1989; Glaser & Strauss, 1967). In Table 1 an overview can be found with information of all interviewees.

3.3.2. Semi-Structured Interviews

For this qualitative exploratory research, in-depth semi-structured interviews were conducted with a sample of firms provided by BDO. Semi-structured interviews according to Gioia et al. (2012) have the goal '*to obtain both retrospective and real-time accounts by those people experiencing the phenomenon of theoretical interest.'* This is fitting with the current study since the main focus is to gain an understanding of the current position of interviewees in the process of adjusting to the CSRD. The 11 interviews that were conducted took place either online through a Teams video call or in real life. When the interview took place online, it was because of the distance or planning issues for the interviewee. Therefore, I opted to be as flexible as I could be. All interviews were conducted in Dutch since that was the mother tongue of all the interviewees, and doing it in English could have limited the conveyance of the experiences of the informants. The average duration of each interview was 45 minutes.

All interviewees were informed that they stay anonymous, but that the information provided in the interview was going to be openly available. All interviews were recorded for the sake of more precise data analysis. Permission to do so was also asked at the beginning of the interview and all interviewees agreed with this.

To ensure that all interviews were comparable and somewhat structured an interview guide was created in the beginning, this can be found in Appendix A. The main topics for which example questions were provided in the interview guide were: first responses to the CSRD; preparations for the CSRD; internal decision-making; stakeholders; opportunities and risks of the implementation of the CSRD; and the future of sustainability reporting. By being guided by these topics, I was able to analyze how companies' first preparatory responses are to a non-financial reporting directive regarding organizational matters, attitudes, and outside pressures. This interview guide was used for all interviews, although slightly adjusted along the way since the method for this study is grounded theory and the process of collecting data is iterative. There is a continuous interplay between the data collection and the analysis. Meaning that the exact execution of the interviews developed as more data was gathered. The data analysis thus started immediately after conducting the first interview to be able to learn from the material provided by the informants. This constant comparison helps with sampling and focusing on the content (Corley & Gioia, 2004).

3.4. Data Analysis

For the data analysis, the Gioia methodology is used which is in line with a grounded theory approach to research. In order to constantly compare the collected data, all interviews were transcribed and coded immediately after each interview had taken place to be able to grasp a first impression of what patterns became visible in the first interviews. Transcription was done with the help of Microsoft Word. Since all interviews were recorded this allowed me to do the first version of the transcription automatically. After which, the text had to be checked and mistakes in the automatic transcription were corrected. To continue the iterative process of conducting interviews the next step that was taken in the data analysis was to do ‘open coding’ of all of the interview transcriptions. Open coding is the interpretation of the data which allows it to be deconstructed analytically (Corbin & Strauss, 1990). The goal of this initial coding is to get an insight into the data by coding it into broad categories that allow for comparison. In this way, similarities and differences can be identified. This was done by going through the transcription and coding elements in very broad terms. This allowed me to reflect on the first interviews early in the process of collecting all the data. In the end, this resulted in approximately 400 initial codes.

When all interviews were conducted and all transcribing and initial coding was done, all initial codes were analyzed and compared again. This time following the method Gioia, Corley & Hamilton (2012) describe. First, a ‘first-order’ analysis was done with the goal of grouping the data into informant-centric terms and codes. Here, the codes must stay as close as possible to what the interviewees have told during the interviews. Then, the ‘second-order’ analysis was done, which turns the ‘first-order concepts’ into more researcher-centric concepts and dimensions. The combination of these two eventually results in a qualitatively rigorous demonstration of the data’s relationships.

To translate the transcribed collected data into codes the software NVivo was used. This is a form of computer-assisted qualitative data analysis software (CAQDAS) that ‘supports codebased inquiry, searching, and theorizing combined with the ability to annotate and edit documents' (Richards, 1999). When drawing on multiple data sources simultaneously, using NVivo can help structure the iterative process of generating, refining, and testing complex theories (Dalkin et al., 2021). This has been found valuable to enhance the robustness and transparency of qualitative research (Bergin, 2011; Dalkin et al., 2021).

To turn the open coding codes into first-order concepts similar codes that explained the same attitudes or behavior surrounding a topic were grouped into quite detailed codes. While doing this I tried to stick as close to the initial answers as possible and kept the questions asked during the interview in mind to ensure that those were still distinguishable to make further coding easier. This resulted in 37 first-order concepts to build further analysis. To draw second-order themes from the first-order concepts a deeper understanding of the collected data was gained by seeing the data in the bigger picture of non-financial reporting. Here, I transformed the detailed concepts into more generic themes that could be related to the literature on the topic. 12 second-order themes were identified. Finally, the second-order themes are turned into aggregate dimensions that assemble the themes into final clusters. This full set of first-order concepts, second-order themes, and aggregate dimensions form the basis to develop a data structure as is shown in Figure 2. This data structure shows how the initial raw data is transformed into themes and the analysis. It gives a schematic overview of what was found in the interviews. The data structure figure does, however, not yet show the relationships between the identified codes. This will be done in a later stage of the research. But it provides a base to draw upon when further interpreting the findings of this study.

It is important to note that in this stage of the analysis, the codes were created in English, while the interviews were conducted in Dutch. There is a chance that within the translation my personal interpretation played a role in the grouping of certain data. However, since all interviews were done in Dutch it was still possible to see where there was consensus and where the patterns differed.

3.5. Data Validation

To increase the validity of the inductive model I have presented above I have confirmed the initial observations with the informants of the study. The first-order concepts with a brief explanation were sent to all 12 informants by email. Requesting them to verify if all significant topics that were discussed during the interview were included in the list of first-order concepts. And if not, provide suggestions of elements to add to the inductive model. 6 informants replied to the email stating that all important elements were included in the list, 3 informants replied with a suggestion to implement a certain topic, and 3 informants did not reply to the request to verify the observed elements. The suggested additions were reviewed and implemented when considered relevant.

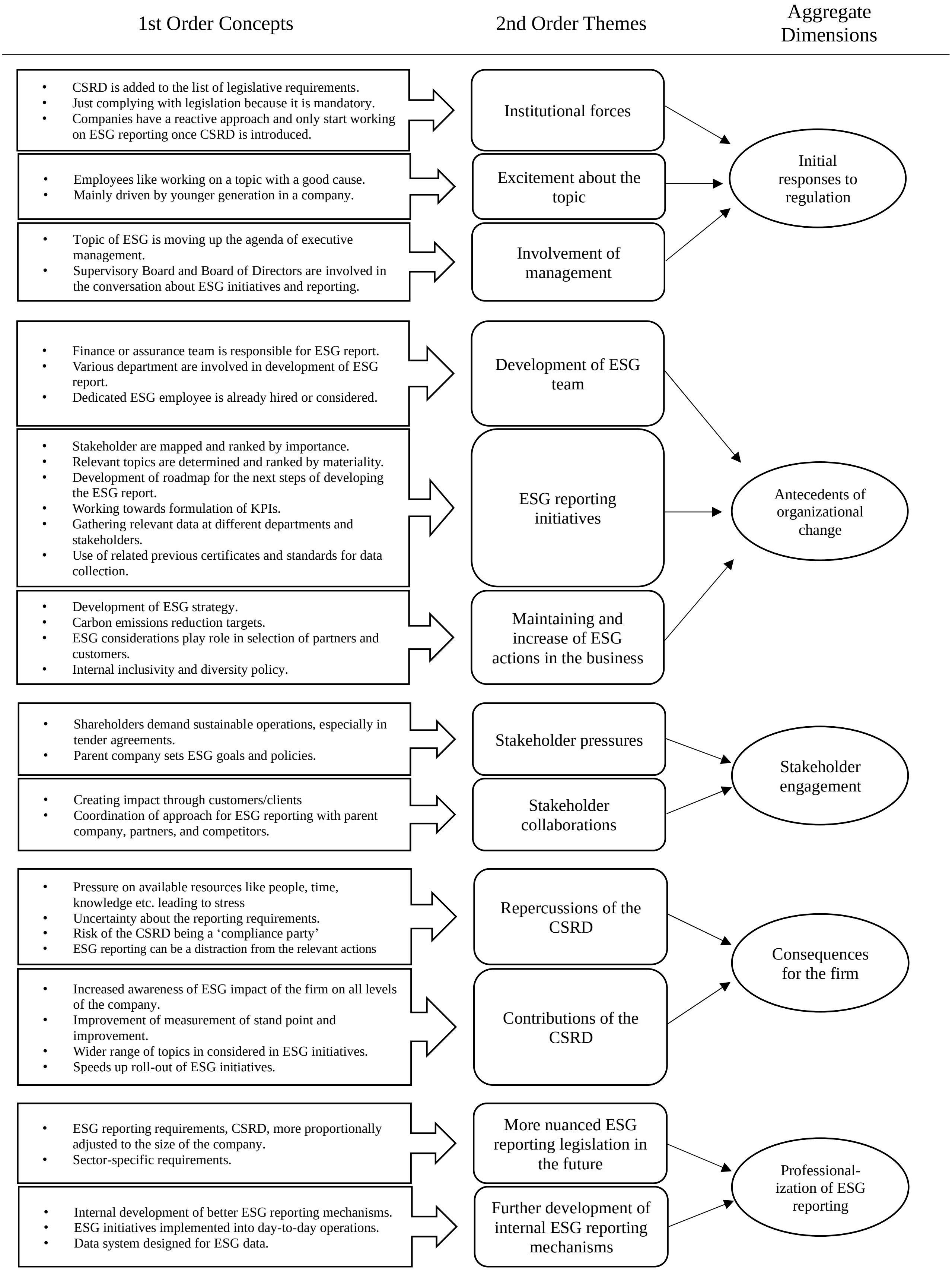

Figure 2: Data structure

4. Results

Based on the semi-structured interviews with executives closely involved with developing the non-financial report within a company and the data structure that followed from the coding of those interviews this section provides an overview of the findings on how the implementation of a non-financial reporting directive, in this particular research the implementation of the CSRD, brings a trajectory of internal change into motion that alters the organizational structure and operations within a firm. The initial responses to the observation that this legislation is going to be put into practice resulted in several antecedents of organizational change that occurred in the firm. These initial responses and antecedents of organizational change go hand in hand with different types of stakeholder engagement surrounding the topic of sustainability. The interaction between these three elements can be seen as the organizational transformation a company goes through in the initial stages of implementing a non-financial reporting mandate. This resulted in several repercussions and contributions of the CSRD. Those consequences are expected to result in the professionalization of ESG reporting in the future.

4.1. Initial Responses to Regulation

Institutional Forces

Initially, the implementation of a non-financial reporting directive comes with many pressures from social institutions for many companies. For example, companies experience pressures from the government, shareholders, the labor market, and especially from their competitors. The CSRD is for many companies added to the list of the many regulatory obligations that they have to comply with. It was also pointed out by the CFO at a financial services company (interview 10) that an ESG report and the initiatives are important to attract new employees: *“I think that employees on the labor market do see this as a kind of hygiene factor, if you don't do that as a company, you are less likely to be considered as a potential employer.”* And that because everyone is doing it, they have to tag along with the trend as well to stay relevant in the market. All these different social institutions force the company and its executives to adjust to the modern-day wishes of the society surrounding the company. The initiatives for ESG topics were to some extent observed before the implementation of the non-financial reporting mandate was put into place, but most companies only started to think about reporting as soon as it became clear that it would soon become an obligation that they could not escape.

Excitement about the Topic

In several interviews, the informant said that the increase in ESG reporting initiatives and general ESG initiatives were perceived as positive. Most people already involved in related projects thought it was a nice thing to work on something with a positive impact.

The financial director at an institutional financial services company (interview 7) mentioned that *“In the core, of course, sustainability, no one is against that. You always have something, but in the core, everyone is happy about that and wants to contribute to it.”* And the head of accounting at a mobility company (interview 9) even suggested that *“...there is a lot of enthusiasm from the company, so many people find it interesting and fun to get started* *with this."* The group controller at a medical products and services company (interview 11) said: *"Everyone finds it interesting and fun... it gives purpose and terms like that."*

Overall, it can thus be said that the employees of a company do have a positive feeling about working on topics related to ESG issues. It gives them purpose in their work and they are eager to learn more about this topic.

Involvement of Management

In 7 out of the 11 interviews, the informant mentioned that a higher management level was involved in the process of implementing the non-financial reporting directive into the company in some way. Examples of this are the CFO being responsible for the final check of the report so this person becomes more involved in the topic, executive management that is more willing to give the right example regarding ESG-related initiatives and behavior, and the topic of sustainability being included into strategy meetings of the board. Also, it was pointed out that the management level of a company can have an important role in carrying the change toward more sustainable operations. As was said by the strategy reporting lead of a financial services company (interview 1): *"The most important thing is that you have the management with you. And that they stand for it and go for it and want it from intrinsic motivation and not from compliance. And if that's the case, then at least you get the feeling, like with Unilever, that it's real. Or that they at least want it to be real and that it may not all work out as well, but at least make the effort."* This was also shown in several other firms that included their Supervisory Board or Board of Directors in the decision-making process of how to approach the roll-out of the CSRD and sustainability initiatives within the company.

4.2. Antecedents of Organizational Change

Development of ESG Team

One of the first activities that was done by most of the informants' companies was to set up a team that is responsible for the development of the ESG report. In some cases, the team also became responsible for the related ESG initiatives, but in other cases, the team solely focused on developing and publishing the ESG report. In 8 out of the 11 interviewed companies, the team was created from people spread through the different departments of the company as pointed out by the head of accounting at a mobility company (interview 9): *"What I'm working on now is actually setting up a core team of different specialists within the company where I fulfill the role from finance, so also, well, what, what will we have to report on later? I want to have someone from the management in it, someone from IT, from sales, from marketing, from partnership. Yes, I'm still sort of gauging that, okay, which disciplines are possible, but also want to be involved in that."* For this, the main reason mentioned was to be able to gather data and insights in all operations. Also, it was mentioned several times that the responsibility of the ESG reports fell under the finance or assurance department. In various cases, a dedicated ESG reporting employee was hired or it was a serious consideration of the company to do so, while other informants pointed out that this was not an option for the company because of the company's size and financial resources.

ESG Reporting Initiatives

When asking what ESG reporting initiatives were already undertaken by the company the amount and depth of the activities that were already done differed quite a bit among the interviewees. There were several activities that kept reoccurring during the conversations. First, the relevant stakeholders were mapped and ranked by importance by many companies mainly to get an insight into what the scope of potential impact is and who they possibly had to get in touch with for the development of this report. As stated by the financial manager of a company in the metal and tech industry (interview 2): "*We are going to start by actually mapping out all stakeholders on a piece of paper with post-its and then also look at what are the most important ones for us."* Second, relevant topics were determined and ranked by materiality in multiple companies. In some cases, this was already done, in other cases, there was a method developed on how it was going to be done shortly. Also, almost all companies referred to a roadmap or plan of action that has been developed or is being developed to guide them and the rest of the team toward the creation of the ESG report. As mentioned by the CFO of an ICT company in the healthcare sector (interview 6): *"I think we should define it as a kind of roadmap for ourselves. Sometime in the course of this year, we really need to have some idea for ourselves of what are the KPIs that we have to report on, for example?"* Other than that, the first efforts were made to collect and track all relevant data that is going to be needed to develop the ESG topics, both at internal departments and at other stakeholders. Another thing that kept reoccurring was that many companies were aware of the demand for KPIs in the CSRD and started developing these linked to the ESG initiatives that they already did and the data they already had in sight.

Maintaining and Increase of ESG Actions in the Business

Most of the informant firms already had some type of sustainability goals set in the company. It was not always translated into measurable KPIs, but the intent was there. 9 out of the 11 companies had some sort of goal regarding reducing greenhouse gas emissions or without having a specific goal did have a policy in place to try to reduce them. Many of the firms linked these greenhouse gas emission reductions to the emissions of the modes of transportation in their supply chain. Another topic for which companies had standing policies was diversity and inclusivity guidelines. Companies also pointed out that due to the coming of the non-financial reporting directive, they would take ESG topics into consideration more when selecting suppliers, partners, or customers. Along these lines, ESG topics were also more often implemented in the strategy of the firm. For example, the business planning and control manager of a company in the mobility sector (interview 3) explained: *"It's about waste, then it's about inclusion, then it's about energy and those will be implemented in all sorts of visible ways within the company over the coming months. We have also partly started with that, taking measures or taking actions to make us aware that you can be even more sustainable. Because that will ultimately be a step towards the annual report."*

4.3. Stakeholder Engagement

Stakeholder Pressures

Most of the companies experienced some kind of pressure from stakeholders to engage in ESG reporting or relevant initiatives. Various companies pointed out that their shareholders demand sustainable operations, especially in the companies that were (partly) funded by government money. Also, in some situations, the customers demanded proof of sustainability initiatives as explained by the finance and legal director of a company in business services (interview 5): *"You also see that our customers are increasingly asking for this. Certainly, the financial institutions that are our customers, which are banks and pension funds. Yes, they should ask for that too. You also have to make statements often. Show that you put energy into it."* And especially in companies that operate using tender agreements, where a job of a client comes on the market and different companies can make an offer as said in interview 11 by the group controller at a medical products and services company: *"You often have to deal with the tendering process and we are increasingly seeing the subject of sustainability recurring in those tendering processes."* Another phenomenon that kept reoccurring was when the company had a parent company and the pressure to report on certain topics related to ESG or to partake in relevant activities came from them.

Stakeholder Collaborations

In some companies not only pressures were experienced, but also initiatives to collaborate with stakeholders to ease the process of developing a non-financial report and complying with the CSRD. In the case of more service-providing companies, like financial services or consulting, they implicated that they saw an opportunity to create a positive impact by helping clients with ESG solutions. In other situations, there were initiatives to to some extent coordinate the process of developing the report from the parent company, together with partners, or sometimes even competitors in the same sector. Like the business planning and control manager of a company in the mobility sector (interview 3): *"We have had an example from other companies in the mobility sector. They have shared a guideline on how they want to deal with a number of topics."*

4.4. Consequences of a Non-Financial Reporting Mandate for the Firm

Repercussions of the CSRD

Several repercussions or challenges were experienced by companies coming along with the implementation of the CSRD. First, 5 out of 11 informants indicated that this implementation resulted in great pressure on the resources of the firm, either financially, or in the light of employees, time, and knowledge. Even when the initial response to the ESG reporting initiatives as possible, the stress that came with it was a burden. As stated in interview 10: *"…but once you get going, it's going to be stressful*." Also, some informants pointed out that there was/is no clear understanding of what exactly has to be reported. This brings some anxiety to the firm. As was stated by the business planning and control manager of a company in the mobility sector (interview 3): *"…it was hard to conclude what we have to do. What do we have to prepare for? What does this mean?"* The majority of the interviewees also stated that they were concerned that the CSRD to become a big administrative burden passing by the goal that it has, to create more transparency and more motivation to operate more sustainably. Since there are many administrative obligations that firms have, especially if it demands as much work as the CSRD, this can be a distraction from actually becoming more sustainable.

Contributions of the CSRD

But every cloud has a silver lining and the CSRD thus also has positive effects within the companies. The most given answer when asking for the contributions that the CSRD gives was that it increases or speeds up the ESG initiatives in a company. This is perceived as something good. It was also stated multiple times that the CSRD served as a conversation starter in management meetings and among involved employees. This observation together with the initiatives implemented by the CSRD also contributes to creating awareness about the sustainability impact the company can have and how employees can contribute. When asked if the CSRD was a conversation starter in interview 5, the finance and legal director of the company in business services responded with: *"Yes, and it starts action too. Things are being set in motion."* Some informants told me that the coming of the CSRD, and the corresponding ESRS, provide the company with a tool to start measuring certain topics and to broaden the range of topics considered under ESG initiatives.

4.5. Professionalization of ESG Reporting

More Nuanced ESG Reporting Legislation

It was also asked what the informants thought the future of ESG reporting would look like. When answering in the light of general developments of ESG reporting and the CSRD two main findings were done. First, the majority of the interviewees shared the thought that the regulations would become more nuanced in terms of what exactly has to be reported and by whom. So, the information the CSRD demands becomes more proportionate to the size of the firm as said by the financial director at an institutional financial services company (interview 7): *"That is also a characteristic of a lot of legislation that I have seen so far, that it will eventually become more proportional."* Also, it was expected that more sector-specific rules would be implemented for the CSRD for it to become more suitable to the impact a company can potentially have on ESG topics depending on the sector they are operating in. Which is actually on the schedule of the EU already.

Further Development of Internal ESG Reporting Mechanisms

The expected developments of ESG reporting in the company internally were also questioned. Informants expected that the mechanisms surrounding the ESG report would become better and further developed over the coming years by better understanding the demands and the process of it all. As was said in interview 7 by the financial director at an institutional financial services company: *"We're in a kind of, what I call development phase, aren't we? So, this will continue to be fine-tuned, huh? There will be more, so also from that legislation, right? There will be more insight. So, I expect this to be further adjusted and fine-tuned in the next 5 or 10 or maybe 30 years."* Another expectation is that ESG initiatives and policies are going to be further implemented into the day-to-day operations of the firm. More policies will be realized and it will be carried by more people than just the team responsible for it currently. It will

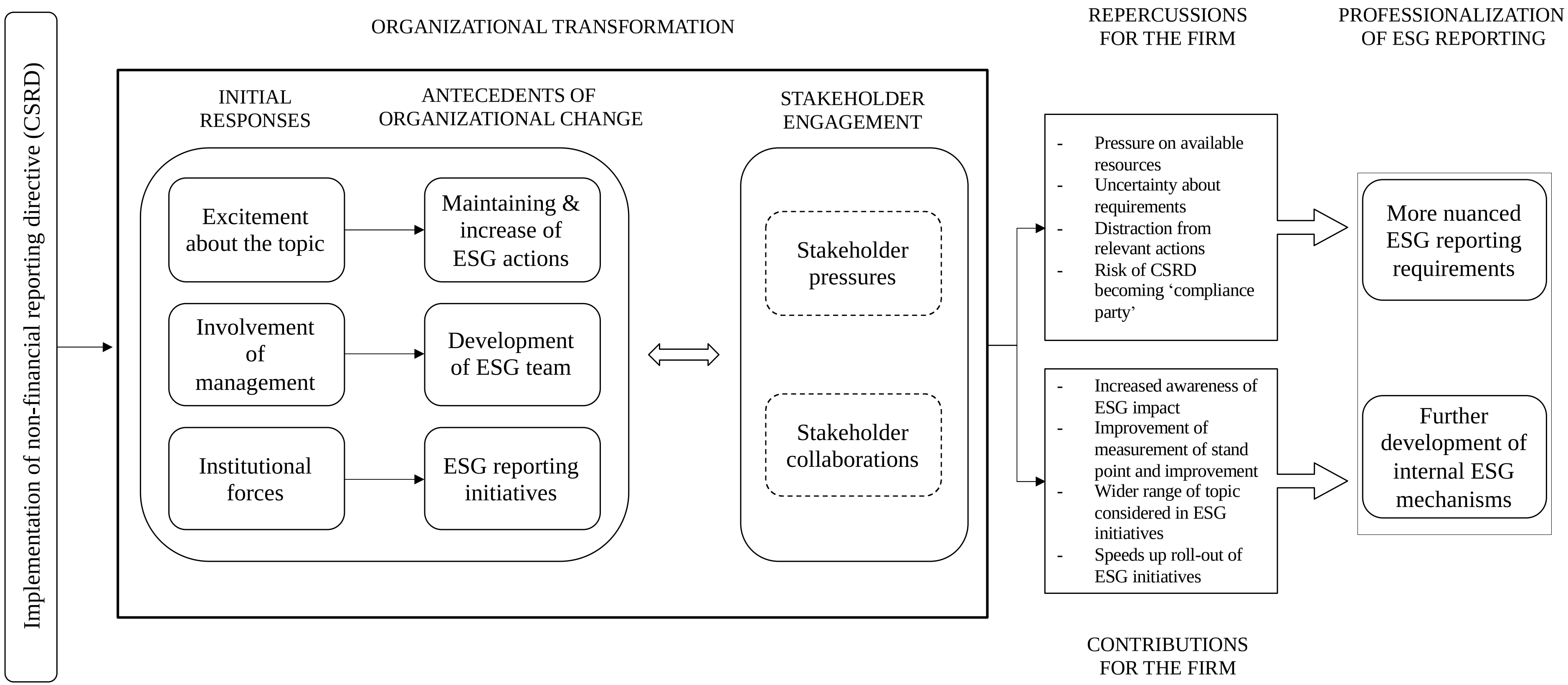

Figure 3: Model of organizational responses to non-financial reporting mandate

potentially play a bigger part in decision-making regarding deals with partners, new contracts, investments, etc. Also, because, three informants point out, it could start having an impact on the processes that are used by banks, insurance companies, and stock markets.

4.6. Model of the Interrelationships

The interrelationships between the different observed elements are presented in a model (Figure 3). The implementation of a non-financial reporting directive, in this case, the CSRD, has an effect on the organizational structure and operation through various elements. The implementation of the CSRD has provoked an initial reaction within companies. What stood out in the results are three initial reactions formulated in the model: excitement about the topic; involvement of management; and institutional forces. These initial emotions and actions led to various antecedents of organizational change following the implementation of the CSRD, which were captured in three categories: development of an ESG team; ESG reporting initiatives; and the maintenance and increase of ESG actions in the business. It was found that these initial responses and antecedents of organizational change have a mutually reinforcing relationship with stakeholder engagement with the firm in the form of stakeholder pressures and stakeholder collaborations. Together these three aggregate dimensions can be seen as the organizational transformation that follows from the initial implementation of a non-financial reporting directive. This resulted in several repercussions and contributions of the CSRD.

Based on these consequences the informants expected further professionalization of ESG reporting to happen in the future. This professionalization was observed from the point of view of the company's own business and ESG reporting in general. The most outstanding ones were more nuanced ESG reporting legislation in the future and further development of internal ESG reporting mechanisms.

5. Discussion and Conclusion

5.1. Discussion

Within the model presented in Figure 3, several prior research on ESG reporting was recognized and added on. The findings do suggest that the implementation of a non-financial reporting mandate results in more ESG activities. Companies try to improve their initiatives to be able to publish a report that says something positive about the firm. They seem to be viewing the ESG report as something they could be valued upon and therefore efforts are made to be able to show that they care about such topics. As was also found by Fiechter et al. (2022) companies showed an increase in ESG activities already far before the entry-into-force date of the directive. It was also shown earlier that the development and publication of a non-financial report drive sustainability changes in a company (Christensen et al., 2021; Lozano et al., 2016). This does also hold for the findings in this study. Learning effects, the increased advantage of signalling a commitment to CSR transparency, and stakeholder pressures are several explanations for this response before the entry-into-force date of the mandate (Fiechter et al., 2022). Some explanations were also found in the results of this study. Stakeholder engagement, as stakeholder pressures and stakeholder collaborations, occurred in the findings. This proves that the executives of a firm do view the company as a connection of the relationship between different stakeholders that all have a stake in the operations of the business (Freeman, 2010). When it comes to non-financial reporting this is perceived to be valuable when all relevant stakeholders are considered (Hörisch et al., 2020), as is thus done through these different forms of stakeholder engagement. In the interviews, it was suggested that the value that different stakeholders might put on the details that are revealed in an ESG report could affect the company. Therefore, it was perceived as important to showcase the positive initiatives in the report. Besides that, the findings also found proof of 'learning effects' as a motivation for starting CSR activities before the entry-into-force date of the mandate. Informants describe a learning process and the expectation for the future to further professionalize, develop, and 'finetune' the ESG mechanisms over the coming years. This is in line with the perspective that sustainability can be a catalyst and direction for organizational learning (Hermelingmeier & Von Wirth, 2021) that happens over time and across stages (Crossan et al., 1999). Companies also start to adjust their investment decisions (Shroff, 2017) because ESG considerations are taken into account more and more when looking at the most important returns of investment beyond the financial ones. However, the findings suggest that such changes, which do not necessarily have a financial benefit for the firm directly, do only start to appear in significant amounts now that the non-financial reporting mandate has been announced. This shows that executives in a company generally have a reactive attitude when it comes to sustainability initiatives (Matten & Moon, 2008). The findings suggest that a main struggle in the adjustments that the company makes in order to implement the non-financial reporting mandate is the limitations in resources, which makes it hard to spend enough time gathering information and setting up the project. The resource-based theory explains why some companies gain a competitive advantage by being a frontrunner in the area of ESG reporting since it claims that if a company has resources that are valuable, rare, imperfectly imitable, and hardly substitutable it can benefit from those resources (Barney, 1991). But since many of the firms showed a reactive attitude, this might be linked to the lack of resources related to the work that comes along with the development and publication of a non-financial report. A while back it was already found that integrated reporting, a form of non-financial reporting, was becoming institutionalized (Higgins et al., 2014) meaning that managers would start to perceive it as something that is expected by the social institutions surrounding the business. The findings of this study also suggest that executives see this as something that can no longer be ignored in the day-to-day operations of the firm and do expect it to become even more integrated and professionalized during the coming years. The development of cross-organizational professional networks, where new models quickly spread, is one aspect of professionalization that might result in isomorphism (DiMaggio & Powell, 1982). This could possibly be seen in the further implementation and professionalization of the CSRD too.

The model presented in Figure 3 added to all of this by combining various disciplines of organizational studies to be able to understand the process that a company goes through towards publishing a non-financial report. The findings suggest that the non-financial reporting mandate offered a tool for the executives by which they could improve their measures for the related data. This did not only allow for the production of a better, more structured, and clearer ESG report, but it also ensured that all relevant topics would be considered beyond the evident subjects such as the measurement and reduction of greenhouse gas emissions, waste reduction, and diversity and inclusivity policies. The reporting standard offered with the mandate seemed to have already started improvement of the completeness of the future ESG reports. Also, a key element that kept returning in the analysis of how the implementation of a non-financial reporting directive led to changes in the organization structure and operations of a company was the increased awareness that it brought throughout all levels of the firm. To start, the findings suggest that the higher management and board levels of the firm were included in the decision-making process of the plan of action for the implementation. This had a noticeable effect in other parts of the company as well, most likely because of the exemplary function of management. Moreover, the findings showed that in many organizations the ESG reporting team was formed by forming a team that was a combination of employees from different departments to be able to join information from all parts of the business. On these occasions, the awareness around the topic was increased on all different levels of the firm. All in all, the model provides insight into how several previously studied topics correlate within the process of developing a mandatory non-financial report.

5.2. Implications

One of the managerial implications of this study is that it can help managers improve their processes related to the implementation of non-financial reporting strategies in the company. Also, through this study, they can gain insight into how their peers have approached this change in reporting legislation so far. On top of that, companies that have not yet started to prepare but will have to start developing and publishing non-financial reports in the future will benefit from this research. It will allow them to make well-considered decisions about their implementation process, which can save time valuable time and financial resources. In addition, this study has the possible consequence that another side of the implementation process of the non-financial reporting mandate can also run more smoothly. It is the case that accountancy organizations must check this information and processes and systems must also be set up to be able to do so. The insight into the first ESG reporting initiatives can help them in this preparation. It can also provide insights into which topics their customers may still need help that they can and may offer.

This study also has implications for society, since it concerns social values and environmental matters. Those will, in the end, affect all people personally, since the goal of the implementation of the CRSD, and potentially other non-financial reporting mandates in the future is to create more transparency about businesses' operations. This will make it easier for companies to be held accountable for their actions and effects on people's day-to-day lives.

5.3. Limitations

It turned out that due to the timing of this research, many firms were in the very early stages of implementing the non-financial reporting mandate into their company. A more complete analysis of the preparatory process and the changes within the firm could have been done when this research was done in a later stage of the adjustments. For example, immediately after the publication of the first official non-financial report under the CSRD would have allowed the researcher to delve a little deeper into the process. This would have also allowed comparing the published non-financial reports of the companies in the sample which could give insights into the quality and completeness of the report. This could be included in future research. Also, all interviews that were conducted in this study took place in the Netherlands with Dutch executives. The transferability of the study could be improved if firms from various European countries were included in the study. Next to this, it could be the case that there is a slight bias among the informants that participated in this research. One of the results was that there was enthusiasm for ESG topics in the companies. There is a possibility that companies that are more enthusiastic about this topic were more likely to agree on doing an interview for a study that entails this topic. The study involved companies from different sectors, but the sample was too small to draw any conclusions about the differences among these sectors. Therefore, a suggestion for future research is to conduct a similar study with a larger sample in which the different sectors are more widely represented. Similarities and differences between sectors can then also be identified. A more extensive study at a later stage of this process could add insights into which of the mentioned changes in this study were implemented and seen in the published non-financial report, on the differences and similarities among sectors and firm size.

5.4 Recommendations for future research

The nature of this study was highly exploratory since limited former research was done about the organizational effects of mandatory non-financial reporting, especially of this magnitude since it that was simply not implemented before. Therefore, this study can serve as a foundation for future research. It could build on the organizational changes that were found and do more in-depth research on how these phenomena function in the organizational transformation process. For example, it could be studied how the team development for ESG reporting differs among companies and what is the most effective strategy for this. Also, research can be done considering what exact role different types of stakeholder collaboration plays. Another topic that could be studied in the future is how higher management and board layers of a company are included in how different levels of inclusion affect organizational changes.

I would recommend future researchers to use a bigger sample when investigating this topic to increase the transferability of the research. A bigger sample also allows for a comparison of companies in different sectors and different countries. On top of this, a contribution to this study would be to do similar research when the CSRD is fully implemented and the first ESG reports have been published. It could be valuable to observe the companies at multiple moments in time where the state of preparations and organizational transformations is analysed. In this manner, it would be possible to track the entire change process in an enhanced manner and see what it led to in the end.

5.5. Conclusion

To conclude, the main research question *“What are companies’ organizational responses to the implementation of a non-financial reporting mandate?”* is answered by looking at the model, shown in Figure 3, that was developed in this study. It shows the initial responses and antecedents of organizational change within an organization occurring when an alteration in reporting legislation like this happens. A combination of excitement about ESG topics, involvement of the upper management and board layer of the firm, and institutional forces demanding a company to adjust to sustainability-related wishes lead to various actions. These actions contain, an ESG reporting team is being developed often with people from different departments within the organization, the first ESG reporting initiatives are rolled-out, and while this happens current ESG actions are maintained but also elaborated to be able to report about them once the directive comes into force. This interacts with different forms of stakeholder engagement. These first steps of implementing ESG reporting into the business have some consequences for the firm. The repercussions include pressure on available resources, the risk of the focus being too much on the reporting and less on the actual ESG activities, and also it was found that there is uncertainty around the reporting requirements. The contributions were among others the increase in awareness, and ESG activities, and this all appeared to be accelerated. Also, because of the implementation of a reporting standard a wider range of topics was considered and measurements improved. Further professionalization of the CSRD was expected by executives.

All data was gathered with the cooperation of executives in firms that are currently dealing with the first stages of this implementation and were therefore very close to reality. Since this study was of exploratory nature in the future these initial stages of implementation could be researched more focused on specific parts in the future. Also, repeating a similar study just after the first non-financial reports have been published would allow for more sources of comparison between companies.

Overall, this study contributes to creating a better understanding of how companies implement ESG initiatives and the reporting on those in the company. Struggles and valuable additions are revealed which could help researchers to better understand what is happening in an organization that deals with changes related to sustainability. Hopefully, this research can serve as an aid to better develop ESG reporting mandates and help them reach the desired goal of creating more transparency about the operations of the firm in a way that works most efficiently for both the organization as well as its stakeholders.

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7. Appendices

Appendix A - Interview Guide

Introduction

- Greetings
  - Introduce myself
  - Explain about my study and thesis research in the organizational effects of the implementation of an ESG reporting mandate.
  - For this study I will ask questions regarding the strategy and approach towards implementing this new reporting legislation into your company.
- Permission for recording
  - Ask whether the interviewee is okay with a recording of the interview in order to help with the transcription of the interview.
- Study Identifiers
  - I will not use the company name in the study and anything that is said in this interview will solely be used for the sake of this research.

start recording

1. Who are you?
   - Ask who the interviewee is and what his/her role is in the company and the implementation of the CSRD?

Main Topics

First responses

2. Have you started preparation for the CSRD? What have you and your company already done in preparation for the CSRD?
3. Did the company report anything on these topics before? If so, to what extent?
4. What was the response within the organization to the new regulations around sustainability reporting?

Preparations

5. How has the organization already prepared for the transition to the new reporting requirements? (in detail)

   What exactly has already been done?

   What activities have taken place?

   What does the team look like? Who is responsible?

   What will it look like in the future?
6. Have there been any changes in the IT systems to be able to collect and analyse this information?
7. What internal mechanisms have been put in place to ensure smooth implementation of the new reporting requirements?
8. What are the key challenges that have been identified in the organization in preparing for the CSRD so far? How have those challenges been addressed?

Internal decision-making

9. How has the mandatory sustainability requirement impacted your organization's internal decision-making process?

Stakeholders

10. How has your organization engaged with external stakeholders in the process of sustainability reporting? Or how is it planning to do so?
11. Has the company experienced any pressures from stakeholders regarding the topic of ESG reporting?

Opportunities and risks of the implementation of the CSRD

12. What trade-offs has your organization had to make between meeting the new requirements and other business priorities?
13. What do you think the further developments of creating this report will look like?
14. What is the main objective/goal that the company wants to reach by complying with the new reporting mandate?
15. In what regards do you expect the company to benefit/suffer from this new legislation?
16. What will be the biggest change internally for company X?

The future of sustainability reporting

17. How do you see the CSRD and ESRS evolving and impacting your organization's sustainability reporting in the future?
18. Does the company expect to be able to comply with the legislation from the first moment?
19. What are the key challenges and opportunities your organization anticipates in continuing to improve its sustainability reporting?

Closing

20. Is there anything else you would like to tell or ask me about this topic?
21. Thank you sincerely for taking the time to do this interview with me.