A Historical Overview of Non-Financial Reporting

Stanislav Voráček[1]

[1]*CTU in Prague, Faculty of Civil Engineering, Department of Construction Management and Economics, Thákurova 7, Prague 6, 166 29, Czech Republic*
stanislav.voracek@fsv.cvut.cz

Abstract

This article provides a comprehensive overview of the evolution of non-financial reporting from its origins to current legislative requirements. The primary focus of the article is an analysis of the historical evolution of non-financial reporting, which forms the basis of current ESG reporting. The analysis is based on the identification of key events, initiatives, and documents from the mid-20th century to the present.

The article systematically maps the transition from ethically motivated responsible investing to a comprehensive regulatory framework, which in the EU is primarily defined by the Corporate Sustainability Reporting Directive, European Sustainability Reporting Standards, and the Corporate Sustainability Due Diligence Directive. A particular focus is placed on the most recent legislative changes related to the Omnibus package. Focusing on the accuracy of legal interpretation, the continuity of time, and conclusions based on facts, the article provides a comprehensive overview of the subject matter. The findings indicate that the incorporation of ESG factors into investment decision-making processes can contribute to the enhancement of financial market stability and resilience, as well as the promotion of long-term sustainable development in the business environment.

Keywords

ESG (Environmental, Social and Governance); non-financial reporting; CSR (Corporate Social Responsibility); CSRD (Corporate Sustainability Reporting Directive); Omnibus package

JEL Classification

G18 Government Policy and Regulation
M14 Corporate Culture; Diversity; Social Responsibility

DOI: https://doi.org/10.14311/bit.2025.01.05

Editorial information: journal Business & IT, ISSN 2570-7434, CreativeCommons license published by CTU in Prague, 2025, https://bit.fsv.cvut.cz/

Introduction

In recent years, the subject of non-financial reporting has been discussed primarily in the context of environmental, social, and governance factors, collectively known as ESG [1]. ESG have emerged as a key benchmark for evaluating the sustainability of companies and their contribution to society. In the context of global challenges such as climate change and the increasing corporate social responsibility, ESG is becoming an increasingly important consideration not only among investors, but also in the political and regulatory environment. The ESG standards now represent a fundamental framework for the adoption of a responsible approach, which links economic targets with sustainability values.

In this context, ESG objectives are also firmly anchored in international initiatives such as the Paris Agreement [2] and the European Climate Law [3], which set out the direction of the world's economies towards climate neutrality and enhanced social responsibility. The European Union has pledged to implement more rigorous regulatory measures in alignment with these objectives, positioning ESG as a vital instrument for achieving sustainability at continental and global levels. These commitments are reflected in legislative measures such as the CSRD (Corporate Sustainability Reporting Directive) [4], which imposes specific obligations on companies to report ESG data transparently.

Nevertheless, a variety of approaches and opinions exist with respect to the concept of ESG, which gives rise to a number of controversial hypotheses and conflicts of opinion. Those who support the implementation of ESG standards argue that this will result in enhanced performance and stability for companies [5]. Conversely, those who are sceptical of this approach highlight potential risks, including increased administrative costs, limited flexibility and an increase in regulatory requirements [6]. Due to this dynamic nature, the legislative environment surrounding non-financial reporting is in a constant state of evolution, giving rise to ongoing changes.

The objective of this article is to deliver an overview of the historical evolution of non-financial reporting, which forms the basis for current ESG reporting. In addition to significant historical milestones and events that led to the formation of ESG reporting in its current form, emphasis is also placed on the current context of ESG issues, particularly in relation to regulatory measures applying to companies within the European Union. The article provides a comprehensive insight into the history and present state of non-financial reporting, as well as an overview of key regulatory changes that impact corporate strategies, investment decisions, and the overall direction of sustainable economic development.

Methodology

Research Design

This article is based on an analysis of directives, regulations, and professional literature related to non-financial reporting and ESG reporting. In this study, the author undertakes a comprehensive analysis of the historical development of ESG in the context of responsible investment and sustainability. The objective of this study is to provide a comprehensive overview of the evolution of environmental, social and governance reporting, from its origins to the current legislative requirements, with a particular focus on the European Union and future developments in this field.

The research is designed to be both qualitative and descriptive, focusing on the analysis of the development of the regulatory framework for non-financial and ESG reporting in the European Union. The theoretical basis of this study is a legal-analytical approach, supplemented by an institutional framework of sustainability. In order to obtain a comprehensive overview, academic and publicly available sources focusing on ESG, European legislation, and relevant reporting standards were analysed. The primary focus of this study was on the Corporate Sustainability Reporting Directive, European Sustainability Reporting Standard, and the Corporate Sustainability Due Diligence Directive, which are regarded as the fundamental pillars of the current ESG regulatory framework in the EU. A particular focus is allocated to the contemporary proposals for revisions within the Omnibus Package of 2025.

Data Analysis

The analysis of the current situation was mainly based on legal documents published in the EUR-Lex database [7], specifically the CSRD (2022/2464/EU), the CSDDD (2024/1760/EU), the ESRS (2023/2772/EU) and proposals for legislative changes within the so-called Omnibus package. The analytical approach combined content and comparative analysis of these documents in order to understand both the formal requirements of individual legal acts and their expected practical impact on business entities.

The research also included a thematic analysis of the historical evolution of ESG and non-financial reporting, based on the identification of key events, initiatives, and documents from the mid-20th century to the present. A historical framework providing the necessary context for understanding the current regulatory setting.

The article was further supplemented by supporting materials published by the European Commission, scientific articles, and web articles addressing the topic of non-financial reporting and ESG. The research focused primarily on the applied aspects of the legislation, such as implementation deadlines, the scope of reporting obligations, the structure of reporting, and the practical impact on the business sector.

Validation and Verification

In order to verify the correctness of the findings, multiple sources were analysed. The research was primarily supported by legislative texts published by European Union authorities, complemented by supplementary documentation. All key documents were obtained from official databases, in particular the EUR-Lex portal [7], and were clearly identified. The selection of additional literature and supporting sources was made on the basis of their professional relevance and timeliness. The transparency of the data used is ensured by systematic referencing of all sources used, the majority of which are publicly available. The article does not use empirical data from business practice, so there is no need for further verification. The article focuses on the accuracy of legal interpretation, the logical consistency of argumentation, and the fact-based conclusions of the interpretation.

1. The Origin of ESG

This chapter introduces ESG principles. The three pillars of ESG are presented, followed by a description of the key milestones in the evolution of ESG that have resulted in the way we perceive ESG today.

1.1. What is ESG?

ESG stands for Environmental, Social, and Governance. These three areas form a comprehensive framework for assessing corporate sustainability. ESG factors represent an investment approach that considers not only financial returns but also the environmental, social, and governance impacts of investments [1]. The concept has evolved in response to the growing demand for more responsible and sustainable business practices. Investors have become increasingly aware that companies with superior ESG policies can deliver greater shareholder value over the long term. ESG investing entails the incorporation of these factors into investment strategies and decision-making processes [8]. It provides support for companies that actively contribute to sustainable development, reduce environmental risks, improve social conditions and implement effective governance structures.

Environmental aspects refer to criteria related to environmental protection such as greenhouse gas management, resource efficiency, nature and biodiversity conservation, waste management and the transition to renewable energy sources [9], [10]. Companies are evaluated on their capacity to reduce their environmental footprint and the extent to which they protect the environment. For instance, they are assessed on their ability to reduce CO2 emissions, switch to renewable sources of energy and reduce waste.

Social aspects refer to the impact of companies on people and communities. This includes key concerns such as working conditions, human rights, forced labour, compliance with data protection, equality, the health and safety of employees, and relations with customers and communities [9], [10]. For instance, it assesses how companies ensure the health and safety of their employees, how they promote equal opportunities and how they contribute to the development of the communities in which they operate.

The governance aspects refer to the way the company is managed and directed. This includes the structure and composition of boards, business ethics, transparency, shareholder rights and control mechanisms [9], [10]. The efficiency and transparency of governance, as well as the presence and adherence to codes of ethics and compliance with legislation, are key factors in the assessment of companies.

These three pillars of ESG assist investors in identifying and evaluating companies that demonstrate the potential for financial return, while also contributing to long-term sustainability and positive social impact. The significance of ESG criteria is increasing in conjunction with the growing interest in responsible and sustainable investment. The preceding list of ESG criteria is merely intended as an introductory overview of the subject matter. Generally, the assessment encompasses a multitude of ESG aspects, which may also differ based on the reporting framework employed.

1.2. History of Non-Financial Reporting

The concept of responsible investing started to gain prominence in the 1950s, when investors began to consider social and ethical issues in their investment decisions. One of the earliest adopters of the term CSR (Corporate Social Responsibility) was Howard R. Bowen in his book Social Responsibilities of the Businessman from 1953 [11]. In this publication Bowen presents a discussion of business ethics and social responsibility within the context of strategic planning and managerial decision-making. The book therefore established the foundations for today's non-financial decision-making, particularly in the areas of S and G. An illustrative example of socially responsible investing is the actions of investors during the anti-Apartheid movement in South Africa [8], where many investors withdrew their investments from companies doing business with that country in protest against its racial policies. The term CSR is frequently confused with ESG. Although ESG criteria are based on, among other things, the original concept of CSR, whereas ESG seeks to improve defined criteria, CSR is a voluntary activity that serves to enhance a company's reputation and can include any noble act (e.g. philanthropy, charity or support for voluntary, non-profit or ethnic associations).

An escalation in public interest in environmental issues was observed during the 1970s. This dynamic shift in perspective culminated in the first globally significant events. The first Earth Day [12] was held in April 1970 in the United States, initiated by Senator Nelson. The event mobilised over 20 million individuals, who expressed their discontent with the ongoing issues of air, water, and soil pollution. This powerful driving force resulted in substantial legislative changes and established the foundations for the global environmental movement. Two years later, in June 1972, the first major international UN conference on the environment took place – the Stockholm Conference [13]. An international conference of representatives from 113 countries resulted in the adoption of the Stockholm Declaration [14], which delineated the principles of global environmental cooperation and established the United Nations Environment Programme (UNEP). It is evident that both events contributed significantly to the perception of environmental issues as a key component of social and economic development.

The 1980s witnessed the development of environmental initiatives, including the Responsible Care programme [15] in the chemical industry, which aimed to enhance the environmental, health and safety aspects of companies' operations. This was also the period during which a significant number of funds were established with the specific objective of measuring and reporting on the positive environmental impact of their investments. Furthermore, the concept of sustainable development was initiated and subsequently promoted. The concept gained significant traction in 1987 with the publication of the document Our Common Future [16]. The document, also known as the Brundtland Report, is considered to be a turning point in the world's view of environmental policy. The publication of the report led to international summits and rapid developments in the field of sustainable development.

The 1990s brought a fundamental shift in the understanding of global responsibility for the environment and sustainable development. The United Nations Conference on Environment and Development, also known as the "Earth Summit", which was held in Rio de Janeiro in 1992 [17], provided a significant driving force. The primary outcome of this meeting was the establishment of Agenda 21 [18], representing the first comprehensive global framework that integrates the environmental, social, and economic dimensions of sustainability. The document, entitled Agenda 21, delineated the objectives and metrics that were to guide nations towards sustainable development in the 21st century. Subsequent to this, in 1997, the Kyoto Protocol [19] was established, signifying the onset of the first international agreement obliging developed countries to adhere to legally binding targets for the reduction of greenhouse gas emissions. The Protocol, which came into force in 2005, established the foundations for international climate policy and introduced mechanisms such as emissions trading. Moreover, in the late 20th century, ESG began to be institutionalised. Major organisations, including the MSCI (Morgan Stanley Capital International World Index, [20]), the GRI (Global Reporting Initiative, [21]) and the CDP (Carbon Disclosure Project, [22]), initiated the development of standards and methodologies for measuring and reporting ESG factors. This trend has resulted in companies becoming more systematic in their disclosure of environmental and social impacts.

The year 2004 represented a key milestone with the publication of the "Who Cares Wins" report [5]. The report was prepared by the UN Global Compact in collaboration with a number of major financial institutions. The document emphasised that the incorporation of ESG factors can facilitate a more sustainable and profitable business model. The recommendations outlined in the report have been crucial in popularising and institutionalising ESG within the investment community and have made a significant contribution to the development of responsible investment. Overall, the document highlights that the integration of ESG factors into investment decision-making will contribute not only to the strengthening and resilience of financial markets, but also to the sustainable development of companies.

Since 2004, ESG has become a mainstream concept. With the support of the UN, the PRI (Principles for Responsible Investments, [23]) were launched in 2006, providing a global framework for incorporating ESG factors into investment analysis and decisions. There has been a notable increase in the incorporation of ESG criteria into investment strategies, particularly in light of the growing body of evidence (for instance [24], [25]) demonstrating the positive impact of ESG on financial performance.

From 2010 onwards, ESG has constituted a significant and influential element of the financial world. An increasing number of regulations, including the EU's NFRD (Non-Financial Reporting Directive, [26]) from 2014, have compelled companies to adopt a more transparent policy regarding the disclosure of their ESG data. Investors, including major institutional investors, have begun to consider ESG factors as an integral part of risk and opportunity management. Recent initiatives, such as the European Green Deal [27] of 2020 and commitments to achieve zero carbon emissions, have underlined the importance of ESG factors for the future of the economy and investment. Consequently, ESG has become not only an ethical and sustainability issue, but also a strategic business advantage for companies and investors around the world.

In recent years, there has been a notable increase in the frequency with which ESG is referenced in the context of mandatory regulation. This trend is mainly driven by the European Union's initiative to implement more rigorous disclosure requirements for non-financial information. The primary objective of the European Union is to establish a reporting framework through which companies will report ESG-related data in a structured format. As a consequence, the CSRD [4] came into force in 2023, thereby obliging companies to report data in accordance with the ESRS [28] (respectively [29]) reporting framework from 2024 onwards. Given the focus of this chapter on history of nonfinancial reporting, the specifics of the CSRD and ESRS are discussed in greater detail in the following chapters.

The preceding analysis demonstrates how the concept of ESG has evolved from a marginal notion of ethical investing to a fundamental pillar in modern financial decision-making, which is part of the corporate strategy of most companies today. The subsequent chapter delineates the present legal frameworks that govern ESG reporting. An overview of all the key historical milestones that have led to the development of today's mandatory legislation is provided in Figure 1.

1.3. Core Agreements and Commitments of the European Union and the United Nations

In conclusion, the events described in the preceding chapter have resulted in three significant initiatives that shape climate policy at the global, European, and national levels in the present day.

Paris Agreement

The Paris Agreement [2], adopted in 2015 (signed in 2016) under the UNFCCC (United Nations Framework Convention on Climate Change), is an international agreement that aims to limit global warming to less than 2 °C above pre-industrial levels, with the objective of limiting the temperature increase to a maximum of 1,5 °C. The agreement obligates all signatory states to reduce greenhouse gas emissions. Furthermore, it requires countries to establish national reduction targets and report transparently on their progress towards these targets. Additionally, the agreement binds developed countries to provide financial support to developing countries, with the objective of mitigating the impacts of climate change.

European Green Deal

The European Green Deal [27], which was presented by the European Commission in December 2019 and adopted in 2020, represents an ambitious plan to transform Europe into the first climate-neutral continent by 2050. The strategy encompasses a comprehensive range of measures designed to reduce greenhouse gas emissions, advance the utilisation of renewable energy sources, enhance energy efficiency and safeguard biodiversity. The agreement incorporates the Fit for 55 package, which aims to reduce greenhouse gas emissions by 55% (in comparison to 1990 levels) by 2030. Additionally, the agreement encompasses the Just Transition Fund (JTF), which aims to provide financial and technical support to regions most affected by the transition to a low-carbon economy.

European Climate Law

The European Climate Law [3], which was adopted in June 2021, provides a legal basis for the European Union's goal to achieve climate neutrality by 2050. This legislation represents a vital component of the European Green Deal, establishing key targets for the EU to achieve, including a goal of reducing greenhouse gas emissions by 55% by 2030 (Fit for 55) in comparison to 1990 levels. The objective of the legislation is to guarantee that all member states of the European Union contribute to the specified targets, and that all economic sectors do so as well. The legal commitment thus ensures that the transition to climate neutrality is both permanent and irreversible. Details of the current status of the adoption of national climate laws by all 27 EU Member States can be found on the European Commission's website [30].

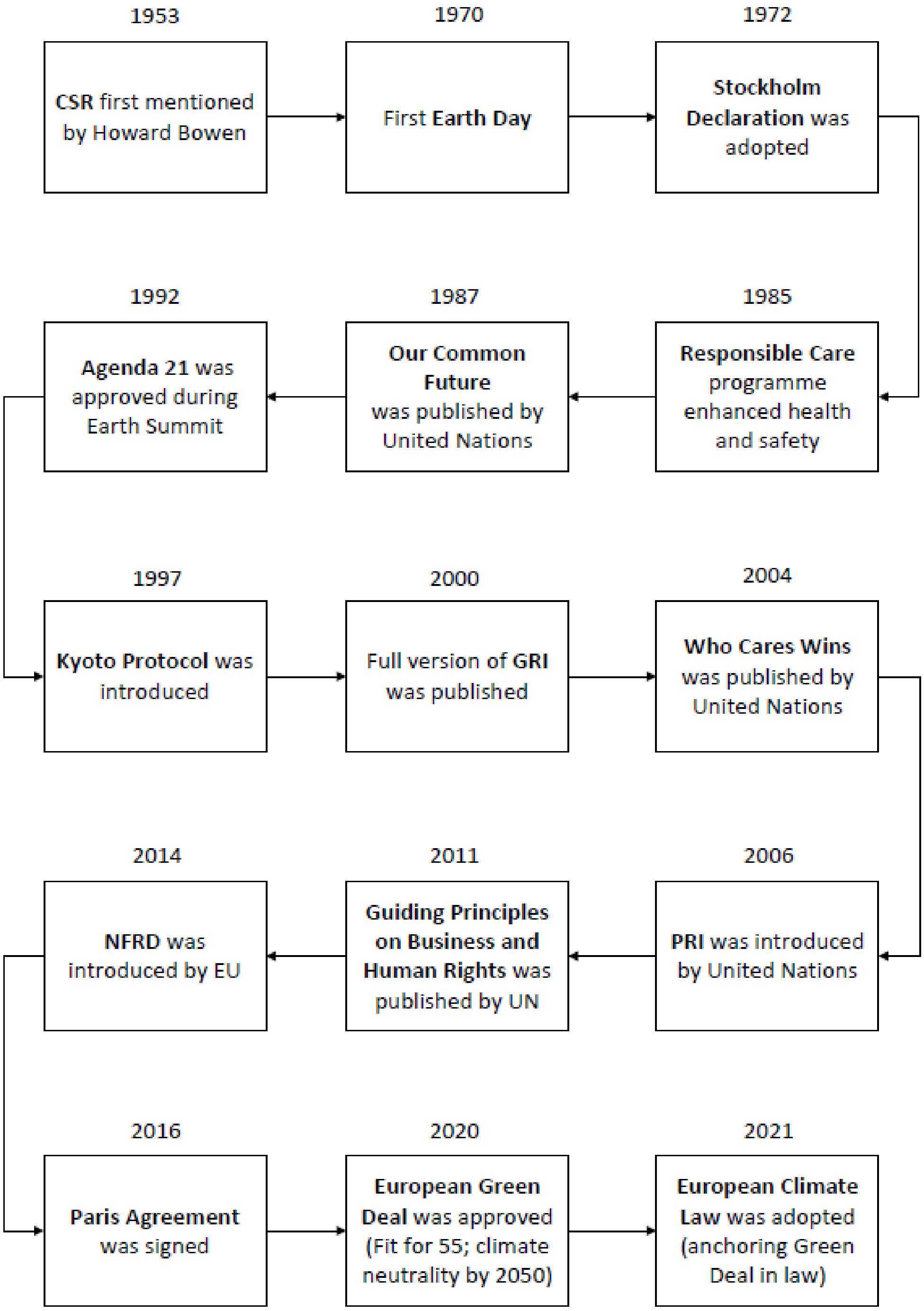

Figure 1: ESG timeline part 1: Historical milestones in evolution of ESG (source: author; created using MS Visio *[31]***)**

2. Contemporary state of ESG Reporting in EU

The preceding chapter offered a synopsis of the fundamental principles of ESG, situating the present circumstances within a historical context. This chapter focuses on the currently applicable requirements for ESG reporting (note: applicable at the beginning of 2025) within the European Union.

Given the EU and UN commitments in the previous chapter, it was necessary to put in place an appropriate legislative framework to monitor progress towards the targets set over time. Current legislation and guidelines on ESG in the EU are currently governed by the CSRD (Corporate Sustainability Reporting Directive). This directive [4] was adopted by the European Parliament and the Council of the EU in 2023 and replaces the previous NFRD [26] of 2014. As stated in Article 5 of the CSRD [4], EU Member states were required to transpose the main elements of the CSRD into their national legal systems by 6 July 2024. The implementation of the CSRD therefore creates a reporting obligation for companies operating on the territory of the EU.

2.1. Implementation of the CSRD

On 22 April, the European Commission published a proposal for a "Corporate Sustainability Reporting Directive" [32], which aimed to revise the NFRD [26] by introducing detailed EU standards for sustainability reporting and extending the scope of sustainability reporting to a wider range of companies. The objective of the proposal was to guarantee the availability of structured, publicly accessible information regarding the risks to companies posed by sustainability issues, as well as the impact of companies on society and the environment. A modified version of the European Commission's proposal [4] was adopted by the European Parliament and the Council of the European Union at the end of November 2022. The text was published in the Official Journal on 14 December 2022, and member states were bound by law to transpose it into national legislation by 6 July 2024. In the Czech Republic, the Ministry of Finance bears the responsibility for implementation. The Ministry of Finance will propose the method of incorporation of these requirements into national law. The subsequent amendment to the law will determine, for example, who is qualified to provide an audit in the Czech Republic or whether there will be penalties for non-compliance. The new Accounting Law is expected to enter into force on 1 January 2025 at the earliest.

As stated in the draft of the CSRD of 2022 [33], the reporting obligation were applied to the first group of companies from 1 January 2024. These are large companies with public interest entities and more than 500 employees. At the same time, these are often companies that were already subject to the NFRD [26] and were already reporting ESG data. However, they now have to start reporting in a structured way under the CSRD. The first disclosure of these reports will take place in 2025. From 1 January 2025, the reporting obligation will be extended to the second group of companies. According to the draft directive [33], these are large companies fulfilling at least two of the following three criteria: 250 or more employees, an annual turnover of more than €40 million or a balance sheet total of more than €20 million. The reports will be published in 2026. Subsequently, from 1 January 2026, the reporting obligation will apply to SMEs (small and medium-sized enterprises). However, these entities may request a deferral of the reporting obligation until 2028. In view of the evolving regulatory framework, it is highly possible that the above reporting requirements may be adjusted. In any case, all companies obliged to report under the CSRD are required to report according to the new European Reporting Framework called European Sustainability Reporting Standards (ESRS, [29]). For a more detailed description of ESRS, please refer to one of the following subchapters.

Sustainable Finance Disclosure Regulation

The previous section described the current regulatory framework for the corporate sector across all industries. However, it is also worth mentioning the SFRD (Sustainable Finance Disclosure Regulation,

[34]). The SFDR is a regulation on sustainable investment disclosure. More specifically, it is a EU directive on sustainability data reporting for the financial sector (banks, insurance companies, investment funds, etc.) that comes into force in 2019. The main objectives of the SFDR are to ensure greater transparency of financial flows, improve investor information and promote responsible business from a sustainability perspective.

Comparison of CSRD and NFRD

For the record, it is also relevant to draw attention to the distinction between the new CSRD [4] and its predecessor, the NFRD [26]. The preceding NFRD of 2014 was applicable solely to large companies (i.e., those with a workforce exceeding 500 employees and public authorities), which were obliged to report on non-financial matters related to the environment, social responsibility, corruption, and so forth. Moreover, the NFRD did not specify the structure of the report nor the structure of the data to be included in the report. The new CSRD has both an extended scope, so that the reporting obligation affects more companies (who must provide the report is discussed in the previous section), but it also requires structured reporting according to ESRS [29], disclosure of ESG risks, objectives, impacts and overall company policy. In conclusion, the scope of the report has undergone a substantial modification. It is no longer limited to the company's internal workforce but now encompasses the entire value chain, which includes all external parties engaged in business activities with the company.

CSRD with Reference to the EU Taxonomy

The EU taxonomy, a classification system developed by the European Union, is reflected in CSRD reporting. The taxonomy defines what economic activities can be considered environmentally sustainable. It is designed to assist investors, companies and other stakeholders in identifying and investing in projects that align with the EU's environmental objectives. The main objective is to achieve climate neutrality by 2050. Additionally, Article 9 of the Taxonomy Regulation [35] outlines six climate and environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

The taxonomy does not merely delineate the requisite objectives; it also delineates the criteria for environmentally sustainable economic activities, as set forth in Article 3 of [35]. These include the obligation to make a substantial contribution to the environmental objectives outlined in Article 9, the obligation to avoid causing significant harm to any of the environmental objectives (DNSH = Do No Significant Harm), a further criterion is to implement the objectives in accordance with the safeguards (for further details, see Article 18 in [35]), and the final criterion is to comply with the technical criteria set out in the other articles of this document.

Considering Double Materiality in the Context of CSRD and ESRS

In addition, CSRD and ESRS introduces the principle of double materiality. This concept of double materiality, as outlined by the ESRS, requires companies to consider two distinct perspectives when assessing the impact of their business activities. The concept of double materiality encompasses both financial materiality, also known as outside-in materiality, and impact materiality, also known as inside-out materiality. The concept of financial materiality is concerned with the examination of ESG risks and opportunities that have an impact on a company's financial performance. In other words, it considers the manner in which ESG factors affect a company's value, profits, risks and long-term sustainability from the perspective of shareholders and investors [36]. In contrast, impact materiality examines the impact of a company's activities on society and the environment. In other words, how a company affects the external world, including the impact of its products, services, production processes and decisions on the environment, communities, employees and other stakeholders [36]. This dual approach guarantees that companies provide comprehensive information in their reports, covering both economic impacts (financial) and wider social and environmental impacts (non-financial) in both directions.

The double materiality approach is therefore becoming a fundamental component of the EU CSRD's non-financial reporting directive, with the objective of ensuring that companies consider both impacts in their sustainability reporting. Notably, not all reporting standards consider double materiality. While the ESRS includes an assessment of impacts in both directions, for example, the GRI standards [37] analyse only impact materiality, whereas the IFRS [38] only consider financial materiality

2.2. Reporting Standards in ESG Disclosure

A reporting framework is a structure or set of standards that organisations employ to report financial and non-financial information regarding their environmental, social and governance impacts. These frameworks [39] assist organisations in measuring and communicating their sustainability and corporate responsibility activities, which is crucial for investors, regulators and other stakeholders. There are numerous reporting frameworks, as can be seen in [39] or [40].

The preceding chapter delineated the EU's legal obligations and the primary directive for reporting ESG data. Focusing on the specific reporting framework according to which ESG data reporting itself takes place, this chapter focuses on the European Sustainability Reporting Standards.

European Sustainability Reporting Standards

The European Sustainability Reporting Standards (ESRS) represent a recent mandatory EU standard that establishes a reporting framework for companies that are obliged to comply with the CSRD [4]. These standards were formally approved by the European Commission in 2023 [29]. Nevertheless, following its introduction in July 2023 (regulation approved on July 31, 2023), the ESRS has undergone several amendments. The initial major amendment was implemented in December 2023 [28] (regulation approved on December 22, 2023), and the final amendment was ratified in April 2024 [41] (correction approved on April 19, 2024). The European Sustainability Reporting Standards (ESRS) mandate consistent and comparable disclosure of information on the environmental, social and governance (ESG) aspects of companies, with an emphasis on double materiality. In order to report comparable, relevant, and reliable information on sustainable development, companies must adapt their ESG reporting in accordance with the ESRS structure. All of the following information is based directly on EU Commission Regulation 2023/2772 and Directive 2013/34/EU of the European Parliament and of the Council.

The directive is organised into three main categories of standards. The first category is cross-cutting standards, which include ESRS 1 and ESRS 2. Cross-cutting standards (ESRS 1 and ESRS 2) establish the general reporting requirements and methodology, including definitions of key terms such as value chain, and provide a framework for disclosing information across topics. The second category is topical standards, including all standards in the areas of environment, social and governance. Specifically, the areas covered include climate change (ESRS E1), pollution (E2), water and marine resources (E3), biodiversity and ecosystems (E4), resource and circular economy (E5), furthermore social topics such as own workforce (S1), workforce in the value chain (S2), affected communities (S3), consumers and end-users (S4), and business conduct (G1). Each category delineates the requirements for the disclosure of impacts, risks, opportunities, and measures taken. The third and final category consists of sector-specific standards. The currently applicable version of ESRS contains a detailed description of cross-cutting standards and topical standards. A detailed description of sector-specific standards should be published in the future, focusing on the individual specifics of each significant sector of the economy.

Standards Underpinning the ESRS

As previously stated in Chapter 1. A number of reporting standards have been developed throughout history of non-financial reporting. Consequently, the ESRS does not represent a forerunner in this domain; rather, it builds upon the foundations laid by preceding standards, incorporating their fundamental components and adapting them for global application, with a particular focus on European requirements. The ESRS has been influenced by numerous standards. Nevertheless, the majority of the information derives from the standards set out by the GRI [21], TCFD [42], and SASB [43].

The GRI Standards are international reporting standards developed by the GRI (Global Reporting Initiative, [21]), an international organisation that focuses on promoting and standardising sustainability reporting. This encompasses reporting on the social, environmental and economic impacts of companies' activities. As mentioned in [37], the GRI has a focus on social impacts and sustainability. It was one of the first initiatives to start reporting ESG data and now provides a comprehensive data reporting methodology for companies worldwide.

The Task Force on Climate-related Financial Disclosures (TCFD, [42]) was an international initiative established by the Financial Stability Board with the aim of increasing transparency regarding climate risks and their financial impact on businesses. The initiative established a framework for disclosure in four key areas: governance, strategy, risk management, and metrics and targets. This framework significantly influenced the formulation of the ESRS E1 climate standard. In 2023, the activities of the TCFD were officially terminated and its principles were incorporated into the IFRS S1 and S2 standards under the leadership of the International Sustainability Standards Board (ISSB).

The SASB represent an international standard for ESG reporting, with a particular focus on financial reporting. As noted in [43], in 2022, the ISSB, which operates as part of the IFRS (International Financial Reporting Standards, [38]), took over responsibility for the SASB. The IFRS are international accounting standards that were developed with the objective of harmonising accounting practices on a global scale. These standards establish the criteria by which companies should report their financial information in their financial statements, with the objective of ensuring its clarity and comparability in global markets. From this perspective, SASB standards are integrated under IFRS to create a global framework for financial reporting. In the European jurisdiction, the EFRAG (European Financial Reporting Advisory Group, [44]) is responsible for the development and recommendation of the IFRS. EFRAG provides advice to the European Commission on the adoption of IFRS in EU legislation and also carries out an assessment of the impact of IFRS on the European economy.

2.3. Corporate Sustainability Due Diligence Directive

The preceding chapters delineated the primary obligations applicable to companies within the European Union. The CSRD was identified as the primary directive that has come into force, obliging companies to report non-financial information. Subsequent to this, a defined framework specifying the structure of the reported information, the ESRS, was also introduced. Nevertheless, it is equally important to take into consideration another directive that is supplementary to the CSRD. The title of this document is Corporate Sustainability Due Diligence Directive, known as CSDDD [45].

The CSDDD is a European Union directive that was implemented in July 2024. The directive obliges large companies to identify, prevent, mitigate, and remedy adverse impacts on human rights and the environment throughout their entire chain of activities. This obligation is applicable to companies with a workforce of more than 1,000 employees and a global turnover of more than €450 million. Analogous to the implementation of CSRD, the obligation to report information under CSDDD is being adopted in stages over the period of several years. The precise criteria and the date of implementation of the measures are specified in Article 27 of the Directive [45].

It is noteworthy that the CSDDD does not function as a direct reporting tool. Instead, it necessitates the implementation of specific processes, including the formulation of a prevention plan, the obtaining of contractors' guarantees, the establishment of monitoring mechanisms, and the development of a strategy for transitioning to a sustainable business model. This business model is to be aligned with the broader objective of achieving climate neutrality by the year 2050. Hence, the CSDDD is a complementary framework to the CSRD and the ESRS. The CSRD provides a framework for the disclosure of relevant information, while the CSDDD defines the specific actions that companies are required to take and the methods by which they should demonstrate their commitment to the cause in order to ensure a significant and positive impact. By adopting this approach, there is an evident shift from a state of basic transparency to actual responsibility in business conduct. The objective of this shift is to enhance the protection of rights and the environment, both within the European context and on a global scale.

2.4. Summary of the Present State of ESG reporting as of Early 2025

The European Union's current legislative framework is extensive in nature, with a focus on business sustainability and the obligation of companies to disclose information regarding their impact on society and the environment. The CSRD plays a fundamental role in this framework, specifying which entities are obliged to report ESG data and expanding the number of companies subject to these rules on an annual basis. ESRS are also closely related to this requirement, and are designed to determine the structure, content, and methodology of ESG reporting. The standards ensure a uniform approach to reporting, based on the principle of double materiality, and reflect the EU's commitments in the areas of climate protection, human rights, and responsible business.

A significant addition to this framework is the CSDDD, which shifts the emphasis from reporting itself to the specific steps that companies must take to manage their impact. The legislation obliges companies to implement due diligence procedures within their value chains and to accept real liability for damages caused by human rights violations or environmental protection principles. The prevailing circumstances therefore indicate a transition in the understanding of ESG. The approach, which was initially voluntary or framework-based, is evolving into a comprehensive system of binding rules. The objective of this evolution is to contribute measurably to the achievement of the EU's climate and social goals. Legislation is no longer merely concerned with transparency; it is evolving towards actual accountability and the capacity of companies to proactively manage their sustainable impact.

Despite the fact that ESG legislation in the European Union appeared to be firmly established and its development mapped out several years in advance, the dynamics of world events and concerns about overburdening the business sector led the European Commission to reconsider its original schedule. This culminated in the formulation of the Omnibus package [46], which was presented in February 2025. This legislative initiative introduces significant changes with the aim of achieving a balance between sustainability and competitiveness for European businesses. The Omnibus proposal entails the postponement of CSRD reporting obligations for companies falling under the second and third waves by a period of two years [47]. Additionally, the CSDDD transposition deadline is postponed to 2027, along with its entry into force, which is scheduled for 2028 [48]. The present study demonstrates that the proposed model will also introduce simplifications in the areas of taxonomy, reporting structures, and value chain obligations. The objective of this package is to mitigate the administrative burden, particularly for small and medium-sized enterprises, without compromising the objectives of the European Green Deal.

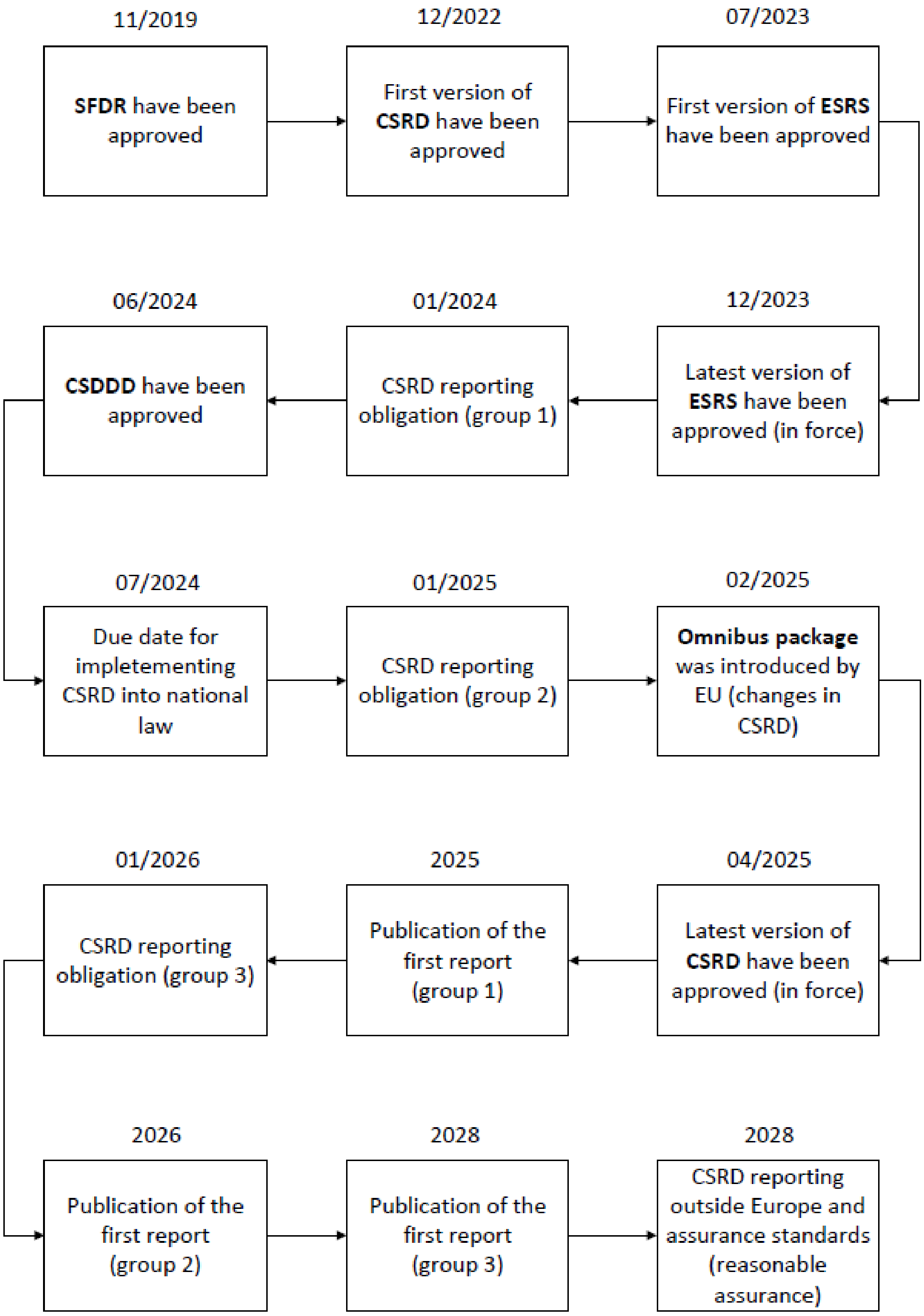

Figure 2: ESG timeline part 2: Present and future milestones in evolution of ESG (source: author; created using MS Visio [31]**)**

3. Upcoming Changes in ESG Reporting

The adoption of the Omnibus package [46] demonstrates that the regulatory framework for ESG reporting is not definitive. Instead, the existing directives and reporting standards are currently undergoing a process of re-evaluation and amendment. A revised version of the CSRD [49] and CSDDD

[50] were published in April 2025, and individual components of the ESRS [29] are undergoing amendments with regard to the feasibility of the established requirements in practical application. The objective of these amendments is to minimize the administrative load, especially for small and medium-sized businesses, while maintaining the sustainability objectives. In addition to the already scheduled postponements and the easing of certain obligations, a simpler structure for reported data can also be expected. Consequently, ESG reporting is expected to undergo a comprehensive optimization in the forthcoming years, in response to feedback from businesses and investors. This will be achieved by maintaining a balance between the necessity for transparency and the need to preserve the competitiveness of the European economy.

3.1. Omnibus package

In February 2025, the European Commission presented a package of legislative amendments, known as the Omnibus package [46], which fundamentally changes the planned development of ESG legislation in the European Union. The motivation behind this action derives from a concerted response to the substantial feedback received from businesses and member states. The feedback highlighted the issue of an overload caused by the rapid implementation of the regulation. The package entails a postponement of significant obligations, including reporting obligations under the CSRD. These obligations are postponed by two years for the second wave of companies, extending the deadline to 2027, and to 2028 for the third wave. Moreover, the implementation of the CSDDD is being postponed, with the transposition process scheduled for completion by July 2027 and the applicable regulations to come into force from 2028. Another significant change is the narrowing of the scope of the CSRD, which effectively eliminates the third wave of companies. The application of reporting obligations is now limited to entities with a workforce exceeding 1,000 employees and a turnover that exceeds 50 million euros or assets that surpass 25 million euros. This will result in a reduction of up to 80% in the number of companies affected, as compared to the original plan [51].

The omnibus package is not solely focused on timelines. The proposal also changes the content of the legislation itself. For instance, it is proposed that the ESRS will be simplified by approximately 30% with regard to both the scope and structure of the reported data. In the area of EU taxonomy, the obligation for companies with a turnover of less than EUR 450 million [51] is to be cancelled, while the requirements for assessing compliance with DNSH criteria are also being relaxed. The amendments also impact the CSDDD. The obligation to terminate contractual relationships with non-compliant suppliers has been replaced with an obligation to suspend contractual performance. Furthermore, the frequency of mandatory audit processes is extended to a five-year period. The package under review can be regarded as an attempt to adopt a more balanced approach, which on the one hand maintains the direction towards sustainable business, but at the same time reflects the need for greater feasibility and proportionality for companies that will implement these new frameworks.

Conclusion

The European Union has developed a comprehensive legislative framework for non-financial reporting, the key elements of which are the CSRD and CSDDD directives, together with the ESRS. This framework establishes the obligation for companies to report comprehensive and structured information on the environmental, social, and governance aspects of their activities. The CSRD defines which entities are subject to this obligation, while the ESRS specifies the format and content of the information to be disclosed. The CSDDD then complements this framework with aspects of due diligence throughout the value chain and shifts the emphasis from mere transparency to actual impact management. In summary, ESG reporting in the European context has evolved from an initially voluntary approach, rooted in ethical investing and corporate social responsibility, into a binding and systematic regulatory framework.

However, recent events have demonstrated that the implementation of the new regulations is progressing more slowly than was originally planned. This is particularly problematic for small and medium-sized businesses, which are struggling to meet the demands of regulatory requirements in a timely manner. The Omnibus package represents a legislative response to this situation, introducing changes in the form of postponements, narrowing the scope of obligations, and reducing the administrative burden. In light of these changes, it can be hypothesised that ESG reporting will undergo further review and refinement in the forthcoming years, with an emphasis on efficiency and practical feasibility. This also fulfils the original ambition of ESG: to link responsible business with long-term economic stability in a dynamic global environment that constantly brings new challenges.

References

[1] J. Hill, Environmental, Social, and Governance (ESG) Investing. Elsevier, 2020. doi: 10.1016/C2018-0-03866-9.

[2] European Union, PARIS AGREEMENT. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22016A1019(01), 2015.

[3] European Parliament and Council of the European Union, Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (‘European Climate Law’). https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R1119, 2021.

[4] European Parliament and Council of the European Union, Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464, 2022.

[5] United Nations Global Compact, “Who Cares Wins: Connecting Financial Markets to a Changing World,” 2004. Accessed: Jul. 03, 2024. [Online]. Available: https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf

[6] M. Friedman, “The Social Responsibility of Business Is to Increase Its Profits,” in Corporate Ethics and Corporate Governance, Berlin, Heidelberg: Springer Berlin Heidelberg, pp. 173–178. doi: 10.1007/978-3-540-70818-6_14.

[7] European Union, “EUR-Lex.” Accessed: Oct. 30, 2024. [Online]. Available: https://eur-lex.europa.eu/homepage.html?locale=en

[8] J. Hill, “ESG, SRI, and impact investing,” in Environmental, Social, and Governance (ESG) Investing, Elsevier, 2020, ch. 2, pp. 13–27. doi: 10.1016/B978-0-12-818692-3.00002-5.

[9] Krantz Tom and Jonker Alexandra, “What is environmental, social and governance (ESG)?” Accessed: Jul. 20, 2024. [Online]. Available: https://www.ibm.com/topics/environmental-social-and-governance

[10] S. H. M. Radzi, N. A. Hamid, and R. F. Ismail, “An Overview Of Environmental, Social And Governance (Esg) And Company Performance,” Nov. 2023, pp. 1111–1122. doi: 10.15405/epsbs.2023.11.90.

[11] H. R. Bowen, Social Responsibilities of the Businessman. University of Iowa Press, 2013. doi: 10.2307/j.ctt20q1w8f.

[12] EarthDAY.org, “THE IDEA FOR THE FIRST EARTH DAY.” Accessed: May 31, 2025. [Online]. Available: https://www.earthday.org/history/

[13] I. A. Baste and R. T. Watson, “Tackling the climate, biodiversity and pollution emergencies by making peace with nature 50 years after the Stockholm Conference,” Global Environmental Change, vol. 73, p. 102466, Mar. 2022, doi: 10.1016/j.gloenvcha.2022.102466.

[14] United Nations, “Declaration of the United Nations Conference on the Human Environment,” Stockholm, Jun. 1972. Accessed: May 31, 2025. [Online]. Available: https://docs.un.org/en/A/CONF.48/14/Rev.1

[15] Cheremisinoff Nicholas P., Rosenfeld Paul, and Davletshin Anton R., Responsible Care. Elsevier, 2008. doi: 10.1016/C2013-0-15522-5.

[16] World Commission on Environment and Development, “Our Common Future,” 1987.

[17] United Nations, “United Nations Conference on Environment and Development.” Accessed: May 31, 2025. [Online]. Available: https://www.un.org/en/conferences/environment/rio1992

[18] United Nations, “Agenda 21: United Nations Conference on Environment and Development,” Rio de Janeiro, 1992. Accessed: May 31, 2025. [Online]. Available: https://sustainabledevelopment.un.org/content/documents/Agenda21.pdf

[19] United Nations Framework Convention on Climate Change, “Kyoto Protocol to the United Nations Framework Convention on Climate Change,” Kyoto, Dec. 1997. Accessed: May 31, 2025. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Akyoto_protocol

[20] MSCI, “Exploring 30 Years of ESG Indexes.” Accessed: Jul. 20, 2024. [Online]. Available: https://www.msci.com/esg/30-years-of-esg

[21] Global Reporting Initiative, “Our mission and history.” Accessed: Jul. 20, 2024. [Online]. Available: https://www.globalreporting.org/about-gri/mission-history/

[22] CDP Worldwide, “About Us.” Accessed: Jul. 20, 2024. [Online]. Available: https://www.cdp.net/en/info/about-us

[23] PRI Association, “What are the Principles for Responsible Investment?” Accessed: Jul. 20, 2024. [Online]. Available: https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment

[24] M. Barnett and R. M. Salomon, “Does it Pay to Be Really Good? Addressing the Shape of the Relationship between Social and Financial Performance,” Strategic Management Journal, Jun. 2011.

[25] G. Friede, T. Busch, and A. Bassen, “ESG and financial performance: aggregated evidence from more than 2000 empirical studies,” Journal of Sustainable Finance & Investment, vol. 5, no. 4, pp. 210–233, Oct. 2015, doi: 10.1080/20430795.2015.1118917.

[26] European Parliament, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. 2014. Accessed: Jul. 20, 2024. [Online]. Available: https://eur-lex.europa.eu/eli/dir/2014/95/oj

[27] European Commission, COMMUNICATION FROM THE COMMISSION The European Green Deal. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019DC0640&qid=1724162694079, 2019. Accessed: Jul. 20, 2024. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019DC0640&qid=1724162694079

[28] European Commission, Directorate-General for Financial Stability, and Financial Services and Capital Markets Union, Consolidated text: Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02023R2772-20231222, 2023.

[29] European Commission, Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2772, 2023.

[30] European Commission, “National energy and climate plans.” Accessed: Jul. 21, 2024. [Online]. Available: https://commission.europa.eu/energy-climate-change-environment/implementation-eu-countries/energy-and-climate-governance-and-reporting/national-energy-and-climate-plans_en?prefLang=cs#documents

[31] Microsoft Corporation, “Microsoft Office Visio,” 2021. Accessed: Jan. 11, 2024. [Online]. Available: https://www.microsoft.com/cs-cz/microsoft-365/visio/flowchart-software

[32] European Parliament and Council of the European Union, “Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.” Accessed: Jul. 21, 2024. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/HIS/?uri=CELEX:32022L2464

[33] European Commission and Directorate-General for Justice and Consumers, Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0071, 2022.

[34] European Parliament and Council of the European Union, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R2088, 2019.

[35] European Parliament and Council of the European Union, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32020R0852, 2020.

[36] F. E. Mezzanotte, "Corporate sustainability reporting: double materiality, impacts, and legal risk," Journal of Corporate Law Studies, vol. 23, pp. 633–663, 2023, doi: 0.1080/14735970.2024.2319058.

[37] Global Reporting Initiative, "The global standards for sustainability impacts." Accessed: Aug. 17, 2024. [Online]. Available: https://www.globalreporting.org/standards/

[38] International Accounting Standards Board, "IFRS Accounting Standards Navigator." Accessed: Aug. 17, 2024. [Online]. Available: https://www.ifrs.org/issued-standards/list-of-standards/

[39] Lauren Gibbons Paul, "10 top ESG reporting frameworks explained and compared." Accessed: Jul. 27, 2024. [Online]. Available: https://www.techtarget.com/sustainability/feature/Top-ESG-reporting-frameworks-explained-and-compared

[40] C. A. Cruz and F. Matos, "ESG Maturity: A Software Framework for the Challenges of ESG Data in Investment," Sustainability, vol. 15, no. 3, p. 2610, Feb. 2023, doi: 10.3390/su15032610.

[41] European Commission, Directorate-General for Financial Stability, and Financial Services and Capital Markets Union, Corrigendum to Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023R2772R%2802%29, 2024.

[42] Task Force on Climate-Related Financial Disclosures, "Task Force on Climate-Related Financial Disclosures - About." Accessed: Jun. 06, 2025. [Online]. Available: https://www.fsb-tcfd.org/about/

[43] IFRS Foundation, "SASB Standards overview." Accessed: Jul. 27, 2024. [Online]. Available: https://sasb.ifrs.org/standards/

[44] EFRAG, "Europe's voice in corporate reporting." Accessed: Sep. 01, 2024. [Online]. Available: https://www.efrag.org/en

[45] THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION, Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937. 2024. Accessed: Mar. 15, 2025. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024L1760&qid=1749851729127

[46] European Commission, Commission Staff Working Document – Accompanying the Proposal for a Directive as regards the adoption of sustainability reporting standards. 2025. Accessed: Jun. 07, 2025. [Online]. Available: https://finance.ec.europa.eu/document/download/4eeafeab-1ab6-4207-8e7a-efb39d56c235_en?filename=staff-working-document-simplification-omnibus-package_en.pdf

[47] European Commission, Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0080&qid=1749855293026, 2025. Accessed: Jun. 07, 2025. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0080&qid=1749855293026

[48] European Commission, Proposal for a Directive amending Directives 2013/34/EU, 2006/43/EC, 2009/102/EC and 2022/2464/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and third-country undertakings. 2025. Accessed: Jun. 07, 2025. [Online]. Available: https://finance.ec.europa.eu/document/download/161070f0-aca7-4b44-b20a-52bd879575bc_en?filename=proposal-directive-amending-accounting-audit-csrd-csddd-directives_en.pdf

[49] European Union, Directive 2022/2464/EU of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02022L2464-20250417&qid=1749860437397,

2025. Accessed: Jun. 07, 2025. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02022L2464-20250417&qid=1749860437397

[50] European Union, Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02024L1760-20250417&qid=1749860841713, 2025. Accessed: Jun. 07, 2025. [Online]. Available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02024L1760-20250417&qid=1749860841713

[51] F. S. and C. M. U. Directorate-General for Financial Stability, "Omnibus package." Accessed: Jun. 07, 2025. [Online]. Available: https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en