# Corporate Adaptation to Sustainability Reporting:

Evaluating CSRD's Influence on Company Policies

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# Abstract

Sustainability reporting has shifted from voluntary to mandatory in the EU under the CSRD requiring companies to adopt a double materiality perspective and adhere to common reporting standards known as ESRS. This regulation aims to enhance transparency, reliability, and comparability of sustainability data, fostering more sustainable business models and changing established management practices.

This thesis explores how mandatory sustainability reporting impacts established management practices, particularly corporate policies, focusing on three main questions: How do current policies match the new requirements? What challenges do companies face? What strategies can help them adapt?

An interdisciplinary, exploratory research design was utilized, incorporating a case study and external interviews to collect empirical data. The findings reveal that CSRD significantly influences corporate policies, leading to the creation of new policies and more structured management of material topics. It prompts a reassessment of policy hierarchy, especially in decentralized organizations. There's a shift from broad commitments to detailed objectives on impacts, risks and opportunities. Challenges identified include adapting organizational structures, planning processes, educating decision-makers. Adapting business conduct and workforce policies is relatively straightforward due to minimal gaps with ESRS requirements. However, emerging topics like climate change, circularity, and supplier management pose greater challenges. Key conclusions suggest that successful CSRD implementation requires a comprehensive understanding of reporting regulations, conducting double materiality assessments, strategic planning, agility and stakeholder education. Companies should engage in rigorous planning, raise awareness internally and among suppliers, and continuously educate corporate decision-makers.

This study provides valuable insights into the effects of mandatory sustainability reporting on corporate policies and highlights the need for future research on the long-term impacts of such regulations on corporate governance and management controls. The findings offer practical recommendations for companies to navigate the new regulatory landscape effectively.

**Keywords:** sustainability reporting, CSRD, management controls, ESRS implementation, corporate policies

# Executive Summary

Sustainability reporting is not a voluntary endeavor anymore. With the introduction of new regulations, CSRD companies in the EU are required to report on their sustainability performance by adopting a double materiality stance considering both inside out and outside in perspective. The new regulation also brings a unified reporting standard ESRS that complies shall follow. It is anticipated that the change in the regulatory landscape will increase transparency, reliability, and comparability of reported non-financial data and will push companies toward a more sustainable business model. A change in approach to sustainability disclosure triggers a change in established management practices. This thesis research examines the phenomenon of sustainability reporting and the influence of mandatory reporting standards on corporate practices, particularly company policies. This topic is pivotal given the change in the sustainability reporting regulatory landscape and the effect this change has on established rules and guidelines. This topic is also of great importance to society, as the integration of sustainability into companies' decision-making processes facilitates sustainable growth and speeds up the transition to a sustainable society.

The aim of this thesis is to understand the effect of CSRD implementation on company policies based on several sub-questions and empirical findings. The researcher explores discrepancies between reporting requirements and the state of current policies, examines the challenges companies may face in implementation and possible strategies and recommendations that help to enable the implementation process.

Several scholars have studied the role of sustainability reporting in shaping management practices and controls. However, there has been a particular focus on company policies and the interrelations between these two elements, which is very limited. Studies that have been found so far focus on the various aspects of business management, such as corporate governance, planning and control, the culture of organisations and the interplay between these aspects and sustainability reporting. Therefore, from an academic standpoint, this study fills the knowledge gap regarding the effect of sustainability reporting on company policies.

The research is exploratory due to the novelty of the regulation under investigation. Additionally, this is interdisciplinary research drawing from corporate environmental management, accounting management and environmental policy. The researcher employed a multi-method research design for studying the given phenomena. The rationale behind this choice lies first of all in the philosophy of the researcher which is pragmatism, the aim of the research which is increasing the applicability of this study. Another justification for this methodological choice is the novel nature of the regulation and the need for as many diverse perspectives as possible to draw upon to effectively summaries both the findings and applicability of findings for a broader audience. Therefore, in this research, one separate company case combined with several external interviews were used as a source of empirical data.

The findings highlight that CSRD significantly influences corporate policy approaches, creating new policies and fostering more structured management of material topics. It leads to a reassessment of policy hierarchy especially in decentralized organizations shifting focus from mere commitments to setting detailed objectives for impacts, risks, and opportunities related to each material topic. Challenges from the research align with the theoretical framework, illustrating how companies are challenged with adapting to the changing institutional context. Challenges related to organizational structure, planning, decision-maker education, and inadequate information systems are identified all of which can complicate CSRD compliance. While adapting policies related to business conduct and workforce is relatively straightforward

due to minimal gaps with ESRS requirements, areas like climate change, circularity, and supplier management present greater challenges because of their evolving nature. To successfully implement the changes required by CSRD, companies shall fully understand the implications of reporting regulations on their policies and management practices, including conducting double materiality assessments to understand their impact, risks, and opportunities. Additionally, they should engage in rigorous and agile strategic planning, and educate corporate decision-makers as well as raise awareness both internally and among suppliers.

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# Abbreviations

CDP- Carbon Disclosure Project

CSRD - European Union Corporate Sustainability Reporting Directive

CSR- Corporate Social Responsibility

DMA- Double Materiality Assessment

DR- Disclosure Requirements

EFRAG- European Financial Reporting Advisory Group

ESG- Environment, Social, Governance

EMS- Environmental Management Systems

EU- The European Union

ESRS- European Sustainability Reporting Standards

IRO- Impacts, Risks and Opportunities

NFRD- European Union Non-Financial Reporting Directive

GRI- Global Reporting Initiative

KPIs- Key Performance Indicators

TCFD- Task Force on Climate-Related Financial Disclosures

SASB- Sustainability Accounting Standards Board

SR-Sustainability reporting

MC- Management Controls

MCS- Management Control Systems

MA- Materiality Assessment

SFDR- Sustainable Finance Disclosure Regulation

# 1 Introduction

## 1.1 Background

Climate change is real (Calvin et al., 2023) and the latest scientific report on planetary boundaries updates that six of the nine boundaries are transgressed, suggesting that Earth is now well outside of the safe operating space for humanity (Richardson et al., 2023). The urgency of global sustainability efforts is becoming more tangible. There is evidence that companies are the main pollutants of the planet, so the requirements to carry out sustainable practices or processes are more than necessary (Cubilla- Montilla et al., 2020). Governments have taken several radical actions to reverse those changes. Over several years, the EU has adopted several regulations to push for a sustainable transition. There are increasing demands for transparency and accountability, and answering how sustainability is to be implemented is more important than deciding whether to improve sustainability or not (Sukitsch et al., 2015). Amidst this change, the issues of sustainability reporting and the change that it facilitates have received considerable critical attention. (Adams & McNicholas, 2007; Maas et al., 2016; Traxler et al., 2020). Various factors influence the adoption of sustainability reporting by companies.

Throughout the 2000s, sustainability reporting (SR) rapidly became standard practice for many large corporations, expanding across all sectors. A vast majority of large companies in numerous industrial countries disclosed sustainability information (KMPG, 2022). SR, as defined by Gray et al., (1995) is "the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large". With the growing prevalence of sustainability reporting, there emerged an increasing number of regulatory initiatives and instruments, primarily set by governments. Various voluntary guidelines and standards such as GRI, TCFD, CDP, and SASB have emerged. The GRI is the acknowledged leader in producing sustainability reporting guidelines (Brown et al., 2009). There exists a significant convergence between developers of management standards and GRI. Brown et al (2009) observed that companies do not engage in direct competition based on sustainability performance, and they typically do not review each other's reports. This lack of cross-comparability, even within the same sector. Consequently, the transparency, comparability and reliability of published reports are not at a high level.

Another shortcoming of GRI and other reporting frameworks is the process of identifying the most significant stakeholders' sustainability information named materiality assessment (MA). This concept is adopted from financial reporting where it is commonly considered as a threshold to influence the economic decisions of who uses a financial report for decision-makers, and investors (Baumüller & Sopp, 2022). In sustainability reporting MA defines how the environment and society affect a company, seeing positive impacts as opportunities and negative impacts as risks. (Demarigny, 2023). Materiality assessment influences the quality of reporting, interpreting the sustainability performance of the company. The description of the processes of how materiality assessment is conducted influences the effectiveness of the sustainability disclosure. GRI guidelines define the methodology of assessing material aspects of a company by using a materiality matrix, through stakeholder engagement. However, the existing reporting guidelines do not provide a structured approach to the analysis and do not define minimum thresholds for each material impact (Calabrese et al., 2017). Additionally, GRI prescribes disclosing only the impact materiality of the company from the stakeholders' perspective, which encompasses an inside-out approach covering the positive and negative impact that the company has on the environment and society. The ISSB and SEC focus on financial materiality,

mainly looking at the outside-in approach. This means they consider how the environment and society affect a company, seeing positive impacts as opportunities and negative impacts as risks (Demarigny, 2023). These approaches to materiality assessment in sustainability reporting lack a holistic method for identifying and reporting critical sustainability information.

On the regulatory landscape, the EU has adopted the Directive on Non-Financial Disclosures. While providing loose frameworks about non-financial information, it did not require a specific structure and content (Hahnkamper-Vandenbulcke, 2021). Despite these aspects, some studies outline the positive effects of the Directive on the level of sustainability performance and the quality of reporting, especially among large undertakings (Cuomo et al., 2024; Fiechter & Hitz, 2022). It increased the likelihood of adopting voluntary reporting guidelines and assurance adoption, which in turn increased the credibility and availability of reported information (Ioannou & Serafeim, 2017). The Commission report in 2021 revealed shortcomings in the NFRD (EU Commission, 2021). After publishing the EU Green Deal, the CSRD was developed to address the shortcomings of the NFRD (Baumüller & Grbenic, 2021). With the introduction of the CSRD, the EU aims to create conditions for SR to become as strong a pillar as financial reporting and to reduce greenwashing (Baumüller & Grbenic, 2021). Additionally, the new regulation changes the SR landscape by extending mandatory reporting to a broader scope and broadening the list of reporting topics (EU Commission, 2022). With the introduction of detailed and mandatory sets of disclosure standards, also known as the European Sustainability Reporting Standards (ESRS), the format and content of SR has changed.

The new regulation introduced the double materiality concept, requiring companies to report on a broad range of sustainability topics, focusing on the companies' impact on people and the planet, as well as on financial performance (Baumüller & Grbenic, 2021). The double materiality concept is a cornerstone of CSRD reporting. Companies determine impact risks and opportunities from outside-in and inside-out perspectives. Moreover, CSRD mandates reporting companies to disclose the process and methodology of double materiality assessment (DMA) in the report. The concept of double materiality requires reporting more information. This could lead to more comprehensive reporting but also raises the risk of "information overload" (Calabrese et al., 2017), especially if details are too specific for some stakeholders. Companies are challenged with translating the double materiality principle into practical methods for assessing the materiality of all risks, opportunities, and impacts (Demarigny, 2023). Overall challenge is the process of reporting according to ESRS is new for all companies since the standard was adopted just a few months ago. Large companies already implementing the various international voluntary sustainability reporting frameworks find it easier to comply with the ESRS (Birkman & Judith, 2024), while small companies lacking experience may face awareness and process challenges. To address these gaps, CSRD propose a proportionate and progressive approach based on company size. Therefore small and medium-sized companies on are allowed to report using standards that match their capacities and resources and given enough time to comply with sustainability reporting requirements, recognizing their smaller size and limited resources, as well as the challenges they may face in accessing expertise for sustainability information reporting.

Regarding the materiality test, EFRAG has adjusted its approach to allow for a more pragmatic stance, eliminating the need for companies to explain why certain information isn't disclosed. However, specific mandatory information will apply in all cases, including general information under ESRS 2, sustainability data required by other EU laws, and certain key social indicators for companies with over 250 employees, not covered by the Sustainable Finance Disclosure Regulation (SFDR) (Demarigny, 2023).

## 1.2. Problem definition

By introducing CSRD, the EU aims to change the sustainability reporting landscape and enhance transparency, comparability, and reliable data for decision-making. Despite the regulatory effort, the critiques contend that SR alone does not provide a comprehensive picture of true sustainability performance or enhanced accountability. They argue that such reports primarily serve to maintain legitimacy and mimic behaviour. For long-term success, companies must go beyond reporting and demonstrate alignment of their business models and strategies with sustainability objectives (Traxler et al., 2023).

Integrating sustainability into organizations requires processes built upon existing organizational systems. At the core of any organization are its management control systems (MCSs), which ensure the alignment of processes and activities with strategies and objectives (Langfield-Smith, 1997). Hence, companies utilizing various MCSs to enact their sustainability strategy can also leverage the control capabilities offered by reporting (Traxler et al., 2023). Internally to an organization, sustainability reporting and sustainability management build on a similar philosophies, strategies, skills and resources (Brown et al., 2009).

MCS include formal controls such as rules, policies, standard procedures, and budgeting systems. These are visible and objective, making them the focus of empirical research. Some of those controls ensure the achievement of specific outcomes through monitoring and corrective actions, while others such as administrative and personnel controls, guide activities beforehand. MCS also include informal controls, which stemming from organizational culture, are unwritten policies within the organization (Langfield-Smith, 1997).

MCS and SR are crucial for companies in implementing sustainability strategies and gaining competitive advantage. While SR provides the necessary data for decision-making, performance evaluation (Adams & McNicholas, 2007) and stakeholder engagement, MCS ensures strategy implementation (Langfield-Smith, 1997). Integrating these elements ensures internal performance monitoring (Mahmoudian et al., 2022), transparency, legal compliance, risk reduction, and improved market reputation (Cao & Zeng, 2019). Research on MCS for sustainability is a growing area, yet studies examining the interaction between SR and MCS are limited (Mahmoudian et al., 2022; Traxler et al., 2020, 2023). Significant studies investigating the degree of influence of SR on the corporate policies of organizations are also limited (Malmi & Brown, 2008). Additionally, academic attention on corporate strategy implementation often overlooks the role of policies, particularly from a sustainability perspective (Baack, 1991). However, policies play a crucial role in guiding decision-making and aligning operations with corporate objectives (Wheelen, 2018). In contrast to earlier findings, Guenther et al. suggest that the existence of a policy does not fully ensure its implementation. The level of policy comprehensiveness may influence sustainability performance and the quality of sustainability reporting (Guenther et al., 2016). A policy in this research is defined as "a set or framework of general objectives and management principles used by the undertaking for decision-making. It is designed to implement the undertaking's strategy or management decisions related to a material sustainability matter" (EU Comission, 2023). Further empirical research is necessary to examine the effects of SR on specific MCS elements. Understanding how SR can influence company policies is not only relevant for academia but also for corporate practice, especially given the increasing importance of SR considering CSRD adoption. (Traxler et al., 2023) This study primarily examines the application of CSRD, especially within large enterprises that are early adopters of reporting standards. These large businesses often function across varied environments with global supply chains (Laine et al., 2022). Therefore, the primary focus of this

study is large enterprises which consist of decentralized groups of companies. These multinational corporations are those in which decision-making authority is distributed away from a central headquarters to various subsidiaries around the world. This decentralization allows subsidiaries more autonomy to respond quickly and effectively to local market conditions, cultural differences, and regulatory environments (Kostova et al., 2016).

This thesis discusses how CSRD implementation influences the existence and development of policies. From an academic standpoint, this study enhances understanding of the relationship between SR and policies, examining how the former influences the latter and identifying key determinants of this relationship. The study sheds light on the development of policy adaptation processes under ESRS and challenges that arise in aligning policies, and their development according to the standard. The study also provides examples of how specific aspects of ESRS should be analyzed and interprets terms and definitions within specific contexts. The findings of this research are tailored to the large group of companies consisting of several subsidiaries.

In conclusion, this study fills critical study gaps and enhances comprehension of how sustainability reporting influences company policies in the context of novel regulatory implementation. Its insights provide valuable knowledge for sustainability practitioners, and researchers seeking to enhance understanding of sustainability integration in corporate management and reporting practices.

## 1.2  Aim and Research Questions

The overarching aim of this research is to contribute to management accounting and regulatory compliance literature by investigating what influence SR have on company policies, specifically focusing on how changes in the regulatory landscape regarding sustainability reporting influence changes in policies. The overarching research question is the following:

**RQ: To what extent does CSRD influence the formulation and implementation of company policies?**

Guiding sub-questions under the overarching research question are the following:

**RQ1: What gaps exist between current company policies and the stipulated requirements of CSRD?**

**RQ2: What type of challenges are encountered during the implementation of CSRD-related policy changes?**

**RQ3: What strategic measures can organizations adopt to bridge the gaps between policies and CSRD?**

This study aims to understand the nature of the relationship between mandatory sustainability reporting and company practices. The main research question directly addresses the crucial question of to what extent CSRD implementation affects established management controls specifically policies. Research sub-questions elaborate on the nature of the influence and process of CSRD implementation. In this thesis CSRD and ESRS may be used in parallel, however, the focus is on the ESRS structure which provides a framework and basis for the gap assessment.

To achieve this aim, the research unfolds in a following manner. Firstly, the gaps between existing policies of companies and requirements outlined by ESRS are examined based on interview data and gap assessment between sample policies and ESRS requirements. This helps identify whether company policies need to be changed to be aligned with the standard. Secondly, the complexities of updating policies are explored by investigating challenges through diverse expert opinions. Thirdly based on findings from interviews strategies and recommendations to bridge those gaps and overcome the challenges are introduced.

By addressing the above this thesis aims to enhance understanding of the influence of sustainability reporting and policies in the corporate context. The result of this study could have practical value to companies in assessing the resilience of company policies in response to ESRS requirements and their adaptation to a defined list of material topics.

## 1.3  Scope

This study focuses on specific industries and company sizes, with the rationale behind this choice being justified by several factors. Firstly, studies indicate that the interplay between SR and MCS is particularly relevant for corporate practice, especially in large, publicly listed companies. These companies not only possess extensive experience in reporting but also demonstrate proficiency in implementing a sustainability strategy with an appropriate MCS (Traxler et al., 2023). In addition, institutional pressures are more influential in large companies, because they have greater visibility (Garcia-Sanchez et al., 2016). Therefore, the study considers large, listed companies that start reporting according to CSRD starting in 2025. Secondly, the decision is rooted in the notion that a deeper understanding can be gained by focusing on companies that have already achieved high-quality reporting standards (Adams, 2002) which the scope of this research exemplifies. Thirdly, this study focuses on large companies with decentralised governance structures with an extensive upstream and downstream value chain, ensuring a wide range of policies and material topics. It is acknowledged that the decentralisation of organisational governance influences the effectiveness of MCS in governing operations across diverse geographical and cultural environments (Sageder & Feldbauer-Durstmüller, 2019). The inclusion of the case company with a decentralised governance model increases the applicability of the study's findings to companies with similar governance types, and similar industries since material topics within the same area are expected to be similar. The inclusion of expert interviews from consultancies and professionals from similar decentralised companies involved in SR and policy development aimed to find commonalities and differences found in gap assessment based on case company data and help to answer the other questions regarding challenges and strategies.

The geographical scope of this research is limited to Sweden since the maternal company of the group of companies to which the case company belongs and the majority of interview participants are located in Sweden.

## 1.4  Ethical considerations

During this thesis, a diverse range of empirical information and data has been acquired and managed, sourced both from representatives of the case company and through interviews. Before conducting interviews, participants were thoroughly informed of the study's purpose, and their consent was explicitly obtained. Consistent with this approach, ethical considerations, particularly in cases involving human interaction and participation, were prioritized, aligning with the emphasis placed by (Saunders et al., 2012). It is crucial to note that the case company's identity remains undisclosed throughout this thesis. While some information from this study will be incorporated into a publicly available sustainability report, all obtained data has been treated confidentially, and only authorized information is presented in the thesis report. The information collected, be it from interviews, or other sources, has been utilized exclusively for the specified and agreed-upon purposes. Any instances of ambiguity or the need for data for alternative purposes within the study prompted prior consultation with the case company.

In terms of research objectivity, the research is supported by the case company in terms of providing data and guidance. However, the study itself is not financially funded by any organisation. Furthermore, to maintain the independence of the research, no individuals possess the authority to influence the analysis or conclusions.

Regarding ethical responsibilities towards research subjects, rigorous measures have been taken to uphold ethical standards. Each respondent was approached beforehand, provided with a list of research questions, and sent an informed consent form. The informed consent form provides detailed information about the research as well as the details of information handling. The template of the form is attached to Appendix 5. Participation is entirely voluntary, and signed informed consent forms are mandatory. The anonymity of respondents was strictly maintained, with only the disclosure of their job titles and the coding of their names. In cases of direct quotations, the researcher asked relevant consent from the respondents, ensuring respect for their privacy. The research assured that participation carries no risk to reputation or puts respondents in a disadvantageous situation.

In terms of data handling, all sensitive information, including recordings and transcriptions of interviews, is securely stored in a password-protected folder on the researcher's computer. Participants were informed about AI tools used for the transcription of the interviews. Likewise, all empirical data obtained from the case company is stored in secure folders on the researcher's computer, ensuring confidentiality and compliance with ethical standards.

## 1.5  Audience

This topic holds significant importance from both policy and business management perspectives. The primary beneficiaries of this research are expected to be the companies subject to CSRD reporting and practitioners, including consultancies involved in the reporting process. Companies will be able to utilize the insights to benchmark the level of preparedness of their policies, refine their sustainability reporting, and utilize provided strategy and recommendations provided in this thesis. Findings will assist consultancies in gaining a deeper understanding of the CSRD's impact, enabling them to better support their clients with targeted advice and solutions for effective reporting.

For the academic audience, this study will provide empirical evidence of how SR influence specific components of MCS in isolation. However, some authors argue that studies focusing on one control suffer from "under-specification" (Chenhall, 2003). From a regulatory perspective, this study contributes to the critical analysis of the CSRD implementation process and a deeper understanding of the effectiveness and challenges of new SR standards. It will contribute to the body of knowledge on policy effectiveness, corporate governance, and sustainability practices.

## 1.6  Disposition

The first chapter of this thesis introduces the importance of this research topic from both academic and business management perspectives. It outlines the overarching aim of this research, determines the scope and audience of the study, and acknowledges its delimitations.

The second chapter includes a literature review examining academic research on how various studies examining the interplay between SR and MCS have identified the linkage between SR and policies, the requirements of voluntary reporting frameworks and mandatory reporting standards regarding company policies. Additionally, conceptual, and theoretical frameworks developed within the field of study are described.

The third chapter introduces the research design and setting, justifying the methodology used for data collection and analysis.

The fourth chapter presents findings from various data sources about the research questions.

The fifth chapter includes a discussion of the findings considering the literature gap, highlighting the contribution of this research.

The sixth chapter presents the conclusion of this study based on analysis and discussion. The final chapter provides recommendations to the audience outlined in the first chapter and discusses future research implications.

# 2 Literature review

The literature review is divided into 3 main sections, the first presents a literature review on sustainability reporting and organisational management, the second section explores standardisation of SR based on the example of GRI and ESRS and their requirements regarding company policies and the third section provides a theoretical framework for exploration of the given research topics. The method employed for literature review in this research includes keyword searching, and backward referencing to comprehensively explore the scholarly literature relevant to a particular research question or topic. Keeping the potential research questions in mind several combinations of keywords in Google Scholar and Scopus databases were used. These databases were selected because they represent the most extensive multidisciplinary abstract and citation collection of peer-reviewed literature available (Bonato, 2016). During the selection process, the primary criterion for the research was that selected articles should articulate the relationship between SR and MCS specifically with policies. Secondly, the selected articles should have at least five Google Scholar citations. More stringent filtering criteria were not feasible since the chosen field is still nascent, and more filtering would result in an unrealistic and inappropriate number of papers for the literature review. From the list of literature found the researcher employed using backward referencing to identify the list of studies focusing on the same or similar topics.

## 2.1 Sustainability Reporting and Management Controls

This section discusses what is known about the topic based on an academic literature review and which gaps are critical according to researchers. For this study, 33 relevant articles were identified on Google Scholar and Scopus with selected keywords. The software Atlas was utilised for coding the papers. The academic literature review on corporate management has revealed the emergence of several similar themes such as sustainability management and the role of SR and policies, factors influencing SR and MC, interplay between MC and SR.

### 3.1.1 Policies as a part of management controls

The studied phenomena of sustainability reporting and policies exist in a complex, interconnected system. Policies are not standalone tools but are part of bigger MCS. The definition of MCS has evolved. In this thesis, the definition provided by Malmi & Brown, (2008 p.290 is utilized, defining MCS as a package encompassing all the "devices and systems managers use to ensure that the behaviour and decisions of their employees are consistent with the organization's objectives and strategies".

Some scholars have broadly mapped the tools, systems and practices that managers have available to formally or informally direct employee or other relevant party behaviour as the framework conveys an understanding of MCS as a package motivating that organizations typically utilize intricate combinations of various controls (Malmi & Brown, 2008) They suggest to view MCS as a package of relatively independent controls. The most widely used approach is a typology framework consisting of 5 control elements developed by Malmi & Brown (2008). In this typology, cultural controls, such as values, beliefs and social norms which influence employees' behaviour serve as a foundation and are perceived as relatively resistant to change.

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The next group of controls strategically guides and adjusts organizational activities to achieve desired outcomes. Those controls encompassing planning, cybernetic, and reward and compensation controls are commonly interlinked. Planning controls establish clear objectives and standards to direct efforts and behaviours within the organization, ensuring that activities across different areas are aligned. Cybernetic controls, on the other hand, involve measuring activities, setting performance targets, evaluating outcomes through feedback, and making necessary adjustments to improve efficiency and effectiveness. Reward and compensation controls are crucial mechanisms to motivate and enhance the performance of individuals and groups within the organization. The last set of controls are administrative controls forming the structural basis for the exercise of planning, cybernetic, and rewards and compensation controls. Administrative controls are the most responsive to change and include organisational structure and policies (Malmi & Brown, 2008). Considering this complexity and interconnection between controls the study is firstly focused on the research examining what is the role of SR and MCS in sustainability management.

## 3.1.2 Relationship between Management Controls and SR

A considerable amount of literature has been published on sustainability management which draws upon extending management controls needed to be aligned with external reporting practises and the implications of this integration for the sustainability management of the company. Similarly, the study of MCS in multinational corporations has attracted scholarly attention due to the increasing prevalence of large enterprises and the complexity of their control mechanisms. Researchers have explored a wide range of factors that influence management control within these organizations in various contexts. (Sageder & Feldbauer-Durstmüller, 2019). The studies examine and evaluate the evolving character of sustainability management in companies, the relationship between corporate governance and sustainability (Aras & Crowther, 2008) forces pushing sustainable business practices (Nicolăescu et al., 2015). Some scholars developed a framework for translating general principles of sustainability development into corporate practice (Azapagic, 2003) or employment MCS to enforce sustainable development (Lueg & Radlach, 2016, Traxler et al., 2020). Much of the traditional management control literature pays particular attention to the effect and integration of MCS (Guenther et al., 2016) or SR (Maas et al., 2016; Mahmoudian et al., 2022) on corporate sustainability management. It's inconsistent for an organization to share social responsibility externally while its MCS does not reflect this stance. To be truly socially responsible, organizations need an integrated approach that aligns both external reporting and internal practices (Durden, 2008). Moreover, organizations that merely have a sustainability report without implementing effective control mechanisms for sustainability run the risk of having their efforts perceived as merely a well-meaning attempt to enhance their reputation (Traxler et al., 2020). Several papers were found (Cao & Zeng, 2019; Rahi et al., 2022; Traxler et al., 2023) focusing on the interplay between SR and MCS and gaps in the literature. There is a relatively small body of literature that is concerned with the interplay between MCS and SR whereas extensive knowledge separately on these two elements from performance measurement, organizational change, and governance perspective is existing. The reciprocal influence between these two the few studies identified are investigating from an instrumental perspective whereas empirical in-depth, critical analysis of this interplay is lacking (Traxler et al., 2020). Researchers, as noted by Malmi & Brown (2008) face challenges in operationalizing management controls, as not all are easily quantifiable or have suitable proxies for regression analysis. Figuring out the scope of such research, given the complexity of control systems, is challenging. Also, understanding the dynamics of these controls working together is challenging due to the complexity of the system (Mahmoudian et al., 2022).

Moreover, only one element of MCS was considered in the minority of recent studies studying MCS as a package (Traxler et al., 2020, Cao & Zeng, 2019; Rahi et al., 2022). The same applies to studies that empirically investigate the effect of SR on specific elements of MCS (Adams & Frost, 2008). Therefore, studies focusing on the relationship of standalone control elements and SR are lacking in existing literature and identified literature review studies outline very few papers focusing on policies and SR. Although a comprehensive policy plays a significant role in constraining undesirable behaviour of employees or some other relevant party, providing direction (Merchant & Van der Stede, 2017). Additionally, policies are the most sensitive to the change component of management controls (Traxler et al., 2020).

The relationship between SR and company policies reported in the existing literature has a predominant focus on positive outcomes. Several scholars have found that SR influences the existence and development of new principles, codes of conduct, and policies (Adams & McNicholas, 2007; Durden, 2008; Thijssens et al., 2016). This outcome is contrary to that of Traxler et al who found that SR does not greatly encourage the establishment of new guidelines, compliance requirements or codes of conduct. Moreover, the researcher argues that the identified positive changes are often attributed to the absence of a well-established, comprehensive analysis detailing the specific step-by-step effects of SR on policies (Traxler et al., 2023). Therefore, further studies, which take these variables into account, need to be undertaken. Moreover, examining this phenomenon not just from a business management perspective but also from a regulatory compliance perspective is lacking in existing literature. Existing studies focus only on voluntary guidelines such as GRI in their analysis.

## 2.2 Guidelines, standards, and policies

The literature review on the GRI highlights studies that focus on the influence of GRI on the reporting practices and management systems within companies. This review aided in determining the extent to which the predecessor of ESRS influenced company policies and contributed to understanding the extent of policy gaps resulting from the absence of requirements from GRI. One of the reasons why companies may report on sustainability according to GRI is the ability of SR to influence long-term management strategies, policies, and business plans. The GRI offers a comprehensive understanding of materiality and completeness, along with a wide range of performance indicators covering various areas such as economics, environment, social issues, labour practices, human rights, society, and product responsibility (Hahn & Kühnen, 2013). The results of Windolhws's et al (2014) study found that there exists a correlation between the application of GRI and the adoption of management tools. Organizations complying with established standards are more likely to utilize relevant management tools. This finding broadly supports the work of other studies in this area linking GRI with MCS. Particularly Vigneau et al( 2015) examine that GRI as an institution enables standardization of internal processes and translates into the firm management guideline.

In the reviewed literature, no research was found empirically studying the effect of guidelines, particularly on company policies. Therefore, the recommendations that GRI provides regarding company policies were analysed. The GRI recommend companies disclose a variety of policies related to sustainability topics, including economic, environmental, and social aspects of their operations. It is worth noting that the GRI Standards are not prescriptive in terms of the exact policies that companies should have in place. Rather, they require disclosure of the policies that are relevant to the organization's particular circumstances. GRI Following topics covered in several GRI topical standards: responsible business conduct, energy, water and effluents,

emissions, occupational health and safety, human rights, security practices, customer health and safety, materials, and waste.

As to ESRS standards very was found in the academic literature on the question of CSRD implementation and specifically the influence of this regulation on company policies. The reason is not only in complexity of the given topic but also the novel nature of the regulation and limited knowledge of the practicalities of ESRS implementation. For instance, in a study Birkman & Judith, 2024 involving German companies and consultancies, it was found that CSRD places new demands on SR. This leads to changes in corporate policy, such as developing a stable sustainability management system, assigning new responsibilities, and enhancing control systems.

In terms of requirements relating to policies based on ESRS standards, the researcher analysed official texts and identified the following. Mandatory sustainability reporting standard ESRS defines sustainability information that a company must disclose by CSRD. (EU Commission, 2023). The reporting standard is also built on the double materiality principle (EU Commission, 2021). Companies are not required to disclose any information on ESG topics, only those topics that are identified as material from DMA. The objective is to provide a comprehensive understanding for the users of the sustainability report of the organization's material impacts on people and the environment, as well as how sustainability issues affect its development, performance, and position. The sustainability statement must include information on the material impacts, risks, and opportunities associated with the company through its direct and indirect business relationships in the upstream and/or downstream value chain following the double materiality principle (EU Comission, 2023).

The architecture of ESRS comprises 3 following categories: cross-cutting standards; topical standards (ESG standards) and sector-specific standards. The first two are sector-agnostic which means they apply to all companies regardless of the industry or sector, whereas sector-specific standards apply to all undertakings within a sector.

The objective of ESRS 1 is to outline the framework, drafting conventions, and defining basic concepts of ESRS, along with the general guidelines for preparing and presenting sustainability information under CSRD. ESRS 2 sets out disclosure requirements (DR) that companies must fulfil across all significant sustainability aspects. Topical ESRS focus on specific sustainability themes, structured into topics, sub-topics, and, when needed, sub-sub-topics.

Enhancing reporting maturity requires deeper integration of the business model and strategy with sustainability considerations, particularly emphasizing dependencies, impacts, risks, and opportunities, with a specific emphasis on negative impacts and opportunities. (Glaveli et al., 2023). Therefore ESRS 2 and topical ESRS are structured around 4 pillar approach: The GOV pillar encompasses processes for monitoring and managing impacts, risks, and opportunities. SBM focuses on the interaction between strategy, business model, and material impacts. IRO involves identifying and assessing material impacts, risks, and opportunities. MT tracks performance and progress towards set targets. ESRS 2 also includes minimum disclosure requirements for policies (MDR-P), actions (MDR-A), metrics (MDR-M), and targets (MDR-T), to be applied with corresponding requirements in ESRS 1. Sustainability matters covered in topical ESRS are provided in Appendix 1.

When disclosing information about policies regarding material topics, the undertaking must include the required information from all disclosure requirements and data points from relevant ESRS. Minimum requirements regarding policies provided in ESRS 2 and respective topical standards. According to the ESRS 2 companies are required to disclose in the sustainability report how their policies address prevention, mitigation, and remediation material to the entity

and its value chain impacts, risks and opportunities (IRO) referred to as "manage material sustainability matters" (ESRS 2). Regarding the structure of provided information, the standard prescribes the following key elements according to ESRS MDC-P. These aspects complement with relevant application requirements provided in topical standards. If the undertaking hasn't adopted policies or actions about specific sustainability matters outlined in the ESRS, it must disclose this, along with reasons, and may provide a timeframe for adoption (ESRS 1, DR-33). However, the standard does not require any specific structure about the design, or content of the policies. Companies are free to structure their policies according to their needs.

Two organizations, GRI and EFRAG, released a mapping of how their standards work together, highlighting commonalities between the two (EFRAG, 2023). This input is used further for conducting the analysis. Table 2-1 outlines the requirements on policies from GRI and ESRS.

*Table 2-1. Minimum Disclosure requirements for policies in GRI and ESRS*

| GRI | ESRS |
|---|---|
| GRI 2-23(Policy commitments) and 2-24(Embedding policy commitments) | ESRS 2 GOV-4; MDR-P minimum disclosure requirements on policies; |
| 2-23-a-i: Reporting on intergovernmental instruments in policy commitments and their development process. | a) A description of the policy's main contents, including its objectives, the material impacts, risks, or opportunities it addresses, and the monitoring process. |
| 2-23-a-iv: Details about policy approval levels and their application. | b) Details about the policy's scope or any exclusions, such as specific activities, parts of the value chain, geographical areas, and relevant stakeholder groups. |
| | c) Identification of the highest level of accountability within the organization for implementing the policy. |
| 2-23-b: Details about human rights policy commitments and stakeholder focus. | d) Any references to third-party standards or initiatives that the undertaking commits to follow through the policy's implementation. |
| 2-23-d: Report on approval levels and application of policy commitments. | e) If applicable, a description of how the interests of key stakeholders were considered in the policy's development. |
| 2-23-e: Policy communication methods. | f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement it. |
| 2-23-f: Report on internal policy communication methods and efforts to remove barriers. | |
| 2-24-a-i: Describing how policy commitments are allocated across different organizational levels and functions. | |
| 2-24-a-ii: Explaining how policy commitments are integrated into broader risk management systems and decision-making processes. | |
| 2-24-a-iii: Detail about procurement and investment policies related to responsible business conduct. | |
| 2-24-a-iv: Providing information on training programs related to policy implementation. | |

A literature review revealed that studies examining the effect of each of these reporting standards on company policies were not found. In terms of interoperability, both standards have similar expectations about policies, but ESRS requires more granular information on each material topic. Whereas GRI prescribes focusing only on impact assessment ESRS requires focus on impact, risk, and opportunities through double materiality lenses. In the ESRS a description should be provided of how the interests of key stakeholders were considered in the policy's development whereas GRI only encourage that the interests of key stakeholders should be considered in the policy's development. The ESRS expands on this by specifying that the description should cover the policy's objectives, material impacts, risks, opportunities, and the monitoring process. Additionally, it includes a mention of the policy's objectives and how they relate to the organization's strategies and operations. Policy commitments in GRI are less rigorous than in ESRS because of the inclusion of extra matters and details. Additionally, GRI adoption is voluntary for companies, whereas ESRS compliance is mandatory.

## 2.3  Theoretical framework

The research theory is a set of statements that are empirically testable and provide a certain level of generality (Blaikie, 2000). The role of theory in the research is to explain the emerging phenomenon. This research investigates the relationship between institutionalisation of sustainability reporting and organizational response. The majority of studies researching management routines and organisational change adopt institutional theory (Scapens, 2012). Institutional theory explains changes in organizational structures, and routines in response to the pressure of the institutional environment (DiMaggio & Powell, 1983). Institutional context plays an important role in shaping organizational behaviour in significant ways and requiring organizations to conform to institutional expectations to survive, even if these expectations do not directly relate to performance (Greenwood & Hinings, 2024). From this point of view CSRD acts as an institutional pressure on companies to disclose sustainability information, therefore shaping management practices of the companies. Therefore, this research draws on institutional theory to motivate the analysis of the effects of the sustainability reporting regulation on company policies. The institutional theory comprises three branches:" new institutional economics (NIE) which is concerned with the governance of economic transactions; new institutional sociology (NIS) which is concerned with the institutions in the organisational environment which shape organisational systems and practices; and old institutional economics (OIE) which is concerned with the institutions that shape the actions and thoughts of actors within organisations." (Scapens, 2012 p.3). NIS perspective is adopted in this study to analyze how institutional pressure shapes management controls within companies. NIS theory has already been employed by various scholars in understanding how institutional pressures influence MCS. Munir et al. argue that management control systems are social institutions embedded in an institutional environment, which includes regulatory structures and public opinions (Munir et al., 2013). Other researchers have utilized NIS theory to explore how environmental factors influence non-financial performance measures within organizations (Hussain & Hoque, 2002). Similarly to the latter drawing upon the NIS perspective of management accounting choice, this study examines how CSRD affect company policies. Justification for this perspective is provided by various scholars who adopted this theoretical basis as this theory enables a broader approach to understanding the relationship between internal organisational practices and the external environment (Hussain & Hoque, 2002).

The institutional isomorphism concept is widely used to explain change and dissemination of sustainability practices (Elena Windolph et al., 2014). Isomorphism is a process through which organisations resemble each other in the same organisational field (DiMaggio & Powell, 1983). NIS theory's concept of isomorphism consists of three branches: coercive, mimetic, and normative. Mimetic isomorphism explains how management approaches to change to mimic sustainability reporting practices of successful organizations, coercive isomorphism how management approaches to adapt to comply with regulatory requirements to gain legitimacy and normative isomorphism the role of norm and professionalisation of management team influence management practices (Scapens, 2012). In this study, NIS theoretical framework was adopted to explore whether company policies evolve in response to CSRD, or due to the outdated nature of the policies and existing best practices from other organizations or adhere to established organizational norms. This theoretical discourse the NIS theory explains institutional pressures influencing organizational behavior and practices.

In this thesis the findings from the research conducted by Greenwood & Hinings (2024) are used for testing theoretical foundation and validity of findings. The scholars have developed a framework based on the concept of isomorphism to help understand how individual organizations retain, adapt, and discard templates for organizing in response to changing institutional contexts. The framework outlines several challenges that organisations face in adapting to institutional pressures. One challenge is understanding the institutional context itself and the expectations that come with it. Institutions can be ambiguous and contradictory and may require organizations to conform to multiple expectations that are difficult to reconcile. Organizations may also face difficulties in interpreting the signals of the environment or in understanding which changes are temporary or which are likely to persist. Additionally, organizations may encounter resistance to change from within, including resistance from employees, leaders, or other stakeholders who may fear change or be invested in the status quo. Finally, organizations may also struggle with the practical challenges of implementing changes, particularly radical changes that require significant shifts in resources or structures (Greenwood & Hinings, 2024). Those challenges will be tested in this research by analysing empirics to the second interview question. Challenges are identified from CSRD implementation will be compared against challenges defined in Greenwood's framework. This approach is visually presented in Figure 2-1 and further detailed in Table 2-1, which classifies the challenges from Greenwood & Hinings(2024) paper.

*Figure 2-1. Theoretical framework of CSRD effect on company policies based on NIS theory and Greenwood & Hinings, 2024*
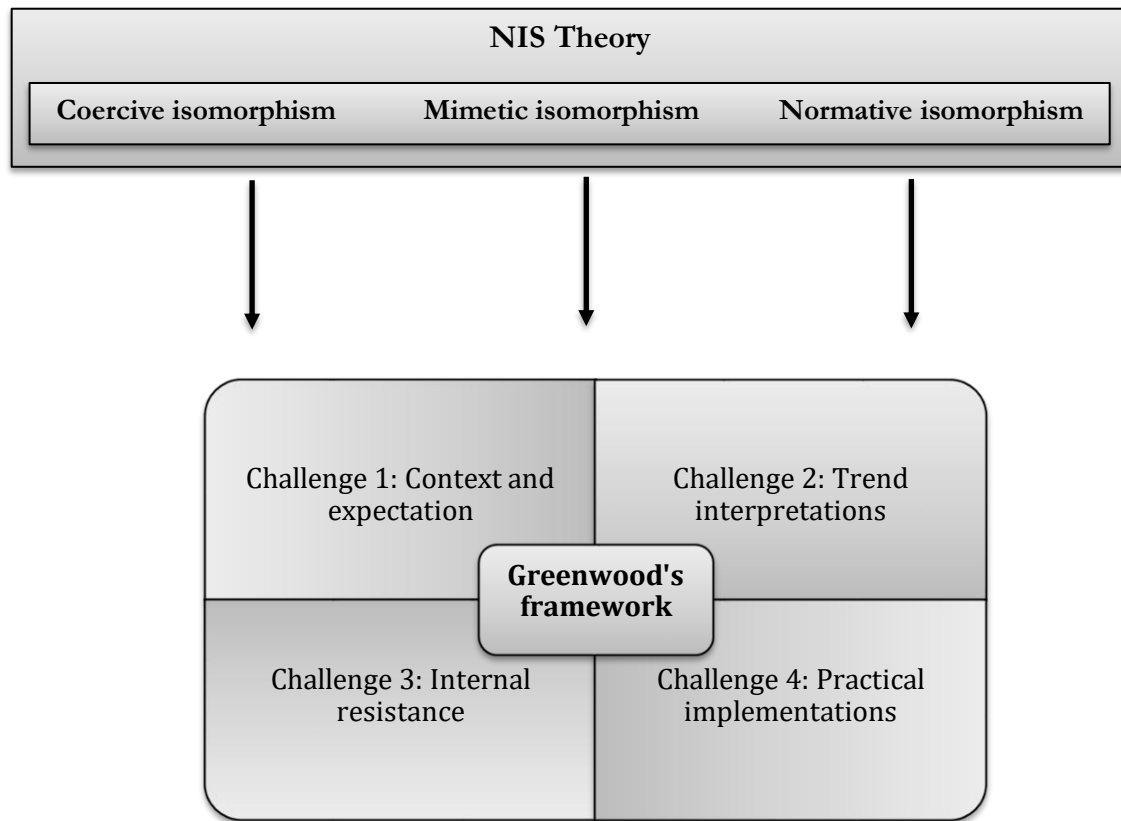


*Table 2-2. Challenges from the Greenwood framework*

| Challenge 1 | Challenge 2 | Challenge 3 | Challenge 4 |
|---|---|---|---|
| Understanding the context of institutions and the expectations, multiple contradictory requirements. | Interpreting trends, and external signals and understanding which changes are temporary. | Internal resistance of the companies. Difficulty in acceptance from various internal stakeholders of the change that institutionalization brings. | Practical challenges of implementing changes that require significant shift in established practices and structures. |

This research employs institutional theory as its theoretical foundation to investigate the relationship between the institutionalization of sustainability reporting and organizational responses. Institutional theory, particularly from the NIS perspective, explains how institutional pressures shape management controls within companies. By adopting this perspective, the study aims to understand whether changes in company policies result from coercive, mimetic, or normative isomorphism. Furthermore, Greenwood's framework, based on the concept of isomorphism, is used to explore the challenges companies encounter in adopting sustainability reporting regulations. This framework outlines various challenges, including understanding

institutional contexts, interpreting environmental signals, overcoming internal resistance to change, and implementing structural shifts. This approach aids in providing insights into both the mechanisms driving policy changes and the obstacles faced by organizations in responding to institutional pressures.

# 3   Methodology

This chapter describes the methodology used for this study. Firstly, the research strategy, philosophy and design are presented based on the research questions. The research design subsection provides an overall approach to the study, discusses the world overview of the author, and presents the research strategy and plan. The next subsection discusses techniques and procedures for data collection and analysis. The researcher justifies the methods used regarding methodological literature mainly based on Saunders et al(2012), Blaikie et al(2000).

## 3.1   Research design.

The overarching aim of this study is to identify, compile and explore how SR regulation influences company policies. The research questions in this study fall into the category of inquiries that are relatively straightforward to address through the collection of relevant data and subsequent descriptive analysis. The methods are selected from a range of options, including data collection and generalisation, hypothesis testing, and the exploration of causal mechanisms, depending on the chosen research strategy (Blaikie, 2000). The author employs an abductive research approach in connection with the pragmatism research philosophy. The abductive approach is defined as when the researcher collects data to explore a phenomenon, identify themes and explain patterns, to generate a new or modify an existing theory which you subsequently test through additional data collection (Saunders et al., 2012). The researcher started exploration by collecting data, and further locating the patterns in the conceptual framework. Generalising occurs from the interaction between specific data such as case company secondary data and interviews and the general which is external interviews. Regarding research philosophy in this study, the author takes the pragmatism stance since the rationale of this research is the applicability of its findings. Under this research philosophy, the researcher recognises that there are many ways of interpreting the world, various points of view might be credible and therefore strive for multiple perspectives Saunders et al (2012). The research philosophy also determines the data collection methods employed in this study. Data used with this philosophical approach constitutes multiple method designs including in-depth interviews with various actors, independent practitioners, company representatives and evidence from the company data.

As defined by Denzin and Lincoln(2005), a research strategy serves as a blueprint detailing how a researcher intends to address their research question. It acts as the methodological bridge connecting a researcher's philosophical stance with the subsequent selection of data collection and analysis methods. The methodological strategy taken in this study is a multi-method qualitative approach. A multimethod qualitative study approach encompasses the integration of two or more qualitative methodologies within a single research study. This distinguishes it from mixed methods research, wherein both qualitative and quantitative approaches are blended; here, the emphasis lies on employing multiple data collection techniques and corresponding analytical procedures, though confined within either a quantitative or qualitative framework (Saunders et al., 2012). Proponents of multimethod qualitative studies argue that utilising different qualitative methodologies can enhance research quality and unlock insights that might otherwise remain beyond the researcher's reach (Mik-Meyer, 2021). A multi-method approach offers numerous potential combinations, and this study opts for a combination of interviews and document analysis. Opting for multi-method research offers several advantages, enhancing

the researcher's capacity to achieve a deeper understanding of the subject matter. The study design is case-centred qualitative research where "multiple qualitative methods for data gathering collectively play complementary and supplementary roles" (Roller & Lavrakas, 2015 p.309). This case-centered study involves the study of a case company, combined with interrelated information from external interviews. The chosen design provided an opportunity to analyse discrepancies between the reporting standard and policies conducting a gap assessment of observed company documents against ESRS and complemented by interview data, thereby contributing to a comprehensive response to the first research subquestion. Similarly, other research questions were addressed based on interview data both from case companies and external interviews. Thus, this study not only considers the viewpoint of a single company but also incorporates insights from diverse professionals to address the research questions. Drawbacks of the chosen approach are due to the additional data collection and analysis considerations being time and resource-consuming(Roller & Lavrakas, 2015).

## 3.2  Research settings and process

Yin (2009) highlights the importance of context, adding that, within a case study, the boundaries between the phenomenon being studied and the context within which it is being studied are not always apparent. In this study, the case pertains to a multinational, decentralised large company that operates across four continents—Europe, Asia, North America, and South America—with a global network of suppliers both upstream and downstream. The central focus is on the maternal company based in Sweden, operating in the manufacturing sector and offering customised products for selected industries because according to ESRS maternal company is responsible for reporting from subsidiaries (EU Commission, 2023). This company possesses extensive experience in sustainable business value creation and sustainability reporting. The selection of the case company was based on several criteria that align with the objectives of the study. Firstly, the company needed to have established MCS and an extensive list of policies. Secondly, it had to fall under CSRD regulation starting this year and conduct a preliminary DMA with a list of material topics. Thirdly, the case company had to demonstrate maturity in terms of sustainability reporting. Finally, the governance model between maternal company and subsidiaries is decentralised. The chosen case company fulfils all these criteria, making it an appropriate subject for investigation in the study.

According to Saunders et al, the research process is a multi-stage and dynamic process, which involves various steps, where each stage may overlap with and influence each other, and where careful planning and reflection are essential for rigour and validity throughout the process (Saunders et al., 2012). The author was inspired by the 4-phase model, developed by Blomquist & Hallin (2015) for the given research process. The research process unfolded through several sequential steps. Initially, the potential research areas were identified and a tentative research proposal. This stage also involved a literature review to determine the state of knowledge concerning the research area. After reviewing the research questions were designed and the research proposal was developed. In the first meeting with the company, the research proposal was presented, and the case company suggested potential research areas based on their specific needs. One area of focus emerged as the case company sought assistance in mapping and aligning its corporate policies with ESRS requirements, offering the researcher an opportunity to engage in a real-life context. As a result, the researcher refined the aim and research questions through discussions with the company. The outcomes of the DMA conducted by the company guided the selection of material topics and policies to focus on establishing the scope of the study. Practical challenges encountered were translated into gaps within academic literature to

meet the requirements of the thesis. As a result, need to focus not only on company data but also conduct benchmarking and have external interviews with subject matter experts to identify commonalities. The first draft of the background and case description was developed following the approach outlined by Pär Blomkvist & Hallin (2015), ensuring alignment with established methodologies and frameworks in the field.

During the second phase, the focus shifted to the methodology chapter, which entailed designing research settings, identifying relevant respondents, and initiating the recruitment process. The researcher also developed an interview guide and reviewed available data such as reports, policies, and guidelines. Relevant respondents were selected and contacted, while a plan for data collection was established. Additionally, a template Excel document for gap analysis was prepared. Further elaboration on the data collection process is provided in the respective section.

In the third phase, the empirical data collection progressed and was completed following the guidelines outlined by Pär Blomkvist & Hallin (2015). The gap analysis and interviews were finalised, allowing for the drawing and composition of conclusions. The first research question was addressed based on empirical data from gap assessment complemented with data from interviews. Adopting this approach helped to generalise and test findings from gap assessment. Empirical data gathered from interviews also served as a guiding point for the answers to the second and third research questions.

Phase four encompassed the delivery of the study's outcomes. This involved the conclusion, review, and presentation of the findings derived from the research process. In this phase, the researcher synthesised the gathered data, analysed the results, and drew conclusions based on the research objectives and questions. The findings are then reviewed to ensure accuracy and coherence with the research aims. Finally, the results are presented in the form of a written internal report, presentation, and academic paper.

## 3.3 Data collection

Qualitative exploratory research typically collects data in the form of non-numerical data, such as open-ended survey responses, interview transcripts, and observational notes, to explore and generate insights into research questions about complex and often subjective phenomena. (Saunders et al., 2012). To ensure the relevance and validity of the collected data (Blaikie, 2000), in this qualitative exploratory research, primary empirical data from various sources, including interviews and policy documents, and secondary data from the case company's existing reports and ESRS documents obtained from the official website were used. This study involved semi-natural settings, where professionals from the company and external respondents shared their experiences without engaging in the activities of interest at that moment (Blaikie, 2000). Triangulation in this study is integral to the research design using a multi-method approach. This involves collecting not only internal data from the company but also external sources such as interviews with subject matter experts and specialists from other decentralised companies. (Saunders et al., 2012). This comprehensive approach provided a holistic view of the process and captured diverse perspectives on how different companies undertake the implementation process.

## 3.3.1 Interviews

The research interview, an essential element for collecting valid data, must align with the research aim, purpose, and adopted strategy (Saunders et al., 2012). In this study, semi-structured one-to-one interviews, commonly known as qualitative research interviews were selected to explore the process of sustainability reporting and policy updating. Semi-structured interviews, commonly used in explanatory studies, aim to understand the relationships between variables and can be beneficial in both inductive and deductive approaches, as they seek to explain why relationships exist (Saunders et al., 2012). Therefore, this type of interview aligns with the purpose of this research. Additionally, this data collection method aligns with the interpretivism philosophy stance of the researcher, as the study aims to understand the meaning that participants ascribe to the studied phenomena. Several benefits stem from the method used. Firstly, the researcher can explore areas not previously considered but significant for understanding, thus addressing research questions. Moreover, the researcher was able to collect a rich and detailed set of data. According to Saunders et al., managers are more likely to agree to interviews than to write down answers, especially when the topic is perceived as interesting and relevant to their current work (Saunders et al., 2012). This was another reason for opting for in-depth interviews.

Regarding potential biases, such as interviewer bias resulting from interaction with respondents, in this study, to mitigate that impact, the researcher avoided asking leading questions. Concerning response bias, since the primary aim of the interview is to generate knowledge rather than perception, the researcher mitigated this bias by employing a method of asking for specific examples during interviews, helping to differentiate perception from knowledge. To address participation bias resulting from the nature of individual or organisational participants that might impede participation in the study, the researcher mitigated it by avoiding asking too many questions and steering clear of specific inquiries regarding their job.

The selection of participants was organised in the following manner. The interviewees primarily consisted of consultants from the sustainability and business management industry coded as A1 and A2, specialists from decentralised companies coded as B1 and B2, and consultants from Big 4 coded as C1 and C2 were selected through contacts on LinkedIn or direct email outreach. Internal interviews involved key business unit members involved in policy designing and development processes and coded as D1-D4. The researcher aimed for a diverse perspective by incorporating both internal and external interviews, conducting a total of 10 interviews, where 6 of them were external interviews with participants with substantial knowledge in the field of sustainability reporting, CSRD, ESRS, and company policies. Another 4 interviews were internal with the company management team, who were also policy owners. Internal interviews were conducted in parallel with external interviews and will be discussed in the relevant section of this thesis. The list of respondents is provided in Table 3-1 and Table 3-2.

*Table 3-1 List of external participants*

| Respondent | Coded name | Company | Business unit |
|---|---|---|---|
| Senior Consultant | A1 | Consultancy company | Management consultancy and sustainability reporting and policies |
| Senior Consultant | B1 | Decentralised group of companies 1 | Sustainability reporting and audit |
| Senior Partner | C1 | Consultancy company Big 4 | Financial and sustainability reporting and audit |
| Senior Manager | C2 | Consultancy company Big 4 | Sustainability, Business strategy |
| Director | A2 | Consultancy company | Management consultancy and sustainability reporting |
| Consultant | B2 | Decentralised group of companies 2 | Management consultancy and sustainability reporting and policies |

*Table 3-2 List of internal participants*

| Respondent | Code name | Company | Area |
|---|---|---|---|
| Vice President Legal & Compliance | D1 | Case company | Legal team and compliance |
| Sustainability Manager | D2 | Case company | Environment (energy and climate) |
| Vice President Excellence & Sustainability | D3 | Case company | Suppliers |
| Environmental Manager | D4 | Case company | Environment (Pollution) |

To enhance credibility, relevant information was supplied to participants before the interview. To maintain consistency and focus, interviews were guided by a prepared set of questions reflecting the study's objectives and research inquiries. Following the initial outreach to potential respondents for subsequent confirmation, online interview meetings were scheduled. Before each interview, participants were provided with an Informed Consent Form along with an interview guide containing a list of preliminary questions, as shown in Appendix 5 and Appendix 2 accordingly. In line with the research questions, the list included questions on what drivers of policy change are and from the given answers the researcher sorted drivers according to cultural controls, planning, cybernetic controls, reward and compensation and administrative controls Drawing from the framework outlined by Saunders et al., (2012) for semi-structured interviews, the researcher adopted the number and nature of questions based on the interviewee's background and role. Throughout the interviews, an online AI transcription tool, Fireflies, was used for real-time transcription, with all sessions recorded after obtaining the respondents' consent.

## 3.3.2 Secondary data

Secondary data for this research is divided into 2 categories: internal and publicly available data. Internal data consisting of company documents obtained directly from the case company. Following the first meeting with company representatives, the researcher signed a Non-Disclosure Agreement (NDA) and received the company's documents consisting of internal policies, directives, and guidelines. Within the company's administrative hierarchy, overarching documents, namely policies, take precedence, followed by directives and guidelines. After an initial screening, the received documents underwent categorisation based on their relevance to specific sustainability topics. Each document was appropriately labelled with the corresponding initials representing ESG aspects. The list of documents from the case company is shown in Appendix 3. Publicly available secondary data obtained through available web sources. Such documents as case company sustainability reports and ESRS documents were downloaded from official websites. The ESRS topical standards were chosen to study, by the DMA of the case company. The list of publicly available documents is shown in Appendix 4.

## 3.4   Data processing and analysis

Saunders et al.,(2012) argues that there is no standardized approach to analyzing qualitative data, instead research inductive or deductive approach is the key determinant. For this study, the author employed outlined by Saunders et al a generic approach to analyze data, given the mixed approach used. The procedure outlined included:

- Comprehending qualitative data both from primary and secondary sources
- Integrating related data drawn from interview transcripts and gap assessment.
- Identifying key themes or patterns for further exploration.
- Developing theory based on these apparent patterns and relationships.
- Drawing and verifying conclusions.

The data collected for this thesis encompasses information from various qualitative sources, and this chapter outlines the methodology employed for the analysis of each data type. The analysis of interviews and secondary data is undertaken separately initially to ensure a focused examination of each dataset. This approach allows for a comprehensive understanding of the insights derived from both primary and secondary sources in the subsequent stages of the research. The real-life transcription AI tool named Fireflies was used for the transcription and analysis of interview data. The principle of this tool is the following: the participant is informed about the third meeting attendant the tool which joins the meeting and transcribes and summaries the interview online. After the interview is finalized the researcher receives the transcription and summary of the meeting to her account. All data from the interview is stored on the password-secured account of the researcher. The participants were informed about the AI tool in the Informed Consent form as well as orally at the beginning of the interview. Additionally, all interviews were recorded separately on the phone to back up the data from the online transcription tool. AI tool Chat GPT is utilized for grammar checking and paraphrasing the text in this thesis.

## 3.4.1. Interview Data Analysis

The analysis process of the data collected from interviews started with transcription. Following the two-step analysis method outlined by Saunders et al., transcriptions underwent initial categorization of gathered data, followed by thematic analysis. Categorization, referred to as coding, organized the data into analytical categories guided by research questions and objectives, with categories labelled based on participants' actual terms. Some codes indicated emerging analytical linkages and expressed strength of opinion. Contextual data was attached to each category. The Atlas software was used to process the data. Coding procedures were conducted after all interviews were completed. Empirical findings were divided into three sections and coding themes. The first addressed gaps between CSRD requirements and answers to the first research sub-question. The next section identifies initial codes and themes for challenges that companies face, and this contributes to the second research sub-question. Finally, the third section explored strategies that companies should employ which contributed to the answer to the third research sub-question accordingly. The result of coding and common themes presented in Tables 3-3, Table 3-4 and Table 3-5.

*Table 3-3 Codes and themes from RQ1: Gaps*

| Initial codes | Themes |
|---|---|
| Climate policy | Topical gap |
| Human rights policy | |
| Biodiversity policy | |
| Suppliers Code of Conduct | |
| Circularity policy | |
| Gaps in the structure of policies | Content gap |
| Detailed policies | |
| Purpose of policies | |
| Local and group-level policies | Classification gap |

*Table 3-4. Codes and themes from RQ2: Challenges*

| Initial codes | Themes |
|---|---|
| The challenge of CSRD implementation | Implementation and compliance |
| The challenge of policy implementation | |
| The challenge of updating the Code of Conduct | |
| The challenge of meeting external expectations | |
| Challenges with policy monitoring | |
| The challenge of understanding policies | Understanding and development |
| Challenge of new policy development | |
| Challenge of Engagement | Engagement |

*Table 3-5.Codes and themes from RQ2: Strategies*

| Initial codes | Themes |
| --- | --- |
| Structured approach<br>Scope clarity<br>Project management<br>Trend following | Strategic planning and management |
| Understanding external demands<br>Clear communication on expectations<br>Engaging policy owners | Stakeholders engagement |
| Closing knowledge gap<br>Educating decision-makers<br>Knowledge transfer<br>Understanding sustainability<br>Understanding the purpose of reporting | Knowledge management |

## 3.4.2. Data analysis of the secondary data

The secondary data is subjected to content analysis, specifically applied to the collected case company data. This process reveals existing gaps between policies and ESRS.A gap analysis was used to identify any gaps in secondary data sources, which primarily comprised the company's policies, directives, pertinent guiding documents and relevant ESRS topical standards The process also included handbooks and the sustainability report, which collectively provided a comprehensive overview of the company's operational framework.  Kim & Ji's, (2018) 44-step approach framework guided the researcher in this analysis:

1. Identification of relevant ESRS standard requirement points for policies
2. Determining the ideal state of policies compliant with ESRS
3. Highlighting the gaps that exist and need to be bridged.
4. Modifying and implementing organisational plans to fill the gaps.

Utilizing an Excel spreadsheet as the primary tool, the gap assessment was designed to facilitate an in-depth analysis. The spreadsheet's layout was structured such that horizontal rows corresponded to the specific requirements outlined by ESRS concerning company policies. Meanwhile, vertical columns were dedicated to cataloguing the company's existing policies across various domains. Within the spreadsheet, the intersection of cells served as pivotal points, signifying the alignment—or lack thereof—between the prescribed standards and the company's actual policies. Employing a traffic light system, the colours red, yellow, and green were used to visually represent the degree of compliance. Red indicated instances of non-compliance, yellow highlighted partial adherence, while green denoted full compliance, offering a clear and intuitive assessment framework.

Following the completion of the gap assessment, attention was directed towards identifying and analyzing the most prominent disparities. This phase involved a comprehensive review of the identified gaps, allowing for a nuanced understanding of the underlying factors contributing gaps. The outcome of the given analysis aided to 2 purposes:

1. The results of the gap analysis were communicated with internal stakeholders which aided in the selection next potential respondents for internal interviews.
2. The results compared with the gaps identified in primary data analysis involving interview transcripts with external consultancies and identifying patterns.

As a result of this data analysis, the researcher answered the first research research question.

# 4 Findings

This chapter examines the impact of CSRD regulation on established management practices and policies, by presenting findings from empirical data. The chapter is divided into separate sections. The first section explains the gaps between current policies and CSRD requirements, presenting results from both the gap assessment and qualitative interviews. The following section discusses the challenges faced by companies in enacting these policy modifications, utilizing insights from interviews. The following section offers practices and recommendations from professionals on steps to address these challenges and ensure policy compliance with CSRD expectations. The final section summarizes the findings on how CSRD influences company policies. Findings presented from case company and external interviews presented in mixed order.

## 4.1 Key gaps

The first research question focuses on gaps between existing policies and reporting requirements. The gap assessment process involved cross-referencing the company's relevant policies and sustainability report with ESRS requirements and interviewing participants from similar companies and consultancies. This section provides a summary of the findings documented in the Excel spreadsheet used for the gap assessment complemented with practitioners' insights. In this case, gaps identified attributed not just one case company but the majority of large, decentralised companies. As a result of data analysis and coding following common themes emerged: topical gap, content gap, and hierarchical gap.

1. The topical gap defines the list of topics identified as material to the companies but not specifically addressed in the policy documents.
2. Content gap determined to what extent minimum disclosure requirements outlined in ESRS2 covered in each topical policy, the level of details regarding each impact, risk and opportunity adequately addressed.
3. The hierarchical gap describes discrepancies between local and group-level policies.

**Topical Gap**

According to the respondents in mature companies with numerous policies addressing various material topics, there are not many gaps(C1). Companies with decentralised structures have less formal governing and detailed policy documents since it is the responsibility of local businesses to have them. Now this changes since the regulation expects to report on formal documents and policies. (B1) Another justification for this gap is that topics addressed in policies expected to cover the material impacts of the company. The respondent from the case company justifies existing of gaps in topical coverage by stating that: "*topical gaps exist mainly since existing policies reflect only view of the company on critical areas for the company*". (D4) Therefore gap might be due to the strategic approach to a certain topic. For example, several major topical policies are lacking in the majority of cases: climate change policies and human rights policies scoping suppliers, and policies on biodiversity, circularity policies (C1, D3, A1).

Gaps were identified primarily within environmental-related topical standards, particularly in areas concerning climate, pollution, water, and circularity. Typically, climate change mitigation, adaptation and energy are very generally addressed in the Environmental Policy, outlining only efficient energy usage and emission reduction commitments. The climate policies are lacking because even though companies have carbon reporting in place and carbon reduction plans but its not aligned with the transition plan where the company explicitly sees climate change and how to approach it as a business, where the company wants to work. Many companies don't have a comprehensive transition plan which aims not just to measure climate impact but to reduce that through various strategic steps (C1).

According to the gap assessment and interview participants, social topics such as working conditions, an inclusive and safe workplace and other work-related topics relating to the workforce are sufficiently covered by the policies. Nevertheless, those related to the value chain receive less attention in the relevant policies.

In the majority of cases, topics related to business conduct are thoroughly addressed within the company's policy documents. The coverage of governance-related topics is rarely lacking due to the stringent demands from investors and regulators for robust governance, resulting in these topics being relatively well represented in the existing governance policies of the company (A2). With the introduction of ESRS, a new requirement has emerged for the integration of sustainability-related assessments into remuneration and incentive schemes within company policies. Despite the prioritization of this issue, specific standalone procedures and policies that address remuneration policies remain scarce. This is one of the notable gaps in governance-related topics as outlined in ESRS 2. Furthermore, the topic of biodiversity is often neglected in company policies and seldom appears as a standalone policy. This oversight occurs because biodiversity is a relatively new area of focus for many companies, and they often lack the necessary expertise to address it effectively (B2).

Topical gaps, such as inadequate coverage of emerging topics, exist due to the relatively novel nature of these topics. Traditionally, environmental policies have covered issues like water, pollution, and waste. However, the CSRD now requires consideration of additional topics beyond these traditional areas, introducing biodiversity, the circular economy, climate change mitigation and adaptation, and remuneration based on sustainability performance, among others, depending on the nature of the operations. The approach to identifying these topics is evolving, and with the application of double materiality lenses, topics previously not deemed strategic for the company are now gaining more importance than ever.

## Content Gap

The policies of companies often lack detailed information about impacts, risks, and opportunities. The double materiality approach identifies a broader list of topics to be covered, not just from an impact materiality standpoint but also from the perspective of risk and opportunity. While some policies cover aspects related to environmental impacts or risks associated with value chain considerations, high-risk areas often lack detail since the policies are on a higher level. Although the policy-embedded narrative of impacts and risks is managed, opportunities are often overlooked. The approach to policy design may need adjustment to align more closely with the reporting process, which now requires more detailed information about each impact, risk, and opportunity, as well as the processes addressing these matters (C1, A1).

Traditionally, company policies focus on action control, behavioural constraints, and a list of commitments. Therefore, they do not adequately cover impacts, risks, and opportunities related to specific topics. As a result, policy content mainly consists of a list of principles and commitments, and the language used reflects only general terms regarding environmental, social, and business conduct aspects. However, this approach needs to change, and policy text should outline specific objectives for the assessment, mitigation, and remediation of certain impacts, risks, and opportunities associated with specific sustainability matters (D2).

Respondent A1 outlines that policies in general built for another purpose.

*"Policies in general built for another purpose. For example, to meet Ecovadis requirements and get a high score. Thus, they don't have a holistic view on the topic. And now the companies must update entirely to meet ESRS requirements. And what is missing is level of details in existing policies"* (A1)

Turning to environmental policies, established corporate frameworks encompass various aspects including environmental management, adherence to ISO 14001 standards, pollution prevention, and resource efficiency. Strategies for sustainable development such as product innovation and stakeholder communication are also integrated. What is lacking in existing environmental policy content is to what extent objectives are linked to measurable targets. This involves linking commitments to objectives, which should then be tied to measurable targets in action plans. Additionally, clear communication of the policy effectiveness monitoring process and delineation of responsibilities is essential. For instance, existing policies specify the policy owner for each policy but do not explicitly define monitoring of the effectiveness of these policies. Another important point is defining the clear scope of the policy document, which in some policies is not adequately provided. Moreover, it's crucial to include specifications regarding the value chain in some specific topics according to ESRS such as climate and resource use related topics and ensure that the interests of stakeholders reflected in the policies are clearly articulated in the content.

In the context of social policies, only minor gaps such as the person responsible for implementation and policy availability are not explicitly covered in the policy text. But as indicated in the topical gap section social policies specifically covering own workforce have sufficiently developed.

Policies regarding workers in the value chain reveal a gap in specific policies addressing the interests and rights of these workers. While the Code of Conduct mandates supplier adherence to its principles, topics such as equal treatment and opportunities for all are not explicitly addressed. Nevertheless, the Code of Conduct serves as a basis for a self-assessment questionnaire, which acts as a monitoring mechanism for adherence to its principles. (A1) Regarding gaps in suppliers' code of conduct it depends to what extent the company fully implemented their thinking and approach to human rights and what extent human rights the business decisions of the company. Sometimes companies just copy-paste OECD guidelines without making the policy their thinking. (C1) Also one of the most prominent gaps lies in the absence of minimum thresholds and criteria within policies, particularly evident in the Supplier's Code of Conduct. Currently, these policies lack defined criteria for handling non-compliance and establishing minimum thresholds, reducing them to mere checkbox exercises. Furthermore, the respondent B2 pointed out a lack of clarity in due diligence processes and policies regarding how companies should respond to supplier non-compliance.

In conclusion, the content gaps in company policies typically refer to the lack of detailed information about impacts, risks, and opportunities associated with the way the company conducts its business. These gaps arise because traditional policies often focus on high-level

principles and commitments without specifying objectives for assessing, mitigating, and remediating specific sustainability matters, leading to a lack of actionable and monitorable commitments. In general policies are designed for other purposes such as meeting external requirements. Despite that policies typically might not fully integrate stakeholders interests such interests of stakeholders from value chain.

## Hierarchical Gap

Hierarchical gap defines the gap identified between local and central policies. In large companies, formal governance and detailed policy documents have traditionally been less emphasized, with local businesses assuming responsibility. Therefore, large companies have a hierarchy of governing documents encompassing policies, directives, recommendations on the management level and operational policies at the local level. However, with CSRD on the horizon mandating reporting on formal documents and policies revealed the necessity for the shift to more detailed group-level policies. (B1)

Gaps in the content of policies at both local and group levels have been identified, along with justifications for these gaps. For example, policies at the local level, certified in ISO, align to the largest extent with ESRS since these two standards adopt similar terminology and approaches to impact and risk assessment. Therefore, in ISO-certified operations at the local level, risks and impacts are determined and reflected in local environmental management policies. However, this alignment is not as evident at the group level policies. (D4) Moreover, while additional guiding documents such as environmental management recommendations, supplement the policy, and cover the aforementioned topics to a large extent in the majority of cases, these types of documents only cover the company's operations and neglect the broader value chain and suppliers. The level of granularity in local policies is incompatible with top-level policies.

Here is why this gap persists according to respondent from D4:

*"Aggregating data to the required level of detail from local operations and incorporating it into a general policy document at the group level is challenging. Various impacts and risks are material for different operational sites, and the level of data aggregation for KPIs has limits. Additionally, not all KPIs from the reporting system are reflected in the sustainability report due to the specificity of some topics." Additionally, a complex policy is not an effective tool for communication. Therefore, companies prefer policies that are easy to communicate internally and externally.* (D1)

To sum up, the hierarchical gap between between local and central level policies exists due to the decentralized governance structure of companies. Local companies, subsidiaries of large organizations often adapt or develop their own policies based on immediate needs, leading to inconsistencies with broader, centralized policies.

## 4.2 Challenges

Further findings from internal and external interviews have also elucidated the common challenges that companies face in bridging gaps and updating their policies to align with the expectations of the CSRD. The empirical data gathered for this section addresses the second research sub-question.

However, overall, the aligning policies with CSRD not perceived as challenging as other tasks associated with reporting compliance. Moreover, nearly all participants noted that policy updates are not as critical as other compliance tasks. The process of policy compliance under CSRD is flexible and given the robust outcomes from the DMA, developing policies that address specific issues is not considered a difficult task.

**Implementation and Compliance**

Respondents have highlighted several implementation challenges associated with updating policies within their organisations. Management consultants noted that the challenges they encounter are broadly reflective of those faced by many companies during the implementation of the CSRD, summarising that "*the majority of challenges are consistent with the overall challenges encountered in CSRD implementation*" (C1).

Majority of respondents stated that there were no significant obstacles owing to the comparatively straightforward requirements defined in the ESRS 2. The regulation allows for flexibility in adapting and changing policies, supported by the maturity of company policies and the knowledge already possessed by companies. Internal respondents particularly emphasised the robustness of their internal reporting and monitoring systems, developed over years, which facilitate the alignment of policy development and monitoring processes. Conversely, external respondents anticipated no major obstacles due to the existing knowledge, data, and awareness within the companies. However, implementing specific policies, such as the Suppliers Code of Conduct, and obtaining board-level approval were noted as areas needing additional resources and concerted efforts. According to respondents from case company:

"*Implementing policies such as the Suppliers Code of Conduct may pose challenges due to the complex value chain and the requisite number of suppliers agreeing to the new policy. This also necessitates resources dedicated to effectively communicating the new policy to ensure compliance.*" (D3)

"*Securing approval at the board level may require more time. Educating decision-makers and enhancing awareness at that level, along with providing concrete justifications for policy updates and the existence of certain gaps, may prove challenging.*" (D4)

Additionally, achieving a balance between simplicity and complexity in policy design is deemed crucial. This is a challenge given the complexity of value chain, diversity of stakeholders' interests in companies with various subsidiaries. The decentralised nature of the company complicates this task further. The most common approach is discussion the general strategic direction and overarching goals of the company at the group level, along with providing tools for compliance and KPIs for local companies. On the local level the entities then plan and execute the implementation process accordingly. It will be interesting to observe whether this approach evolves under the CSRD. (D4)

"*Finding a balance between simplicity and complexity is crucial. Designing policies that comply with the CSRD while leveraging available knowledge and expertise can be challenging. Additionally, communicating detailed policies to a diverse stakeholder group may be difficult due to varying priorities and interests.*" (D1)

The fast pace of regulatory changes can also pose a challenge for companies to review and amend policies whenever regional changes occur. (D1) Since CSRD has been introduced the reporting management practices and methodologies is rapidly evolving.

The interviewee A2 brought up another aspect such as capacity constraints in allocating resources for policy updates or balancing workloads with other sustainability initiatives. Companies might be challenged in deciding where the company should invest its time or financial resources. Some respondents mentioned that while it is easy to draft a steering document with a list of commitments, the challenge lies in creating a document that embodies actionable commitments to change. According to an interviewee C1 from consultancy:

"*Ensuring that the policy is integrated into decision-making and investment decisions is crucial. Simply aligning policies with external expectations does not guarantee the achievement of objectives like those set by the Paris Agreement. Furthermore, having approved policies that meet external expectations can also be challenging.*"

Moreover, monitoring the effectiveness of these policies and determining whether the policy objectives are met through actual actions remains a significant challenge. This is because determining the effectiveness of a policy requires systematic actions and the measurement of performance indicators.

## Understanding and Development

Respondents from similarly decentralised companies outlined expressed similar challenges related to policy changes within such organizations. For example, a significant challenge involves defining the typology of documents and deciding which types of documents (policies, directives, procedures) are necessary for addressing each material topic. Another challenge is "*determining and understanding the impacts, risk and opportunities that arise from their operations or value chains and addressing the gaps to enhance performance*" according to practitioner from consultancy (A2).

A respondent C1 from consultancy highlighted the difficulty in understanding the appropriate context of the topics covered by the policies. This includes comprehending the policies themselves, how they should be structured, and the prioritisation of topics, impacts, and leverage points for achieving improvements. Thus, defining the content and structure of these documents can be challenging for companies, as noted by both consultancy and company representatives. Companies might be challenged with identifying specific details on which the company should focus in terms of policy, determining the issues that need to be directed through policy, and identifying what constitutes a robust policy for a given topical matter. Understanding the policies, and envisioning their final form, as well as prioritising impacts, and leverage points for enhancement, are essential steps. (C1)

## Engagement

Other challenges with CSRD implementation might be encouraging collaborative efforts among stakeholders. According to interviewee A1 developing a systematic framework for policy updates and delegating tasks clearly might be challenging amidst various reporting initiatives. Respondent B1 from benchmarking company emphasized challenge concerning resistance to change which is particularly prominent in decentralized organizations since people are used to conducting business the way they did. Overcoming those challenges depends on how governance takes on the task and how the task is presented to the rest of the organisation.

## 4.3  Recommended strategies

The interview participants discussed potential best strategies for the companies to follow in general to comply with CSRD requirements and overcome challenges with updating policies. The result of the coding identified three crucial themes which are discussed below.

## Strategic planning and management

The reporting process begins with understanding the impacts, risks, and opportunities, followed by adapting strategies and subsequently rolling out policies. With input from the DMA and stakeholder engagement, companies should "*begin drafting and creating policies to gain an insight into how non-existing policies might appear for the company*" (B1).

Some respondents noted the lack of unified, standardised strategies for developing policies within companies, pointing out that approaches and preferences depend solely on individual company strategies and thought processes (C2). However, the majority of respondents emphasised that an established project management culture is crucial for setting and developing processes compliant with the CSRD. They advocate for a clear and structured approach, including the allocation of responsibilities and a definitive implementation plan. Some even described a step-by-step policy updating process that begins with rigorous DMA, defines IRO's, checks against ESRS standards, and conducts a gap assessment to identify deficiencies within the policies or their elements. A list of actions to address these gaps is then developed (A2).

Additionally, companies must remain agile and adapt to the dynamic environment of the sustainability regulatory landscape (A1). Being informed of trends and best practices is essential for enhancing the resilience of company strategies and, consequently, policies (D1, D2). Some respondents also highlighted the importance of benchmarking. The policy updating process must align with external expectations by ensuring that any objectives in the policy are consistent with those of peers or meet external standards (C1). Several participants emphasised the necessity of closely following industry peers and adopting best practices (D1, D2, and C1). It is advisable to include the general approach to supporting action plans within the policy itself, outlining the commitment to providing necessary resources and guiding principles for implementation.

Thus, while policy development can be pursued as a standalone process, the hierarchy of policies depends on the organisational structure, and board buy-in is necessary for policy approval. Effective governance processes, planning, and systematic execution are essential, and these processes ultimately influence the company's culture and values. Each component of this system is interconnected, illustrating a clear link between administrative controls, planning, and cybernetic controls. The question remains as to the extent to which one type of control can substitute for another to achieve transparent reporting outcomes.

## Stakeholders' engagement

Several respondents emphasised the critical role of involving stakeholders such as concerned business units and policy owners from the onset of the process. Stakeholders are pivotal initially in the DMA and subsequently in the drafting and development of policies. Key strategies include enhancing engagement, motivating policy owners to maintain current policies, clearly delineating responsibilities regarding policy governance, and establishing standardised processes for policy updates (B1, D1). Moreover, companies need to foster engagement not only for updating policies but also for monitoring the effectiveness of existing policies. It is pivotal that the principles of these policies are recognisable and applicable to every employee within the company (C1). This entails having overarching, concise, and comprehensible policies for internal communication across the entire workforce, as well as developing more detailed policies on each material topic for targeted groups (B2).

## Knowledge management

Closing the knowledge gap is among the most crucial steps companies must take to excel in CSRD compliance tasks. Several respondents emphasised the importance of understanding the core concepts of sustainability reporting, the regulations involved, and the standards necessary for successful implementation (B1, B2, C1, A1). As noted by respondent B1:

"*Closing the knowledge gap by understanding the implications of CSRD and interpreting these within the context of the company is a good starting point for the implementation strategy.*"

Moreover, understanding the real implications of policies is also an essential part of this strategy. As expressed by respondent C1, "*Policies are not merely gap fillers, and CSRD is not just a compliance task, but a crucial tool for transforming established practices to mitigate risks and impacts.*" The role of policies in this transformation should be redefined and established.

Open communication channels are crucial in addressing challenges in the policy update process. According to respondent B2 from similar decentralized company "*management should be clear about what is expected from employees regarding each strategic goal of the company and clearly define the benefits and risks of pursuing or not pursuing the principles outlined in the policies*".

Furthermore, a respondent D4 from the case company suggested that reverse knowledge transfer from local companies to the top management level could aid in developing more detailed policy development. "*The structure of an organisation determines the type of policies that exist now. At the local level, the company has knowledge and expertise; discussions on risks and opportunities have been in*

*place since 2015, but at the group level, topics are discussed at a more overarching level. Now, new regulations require specificity, which means a change in approach, transferring knowledge from the local level to the group level for developing detailed policies compliant with CSRD".*

A particular focus was placed on the approval process by company representatives by respondents B2 and D4. Modifying established policies and introducing new ones to the board of directors can present significant challenges. Therefore, it is crucial to approach this in a structured manner, ensuring the board is fully aware of the reasons for these changes and understands the necessity for policy updates. Therefore, educating decision-makers is crucial for ensuring informed and swift decision-making and avoiding complicated administrative procedures.

## 4.4  CSRD and company policies

The overarching research question of this thesis focuses on how CSRD influences company policies. All respondents pointed out similar drivers for policy change. According to them companies may review and change their management control practices for various reasons including customer demands, auditors' demands, geopolitical changes, new acquisitions, and technological developments. In the industrial sector, customers push for a sustainability agenda and demand the standardization of processes and policies. Furthermore, changes in company strategy and objectives due to new developments, acquisitions, geopolitical changes, new suppliers, and competitor benchmarking with best practices can lead to modifications in existing policies.

However, during the interviews, the majority of respondents identified regulatory pressure from CSRD as the primary driver of policy changes in companies. Specifically, companies tend to modify their policies not due to voluntary sustainability reporting, but in response to the institutionalisation of such reporting. The significant impact of sustainability reporting regulations on company policies centers around the concept of materiality assessment and changes in approach to the process. A DMA assessment necessitates a more rigorous approach to determining the impacts, risks, and opportunities from both internal and external perspectives. This adds a new layer of complexity but simultaneously dictates the list of material topics that the company must report on. Previously, policies only covered common topics deemed relevant for the company, but now they must reflect various stakeholder interests, particularly considering social aspects.

In previous reporting frameworks such as GRI, topics that were not prioritised were easier to omit. Under the new regulation, the company must provide solid reasoning for any omission. Once a company reports on a material topic, it should describe how the topic is managed, if relevant policies exist, and how they are implemented.

The official text of CSRD does not explicitly define "policy"; companies are only expected to report on the extent to which policies exist for certain topics. Thus, the regulation does not mandate policy implementation. The disclosure is based on the "comply or explain principle". However, the reporting regulation changes the importance of company policies by emphasising a structured approach to putting policies, actions, and targets in place. While policy requirements remain flexible, the reporting standard drives companies towards a structured approach to data collection and reporting with policies acting as guiding principles for decision-makers. ESRS transforms sustainability from a mere disclosure activity to a performance-oriented one.

Companies are expected not only to disclose their performance but also to explain factors driving any material increases, such as emissions, and outline corresponding actions. Having material topics covered in governing documents which are linked to actions and targets draws a holistic view of the management of sustainability matters that CSRD mandates. Without this view, it would be difficult to judge the effectiveness of the sustainability performance of the company.

Moreover, having material topics reported but not adequately addressed in company policies will raise questions from auditors, and under the new regulation, reasonable assurance will be applied to all sustainability reports soon. As a result, sustainability disclosure increases the importance of policies from mere administrative burdens to statements of strategic decisions and transparency in corporate practices concerning material topics. Additionally, sustainability reporting standards drive change in the content and structure of policies, making policies look more complex and detailed to cover all impacts, risks, and opportunities arising from sustainability matters. Policies are transforming into easy-to-use reporting process documents consisting of building blocks for addressing various topical requirements. CSRD influence not only encourages creating new topical detailed policies but in decentralised organisational structures might change policy hierarchy and instead of one generic group-level policy with complemented local-level policies, which is the most common and easiest approach, push to develop more detailed policy at a group level to make the reporting process easier. Thus, the reporting might change the policy hierarchy approach from a decentralised to a more centralised model of policies.

In conclusion, the reporting regulation plays a pivotal role in reshaping companies' approaches to policies, marking a crucial step towards a structured management of material topics. It prompts a reevaluation of policy hierarchy, particularly in decentralised companies, and encourages a shift in policy content. Rather than merely listing commitments, there's an emphasis on setting more detailed objectives on impacts, risks, and opportunities for each material topic.

# 5 Discussion

## 5.1 The changing role of SR

After evaluating the existing body of literature, it was determined that the subject is under-researched, especially considering new regulatory requirements. The overarching topic of interplay between SR and MCS already has been subject to various studies outlined in Literature review chapter of this thesis. However, studies scoping sustainability reporting standards and policies are very limited. In contrast to previous studies where voluntary sustainability reporting practices were considered this study is focused specifically on the regulatory requirement of sustainability reporting. The findings of this study confirmed conclusion of numerous previous studies focusing on the role of SR in shaping management practices. Previous studies have identified that SR encourages the establishment of new guidelines or codes of conduct (Traxler 2023, Adams 2007, Durden, Thijssens et al, Traxler 2020) which was supported by findings of this research. However, findings of some resent studies also based on interviews are counterintuitive, outlining that SR has no real effect on company policies and established procedures (Traxler et al., 2023). The findings of this thesis argues that SR has notable effect on company policies. Empirics both from gap assessment and interviews summaries notable gaps between reporting standards and existing policies. Even though established reporting guidelines also such as GRI prescribed disclosure on policies and implementation of those policies, the new reporting standard mandates disclosure with a certain level of granularity. The approach to determining material sustainability matters has also changed and therefore the number of material topics covered in policies is also increased. Therefore, the impact of CSRD on policies is largely driven by different approach to determining sustainability matters, the level of granularity that the disclosure requirements mandates, mandatory external assurance of the reported information, and overall, the regulatory obligation.

Findings from interviews present that local policies developed as part of EMS and certified align to a larger extent with CSRD and may be even used as input for environmental policy developments. This observation is consistent with previous studies focusing on interrelations between EMS aligned policies and environmental performance. Specifically, studies like Mahmoudian et al. (2022) have found that environmental management systems (EMS) that incorporate detailed policies tend to result in better environmental outcomes. Moreover, a comprehensive policy coupled with other management systems plays a significant role in achieving positive sustainability performance (Mahmoudian et al., 2022). Policies provide a plan but according to Guenther et al., (2016) exhibit various degrees of comprehensiveness and, therefore, usefulness in providing direction. CSRD encourages the comprehensive development of policies in line with other management controls. The structured 4 pillar approach outlined in the ESRS structure increases the strategic role of policies both from strategic governance and sustainability reporting perspectives.

Those findings justify that CSRD plays a pivotal role in reshaping companies' approaches to policies and encourages the development of new policies marking a crucial step towards a structured management of material topics. It prompts a reevaluation of policy hierarchy, particularly in decentralised companies, and encourages a shift in policy content. Rather than merely listing commitments, there's an emphasis on setting more detailed objectives on impacts, risks, and opportunities for each material topic.

## 5.1.1 Theoretical analysis

In this research, NIS perspective of institutional theory was adopted as a theoretical foundation. The concept of isomorphism based on the theory utilised to explain the change in established management control practices. Several respondents mentioned benchmarking, existing best-performing companies, and the willingness of the company to closely follow those practices. However external competition and existence of best practices is not a main driver of change in established management practices. Company policies typically reflect the internal thinking of the organisation, and most policy development is internally driven, as noted by respondents. Thus, it's unlikely that companies will adopt policies from other organisations to influence their own policies and procedures. However, as successful CSRD-compliant reports and policies become publicly available, companies may begin to mimic these examples. Until that point, the influence of mimetic isomorphism—a process where organisations imitate the models of their peers—is not considered significant. Empirical data and subsequent analysis have not demonstrated any evidence of norms, values, and management professionalisation influencing changes in company policies. Thus, the role of normative isomorphism is also not crucial. Majority of respondents indicated the outstanding role of regulatory pressure as a main driver for change in management practices. Empirics and literature review determined that coercive isomorphism is a process through which companies adopt similar practices. Through the change in practices the companies adopt similar approaches to change their policies. The broad consensus is that companies adapt their approaches to comply with regulatory requirements to gain legitimacy. These findings from empirical data contributed to revised and updated version presented on Fig 5-1 and Table 5-1.

The impact of the CSRD is clearly evidenced by both gap assessments and empirical data from interviews. Gap assessments have shown that there are significant gaps in the coverage of certain material topics and the content of the policies. Additionally, interview data highlights a gap in awareness at the governance level. These findings also lead to the conclusion that the CSRD introduces significant changes. A further detailed analysis was conducted to explore these challenges. This methodological approach has helped to classify and understand to what extend CSRD, as an institutional pressure, affects company policies.

Challenges identified from empirical data compared with Greenwood & Hinings(2024) framework. This approach helped to compare to what extent individual companies face challenges for organising in response to changing institutional contexts (Greenwood & Hinings, 2024). The data from interviews, when compared against the framework, show that companies often face similar challenges with CSRD implementation. The analysis concludes that, to a large extent, companies experience comparable challenges. For instance, the nature of the institution driving the change and the specific requirements—categorised as Challenge 1—are partially aligned with the challenges identified in this thesis. The nature of the institution imposing the regulation and the requirements it mandates are straightforward, as are the consequences of non-compliance with the regulation. Although the reporting requirements are not contradictory to other reporting frameworks such as GRI, they do possess a level of flexibility and ambiguity that allows for different interpretations by companies. For example, companies can design and develop their policies as CSRD does not provide any structure. Additionally understanding the implications of the reporting standard, interpreting to the company context and actionable strategy might pose a challenge.

The challenges from Category 2, associated with ambiguities in trends and the rapid pace of changes, as well as the permanence of changes in the regulatory landscape, also align somewhat with challenges arising from CSRD implementation. Although the CSRD was recently adopted

and is set to remain a principal piece of legislation for guiding the sustainability reporting landscape, it is unclear when and how the regulation will be incorporated into national legislation. This uncertainty demands that companies adapt quickly and remain agile to keep pace with changing management practices.

The challenges from the Category 3 associated with internal resistance align with the challenges outlined by respondents in the interviews. Addressing emerging topics such as climate change mitigation and adaptation, circular economy, biodiversity, and social issues related to value chain actors is a new practice for companies and deviates from established reporting culture. Balancing simplicity and comprehensiveness in policy design to address the diverse needs of stakeholders and operations across various subsidiaries. Additionally, taking responsibility for developing new policies, which previously did not exist, may encounter resistance from policy owners. Another crucial aspect is accountability for policy implementation. Companies need to clearly specify which senior-level members are responsible for the effectiveness of these policies. This responsibility must be explicitly indicated in sustainability reports and policy texts, which could expose senior members to scrutiny if policy implementation is unsuccessful.

The final set of challenges associated with the actual implementation that require planning and prioritisation, dedication resources, taking responsibilities which requires shift in established practices. Essentially CSRD implementation demands broadening existing management controls. The respondents outlined various implementation challenges for example implementing specific policies, such as the Suppliers Code of Conduct, which requires considerable resources for effective communication and compliance, and obtaining board-level approvals, which may be time-consuming. Therefore, the challenges summarised in the Category 4 also aligns with the findings of this study.

*Figure 5-1. Revised based on empirical findings theoretical framework of CSRD effect on company policies based on NIS theory and Greenwood & Hinings, 2024*
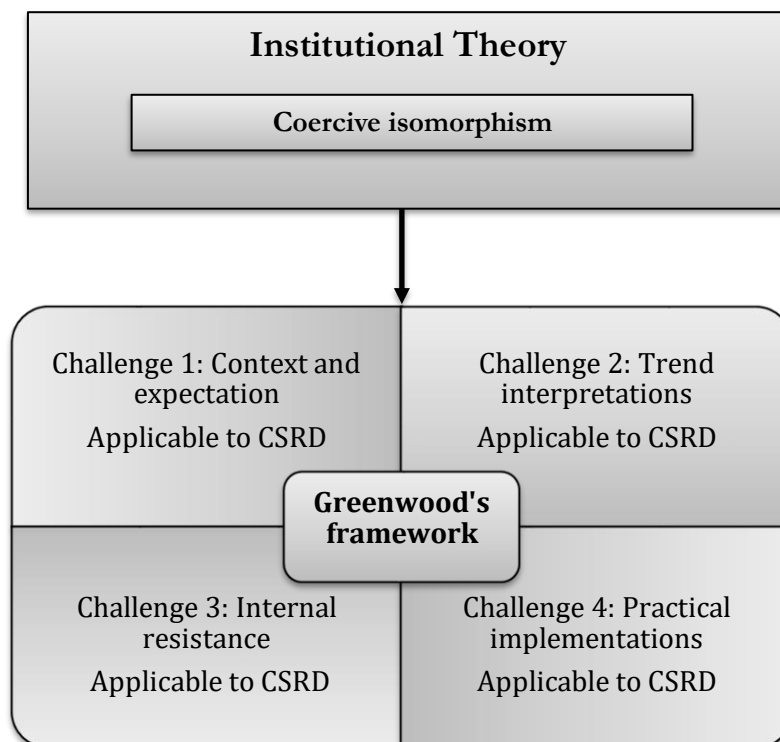
*Table 5-1.Alingment of challenges from (Greenwood & Hinings, 2024) with CSRD challenges*

|  | Challenge 1 | Challenge 2 | Challenge 3 | Challenge 4 |
|---|---|---|---|---|
| **Greenwood's framework** | Understanding the context of the institution and the expectations, multiple contradictory requirements | Interpreting trends, and external signals and understanding which changes are temporary | Internal resistance of the companies. Difficulty in acceptance from various internal stakeholders of the change that institutionalization brings | Practical challenges of implementing changes that require significant shift in established practices and structures |
| **CSRD** | The context of reporting regulations is clear. The reporting requirements are not contradictory yet possess a certain level of flexibility and ambiguity which is open to interpretations from companies. | The change is permanent however date of the transposition to national legislation varies and creates uncertainty. Additionally, the pace of change is quite fast. | Internal resistance was confirmed by various respondents' need to raise awareness, especially on top management level on why policies needed to be changed. | Practical challenges were also confirmed in various interviews, such as a lack of understanding of how new policies should look like, and clear allocation of responsibilities. However, the process usually requires only internal sources. |

In conclusion the institutional theory as an overarching theoretical framework helped to explain how regulatory, normative, and mimetic pressures from the CSRD influence companies to modify their policies and practices. Additionally, Greenwood and Hinings'(2024) framework helped to categorise and analyse the specific organisational challenges and responses to these institutional pressures, providing a structured approach to understanding changes in company policies and management practices.

## 5.2 Research quality

### 5.2.1 Methodological choices

According to Saunders, the quality of research plays a critical part in formulating a research design. (Saunders 2016). Reflecting on the reliability of this research internal validity is ensured by similarities of answers to the same questions. From a methodological standpoint, this research is unique in terms of its research design. A review of the literature reveals that the most widely adopted methodological approach for this type of research is qualitative, typically based on case studies or in-depth interviews. Quantitative studies in this field are also not uncommon. However, the author did not find any examples of research that adopts a multi-method research design combining empirical data from both case companies and practitioners. The thesis demonstrates a very high relevance to the main audience of the thesis.

As a result, a causal relationship between policies and SR has been established. However different experiences and worldviews of the respondents also contributed to diverse responses. External validity or generalizability of this research is ensured by posing more general questions and using different sources of data. The methodology of this research changed over time. Initially, it focused solely on a single case study, relying exclusively on data from one company. However, as the research progressed, it became evident that external data was necessary. The approach shifted towards identifying common patterns in the studied problem. Consequently, the study took a multi-method approach involving the collection and analysis of data from various sources such as in-depth interviews with company representatives and external practitioners, with a primary emphasis on company-specific data for the first research sub-question. Additionally, the research can be seen as a form of benchmarking, comparing one company against similar ones. Insights from interviews with consultants working across various companies were also incorporated. This approach helped to elevate the level of external validity of the findings. The methodology chapter is presented in detail and transparently to be replicated if needed by other scholars. However, the level of consistency given this study is replicated depends on the maturity of case companies, and the outcomes of a DMA.

The scope of this study includes only company policies and their adherence to CSRD. This study shed light on how mandatory reporting requirements shape established control systems of the companies. Such as established management control elements such as policies, which are traditionally considered a behavioral constraint and action controls, a gap filler, under the effect of SR are gaining more importance.

## 5.2.2. Limitations

This research is partially based on the data from the case company which may hinder the generalisability of the findings. To avoid this limitation the author employed a multi-method approach research design. The findings apply to large companies based in Europe that have subsidiaries in other geographies as well.

The research is conducted within an evolving regulatory landscape. During this thesis, the Swedish government has proposed postponing the application of the CSRD for the largest companies in scope by one year (Lagrådsremiss Nya regler om hållbarhetsrapportering, 2024). Consequently, the relevancy of the practical findings may be limited due to evolving practices and approaches, as well as changes in the legislative landscape.

Another limitation arises from the recent emergence of the subject matter. This research examines sustainability reporting regulation that is a quite recent development, which means that the the outcomes and implications both academic and practical, are quite limited so far.

# 6  Conclusion

This study aimed to investigate the influence of SR on management control practices, with a specific focus on changes driven by evolving regulatory landscapes. The overarching research goal was to examine the extent to which CSRD implementation affects company policies. Sub-questions were designed to deepen understanding of CSRD's influence. To understand this phenomenon, the researcher focused on identifying gaps between established practices and regulatory requirements. Additionally, from an implementation perspective, this research explored the challenges companies face due to CSRD's influence on policies and provided recommendations for companies. The results are expected to enhance understanding of the impact of sustainability reporting on management controls within large companies that have decentralized governance structures.

The overarching research question this thesis aimed to answer the following:

To what extent does CSRD influence the formulation and implementation of company policies?

The role of policies within the management control systems has been enhanced under the new reporting requirements. Overall, this research has shown that CSRD prompts revisions in company policies to enhance sustainability reporting and accountability. Sustainability reporting drives policy development and presents challenges for management, ultimately leading to a comprehensive shift in the organization's approach to policies and sustainability reporting. These findings provide empirical support to institutional theory, suggesting that external regulations can act as catalysts for strategic and operational changes within corporations.

The first research sub-question aimed to answer the following:

*1. What gaps exist between current company policies and the stipulated requirements of CSRD?*

The study achieved this aim by examining the gaps between existing policies and ESRS requirements. Empirical findings from gap assessment and subsequent interviews indicated that approach to materiality assessment enables companies explore topics that before deemed not particularly relevant. Additionally, the structure of ESRS facilitates emerging topics such as climate change, circular economy, biodiversity, value chain considerations etc. Company policies currently do not comprehensively address all emerging topics. Moreover, the depth of coverage on these topics within policies needs reassessment, as the standard demands a more detailed explanation of impacts, risks, and opportunities related to sustainability matters. Another finding from this research highlights issues in governance structure. Large companies with decentralized governance and various subsidiaries are experiencing a shift in policy approach. There exists a notable gap between local and central policies: central policies are often too general to meet the detailed requirements of the CSRD, while local policies are overly specific. However, locally certified policies from EMS can serve as a foundation for developing CSRD-compliant policies.

The second research sub-question aimed to answer the following:

*2. What type of challenges are encountered during the implementation of CSRD-related policy changes?*

The study established that companies face various challenges in aligning their policies with CSRD requirements. The nature of this challenges can be similar to overall challnegs that

companies face to be CSRD compliant. These challenges are associated with understanding the requirements of the new standards for specific context, interpreting implications for the company, internal resistance to the change and practical implementation.

The third research sub-question aimed to answer the following:

3. *What strategic measures can organizations adopt to bridge the gaps between policies and CSRD?*

Based on empirical data this study identified recommendations on strategic measures that companies might adopt to bridge these gaps. Companies should focus on strategic planning, stakeholder engagement, and knowledge management. Strategic planning involves understanding impacts, risks, and opportunities, and creating detailed policies aligned with these insights. Companies need a structured approach, clear responsibilities, and agility to adapt to evolving regulations. Stakeholder engagement is critical, involving business units and policy owners early in the process to ensure policies are comprehensive and effective. Knowledge management is essential to close gaps in understanding sustainability reporting and its implications. Organizations should foster open communication and educate decision-makers to facilitate informed, swift policy updates.

## 6.1  Practical implications

Findings of this thesis demonstrates high relevance to the main audience of this thesis which are companies falling under CSRD. Large companies in the EU required to start publishing reports aligned with the CSRD by 2025, leaving them less than a year to update their existing policies. This urgency makes the topic of this thesis particularly relevant. It provides practical guidance for companies navigating CSRD compliance complexities, sharing insights into effective policy revision and implementation. This research aids in benchmarking and comparing policy development progress, while also shedding light on challenges and optimal strategies. For instance, the findings from the first and second questions can guide companies, as this thesis highlights the current state of policy development, identifying the most prevalent gaps and challenges faced by companies. The insights from the third research question can be directly applied by companies looking to align their policies with CSRD requirements.

## 6.2  Future Research Implications

As previously noted, the regulatory landscape and managerial practices have been evolving during this research conducted. A recommendation for future research is to conduct similar research in a few years to assess to what extent the new standards have impacted the development of new policies. Another possible future research may be examining the effect of policy change under CSRD on other formal or informal management controls such as planning, reward and compensation, and organizational culture. Because the interrelationship between policies and other management control components is established but specifics regarding the nature of that relationship are out of the scope of this study. Therefore, studying to what extent CSRD influence other management controls and the relationships between them might be another proposal for future research.

Also, one possible avenue of future research might be a cross-sectoral study to identify the maturity of policies from different industries. Another suggestion may be studying companies from various regions of the EU, to see to what extent company policies evolved in various countries.

The research on sustainability reporting, particularly in regard to CSRD and its implications is an emerging field and future research in this area is likely to be of interest both from an academic and business perspective.

# 1. Appendix 1

**ESRS topical standards**

| Topical ESRS | Topic | Sub-topic | Sub-sub-topic |
|---|---|---|---|
| ESRS E1 | Climate change | Climate change adaptation<br>Climate change mitigation<br>Energy | |
| ESRS E2 | Pollution | Pollution of air<br>Pollution of water<br>Pollution of soil<br>Pollution of living organisms and food resources<br>Substances of concern<br>Substances of very high concern<br>Microplastics | |
| ESRS E3 | Water and Marine resources | Water<br>Marine resources | Water consumption<br>Water withdrawals<br>Water discharges<br>Water discharges in the oceans<br>Extraction and use of marine resources |
| ESRS E4 | Biodiversity and ecosystems | Direct impact drivers of biodiversity loss<br>Impacts on the state of species<br>Impacts on the extent and condition of ecosystems<br>Impacts and dependencies on ecosystem services | Climate Change<br>Land-use change, freshwater use change and sea-use change<br>Direct exploitation<br>Invasive alien species<br>Pollution<br>Species population size<br>Species' global extinction risk<br>Land degradation<br>Desertification<br>Soil sealing |
| ESRS E5 | Circular economy | Resource inflows, including resource use<br>Resource outflows related to products and services<br>Waste | |

| ESRS S1 and S2 | Own workforce and workers in the value chain | Working conditions<br>Equal treatment and opportunities for all<br>Other work-related rights | Secure employment<br>Working time<br>Adequate wages<br>Social dialogue<br>Freedom of association, the existence of works councils and the information, consultation and participation rights of workers<br>Collective bargaining, including rate<br>of workers covered by collective agreements<br>Work-life balance<br>Health and Safety<br>Gender equality and equal pay for work of equal value<br>Training and skills development<br>Employment and inclusion of persons with disabilities<br>Measures against violence and harassment in the workplace<br>Diversity<br>Child labour<br>Forced labour<br>Adequate housing<br>Privacy |
| --- | --- | --- | --- |
| ESRS S3 | Affected communities | Communities' economic, social and cultural rights<br>Communities' civil and political rights<br>Rights of indigenous peoples | Adequate housing<br>Adequate food<br>Water and sanitation<br>Land-related impacts<br>Security-related impacts<br>Freedom of expression<br>Freedom of assembly<br>Impacts on Human Rights Defenders<br>Free, prior and informed consent<br>Self-determination<br>Cultural rights |
| ESRS S4 | Consumers and end-users | Information-related impacts for consumers and/or end-users<br>Personal safety of consumers and/or end-users | Privacy<br>Freedom of expression<br>Access to (quality) information<br>Health and Safety<br>Security of a person<br>Protection of Children |

| | | | Non-discrimination<br>Access to products and services<br>Responsible marketing practices |
|---|---|---|---|
| ESRS G1 | Business conduct | Corporate culture<br>Protection of whistleblowers<br>Animal welfare<br>Political engagement and lobbying activities<br>Management of relationships with suppliers including payment practices<br>Corruption and bribery | Prevention and detection including training<br>Incidents |

# 2.    Appendix 2

**INTERVIEW GUIDE**

Date:

Interviewee: n/a

Interviewers: Zinyat Gurbanova

Topic: Corporate policy adaptation in response to CSRD

Duration (min): +/- 60

INTERVIEW AIM:

This research aims to establish the nature of the relationship between mandatory sustainability reporting and company practices. The main research question directly addresses the crucial question of to what extent CSRD implementation affects established management controls specifically policies. Research sub-questions elaborate on the nature of the influence and process of CSRD implementation. A policy is defined as a set or framework of general objectives and management principles used by management for decision-making. It is designed to implement the strategy or management decisions related to a material sustainability matter.

After a short introduction, the following focus areas will be discussed:

The common discrepancies between existing policies and ESRS requirements, challenges of implementation, possible strategies of implementation and general views on the relationship between policies and reporting standards.

THEME 1: Introduction

Could you tell me a bit about your role and experience with sustainability policies within your organization?

What are the key internal and external drivers that catalyze changes in the company policies?

How in your opinion does sustainability reporting influenced updating company policies so far?

Amidst various strategic initiatives, how does updating sustainability policies rank in terms of priority for the company and how does it change with introduction to CSRD?

Who is primarily responsible for updating the sustainability policies in the company?

THEME 2: Common gaps

From your experience, what are the most common gaps you observe between existing company policies and the ESRS requirements?

Can you outline the typical timeline for policy updates following the availability of MA outcomes?

THEME 3: Implementation challenges

What are some of the set up/ implementation challenges your company, or others you know, are facing during this transition and how have these impacted your approach?

What strategies can companies employ to overcome the challenges of aligning their existing policies with ESRS requirements effectively?

Once updated policies are implemented, how does your company monitor adherence to these policies and evaluate their effectiveness?

THEME 4: General ideas on relationship and future developments

What strategies have been effective, or are recommended, for companies to align their policies with CSRD requirements?

How do you anticipate the evolution of company policies in response to ESRS and other reporting standards, and what advice would you offer to companies starting this process?

# 3.    Appendix 3

**Internal documents from company**

*Table 1-3. Case company documents and data*

| Policies | Directives | Guidelines |
|---|---|---|
| Code of Conduct | Health and Safety Directive | Environmental Recommendations Handbook |
| Environmental Policy | Diversity, Equity and Inclusion Directive | |
| Whistleblower policy | | |
| People policy | | |
| Competition Policy | | |
| Conflict of Interests policy | | |
| Car Policy | | |
| Anti Corruption and Bribery Policy | | |
| Data Privacy Policy Remuneration Policy | | |

# 4.    Appendix 4

**Publicly available documents.**

*Table 1-4.Publicly available secondary data*

| Material owner | Document | Source |
|---|---|---|
| Case company | Annual report | This information is not disclosed due to confidentiality concerns |
| EFRAG | ESRS 1 General requirements | www.efrag.org |
| EFRAG | ESRS 2 General disclosures | www.efrag.org |
| EFRAG | ESRS E1 Climate change | www.efrag.org |
| EFRAG | ESRS E2 Pollution | www.efrag.org |
| EFRAG | ESRS E3 Water and marine resources | www.efrag.org |
| EFRAG | ESRS E5 Resource use and circular economy | www.efrag.org |
| EFRAG | ESRS S1 Own workforce | www.efrag.org |
| EFRAG | ESRS S2 Workers in the value chain | www.efrag.org |
| EFRAG | ESRS G1 Business Conduct | www.efrag.org |

# 5.    Appendix 5

**Informed Consent Form Participation in Master's Thesis Research**

Participant's Name:

I hope this letter finds you well. I am a master's student at Lund University, enrolled in the Environmental Management and Policy program. I am writing to invite you to participate in a research study I am conducting in collaboration with a case company in Sweden. This study is a vital component of my master's thesis and aims to contribute significantly to the business sustainability field.

Description of the Research Study:

Purpose: The primary aim of this research is to identify how companies, including the case company, adapt their policies in response to the Corporate Sustainability Reporting Directive (CSRD) requirements.

Description: As a participant, you will be asked to engage in an interview session where you will be questioned about the common discrepancies between existing policies and ESRS requirements, challenges of implementation, possible strategies of implementation and general views on the relationship between policies and reporting standards.

Benefits: The outcomes of this study are expected to provide valuable insights to the case company and other firms at similar stages of CSRD compliance. Your participation will be instrumental in bridging the literature gap on the role of company policies as administrative control tools in sustainability strategy integration.

Risks: There are no anticipated risks to participating beyond what you would encounter in everyday life. Any potential discomfort from discussing company policies will be minimised by ensuring a respectful and professional interview environment.

Confidentiality: All information you provide will be kept strictly confidential, used only for academic purposes, and anonymised in any publications or presentations resulting from this research. The interview will be recorded by using AI transcription software and a voice recorder. All recordings will be stored in a secured account.

Your participation in this study is entirely voluntary. You have the right to ask questions, seek clarifications, and take the time to consider your decision. If you choose to participate, you will be asked to sign this letter as an expression of your informed consent.

Please take your time to read and understand the information provided. If you have any questions or need further clarification, please contact me at the email address and phone number provided below.

By signing below, you confirm that you have read and understood the information provided and that you voluntarily agree to participate in the research study described above.

Participant's Signature: _____ Date: _____

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