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Stakeholders' perceptions on ESG reporting: On the case of Czechia and Estonia

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Abstract. The increasing commitment to sustainable development in European Union has led to the evolution of Environmental, Social, and Governance (ESG) reporting from voluntary disclosures to a regulated framework. This study explores stakeholder perceptions of ESG reporting in Czechia and Estonia, two EU member states with differing corporate governance traditions, to identify key

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drivers, challenges, and the alignment of ESG disclosure with stakeholder expectations in transitional economies. A qualitative methodology was employed, utilizing in-depth, semi-structured interviews with 24 stakeholders, including 20 company representatives and 4 auditors, in Czechia and Estonia. The interviews covered the understanding and implementation of ESG, perceived barriers, support mechanisms, and associated costs. Findings indicate mixed perceptions: larger, internationally tied companies view ESG strategically, while SMEs often see it as a costly burden. A significant “preparedness gap” exists between large firms and SMEs. Key challenges include financial costs, regulatory complexity (CSRD, double materiality), data management difficulties, and resource constraints, exacerbated by regulatory uncertainty. Effective ESG transition in Czechia and Estonia requires coordinated efforts, including government support for SMEs, clear regulatory guidance, industry knowledge-sharing, and responsible financial sector engagement to navigate complexities and realize potential benefits.

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1. INTRODUCTION

The evolution of Environmental, Social and Governance (hereinafter ESG) reporting in Europe is a testament to the region’s increasing commitment to sustainable development. What began as voluntary environmental disclosures has transformed into a comprehensive, regulated framework, driven by the imperative to address pressing global challenges. ESG reporting has become an essential tool for corporate transparency and accountability, driven by growing regulatory requirements, investor expectations, and stakeholder demands. While the European Union (EU) has implemented directives such as the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) to standardize disclosures, significant disparities persist across member states. Czechia and Estonia provide an intriguing comparative study, as both countries have embraced EU regulations yet display differences in corporate governance traditions, economic structures, and stakeholder expectations.

Among major reasons for ESG reporting need might be mentioned (i) addressing climate change, (ii) promoting sustainable finance, (iii) enhancing corporate transparency and accountability, (iv) managing risks and opportunities, (v) meeting stakeholder expectations, and (vi) regulatory pressure. Europe recognizes the urgent need to mitigate climate change and transition to a low-carbon economy, therefore ESG reporting plays a crucial role in tracking and reducing greenhouse gas emissions. Also investors increasingly demand transparency on ESG performance to make informed and relevant decisions. From this perspective ESG reporting is a great tool increasing transparency, allowing stakeholders (not limited to investors, customers and civil society) to assess companies’ environmental and social impact. This fosters accountability and encourages responsible business practices. Prior study of Strouhal et al. (2015) shows that sustainability factors significantly impact a company’s financial performance. ESG reporting may help companies to identify and manage ESG-related risks and capitalize on emerging opportunities. There also cannot be underestimated the role of customers where growing public awareness of sustainability issues led to increased pressure on companies to demonstrate their commitment to responsible practices.

Research on ESG reporting has predominantly focused on Western European and North American markets, with limited attention given to Central and Eastern European (CEE) economies, where sustainability practices are often influenced by external pressures rather than intrinsic corporate commitment.

This study aims to explore stakeholder perceptions of ESG reporting in Czechia and Estonia, identifying key drivers, challenges, and the extent to which ESG disclosure aligns with stakeholder expectations. By integrating insights from stakeholder and institutional theory, this research will provide valuable empirical evidence on ESG adoption in transitional economies, offering practical implications for policymakers, regulators, and businesses seeking to enhance sustainability transparency and corporate responsibility. The findings will contribute to the broader ESG discourse by shedding light on the evolving role of sustainability reporting in shaping corporate practices in the CEE region.

2. LITERATURE REVIEW

2.1. Studies focusing on esg-related topics

The issue of corporate social responsibility has been a topic of interest for researchers in different countries for several decades, as an increasing number of companies are committing themselves to the Sustainable Development Goals (SDGs) and consequently opting for assurance of sustainability reporting (Krasodomska, J. et al., 2024). Recent studies confirm this global trend, with researchers emphasizing the increasing role of CSR in business transformation across regions, including Southeast Asia (Hasan et al., 2025) and Eastern Europe (Apalkova et al., 2025). Hussain et al. (2024), for example, demonstrate the link between ESG disclosure, firm internationalization, and financial performance, drawing evidence from the Asia-Pacific region, further solidifying this global perspective. However, our literature review mainly covers publications from 2017 to 2024. This is due to significant changes in ESG reporting regulations during this period: the adoption of the Non-Financial Reporting Directive (NFRD) in 2014, followed by the Corporate Sustainability Reporting Directive (CSRD) in 2022, which resulted in the systematic and mandatory disclosure of environmental, social, and governance (ESG) aspects in corporate reporting.

The studies by Cuomo et al. (2022) and Christensen et al. (2021) demonstrate the positive impact of regulatory implementation (NFRD adoption) on non-financial disclosure, improving corporate transparency and efficiency. Furthermore, non-financial disclosure benefits capital markets by enhancing liquidity, reducing capital costs, and improving capital allocation. Christensen et al. (2021) assert that large companies are more inclined toward environmental practices compared to smaller companies. However, Cuomo et al. (2022) emphasize the positive impact of the "comply or explain" approach used in NFRD, which encourages smaller companies to adopt more CSR-oriented practices, ultimately improving their environmental and social performance. The overall effectiveness of the NFRD was limited by the lack of a dedicated reporting system and a high degree of flexibility (Pizzi et al., 2024). This shortcoming is expected to be addressed with the adoption of the CSRD, which provides a standardized set of indicators and also extends the NFRD requirements to small and medium-sized enterprises (Cuomo et al., 2022).

Having examined the annual reports and separate non-financial reports (sustainability reports) of listed companies covered by the STOXX Europe 600 index 2012–2020, Breijer and Orij (2022) came to the main conclusions that the implementation of the NFRD led to an increase in the use of investor-oriented standards (e.g. SASB), which led to an increase in information asymmetry, while standards aimed at a wide range of stakeholders (e.g. GRI) are applied by voluntary users, which mitigates information asymmetry.

Other researchers discuss the quality of non-financial disclosure in sustainability reports, defining it as critical and essential, as it affects factors such as the reliability of accountability and the formation of

stakeholder trust in the company. Haji et al. (2023) confirm the symbolic nature and low quality of sustainability reporting even after the introduction of mandatory disclosure requirements. At the same time, they note positive capital market outcomes (e.g., reduced information asymmetry and positive firm valuation) and CSR-related benefits (e.g., reduced carbon emissions) following CSR regulation. This observation is supported by Zhao and Sahari (2025), who found that CSR engagement can mitigate the negative effects of policy uncertainty on investment levels.

Krasodomska et al. (2024) noted after surveying 960 companies across 17 EU member states that many companies fail to disclose material information on key sustainability topics, and the lack of comparability and reliability in reports underscores the need for a robust and accessible reporting framework with effective assurance methods.

The integration of ESG factors into corporate strategies has increasingly attracted the attention of scholars and practitioners, as businesses are compelled to align their operations with sustainability principles to enhance competitive advantage and regulatory compliance (Rabaya et al., 2022). Several studies have explored the multifaceted impact of ESG disclosure on firm performance, governance structures, and financial stability, highlighting its role in risk mitigation and value creation (Nicolo et al., 2022). Zatonatskiy et al. (2024), for instance, examine how ESG investments and foreign direct investment act as determinants of global migration, further emphasizing the broad impact of ESG considerations. In particular, Pasko et al. (2025) stress the critical role of corporate governance in strengthening CSR frameworks and enabling more transparent sustainability strategies. The growing prominence of ESG reporting has fuelled extensive academic discourse on its implications for corporate performance, sustainability practices, and financial decision-making. A significant body of research has examined the evolving landscape of ESG disclosures, highlighting the challenges and benefits associated with regulatory frameworks, corporate transparency, and financial outcomes (Gholami, et al., 2022).

An important aspect of the successful implementation of CSR in enterprises, according to researchers, is the transition from accounting-oriented systems to accountability-oriented systems and the integration of social and environmental impacts with financial accounting and reporting. To achieve this, it is crucial to reform education in the training of future accountants and auditors by incorporating interdisciplinary ESG-focused learning into academic curricula (Sheehan et al., 2022).

Studies indicate that large firms benefit from enhanced ESG disclosures due to greater stakeholder expectations, while SMEs often lack the necessary resources to comply with stringent reporting requirements, leading to discrepancies in reporting practices across different firm sizes (Gholami et al., 2022). Additionally, the role of sustainability reporting in fostering a circular economy has gained increasing attention, particularly in industries such as the agri-food sector, where regulatory pressures under the EU's Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Regulation are influencing corporate reporting strategies. These regulations have created new obligations for firms to report on circular economy initiatives, although inconsistencies and gaps in reporting practices persist, requiring greater standardization and accountability measures (Falkenberg et al., 2023). Kontautienė et al. (2024) also contribute to the understanding of sustainable consumption, offering forecasts specifically for small economies, which could provide valuable context for SME sustainability efforts.

The relationship between macroeconomic stability and sustainability is also under scrutiny. Tjahjanto et al. (2023) investigate the links between high unemployment, disrupted economic growth, and the SDGs, emphasizing the need for inclusive labor market policies within ESG frameworks.

Alsheikh et al. (2025) found that enterprise risk management plays a crucial mediating role between corporate governance characteristics and CSR outcomes, suggesting a systems-based approach is necessary. Moreover, Sutisna et al. (2025) confirm the marketing impact of CSR, showing that the image of green brands significantly mediates customer purchase intentions in the personal care sector.

Beyond corporate practice, Makarenko and Makarenko (2022) propose a multi-level benchmark system for sustainability reporting based on EU experience, highlighting its potential relevance for transition economies such as Ukraine. Abou-Moghli (2025) emphasizes that knowledge management and innovation capabilities act as mediators between CSR and performance outcomes, reinforcing the integrative approach to sustainability.

Tourism and services sectors are also transforming under sustainability trends. Ardani et al. (2025) propose an integrated development model for sustainable tourism villages in Indonesia, which reflects the broader applicability of ESG principles in non-industrial sectors.

Recent insurance sector studies also reveal a strategic shift. Aboalgham and Alzghoul (2025) demonstrate that digital marketing enhances the reputation of insurance companies when combined with service quality and brand trust. Dillianti et al. (2025) build on this by showing that digital enablement connects market orientation and leadership, facilitating sustainability in the insurance industry.

Finally, Christofi et al. (2023) highlight that knowledge assets combined with CSR contribute to firm value, while Trinh (2025) links education investment to economic sustainability in Southeast Asia. Atkočiūnienė et al. (2025) also examine the development of sustainability through communication with clients, specifically within Lithuanian companies, providing a valuable case study.

The relationship between environmental performance and financial performance has been widely explored in recent years, as businesses face increasing regulatory and stakeholder pressure to adopt sustainable practices. Empirical evidence suggests that ESG performance has a direct impact on corporate financial outcomes, influencing factors such as investor trust, financial irregularities, and regulatory compliance (Liu & Jin, 2023). Firms with strong ESG performance exhibit lower financial irregularities, primarily due to enhanced corporate governance mechanisms and increased stakeholder scrutiny (Liu & Jin, 2023). Moreover, sustainability reporting is seen as a critical tool for future-proofing businesses against climate risks, with organizations adopting integrated reporting strategies to align with evolving global sustainability standards (Esther, 2023). Additionally, the financial constraints associated with green financing have been examined in relation to ESG performance. (Li et al., 2023).

The emergence of integrated reporting frameworks has sought to consolidate ESG disclosure into corporate reporting mechanisms, allowing stakeholders to assess firms' long-term sustainability performance comprehensively (Somoza, 2023). Despite the adoption of integrated reporting, scepticism remains about its effectiveness, as firms continue to grapple with the cognitive costs and complexity of ESG reporting (Rossi et al., 2023). Research indicates that organizations with robust ESG frameworks exhibit superior financial performance due to improved investor confidence and reduced cost of capital (Shad et al., 2020). However, variations exist across industries, with financial institutions and large multinational corporations leading in ESG adoption, whereas SMEs face barriers related to resource constraints and regulatory uncertainty (Afolabi et al., 2023). The work by Han et al. (2025) on how business practices of social entrepreneurs shape brand resilience in retail companies in Shanxi province, China, offers a specific regional and entrepreneurial perspective on these dynamics. One of the critical debates in ESG literature revolves around the role of gender diversity in corporate governance and its influence on non-financial disclosure practices (Nicolo et al., 2022).

Studies suggest that diverse boards, particularly those with greater female representation, enhance transparency, accountability, and ESG reporting quality (Nicolo et al., 2022). European regulatory interventions, such as Directive 2014/95/EU, have further incentivized firms to improve ESG disclosure, although compliance levels vary across member states (Nicolo et al., 2022). The role of corporate governance in fostering sustainability is also emphasized in banking literature, where ESG-conscious strategies have been linked to enhanced financial stability during economic downturns (Chiaromonte et al., 2022). Banks with high ESG scores reportedly exhibited greater resilience during financial crises, suggesting

that ESG integration acts as a buffer against systemic shocks (Chiaromonte et al., 2022). This stability is attributed to responsible investment practices, stronger risk management frameworks, and increased stakeholder trust (Chiaromonte et al., 2022). Investors perceive firms with superior ESG performance as less risky, leading to favourable credit ratings and lower borrowing costs (Zahid et al., 2023).

However, the role of audit quality in moderating this relationship remains inconclusive, as findings indicate that higher audit scrutiny does not necessarily translate to improved ESG-financial performance correlations (Zahid et al., 2023). Sustainability reporting has emerged as a key driver in shaping firms' cost of capital, with companies investing in comprehensive ESG disclosures benefiting from reduced cost of debt and equity (Shad et al., 2020). This trend underscores the increasing reliance of financial markets on non-financial information to assess firm viability and long-term value generation (Shad et al., 2020). Beyond financial performance, ESG strategies have broader societal and environmental implications. The growing demand for ESG disclosure stems from heightened stakeholder awareness of corporate social responsibility (CSR) and its influence on brand reputation and customer loyalty (Rabaya et al., 2022). Firms engaging in green innovation and socially responsible initiatives not only enhance their market positioning but also contribute to the broader sustainable development agenda (Nicolo et al., 2022). Theoretical perspectives, such as cognitive cost theory, suggest that clear and concise ESG reporting reduces information asymmetry and facilitates investor decision-making (Azimli & Cek, 2024). However, concerns persist regarding greenwashing practices, where firms exaggerate their sustainability credentials to attract investment without implementing substantive environmental or social initiatives (Arvidsson et al., 2022).

The ESG literature further underscores the sectoral and geographical disparities in sustainability practices. State-owned enterprises in emerging markets exhibit varying levels of ESG adoption, influenced by government policies, institutional frameworks, and market dynamics (Zahid et al., 2023). Empirical studies on Chinese state-owned enterprises reveal that firms with strong ESG performance have greater access to equity markets, demonstrating the financial incentives associated with sustainability (Zahid et al., 2023). Conversely, SMEs, which constitute a significant portion of the global economy, encounter barriers in ESG adoption due to limited financial and human resources (Cicchiello et al., 2023). Policy interventions aimed at simplifying ESG compliance for SMEs are necessary to bridge this gap and ensure broader participation in sustainability initiatives (Afolabi et al., 2023).

The interplay between ESG disclosure and firm competitiveness remains a focal area of research. Evidence suggests that firms integrating ESG principles into their business models outperform their counterparts in terms of market valuation, investor confidence, and regulatory compliance (Rabaya et al., 2022). However, the extent to which ESG disclosure translates into tangible competitive advantages depends on industry dynamics, stakeholder expectations, and regulatory environments (Cerciello et al., 2022). The concept of "sustainable corporate governance" has gained prominence, advocating for governance structures that embed sustainability at their core (Nicolo et al., 2022). This approach emphasizes the alignment of corporate strategies with ESG imperatives to foster long-term value creation and mitigate reputational risks (Nicolo et al., 2022).

Despite significant advancements in ESG research, several gaps remain. The heterogeneity in ESG measurement frameworks poses challenges in cross-sectoral and cross-regional comparisons (Arvidsson et al., 2022). Standardization efforts, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), aim to address these inconsistencies, yet widespread adoption remains limited (Arvidsson et al., 2022). Additionally, the causal relationship between ESG performance and financial outcomes warrants further investigation, particularly in the context of emerging markets and high-growth industries (Zahid et al., 2023).

To better understand ongoing legislative changes in the EU, the research by Hummel and Jobst (2024) is crucial, as they provide a structured overview of the five main sustainability reporting mandates in the EU

(the NFRD, the CSRD, the Taxonomy Regulation, the SFDR, and the Pillar 3 ESG risk disclosures) and outline three key reporting standards (GRI Standards, ESRS, and IFRS sustainability disclosure standards), comparing their core characteristics and summarizing key differences.

Considering that the CSRD took effect in 2024, with the first reports to be submitted in 2025, researchers explore the historical, legal, and economic context of the CSRD, analyze its objectives, scope, and expected benefits, and assess potential burdens and costs associated with its implementation (Odobáša and Marošević, 2023).

Prior literature highlights the following benefits of implementing CSRD: standardization of sustainability reporting, which contributes to more open and understandable communication with stakeholders (transparency) and greater comparability between companies, and the fact that standardized and verified sustainability reports will lead to more sustainable business practices, financial risk management, and new business opportunities (Odobáša and Marošević, 2023).

First, the CSRD is perceived as a “burdensome regulatory act”, especially for organizations with limited capabilities, requiring additional financial costs, in particular for attracting and training staff, mandatory audits (Setyaningsih et al., 2024; Krasodomska, et al., 2024). This means that non-NFRD firms may need additional support and resources to adequately prepare for and comply with the CSRD.

One of the key issues highlighted by the authors is knowledge gaps (Setyaningsih et al., 2024), as well as technological hurdles (Setyaningsih et al., 2024). A group of Danish researchers notes that ESG data management is predominantly carried out manually or through separate IT systems (e.g., using Excel or similar tools) (Jensen et al., 2024).

Assessing the readiness of financial (banks) and non-financial sector enterprises to implement CSRD regulations in their operations, researchers find that problems in applying CSRD, which, in turn, can slow down the transformation process towards a sustainable European economy and society, may include: difficulties in understanding the scope of CSRD, internal communication issues, complexity in finding relevant information, collecting it, verifying it and preparing reports (Odobáša and Marošević, 2023); problems with the availability and quality of information related to the identification of impact materiality (Mezzanotte, 2023); insufficiently thought-out connection between financial statements and sustainability reports (Odobáša, and Marošević, 2023), unclear sanctions regime in case of publication of low-quality reports or failure to publish reports (Odobáša and Marošević, 2023).

According to the CSRD, the central requirement governing the corporate sustainability reporting process is the assessment of double materiality (Mezzanotte, 2023). At least in the early stages of CSRD implementation, many companies, especially those that were not previously covered by the NFRD, will face difficulties in adequately disclosing material impacts. Ahmad et al. (2024) emphasize the increasing role of technology and the development of a digital organizational culture to achieve corporate social responsibility and sustainable competitiveness.

2.2. Current esg reporting legislature development on European level

The regulatory environment concerning CSR and ESG is undergoing a fundamental shift across the European Union, with significant implications for companies operating in Czechia and Estonia. The primary catalyst for this change is the Corporate Sustainability Reporting Directive (CSRD), which replaces and substantially expands upon the previous Non-Financial Reporting Directive (NFRD). The CSRD aims to elevate sustainability reporting to the very same level as financial reporting, increasing the transparency, credibility, and comparability of ESG data to support the EU's sustainable finance goals and Green Deal objectives. It dramatically expands the scope of companies required to report, from approximately 12,000 under NFRD to an estimated 50,000 across the European Union.

There are two implementation phases. Within Phase 1, companies already subject to NFRD obligations, were required to publish their first CSRD-compliant sustainability report in 2025 (covering the financial year 2024). Phase 2 is focusing on large companies and listed SMEs. This phase is significantly affected by current EU's "Omnibus" or "stop the clock" directive. This directive postpones the initial reporting deadlines for companies falling under Phase 2 (large companies and listed SMEs) by (at least) two years. This means large companies originally set to report in 2026 (for financial year 2025) would now report in 2028 (for financial year 2027), and listed SMEs originally reporting in 2027 (for financial year 2026) would report in 2029 (for financial year 2028). The Omnibus package also proposed potential increases to company size thresholds (e.g. raising the employee count).

This evolving regulatory landscape presents significant challenges for EU-based companies. The tiered compliance deadlines and potential shifts in requirements make strategic planning and resource allocation difficult, especially for companies near the thresholds or those being large companies within a Phase 2. The delays and EU pressure also signal potential bottlenecks within the supporting ecosystem – auditors, consultants, and software providers need time to build capacity and expertise for the expanded scope and mandatory assurance requirements.

Table 1. CSRD Implementation Roadmap Reflecting Post-Omnibus Delays

Company criteria	Original reporting		Post-Omnibus revised reporting	
	In year	For fin. year	In year	For fin. year
Companies previously subject to NFRD	2025	2024	2025	2024
Other large companies (meeting 2 of 3 criteria: more than 250 employees, more than 50 mil. EUR turnover, more than 25 mil. EUR total assets)	2026	2025	2028	2027
Listed SMEs	2027	2026	2029 (2031)	2028 (2030)
Certain Non-EU parent companies with significant EU activity	2029	2028	2029	2028

Source: CSRD, Omnibus Directive

3. METHODOLOGY

To understand the current situation in Czechia and Estonia, there was applied the single-country approach, however, there is also a need for a regional (CEE) picture. This one is considered as a suitable one when understanding the local context and positioning of local stakeholders and their possible reactions to a change in the reporting of non-financial data. Findings of our research are policy-relevant at national level.

There was utilised a qualitative methodology and a perceptual instrument (interviews with relevant stakeholders). Primary data were gathered to obtain insights on the perception of various groups of stakeholders involved in ESG reporting (i.e. company representatives and auditors) using in-depth, semi-structured interviews. Interview questions covered the current state of understanding ESG by companies and their shareholders, their current ESG knowledge, investments done into gathering of ESG reporting relevant information, the use of AI for creating ESG reports and what help might be vital for companies.

There were conducted 24 interviews within the period between August and November 2024 in Czechia and Estonia, where in both countries were interviewed 10 company representatives and 2 auditors. Most interviewees have a complex experience and hold sometimes more positions within the company when one part is focused on ESG-related issues. The average work experience for Czech company representatives is

16.8 years (range between 4 – 30 years of professional experience, for Estonian company representatives is 13.6 years (range between 8 – 20 years of professional experience); the average work experience for auditors is 19 years (range between 14 – 27 years of professional experience). All interviewees have a deep understanding of ESG principles and ESG reporting context.

All interviews were recorded and transcribed based on the permission to record from interviewees. The interviews were conducted in the interviewers' and interviewees' native language to ensure a better understanding of the subjects under discussion. The research team members present during the interviews also took notes on their personal reflections, which later significantly aided in identifying relevant topics. Four different interview structures were prepared based on the approached stakeholder: (i) corporate representative, or (ii) auditor. Questions focused on these major topics: (i) role of ESG principles in the company, (ii) potential barriers for the adoption of ESG in the company, (iii) internal and external support received or needed for ESG reporting, and (iv) identification of additional expenses associated with ESG reporting implementation.

Table 2. Information about Interviews and Interviewees

Interviewee	Characteristics of an interviewee	Interview period / duration
I01-CZ	Person in charge of ESG topics in multinational company (SME) focused on parcel deliveries with 8 years of professional experience	October 2024 – 1 hour
I02-CZ	CFO of a multinational packaging company (SME) with more than 20 years of professional experience in finance and controlling	October 2024 – 50 minutes
I03-CZ	Head of the accounting department of the agricultural company (SMEs) with more than 30 years of professional experience in accounting and financial reporting	October 2024 – 50 minutes
I04-CZ	Person in charge of ESG topics in multinational company (SME) focused on education with 4 years of professional experience	October 2024 – 40 minutes
I05-CZ	Person in charge of ESG reporting in multinational company (large) focused on automotive with more than 15 years of professional experience (last 6 years in ESG related issues)	November 2024 – 1 hour
I06-CZ	Controller in local transportation company (large) focused on controlling and newly sustainability issues with 4 years professional experience (last year focusing also on ESG related issues)	November 2024 – 1 hour
I07-CZ	CFO of multinational manufacturing company (large) focusing on financial reporting with more than 30 years of professional experience	November 2024 – 50 minutes
I08-CZ	Head of the accounting department in multinational retail company (SME) with 18 years of professional experience in financial reporting	November 2024 – 45 minutes
I09-CZ	Controller in a local start-up focused on sustainable food packaging (SME) with more than 20 years of professional experience in finance	November 2024 – 45 minutes
I10-CZ	Head of the accounting department in a local energy trading company (SME) with 19 years of professional experience in financial reporting	November 2024 – 50 minutes

I11-EE	Head of accounting department of the local retail trade company (SME) with 18 years of professional experience in financial reporting	September 2024 – 55 minutes
I12-EE	CFO of a multinational real estate company (SME) with 14 years of professional experience in controlling and reporting	September 2024 – 50 minutes
I13-EE	Controller in a multinational transportation company (large) with 19 years of professional experience in controlling and reporting (with last 5 years in ESG related issues)	September 2024 – 1 hour
I14-EE	ESG specialist in multinational wholesale company (SME) with more than 15 years of professional experience in CSR and ESG related topics	September 2024 – 55 minutes
I15-EE	Controller in a multinational real estate company (SME) with 8 years of professional experience in controlling and reporting	September 2024 – 50 minutes
I16-EE	CSR specialist in a local energy company (SME) with 11 years of professional experience in CSR and now ESG	October 2024 – 45 minutes
I17-EE	CFO of a local retail trade company (SME) with more than 20 years of professional experience in reporting, controlling and budgeting	October 2024 – 50 minutes
I18-EE	CFO of a local software development company (SME) with more than 10 years of professional experience in finance and reporting	November 2024 – 45 minutes
I19-EE	Head of the accounting department of a multinational mechanical engineering company (SME) with 12 years of professional experience in accounting and reporting	November 2024 – 40 minutes
I20-EE	Controller in a local timber company (SME) with 9 years of the professional experience in reporting and budgeting	November 2024 – 40 minutes
A01-CZ	Statutory auditor in multinational company outside Big4 with 15 years of professional experience in statutory audit	October 2024 – 1 hour
A02-CZ	Statutory auditor in multinational company (Big4) with 27 years of professional experience in statutory audits	October 2024 – 55 minutes
A03-EE	Statutory auditor in multinational company (Big4) with 14 years of professional experience in statutory audit	September 2024 – 55 minutes
A04-EE	Statutory auditor with more than 20 years of professional experience in statutory audits	September 2024 – 50 minutes

4. EMPIRICAL RESULTS AND DISCUSSION

4.1. Position of company representatives

Role of Leadership and Strategic ESG Integration

For many companies (especially for those with EU-parent), ESG is transitioning from a peripheral concern to a core component of their overarching business strategy. Respondent from the large manufacturing company explicitly stated that its ESG strategy is an integral part of the overall company strategy, receiving regular attention and support from the highest levels of management, with specific board members assigned responsibility for overseeing sustainability initiatives across key operational areas like purchasing, production, and logistics.

In companies being part of larger international groups is visible that ESG goals are often cascaded down from parent, with local leadership and the central office jointly making decisions on ESG related investments and strategic direction.

Challenges in ESG Implementation

Companies encounter a spectrum of obstacles in their path towards the effective ESG implementation. These barriers range from informational and methodological complexities to resource constraints and internal cultural factors.

The company's representatives mostly mentioned the difficulty in accessing clear information. One representative of logistics company highlighted the struggle to find reliable data for crucial metrics like emission factors and fuel consumption per ton-kilometre. There was also pointed out the lack of detailed technical guidance for performing necessary calculations and uncertainty regarding what constitutes a relevant and credible source for such data. CSRD standards are seen as too complex, with references to other protocols (alike GHG protocol) whose methodologies are sometimes only partially or difficult to interpret.

Some interviewees also perceive an increased administrative load and a general sense of uncertainty surrounding these new requirements. One representative mentioned they are waiting to learn from their parent company's initial reporting cycle before their own obligations commence.

The practicalities of data collection present a significant hurdle. One interviewee from SME specifically pointed to an "insufficient data collection system and a lack of relevant data" as primary barriers. The need for effective software support for robust ESG data collection, management, and evaluation was also highlighted by a representative of larger manufacturer.

As another significant barrier were also identified financial and HR limitations.

Support from the Parent

For companies operating as subsidiaries of larger multinational corporations, the nature and extent of support from their parent company is crucial. A representative of larger manufacturer described receiving robust informational support from its parent, particularly through the sharing best practices from across the group. Another interviewee mentioned the initial informational training and presentations from its central headquarters. The financial support from parent however varies – the representative from logistics company characterised the financial support received from parent company as "sufficient" for its current needs in implementing ESG reporting; the representative of parcel service company mentioned receiving "minimal" support from its parent, primarily relying on its own internal resources for ESG initiatives.

Investments in ESG

The level of financial and operational investment in ESG initiatives varies considerably across the interviewed company representatives, reflecting their sizes, sectors, operational footprints, and the maturity of their respective ESG strategies.

The interviewee from a large automotive company reported ESG-related investments in the order of millions of EUR, primarily linked to the development and production of more sustainable products. These investments are complemented by numerous operational projects aimed at resource efficiency and broader support for various ESG-related initiatives.

Another industrial representative noted that their ESG investments encompass a range of activities, including employee training, pilot programs for more environmentally friendly vehicles (e.g. testing HVO fuel), and other initiative. Some representatives from SMEs reported more modest investments.

Personnel and Financial Costs Related to ESG Reporting

The implementation and ongoing maintenance of ESG reporting systems necessitate dedicated resources. Companies are at various stages of quantifying these requirements. Majority of companies is mentioning that they are dedicating 2-3 individuals to ESG reporting; some companies also mention the help from external consultants.

The estimated financial costs related to ESG reporting varies mostly based on the size of the company from 5,000 EUR to tens of thousands EUR.

Adequacy of ESG Reporting Training

The availability, accessibility, and perceived adequacy of training related to ESG principles and ESG reporting are viewed variably across different companies. Representatives of larger companies indicated access to a “wide range of training opportunities” in the ESG domain. Some interviewees also mentioned the initial trainings and informative presentations provided by parent, which were later supplemented with external ESG training to better understand expectations.

There shall be pointed out the common sentiment that much of the available trainings tend to be “highly theoretical”, lacking any practical, hands-on guidance. There was also mentioned the problem that majority of information about ESG reporting is still not available in a local language.

Expected Benefits of ESG Reporting

Despite the challenges, companies also recognise and anticipate a range of potential benefits stemming from systematic ESG reporting and the underlying commitment to sustainable practices. A primary advantage mentioned by manufacturing representative is the ability to provide “transparent, verified non-financial information” to a wide range of stakeholders, including investors, customers, employees, and regulatory bodies. Some interviewees also see robust ESG reporting as a mean of preventing “greenwashing” when communicating sustainability efforts. A representative from a parcel company mentions that ESG reporting has evolved into an “important criterion for selection in tenders, particularly for German customers”, underscoring its growing significance in international business relationships.

Expectations of Support from Supply Chain Partners

The degree to which companies expect support from their larger customers or partners within their supply chain varies. Some representatives “expect support” from such partners in preparing their ESG reports mentioning that such collaboration is “also in the partner’s interest to increase the accuracy of the supply chain report.” SMEs representatives mostly stated that they “do not expect” such support from their supply chain partners.

The Potential Role of AI in ESG Reporting

There is a generally optimistic view across the companies regarding the potential application of AI tools to streamline and enhance ESG reporting processes, though some caution about data sensitivity. The primary areas where AI is seen as beneficial are data processing, analysis, and the structuring of reports, what may also reduce its labour intensity. The common sentiment is that it is “certainly not possible to build the entire ESG report solely with AI”.

Expectations Regarding State Support

When it comes to the role of the state in facilitating the ESG transition, companies expressed a range of expectations and preferences, from calls for clear information and financial incentives to a desire for minimal intervention. Interviewee from parcel company suggested that, for now, “clear instructions and information, a uniform scope, and consistent communication” from state authorities would be sufficient. A

manufacturing companies expressed a wish to “continue supporting companies in implementing green measures aimed at reducing emissions,” citing examples like support for photovoltaic installations.

4.2. Position of auditors

Preparedness of Auditors

Audit companies are in the process of expanding their knowledge and collaborating with external experts to audit ESG reports. All interviewed auditors undergone training to be certified to audit these reports. Audit companies are currently dedicating smaller teams with internal and external experts for ESG audits, acknowledging that these individuals will be missed in statutory audits. These teams are planned to grow as more clients require ESG reports.

Some interviewees expressed concerns about the readiness of companies for ESG reporting, with preparedness varying significantly from those unaware of the obligation to those investing considerable resources.

Auditing ESG reports for SMEs may be less demanding depending on factors like being part of a supply chain or group, but generally, it will still be challenging.

Data and Reporting Quality

Auditors will focus on clients reporting data where available. The aim is to elevate the non-financial area to the same level as financial reporting for better comparability and investor decision-making. There is a significant lack of practice in data-based reporting of ESG activities in the Czech and Estonian market.

Based on auditors' experience, many companies lack robust internal control systems for collecting non-financial data reliably. Unlike financial data, which has formalised controls and approval processes, these are often not yet defined for non-financial data. This is an area where discrepancies may occur. Having a dedicated person or team for ESG reporting in the company is crucial due to the evolving nature of the legislation and the need for consistent data collection and reporting.

A major gap in current ESG reports is the lack of data from value chains, as smaller companies, in particular, are not accustomed to reporting this information, and neither creditors nor suppliers have traditionally requested in. Often, small suppliers either do not want to provide this data or cannot collect it in the quality required by CSRD.

Alignment with Regulation

Based on interviewed auditors experience, the preparation for ESG reporting should start early, ideally with data collection beginning well before the reporting period, as retrospective data gathering is significantly more difficult. Companies that have not yet started should consider preparing a report as a practice run to identify necessary data and key personnel.

The double materiality is seen as a source of significant challenges and gaps. Companies often start with the data points rather than identifying impacts and opportunities first, leading to completeness issues from auditors' perspective. Analysing impacts, risks, and opportunities along the value chain and within subsidiaries is challenging but essential.

4.3. Excerpts from interviews

Availability of ESG/ESG Reporting Related Information

I17-EE points out that the responsibility for finding information has largely fallen on the shoulders of the companies themselves. Since the directive had not been transposed into Estonian law at the time of the interviews, there are no Estonian-language standards available, which means they rely solely on English-

language materials for information. However, the English-language materials are written in complex legal English. In their opinion, smaller companies may lack the resources to process and understand these materials, which could pose a real challenge. *"And up to this point, most things have not been translated. The whole terminology surrounding this directive and its standards has only recently been established... for example, the concept of double materiality, which is actually the foundation of this new standard. They seem to have settled on this terminology just a couple of months ago. Meanwhile, we have been dealing with this for a couple of years already. So, we're talking about significant double materiality. We can't even agree on the terminology here. It's a bit of a jumble, to be honest. In that regard, we don't read Estonian-language materials in our company. We are solely dealing with the English-language directive materials issued by the European Union."*

I06-CZ criticize the impracticality of trainings: *"In my opinion, they are structured in such a way that they give me the impression that I can't manage on my own. It's not practical, like, just start doing it; instead, it feels like a sales training, where they talk about what's going on, what principles are involved, how to evaluate things. But in the end, I still feel like—wait, this is complicated!"* It has been the impression from the training sessions that they are more like sales trainings, through which auditing and consulting firms advertise their consulting services in order to reach new potential clients.

I01-CZ believes that management and employees are not unfamiliar with ESG topics, conducting various training sessions and providing overviews of the current situations at certain intervals. *"Yes, to be honest, I provide updates on the current situations at least once a quarter, and even more frequently to the board. I was never expected to be at the board table regarding ESG topics, but now I'm there all the time. We also do updates for all employees—at least 2-3 times a year. We have larger teams where different levels of the organization, both management and staff, can participate, and I provide these updates. The next one is scheduled for December, to summarize the year—where we stand with reporting and where we are heading. And then there are the training sessions. Yes, in the last couple of months, I have conducted more specific training sessions within the company, both for our finance department and now, in December, for the entire team of commercial leaders. Different departments have reached out and expressed a desire to gain additional knowledge on this topic. So I have developed my own small training program to give them an overview of what we are talking about when we discuss CSRD and ESRS, what is behind it all, and what we are currently collecting and doing, as well as how we are reporting. So yes, this has been a continuous effort, especially over the last year, as we have been waiting for support from our auditors, who conduct a lot of training on this topic for companies today. We thought that if we help train them, perhaps we could send our people there for free, but we have not been granted that opportunity."*

Readiness for ESG Reporting

I11-EE assessed that companies have been given sufficient time to prepare. *"I believe that it is sufficient. If it had been said that it would start in 2030, we would have only made that agreement in 2030. Since it costs money and time, which is essentially also money... then we would have postponed it as far as possible. One cannot say that the legislator has suddenly done something; we always just do it, or, well, we do it at the last minute to make it cost-effective."* He comments on the company's readiness for sustainability reporting at this point as follows: *"We are simply mentally prepared that it needs to be done, and that's it. But nothing more."*

I12-EE identifies the main challenge as the accessibility and reliability of data from third parties, namely their subcontractors and small businesses. *"Because I have also seen small businesses in my life and how they are managed, it generally works like this: the business owner tells the accounting firm. Usually, they don't even have an in-house accountant but purchase the service. They say to the accounting firm, 'Hey, they are asking for something, you see, the form is here, and write something here.' And so we get the data; I know that these are not measured data, they are originally estimated data, and the evaluator is not even an owner with an engineering degree but rather an employee from the accounting firm who was simply confronted with the fact and told, 'Hey, write something there.'"*

I08-CZ identifies the main challenges as collecting all the necessary data, raising awareness among people about the directive and its objectives, and developing a common understanding of the standards. *"If we talk about Czech Republic, and those who operate in the Czech market or even in the Visegrad countries market, I think the majority of consumers there are primarily looking at price. So, in my opinion, it is not a selling point today, and it may not be for the next five years that you produce a product with a lower carbon footprint, and that you could ask consumers for more money for it in those markets. It takes time, but in the Nordic or German market, it might be a selling point."*

For I04-CZ, the primary challenge is the enormous volume of data required, and all the demands seem overwhelming when requested at once. *"They should have mentioned the additional resource costs in the sense that the standard requires reporting waste in tons. I would say that at times the standard is very rigid—it specifies the units in which something must be reported. On the other hand, at times it is so vague that all the methodologies are open for interpretation—you figure it out yourself, see what and how you calculate; but regarding waste, yes, it is required to report waste in tons. Well, as a company, we collect and report waste in cubic meters. In response to that, we were told, 'Well, what's the problem—just convert everything.' I said, 'Well, I don't know, I need someone to sit down and do that, and I don't have those people today who would constantly do that math in the background.' So, again, it's just too rigid from that perspective. They don't let you choose, so actually you have to do extra work in terms of those calculations here, and in response, we were simply told, 'Others have managed, so why can't you?' To which I replied, 'Very well, let's just exclude that waste, let's not report it, let it be.'"*

Positive and Negative Impacts of ESG Reporting

I13-EE highlights the significant amount of bureaucracy that the directive brings as a negative impact on the company. *„I think we all need to consider what is happening in our environment and contribute to it. In some way, I believe it's important that there has to be some kind of impetus for this, and today it has reached a point where that impetus comes from obligations arising from legislation. I wouldn't dispute that. But simply trying to achieve an unattainable goal raises questions for me. It feels like we're just lying to each other right now. Yes, perhaps for someone it's just a marketing gimmick. They say, "Yes, I will be climate neutral by 2050," but do they actually believe that? That's the question."*

I17-EE believes that the negative impact lies in the fact that the real problems are not being addressed, as all time and energy are spent on reporting. *"I would say that what makes me a bit sad about all this is that before the workload from this directive came along, we were able to focus on real issues in the company and create a genuine impact, like dealing with real matters. We were able to implement various principles and activities of the circular economy, reduce waste, meet with startups to discuss how we could bring more emission reduction pilots on board and other initiatives. Today, to be honest, there's hardly any time for that. And I see this and hear from my colleagues as well: why aren't you focusing on those important projects that have a tangible impact today? The answer is that it's just that there's not enough time; right now, the priority is reporting. I feel that real impact is not a priority today."* I17-EE also believes that a very significant negative impact is that the directive has brought a negative atmosphere regarding a truly important issue. *"You know, I think that perhaps the greatest harm of all this today is that it creates a negative atmosphere at the societal level regarding this actually very important issue. I don't know, mention 'green transition' to a person, and show me someone in Estonia who doesn't feel some kind of fear or discomfort about it. There is a risk with all these directives that they end up creating... the effect is the opposite, as it more likely generates a negative atmosphere, making it seem like it is pure bureaucracy that is being dealt with here."*

Auditors' Perspective

Auditors emphasize the necessity of thorough preparation and understanding of the new regulation. A02-CZ suggests: *"I would say definitely do something like a basic ESG seminar. Of course, then you also need to go to industry or sector networks to get an idea of what others in your field are doing and what their plan is for implementing ESRS. And read, read, read ESRS and CSRD, that's really important from a manager's point of view as well..."* A03-EE adds to this topic: *"I always tell my clients that it's important for management to be on board. Management must be present at this initial workshop to understand the challenges and importance of this topic..."*

Even auditors see the implementation of CSRD as a significant and costly undertaking. A01-CZ states *“I know that managers are really frustrated at the moment because it is really time-consuming and it is because of these financial and personal resources. It is really, really expensive to implement a CSRD report.”* And adds *“I just read a study that the costs of creating a CSRD report are higher than the sustainability initiatives themselves.”*

There’s a clear shift towards standardized, data-driven reporting, moving away from qualitative, PR-like sustainability reports. A02-CZ believes that *“The direction is clearly set and it's about standardizing reporting. To base it as much as possible on data, auditors will also focus on clients reporting data - not estimates, and where they can have that data, they should actually have it.”* This is in line with A04-EE: *“I would say that NFRD was not so interconnected, because now we have a situation where part of the sustainability statement must be included in the management report...now it is more interconnected, and even more interconnected thanks to the taxonomy.”*

5. CONCLUSION

Findings reveal while there is a general openness towards sustainability, perceptions are mixed. Larger companies, particularly those with international ties, increasingly view ESG as a strategic opportunity for enhancing reputation, attracting investment, managing risk, and gaining a competitive edge. However, many businesses, especially SMEs, perceive ESG primarily as a costly and complex regulatory burden, compounded by uncertainty surrounding the final scope and timeline of national legislation implementing CSRD.

A critical “preparedness gap” exists between larger and smaller companies. Larger companies are more likely to have ESG strategies in place or under development, often leveraging parent company frameworks. SMEs, conversely, frequently lack basic awareness of ESG concepts and face significant constraints regarding resources, expertise, and data management capabilities. This disparity poses a systematic risk to supply chains as mandatory cascades down.

The primary hurdles to effective ESG implementation are substantial: the financial costs involved, the inherent complexity of the regulations and standards (like CSRD and double materiality), severe difficulties in managing ESG data (availability, quality, systems), and constraints on internal resources and expertise. Regulatory uncertainty stemming from delayed transposition and ongoing EU-level adjustments further complicates planning and discourages proactive investment for some.

Despite these challenges, the influence of stakeholders, especially the financial sector, is providing a market-based impetus for adoption. The perceived link between ESG performance and financial success is strengthening, although quantifying the ROI remains a challenge, particularly for SMEs.

Crucially, enabling a smooth and effective transition across the entire Czech and Estonian economy demands a coordinated effort. Government support, particularly for SMEs, clear guidance from regulators, knowledge sharing via industry associations, responsible engagement from the financial sector, and the development of practical solutions by service providers are all essential components for navigating the complexities and realizing the potential benefits of the evolving ESG agenda.

As a limitation of this study might be mentioned the sample size and geographical scope. For the future research we would like to perform a comprehensive study focusing on both Baltic area and Visegrad group countries and to compare the possible difference in ESG attitude.

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