MANAGERS' VIEW TOWARDS SUSTAINABILITY REPORTING: EVIDENCE FROM ICELAND

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Abstract

This study investigates the response of Icelandic firms to mandatory sustainability reporting laws, focusing on the synergy between legal mandates, corporate governance, and external pressures. Employing a qualitative approach through semi-structured interviews, the findings reveal that while legislation has brought sustainability to the forefront, stakeholder pressure is the key driver behind sustainability reporting. The research highlights the critical role of independent assurance in enhancing the credibility of these disclosures and calls for strengthened regulatory frameworks to ensure transparent, effective reporting that meets international standards (Posadas et al., 2023; Doni et al., 2020). By examining the Icelandic context, the paper provides valuable insights for policymakers and corporate entities on the need for legislative improvements. It anticipates future regulatory tightening to enforce more comprehensive sustainability reporting requirements, contributing to the discourse on mandatory versus voluntary reporting mechanisms.

Keywords: Corporate Governance, Non-Financial Information, Sustainability Reporting, Law and Regulation, Governance Codes

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1. INTRODUCTION

A legal obligation to report non-financial or sustainability information was established for major Icelandic companies in 2016 (Act No. 73/2016 amended Act No. 3/2006 on Annual Accounts regarding disclosure, Article 42). The Act introduced a provision on non-financial information, as outlined in current Article 66d of the Act. This amendment incorporated the European Union (EU) Directive 2014/95 on non-financial disclosure and diversity into Icelandic legislation (Non-Financial Reporting Directive, NFRD)[1]. In essence, larger companies are mandated to disclose information necessary for assessing the company's development, scope, position, and impact. The breadth of this requirement provides companies with significant discretion in crafting the content of their disclosures.

KPMG's (2020) report, evaluated sustainability reports from 5,200 companies across 52 countries. In this survey, Iceland was included for the first time. It found that only 52% of Icelandic companies produced sustainability reports, a figure significantly lower than their Nordic counterparts: 98% in Sweden, 82% in Finland, and 77% in Norway (KPMG, 2020). By 2022, however, 91% of Icelandic companies reported producing sustainability reports. This dramatic increase was primarily attributed to the 2020 amendments to the Annual Accounts Act, which expanded its coverage (KPMG, 2022). This is a testament to the rapid evolution in Icelandic corporate sustainability reporting in only a few recent years. Yet, the motivations behind sustainability reporting and

[1] Iceland is a member of the European Economic Area and thus adopts all major legislative acts regarding the EU internal market.

the influence of legal frameworks, particularly the shift from voluntary to mandatory sustainability reporting deriving from the EU Directive remain unclear and need to be clarified.

In 2019, the European Union unveiled the "European Green Deal", a comprehensive sustainability policy framework with a binding effect on all Member States. Among its goals is a commitment to Europe to achieve carbon neutrality by 2050. One of the legislative initiatives deriving from the European Green Deal is a new directive that replaces the NFRD. The new directive, referred to as the Corporate Sustainability Reporting Directive or CSRD[2], significantly increases the number of European companies, including those in Iceland, mandated to disclose sustainability information — from approximately 11,000 to nearly 50,000. Amongst other changes, the directive introduces mandatory sustainability reporting for small and medium-sized companies (SMEs) (European Commission, 2021).

As member states adopt legislative acts deriving from the European Green Deal, it is evident that government policies play a vital role in shaping the legislation, given the latitude member states have in implementing EU directives. For instance, Iceland's Association for Enterprises has advocated for a narrower implementation of sustainability regulations, citing the financial and administrative strain on businesses (Elvarsdóttir, 2023). A similar discussion is underway in Germany, where there is a call to reduce EU reporting requirements, especially those effecting SMEs (McGowan, 2023). National government policies and their approach to adopting and implementing EU legislative acts might thus influence corporate sustainability practices, including reporting practices. This calls for a better assessment of the impact that legally mandating sustainability reporting can have on sustainability reporting practices and an understanding of other drivers that effect sustainability reporting.

Scholarly attention has been drawn to the impact and effects of the NFRD on European companies. Aureli et al. (2020) and Ottenstein et al. (2022) have reported positive effects on sustainability practices as well as on the quantity and quality of sustainability reports. However, Posadas et al. (2023) find that the NFRD has only increased the quantity of reports but not the quality of the reporting. Other research studies show that organizations have adjusted the content of their reports to meet mandatory requirements, without implementing substantive changes within the organization itself (Doni et al., 2020; The Alliance for Corporate Transparency, 2020). This research draws upon those findings as it aims to understand how the NFRD has effected Icelandic companies.

Several studies have been conducted on the main drivers for sustainability reporting. Dienes et al. (2016) found that company size, media visibility, and ownership structure had the most significant impact on the content and quality of sustainability information. Al-Shaer et al. (2022) find that stakeholder engagement, ownership concentration, and assurance practices have high impacts alongside governance structure amongst others. Christensen et al. (2021) suggest that the high level of public scrutiny of larger companies motivates them to engage in corporate social responsibility activities and reporting. Furthermore, Carmo and Miguéis (2022) as well as Qian et al. (2020) note that institutional pressures from a variety of stakeholders are the main drivers behind sustainability reporting. Those findings amongst others form a basis for this research as it attempts to highlight the main drivers behind sustainability reporting practices in Iceland.

The research aims to elucidate the experiences and implications of implementing legal provisions that mandate sustainability reporting in Iceland. It seeks to examine the interplay of laws, corporate governance, and external factors in sustainability reporting. It applies stakeholder and legitimacy theory as a theoretical framework as is useful to explain both internal and external forces that shape company behavior. The central research question is:

RQ: How do company managers perceive and navigate the legal requirements for sustainability reporting, and what drives these reporting practices?

Iceland offers a unique perspective for research in this field as almost all the companies operating in the country are SMEs and micro-enterprises. As a result, the NFRD has been implemented into Icelandic legislation in a way that applies to smaller companies than in many EU member states. This research thus contributes to a body of research on the shift from voluntary to mandatory sustainability reporting in SMEs. This is particularly relevant as the CSRD introduces a legal requirement for sustainability reporting from SMEs in the EU for the first time.

This article presents findings from empirical research utilizing a qualitative approach, anchored in semi-structured interviews conducted within an open-question framework. Data processing involved open coding, which entailed a systematic and structured analysis of the interviews to pinpoint and articulate recurring themes. The research finds that the NFRD has positively impacted Icelandic companies and put them on a trajectory towards sustainability. However, with time other drivers have proved to be more impactful, including pressure from different stakeholders. It suggests a legislative reform, focusing on needing more detailed legal frameworks and homogeneous reporting standards accompanied by transparent, efficient, and skilled government oversight. Independent assurance is key to the quality of sustainability reports and auditors would be the best fit to assure the data.

The rest of this paper is structured as follows. Section 2 reviews the relevant literature. Section 3 presents the methodology used in the research, data analysis, interviewees, and limitations of the research. Section 4 presents the results of the research conducted, highlighting four themes: the impact of legislation and regulatory oversight, drivers for sustainability reporting, assurance process, and opportunities and challenges. Section 5 discusses the results and Section 6 holds the conclusive remarks.

[2] See Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No. 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (the Corporate Sustainability Reporting Directive or CSRD).

2. LITERATURE REVIEW

Corporate reporting can be categorically divided into two primary segments. The first encompasses financial information, delineating the monetary metrics of operations. The second encapsulates non-financial information, commonly termed “sustainability information”. In the Icelandic context, though a universal definition for these terms remains elusive, this study will adhere to the prescription set by Article 66d of Act No. 3/2006 on Annual Accounts. The act obliges certain companies to disclose non-financial information crucial for evaluating their “development, scope, position, and impact of the company”. This notably encompasses environmental, social, and human resource issues, including their anti-corruption and human rights stances. For this review, the term “sustainability information” or “sustainability reporting” will denote non-financial information.

2.1. Drivers for sustainability reporting

Sustainability reporting can be categorized into two types: legally required reporting and voluntary reporting. Each category is driven by different incentives due to the absence of regulatory pressures on voluntary disclosure. Furthermore, in many regions, like the EU, the legal landscape provides flexibility in determining the content and presentation of the information. Although newly adopted regulatory changes in the EU allow for a more comprehensive framework, companies will retain some discretion over content and structure. Additionally, the scope of information disclosure varies significantly based on company size, with larger companies disclosing more significant amounts of discretionary sustainability information than smaller companies. Understanding the drivers behind companies’ decisions to disclose sustainability information is crucial for legislative and regulatory developments in this area.

Various theories, including stakeholder and legitimacy theories, explain these incentives. These theories are closely linked and revolve around the ability of stakeholders to evaluate and influence organizational decisions and behavior (Archel et al., 2009). Stakeholder theory suggests that companies are accountable to a wide range of stakeholders, including consumers, media, human rights groups, environmentalists, debtors, and creditors (Dumay & Hossain, 2019). In response, companies seek to meet the different needs of various stakeholders by disclosing sustainability information (Benameur et al., 2023). As a result, those needs and the expectations of stakeholders create a driver for the sustainability reporting practices of companies (Eccles & Krzus, 2015; Velte, 2022) as it grants companies legitimacy (O’Donovan, 2002; La Torre et al., 2018).

The legitimacy theory assumes a social contract between society and companies where certain behaviors and activities of companies are seen as “legitimate” by society (Dowling & Pfeffer, 1975). Companies voluntarily provide social and environmental information to gain recognition for their actions and decisions, thereby achieving societal legitimacy (Deegan, 2002; Diouf & Borial, 2017; Ali et al., 2021). When companies acquire legitimacy through disclosure, their conduct and decisions become socially accepted and attractive (Suchman, 1995). Eventually, these voluntary practices gain legitimacy, become established norms within the industry, and may even be enshrined in law. As more companies gain legitimacy through sustainability information disclosure, it becomes an incentive for other companies to follow suit (La Torre et al., 2018). However, Carmo and Miguéis (2022) emphasize that only some theories can fully explain the motivations behind voluntary sustainability information disclosure. Multiple incentives influence the content and scope of the information.

A comparative study by Dienes et al. (2016), summarizing studies published between 2000 and 2015, identified the main influences of sustainability reporting. They found that company size, media visibility, and ownership structure had the most significant impact on the content and quality of sustainability information. Al-Shaer et al. (2022) point out several main factors that determine the content of sustainability reports. Firstly, external governance-related factors, including the voluntary adoption of sustainability reporting assurance, the choice of assurance provider, stakeholder engagement, and ownership concentration. Secondly, internal governance factors, including board quality and the existence of a sustainability committee; and finally, reporting behavior, including the publication of standardized Global Reporting Initiative (GRI) sustainability reports and financial reporting quality. Christensen et al. (2021) suggest that larger companies face increased public scrutiny, which motivates them to engage in corporate social responsibility activities and reporting. Additionally, it is generally less costly for larger companies to create and disclose sustainability information. Höllerer (2013) highlights a positive link between distributed private ownership and the decision to publish independent corporate social responsibility reports. Conversely, Cormier and Magnan (1999) and Cormier et al. (2005) found that concentrated ownership is associated with reduced environmental disclosure. Christensen et al. (2021) posit that these findings indicate that increasing number of shareholders exerts a catalytic effect on creating and disclosing sustainability information. Furthermore, Carmo and Miguéis (2022) and Qian et al. (2020) note that institutional pressures from stakeholders, such as shareholders, parent companies, customers, local communities, and banks, are the main drivers behind voluntary sustainability information reporting. Uyar et al. (2021) found that the extent of sustainability reporting positively correlates with a country’s level of sustainable development, as is determined by governance, social, and environmental metrics. However, the reporting is more significantly influenced by governance metrics than by social ones.

The relationship between mandatory and voluntary disclosure has been the subject of academic research. It is suggested that sustainability information provided without a legal obligation can enhance investors’ understanding of the environment and company organization (Cohen et al., 2011). Aureli et al. (2020) find that the shift from voluntary to mandatory sustainability reporting in the EU through EU Directive 95/2014 affected corporate practice in several positive ways. Ottenstein

et al. (2022) observe that implementing the Directive has increased the quantity and quality of sustainability information disclosed by large, listed companies. Simultaneously, their study indicates that legislative requirements imposed on larger companies indirectly encourage smaller companies to disclose sustainability information in line with legal norms despite not being legally obligated to do so. However, Posadas et al. (2023) find that the EU Directive has only increased the quantity of reports but not the quality of the reporting. Numerous organizations have adjusted the content of their reports to meet mandatory requirements, without implementing substantive changes within the organization itself (Doni et al., 2020; The Alliance for Corporate Transparency, 2020; Pizzi et al., 2022).

However, Ball and Shivakumar (2008) note that information provided under legal obligations needs real-time presentation, thereby lacking the strength of real-time data compared to information disclosed voluntarily. Furthermore, Beyer et al. (2010) reveal that mandatory financial information explains less than 12% of the movement in the value of listed companies' share capital. Additionally, Rezaee and Tuo (2017) suggest that investors utilize information disclosed under legal obligations to validate information disclosed voluntarily, indicating the significant relevance of mandatory disclosure to investors.

In summary, the content and disclosure methods of sustainability information are influenced by multiple incentives, interests, and legal policies that intersect and impact company activities.

2.2. The legal framework for sustainability reporting in Iceland

The legal requirement for disclosing sustainability information in Iceland is relatively recent. In 2016, amendments were made to Act No. 3/2006 on the Annual Accounts, introducing a new provision on non-financial disclosure currently outlined in Article 66d of the Act. This provision imposes obligations on larger companies and most institutional investors to include in their annual accounts a statement accompanying the Board of Directors' report containing information necessary to assess the company's development, scope, position, and impact in specific fields. The statement must cover, at a minimum, environmental, social, and human resources issues, as well as the company's human rights policy and measures to address corruption and bribery. Additionally, the statement should concisely describe the company's business model, policy concerning the provision, due diligence processes, performance overview, principal risks, and relevant non-financial indicators. This provision transposed the NFRD into national law and similar provisions have been implemented in national law in EU member states.

The bill implementing these requirements aimed to increase trust and transparency in companies deemed of national importance and public interest. It was part of the government's efforts to enhance confidence in the Icelandic economy and promote higher standards of transparency for systemically essential companies, responding to recommendations from the International Monetary Fund (IMF). However, neither the legal text nor related preparatory works provide sufficient explanations of individual terms and only offer limited guidance on preparing information under the provision. The preparatory works accompanying the draft Act suggest using methods developed nationally, within the EU, or internationally, such as the GRI, ISO 26000, or Global Compact reports.

The Nasdaq Stock Exchange in Iceland has established guidelines for preparing sustainability information, but numerous standards, guidelines, and processes are available for companies to use. The European Commission has also provided guidance on producing sustainability information based on the Directive. The Register of Annual Accounts in Iceland monitors companies' sustainability information subject to Article 66d of Act No. 3/2006 on the Annual Accounts. However, assessments have highlighted the need for significant improvements in companies' presentation of sustainability information.

The new EU Corporate Sustainability Reporting Directive 2022/2464/EU, which came into force on January 5, 2023, reviews the previous directive. From 2024, companies will be required to produce and disclose more comprehensive sustainability information, undergo a double materiality analysis, adhere to specified standards, and have an independent external party assure the information. The scope of the Act has been significantly expanded, with the estimated number of companies in Europe subject to the legislation increasing from 11,600 to around 50,000. The rules will also apply to smaller companies, and there will be a phased implementation based on company size, allowing smaller companies more flexibility in the disclosure process. Member States have considerable flexibility in implementing the directive, potentially creating different conditions for companies and posing challenges to ensuring comparability. Therefore, regulatory oversight of sustainability reporting will become increasingly important as more companies submit their reports.

2.3. Challenges in sustainability reporting

The approach to disclosing sustainability information has faced criticism in recent years. La Torre et al. (2018) highlight significant technological advancements since introducing the EU Directive on non-financial information in 2014 and the influence of social media and changing information culture on the envisioned methodology for disclosing sustainability information. As a result, sustainability information presented in the Board of Directors' report accompanying the annual accounts may need to align better with current market conditions. Mousa and Ozili (2022) point out that integrating technological innovations in sustainability reporting poses a significant challenge for government agencies. Adopting current technologies to evaluate their utility for sustainability reporting demands substantial effort and resources, highlighting the need for capacity building and technological expertise in this domain.

Dumay (2016) argues that tying the disclosure of sustainability information to one or a few specific points in the fiscal year, such as the publication of annual accounts, does not meet the needs of shareholders and stakeholders. There is an increasing

demand for extensive and regular disclosure, while annual reports often contain outdated information. Shareholders and stakeholders require near real-time data for disclosure to fulfill its purpose. Information regarding negative aspects or company events is best disclosed as they occur, provided it is relevant to the market and interested parties. Including such information in annual reports or accounts is deemed inappropriate (Dumay & Guthrie, 2017).

While sharing sustainability information allows companies to showcase their commitment to sustainability and strengthen stakeholder accountability, research regarding the relationship between sustainability reporting and societal and environmental performance has yielded ambiguous results (Hahn & Kühnen, 2013). Boiral (2013) argues that sustainability information does not always authentically represent the issue, as companies may manipulate information to align with their desired image and sustainability goals. Boiral further notes that even sustainability reports awarded top ratings from the GRI may fail to disclose significant adverse sustainability events within the respective companies (Boiral, 2013).

Furthermore, the shift from voluntary to regulated reporting, exemplified by the impact of Directive 2014/95/EU on sustainability reporting in the EU, introduces new practical challenges and alterations in mandatory sustainability reporting (La Torre et al., 2020; Ottenstein et al., 2022). The move towards mandatory reporting introduces complexities in compliance and standardization, affecting the comparability and consistency of sustainability information disclosed by organizations (La Torre et al., 2020; Ottenstein et al., 2022). This transition underscores the necessity for clear reporting criteria and guiding legislation to uphold the quality and reliability of sustainability reports. The GRI standards have emerged as the predominant framework for crafting sustainability reports that adhere to legal requirements. However, the integration between financial reporting and sustainability reporting continues to be a significant obstacle in aligning the latter with conventional corporate reporting norms, as Doni et al. (2020) noted. Consequently, despite the EU Directive marking a significant shift towards obligatory sustainability reporting, a gap in reporting persists, underscoring the immediate need for a unified approach to understanding sustainability reporting and policies. This approach is crucial for evaluating social and environmental risks and establishing relevant indicators (Doni et al., 2020; La Torre et al., 2020).

Moreover, challenges exist regarding terminology, language, and comparability of data, structures, and foundations for sustainability reporting (Stolowy & Paugam, 2018; Tarquinio & Posadas, 2020). It is worth highlighting that both the Directive and Act No. 3/2006 on the Annual Accounts, Article 66d, provide little guidance on the actual content of sustainability information to be disclosed based on these provisions.

At the same time, sustainability reporting has started to play a role in climate litigation, where an increasing number of lawsuits are being brought against companies to hold them accountable for climate change-related impacts.

2.4. Sustainability reporting in litigation

Since the 1990s, a considerable number of court cases filed worldwide have attempted to address the rights and responsibilities of governments, authorities, and organizations concerning sustainability, including over 2400 cases related to climate change. Courts play an increasingly significant role in encouraging organizations to pursue more sustainable business practices. Sustainability reports and similar non-financial information provided by organizations can play a considerable role in these legal cases and can even catalyze initiating legal action. In many of these cases, the issue is whether organizations have adequately disclosed or addressed the climate impact in their operations or provided sufficient information on climate risk in their sustainability reports (Setzer & Higham, 2021). These legal actions often aim to influence the policies and governance of organizations, particularly concerning assessing climate risk and promoting sustainable value creation in business operations. Many of these cases arise from the failure of organizations to accurately disclose the risks, particularly climate risks, in their sustainability information, which is intended to provide valuable information to stakeholders, customers, and investors (Solana, 2018). In the case of *Development YES — Open-Pit Mines NO vs. Group PZU S.A.* (2018), filed in Poland in 2018, it was argued that the company had not sufficiently disclosed the indirect environmental impacts of its operations in its annual report. The parties settled in 2019, which included the commitment of the company to disclose all environmental impacts in its sustainability information and to adopt a human rights and environmental policy. In the Australian case of *McVeigh vs. Retail Employees Superannuation Trust* (2018), the issue was whether the pension fund had violated laws by failing to disclose information on climate risk and measures to manage that risk in its investments. The case was settled with the agreement that the fund would ensure the disclosure of sustainable information, including all climate risk factors and corresponding responses. The fund set a goal for carbon neutrality by 2050 and committed to using key performance indicators to measure progress. Additionally, it was agreed that the fund would disclose the key performance indicators and information on climate factors in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to provide investors with a clear understanding of these aspects of the fund's operations.

Solana (2020) has emphasized the need to specifically address operational risks that carry financial implications in sustainability information, particularly concerning potential climate impacts and actions of organizations. Companies that fail to disclose such risks, including by adhering to TCFD guidelines, may breach their obligation to provide accurate and complete sustainability information. In the case of *Milieudefensie et al. vs. Royal Dutch Shell plc.* (2021), brought by over 18,000 claimants from 70 countries, Dutch courts concluded that the oil company had a duty to change its policies and business model to ensure compliance with the commitments of the Paris Agreement. The case relied, among other things, on the sustainability information provided in the company's annual and societal reports. The aftermath of that case was

filing a derivative claim from the environmental organization ClientEarth against the directors of Shell in the UK. The claim alleged they breached their duties by failing to address climate risk and adjust the company's policies and business model accordingly. The claim was supported by sustainability information from Shell's annual report (ClientEarth, 2023) but dismissed on all stages.

Similar cases have emerged, comparing the actions and behaviors of companies with the sustainability information they provide. This has resulted in numerous cases involving potential greenwashing, where companies claim to perform well or excel in environmental, social, and governance factors. Still, in reality, their actions contradict the narrative they present (Setzer & Higham, 2021).

Based on the discussions above, it is evident that the disclosure of sustainability information, or the lack thereof, can pose legal and litigation risks for companies. The information can serve as crucial evidence of a company's obligations concerning environmental and social matters and good governance practices. Hackett et al. (2020) have pointed out that the more emphasis is placed on the disclosure of sustainability information, in line with the demands of markets and stakeholders, the greater the likelihood that this information will be used to hold companies accountable for their performance in environmental and social matters and good governance practices. Consequently, there is an increased need for careful management of companies' work in this area and ensuring that the information provided is accurate and presents a clear and truthful picture of the topics discussed.

2.5. Summary

This study aims to elucidate the legislation's significance in preparing and disclosing sustainability information in Iceland. The preceding chapters have discussed the current regulatory environment, incentives behind creating and disclosing sustainability information, and challenges in implementing such disclosure. Moreover, it has been underscored that sustainability reporting can serve as a basis for legal proceedings between stakeholders and companies. Overall, the legal framework for sustainability reporting allows companies substantial flexibility in determining the scope and content of the information. The obligation applies only to certain types of companies that are large and socially important. At the same time, the law provides limited guidance on companies' expected practices and references internationally recognized reporting guidelines like GRI and the Sustainability Accounting Standards Board (SASB). Additionally, the EU has issued guidance on sustainability reporting based on the Act, playing a crucial role in interpreting its substantive content. However, this guidance is non-binding and not explicitly cited in legal documents. Given the considerable discretion afforded to companies in deciding the content and scope of sustainability information, it can be expected that disclosure will be influenced by motives and considerations beyond what is explicitly mandated by the law.

The literature review provides the foundation for addressing the research question concerning management's experience implementing legal obligations to disclose sustainability information and the guiding factors behind such disclosure.

3. RESEARCH METHODOLOGY

3.1. Data collection and analysis

A large number of studies assess the impact of NFRD and other sustainability reporting regulations by applying quantitative empirical methods, for instance by comparing the reporting practices of companies in the pre-mandate period with the post-mandate period (Ottenstein et al., 2022). Less research has used interview-based quantitative methods but both methods would be suitable for conducting this research.

The research is based on semi-structured interviews where an open-question framework was used. Data processing used open coding to analyze the interviews using a systematic and structured methodology to identify and define common themes (Corbin & Strauss, 1998). For thematic analyses, the interviews are read over in detail, followed by one or two interviews selected and re-read carefully, line by line, and all ideas, speculations, and information that attract the researchers' attention are recorded. This finds a connection between interviews and the themes defined. Then similar ideas and elements in each interview are summarized into themes (Corbin & Strauss, 1998).

3.2. Interviewees

There are eight participants in the study. Participants were selected based on their experience and knowledge of the field, and the aim was to select interviewees with a broad background and diverse experience. All interviewees have years of experience in the field of sustainability and are all involved in preparing sustainability information in one way or another. The interviewees' backgrounds are diverse and come from, for example, law, business, auditing, and environmental science. They have experience working as consultants and managers in sustainability, sustainability information, and monitoring. To protect their identity, the pseudonyms I1-I8 are used. Table 1 shows an overview of the interviewees.

Table 1. Interviewee overview

Pseudonym	*Company type*	*Role*	*Duration of interview*
I1	Financial firm	Specialist	51:53
I2	Int. Consultancy	Specialist	42:08
I3	Int. Consultancy	Specialist	1:04:16
I4	Int. Consultancy	Specialist	56:13
I5	Financial firm	Specialist	49:18
I6	Public sector body	Specialist	1:38:09
I7	Financial firm	Specialist	1:02:57
I8	Consultancy	Specialist	54:25

3.3. Limitations

Qualitative studies do not have generalization value but only provide clues about the research topic (Taylor & Bogdan, 1998). This study's sample consists of eight interviewees, limiting the results' relevance. Similarly, it must be borne in mind that the interviewees work for large financial companies on the one hand and as consultants on the other hand, despite having the most experience in the field as former employees of financial companies. The majority of interviewees are, therefore, current or former employees of companies subject to a statutory obligation to disclose sustainability information based on annual accounts law.

4. RESULTS

Our data analysis revealed four primary themes: the impact of legislation and regulatory oversight, the drivers behind sustainability reporting, assurance processes, and opportunities and challenges.

4.1. Impact of legislation and regulatory oversight

All interviewees had aligned perspectives on the legal framework for sustainability reporting. The prevailing sentiment was that the current legal obligation does not sufficiently drive companies toward meaningful reporting; it is not an adequate motivator for comprehensive disclosure of sustainability information. However, I3 noted a silver lining: the law has spurred companies to onboard individuals passionate about sustainability reporting. These individuals actively shape how information is processed and reported, ensuring it reaches the right stakeholders. As I3 elaborated, this legal impetus has deeply integrated sustainability considerations into roles like CFOs, compliance officers, and auditors, thereby fortifying the corporate sustainability journey.

The weightage of international norms was emphasized by the interviewees, who believe these global benchmarks influence sustainability reporting more than laws. I3 underlined the significance of aligning with international standards, critiquing the law: "*These international standards resonate more with us than the current legislation*", and adding, "*As experts, we recognize that this legislation does not align with global sustainability guidelines*" (personal communication, October 8, 2021). I7 illustrated the law's effectiveness in-house, noting how it added a sense of obligation: "*When discussing with colleagues, we could now reference its inclusion in the Annual Accounts Act, underscoring it is not just a personal passion but a legal requirement. Nevertheless, the Act's lack of clarity was an issue*" (personal communication, October 20, 2021). I1 pointed out that many listed companies now exceed legal requirements, with some issuing comprehensive GRI reports. I2 highlighted an unintended positive consequence: the legislation catalyzed institutional investors to weigh sustainability in their investment decisions. This ripple effect was deemed more potent than the law itself. However, a disparity exists in the market. While internationally affiliated companies often surpass their legal requirements, more traditional entities lag behind, leading to inconsistent sustainability reporting across the board.

Interviewees unanimously emphasized the necessity to revise current legislation, highlighting the power of laws to genuinely shape corporate behavior. I2 advocated for a broader revision, not limited to just sustainability reporting. They cited the transformative impact of the law requiring equal pay certification: "*Such significant shifts could be witnessed if the Climate Change Act mandated companies to measure, reduce, and offset carbon emissions. The legal framework is pivotal*" (personal communication, October 8, 2021).

While most interviewees acknowledged the significance of international standards, only some expressed reliance on the EU's guidelines concerning sustainability reporting. Both I1 and I2 were unfamiliar with any EU or legally-based guidelines. I3, while aware, mentioned that these guidelines did not significantly impact their approach. I4 admitted to not even considering them. I7 believed their company's reporting already surpassed legal obligations, rendering the guidelines unnecessary, while I8 dismissed them as unhelpful. Only I5 reported being well-acquainted with and influenced by the EU guidelines, ensuring their company's reporting aligned with them.

I6's perspective from the sustainability reporting regulatory oversight authority was particularly enlightening. They recounted the initial challenges: "*When the NFRD was first implemented, we were in the dark, awaiting EU's guidance on interpretation. Consequently, we initially held off on monitoring sustainability reporting*" (personal communication, October 15, 2021). When the guidance finally arrived in 2017, it was treated with the gravity of a legal document at the Annual Accounts Register. I6 added that there is a prevalent notion: if the law does not explicitly demand something, there is no impetus to act on it. They noted the initial flexibility granted to companies but stressed that stringent monitoring was on the horizon, with non-compliant annual accounts facing rejection. Compliance would be gauged against the EU guidelines, setting the standard for companies moving forward.

All interviewees emphasized the critical need for transparent, efficient, and skilled oversight of sustainability reporting of companies. This regulatory vigilance, they believe, should mirror the rigorous scrutiny of general annual accounts. Essential to this approach is fostering a close rapport with stakeholders, disclosing information proactively, and supporting businesses in navigating this evolving landscape. I2 and I3 highlighted the palpable shift in corporate attention when the Annual Accounts Register identified non-compliance in reporting. Specifically, many registered companies started dedicating substantial resources to address these shortcomings, underscoring the influence of such interventions. I8 asserted the importance of ensuring companies adhere to established laws and standards.

However, when comparing the supervision of sustainability reporting to financial statements, there was a unanimous sentiment that the former lagged behind. I4 posited that the oversight of sustainability reporting seemed almost secondary,

attributing this to the market's failure to grasp its intrinsic value fully.

All respondents unanimously agreed that the regulatory oversight system is critically lacking both in financial and human resources. There is an evident need to build institutional expertise within the Annual Accounts Register.

I4 highlighted, "*It is now foreseen that many companies will have to start improving this significantly, and there is no talk of putting more money into the regulator, so it will always be a little paralyzed by poverty, and already it was paralyzed by poverty and by no means with enough capacity to carry out this task*" (personal communication, October 11, 2021). When comparing the international scrutiny level, I4 pointed out, "*In our foreign cooperation, that is usually the first thing asked; 'What is the focus of the regulator?' Everyone is always on their toes about surveillance in the Nordic Region, but not here*" (personal communication, October 11, 2021).

Despite these challenges, many interviewees recognized that the regulator maintains a close relationship with companies. There is a noteworthy effort from the regulator to stay engaged, actively seeking expert advice on sustainability reporting. I3 was optimistic, noting, "*I've found at the regulator that there has been an escalation in understanding year by year, and they have been willing to learn, and we have talked and tried to build a common understanding of what this is all about*" (personal communication, October 8, 2021).

However, I6 expressed concerns over the preparedness of the regulator. They remarked that although there were "*major developments in this*", the regulator was not adequately equipped for its mandate. They stressed the need to bolster the surveillance resources to make it consequential, observing, "*The oversight would therefore not be on a par with what is known in neighboring countries where regulators are in a key position to ensure that sustainability reporting complies with legal obligations*" (personal communication, October 15, 2021).

Another area of contention was the apparent communication gap from the government regarding legislative changes and guidelines. Some interviewees felt left in the dark about the specifics, often relying on individual service firms or select interest groups for updates. The uncertainty surrounding the exact dates for new rule enactments and the Icelandic government's focus during implementation was a common concern. It was emphasized that the "utmost importance" lies in ensuring predictability in EU rule implementations. The government must spearhead clear communication efforts in this policy realm, offering clarity to businesses about their sustainability obligations and societal goals they are expected to support.

4.2. Drivers for sustainability reporting

All interviewees agree that, compared to other nations, Iceland lags in sustainability reporting. This has been attributed to various factors, including the country's smaller size and its unique set of stakeholders. I3 observed that Iceland is in a catch-up phase, saying, "*Iceland is trying to get toes where other nations have their heels*" (personal communication, October 8, 2021). One notable trend is that Icelandic companies initially responded to legislative mandates to produce sustainability reports and only afterward began integrating sustainability into their core operations. Instead of assimilating sustainability practices and reporting on them, many companies crafted reports and then sought to build a coherent narrative around their sustainability initiatives. As a result, while Icelandic companies might be catching up in reporting, they often lag in integrating sustainability into their primary business models. Unlike their counterparts in larger nations, smaller firms in Iceland do not face the same stakeholder pressures across their supply chain, reducing their motivation to prioritize sustainability. I3 and other participants also pointed out the slower pace of legislation reaching Iceland and the lack of emphasis from the public sector in this domain.

Discussing the motivation behind sustainability reporting, a common sentiment among interviewees was the rapid evolution of driving factors over a relatively short timeframe. I1 reminisced about the era when the focal point of discussions was assigning responsibility between producers and consumers. Financial incentives, for a long time, remained in the backdrop. However, the conversation shifted with the emergence of the ESG (environmental, social, governance) framework in global finance. As influential figures in finance began endorsing sustainability, the sector started wielding substantial influence. I1 elaborated, "*I think pressure from the financial system has changed dramatically over the last 2–4 years. A good indicator, for example, is the growth of green bonds globally. That may be a good indicator of how this has changed from the perspective of the financial sector*" (personal communication, September 30, 2021).

Many interviewees acknowledged the role of laws and regulations in promoting sustainability reporting. I1 highlighted the necessity to meet external legal and regulatory demands, emphasizing the company's obligation to satisfy international regulatory standards. I8 echoed this sentiment, noting that while some companies had started progressing in this policy domain, establishing legal mandates around sustainability reporting truly catalyzed change. This shift, in turn, drew heightened attention from stakeholders to the policy area. I8 elaborated, "*I'm not talking about when these megatrends, like climate change, started making their mark. The legislative process kickstarted it, but other incentives play a bigger role today*" (personal communication, October 21, 2021).

All participants underscored the critical role stakeholders play in sustainability reporting. The consensus was that pressure from stakeholders, particularly investors, is a pivotal factor driving the creation and reporting of sustainability information. It was frequently observed that companies with international affiliations stood out, primarily because of their distinct and influential stakeholder landscape. Such firms mainly face investor, analyst, and customer pressures. Recollecting a past experience, I2 said, "*We boasted about our waste sorting efforts and community activities, and when questioned about ESG by foreign stakeholders, we would reiterate these actions. Their unimpressed reactions made it clear we needed a strategy shift*" (personal communication,

October 8, 2021). I2 added that international pressure was their real game-changer, noting, "*Companies with foreign ties seem to excel in this area. Locally-oriented companies generally disclose sustainability data for market advantage and public relations*" (personal communication, October 8, 2021).

I7 concurred, sharing an anecdote from 2015 when they sought international expertise to navigate sustainability challenges. They commented, "*Back then, 'sustainability' was a nebulous concept. Our initial goal was to enhance our operations and communicate better about our actions. Little did we know the extent of the journey ahead*" (personal communication, October 20, 2021). I7 also indicated that as their international connections expanded, the company had to align with the exact sustainability requirements that their foreign counterparts adhered to.

A prevalent theme among interviewees is the impact of investor demands on the disclosure of sustainability information. I8 emphasized that while legal requirements-initiated sustainability efforts, present-day motivators are more multifaceted. They stressed, "*Nowadays, it's about financial concerns and access to capital. There is also the undeniable realization among management that one cannot sidestep this responsibility any longer. With rising environmental pressures from numerous fronts, businesses must articulate their carbon footprint, sustainability goals, and commitments*" (personal communication, October 21, 2021). I1 elaborated on the company's issuance of green bonds, highlighting how it attracted a wave of investor queries. They added, "*Having readily available sustainability data proved invaluable for us, especially when considering the favorable terms and heightened investor interest we garnered. The impetus now, undeniably, comes from investor and public pressures, alongside regulatory expectations*" (personal communication, September 30, 2021).

Several interviewees also underscored competition and market opportunities as drivers. I2 suggested that sustainability initiatives can emerge from any tier within a company and, when endorsed by leadership, can foster compelling narratives. These sustainability stories, when shared, can significantly influence competitors. I3 echoed this sentiment, indicating that companies tend to emulate successful models, emphasizing the role of competition in shaping sustainability practices. I4 further concurred, suggesting that a primary motivator for many is the knowledge that market competitors are already disclosing such information. Both I2 and I4 identified marketing advantages in sustainability reporting, particularly for smaller companies. They noted, however, that these disclosures often appear in media or social media and are typically event-specific.

Reputation management was another recurring theme, particularly after controversies or scandals. I2 pointed out that some companies, having faced negative media attention for issues unrelated to environmental factors — like poor governance, corruption, sexual harassment, or issues on worker welfare — feel propelled to engage in sustainability practices. They elaborated, "*In scenarios where companies are implicated in controversies — say, products tied to child labor — they lack the requisite policies and procedures to respond. Such pressing discussions are currently unfolding in Icelandic boardrooms*" (personal communication, October 8, 2021).

4.3. Assurance process

Across the board, interviewees emphasized the imperative of having sustainability information assured by independent entities. I2 shed light on the growing trend of a pre-assurance process, which essentially guides companies for a duration, ensuring their data is eventually verifiable. They underlined the significance of factoring in this assurance perspective right from the outset of the disclosure journey. I1 envisioned a pivotal role for auditors in the domain of sustainability reporting, underscoring the urgent need for the auditing sector to bolster its expertise in this realm. The overarching sentiment was clear: it is not sufficient to merely lean on consultants; accountants and auditors must assimilate this knowledge.

A resounding consensus among participants was that auditors are ideally positioned to scrutinize and authenticate sustainability details. The rationale behind this trust largely stems from the auditor profession's well-established work ethos, meticulousness, and rigorous independence standards. I4 articulated, "*The auditing profession stands unparalleled in its rigorous adherence to independence standards*" (personal communication, October 11, 2021). However, they also cautioned against overlooking the intrinsic constraints of auditors. They championed a multi-disciplinary approach wherein diverse professionals collaborate in the verification process. In line with this, I4 cited their firm's practice of assembling teams comprising, for instance, an environmental engineer teamed up with an auditor. They emphasized the pitfalls of a segregated approach, asserting, "*When distinct professions operate in silos during assurance, it erodes trust. The crux lies in addressing the intricate nature of ensuring consistency in such endeavors*" (personal communication, October 11, 2021). I5 echoed this sentiment, underscoring that third-party assurance invariably amplifies credibility. However, they also pointed out the emergence of a novel industry focused on assurance, where experts hail from varied educational and experiential backgrounds, thus influencing the authenticity of the assurance. I7 exhibited a skeptical stance towards such experts, firmly believing that the mantle of assurance should be shouldered by auditors, given their adherence to stringent standards and time-honored practices. They concluded by lauding the meticulousness observed in auditors navigating the verification landscape.

4.4. Opportunities and challenges

The interviewees collectively touched upon several challenges inherent in sustainability reporting, including navigating the labyrinth of legislative demands, keeping up with the multifaceted oversight, deciphering the appropriate methodology, and reconciling many guidelines and sustainability indicators. A pervasive sentiment was the pressing need for a more harmonized approach.

I5 highlighted the intricate task of articulating sustainability information. The objective is to render it comprehensible, standardized, and engaging for its intended audience without appearing overly clinical. Meanwhile, an anticipatory stance exists, given the imminent flux expected in the regulatory milieu.

I4, too, underscored the daunting task of discerning which criteria merit attention. The pivotal question is to ascertain the significance of what to disclose and what to hold back.

The unanimous perspective among interviewees was the looming promise presented by a more defined legal framework. The imminent comprehensive legislation from the EU is seen as a beacon of opportunity. Several enterprises are already gearing up for this transformative horizon. One respondent elaborated that companies are actively engaged in internal deliberations and evaluations. They meticulously scrutinize directives and regulations ratified in the EU but remain unimplemented into national law. A case in point is the Shareholder Rights Directive. The overarching sentiment is one of eager anticipation, keenly awaiting the government's stance on the European Green Deal's implications for a sustainable financial market.

The forward-looking approach is driven by past experiences, as highlighted by the example of Article 66d. Despite being introduced in 2016, it applied to that fiscal year, illustrating the often delayed yet hurried enactment of legislation. As a strategic move, many companies are preemptively embarking on internal discussions to remain ahead of the curve.

"*Capital, capital costs, and competitiveness*" stand at the forefront of opportunities for businesses, as emphasized by I6. They elucidate that these components potentially usher Icelandic companies into international markets, seeking capital. The domino effect of such ventures could lead to reduced borrowing costs. Whether through shareholders or bonds, it invariably translates to more project opportunities. The underlying implication is clear: sound investments require robust information. I6 outlines a systemic chain, from company staff and management to auditors and oversight bodies, all working to ensure this information meets the requisite standards. They also touch upon the current fervor in the sector, with everyone trying to keep pace: "*It's just an explosion right now, and we just have to try to keep our tails on it right from the start*" (personal communication, October 15, 2021).

I8 pivots the conversation to the importance of the preparatory work that precedes disclosure. They assert, "*The disclosure is one part of this, but what I think is most important is the work you have to put in to achieve this*" (personal communication, October 21, 2021). According to I8, a standout company's hallmark is its ability to report sustainability and its commitment to achieving those sustainable goals. They liken the top-performing companies to "the coolest companies" because they attract the best talents. Although the information relayed in sustainability reports is valuable, I8 stresses that it is merely "*the prelude to the disclosure*". They foresee that these elements will play a pivotal role in defining a company's competitive edge in the future.

I5 offers a broader perspective, identifying the ongoing transformations as "*the biggest disruption in our operating environment in decades*" (personal communication, October 12, 2021). The concurrent challenges of sustainability and the fourth industrial revolution shape this narrative. They paint a global picture, highlighting the overarching exploitation of natural resources and neglect of social infrastructures, emphasizing the challenges faced in Iceland and globally. This requires businesses to strategize for these massive shifts, to ride the wave of these transformative "megatrends". A pivotal point I5 raises is the inherent vulnerability of companies that overlook sustainability. They predict that such enterprises will find themselves at a significant competitive disadvantage, not just in the long run but potentially sooner. They encapsulate this urgency with a compelling question: "*Is your company futureproofed?*" (personal communication, October 12, 2021). For I5, the answer lies in governance, which has been a focal point for a while, and in emphasizing environmental aspects. Reflecting on his project experience, They underscore the critical importance of social sustainability, highlighting it as a "completely predatory asset". In his view, companies owe it to themselves and their investors to prioritize this. They conclude with a compelling argument: considering these factors is quintessential for ensuring a company's viability and operation in the future.

Sustainability reporting in the foreseeable future presents a multifaceted set of challenges, as highlighted by the interviewees. A recurring concern is the difficulty of anchoring such information to the core business operations of enterprises.

I1 sheds light on the initial challenge: Companies of all sizes, beyond just the major listed ones, must start viewing sustainability information from an operational lens rather than merely a compliance standpoint. This sentiment is mirrored by I5, which emphasizes the need for integration, especially for small and medium-sized enterprises that might not have ample resources. They posit that successful reporting should be embedded within a company's everyday operations to bolster its competitiveness, operational efficiency, and long-term relevance. I5 analogizes: "*Those who master sustainability reporting, akin to efficient inventory or customer management, add intrinsic value to their businesses*" (personal communication, October 15, 2021). This, however, requires a cultural shift and acceptance by both employees and management.

The interviewees also underscore the importance of leadership's role in this. They must recognize the intrinsic value of such endeavors and be willing to invest in them. I2 presents a critical outlook, suggesting that Icelandic firms may have certain oversights when grasping the true essence of sustainability information. They point out a complacency that might exist among Icelandic entities, stating: "*People always think we're so good at this, but we're light years behind other nations*" (personal communication, October 8, 2021). Drawing a comparison with the energy transition, they imply that had Iceland not embarked on it in a time, they might have lagged even more. As they suggest, humility is essential in recognizing where the nation truly stands.

I3 echoes this sentiment but focuses on awareness. For him, understanding the journey toward sustainability is paramount, and they observe a deficiency in companies truly investing in this process. While seeking external counsel can be beneficial, I3 believes it is insufficient to guide companies toward their sustainability aspirations: "*The answer is not always to buy advice*" (personal communication, October 8, 2021).

A logistical concern arises from the collective feedback of the interviewees: the need for a centralized authority or repository for sustainability data. The envisioning of such a body is likened to the National Energy Authority, which monitors and reports on energy production in Iceland. Such a centralized system would simplify data compilation and retrieval, streamlining the process for all stakeholders involved.

In essence, while the path toward comprehensive sustainability reporting is riddled with challenges, it is evident from the interviewees' feedback that these challenges can be navigated with the right approach, infrastructure, and mindset shift.

5. DISCUSSION

The findings from the study offer an optimistic viewpoint regarding the progress made by Icelandic companies in creating and disclosing sustainability information since the legislation was enacted in 2016. While the legal mandate seems to have played a pivotal role in motivating companies to integrate sustainability practices, its influence over other aspects of sustainability reporting — namely, the scope, content, and quality of the information — appears limited. These findings somewhat align with the research of Posadas et al. (2023).

This blurs the lines between what constitutes regulatory-mandated reporting versus voluntary sustainability reporting. With the Act designed to be flexible and allow room for interpretation, its significance for companies seems to wane. Instead, these entities appear more inclined to utilize other benchmarks, such as sustainability reporting standards, when reporting.

Highlighting the importance of clarity, the study underscores the necessity for regulators to provide explicit information on the guidelines and recommendations that supervisory authorities adopt in their oversight. Such guidance would offer companies a clearer understanding of expectations and requirements, especially considering the interpretative latitude provided by the legislation.

The interviewees express that the traditional term "non-financial information" may now be obsolete and even detrimental. They argue that such "non-financial" information has tangible financial implications, significantly influencing a company's future competitiveness. In this context, "sustainability information" is a more apt descriptor.

Further, while the Act provides a framework, its influence on reporting practices seems marginal. Companies appear to be more influenced by international standards for disclosure rather than solely relying on Icelandic legislation.

The legislation has undeniably fostered a positive inclination towards sustainability practices within Icelandic firms. However, the law's direct influence over the finer details of sustainability reporting is still debatable. From the study, there is a palpable call for more precise guidelines, an update on archaic terminologies, and a consideration of international standards to steer future disclosure practices.

A noteworthy revelation from this study is that mere legal compliance might not be the primary motivation driving reporting practices. A recurring theme from all interview participants was the pronounced effect of stakeholders, especially investors, on the sustainability reporting process. The collected data indicates that companies are keen to present sustainability details about their operations, primarily driven by the intention to align with stakeholders' perspectives on various operational facets. This disclosure process is deeply intertwined with stakeholders' interests. This supports the findings of Qian et al. (2020) and Carmo and Miguéis (2022).

I5's observation further illuminates this relationship. Emphasizing the significance of identifying the target stakeholder group, I5 suggests tailoring sustainability indicators based on a thorough analysis of stakeholder needs. These indicators serve as communication tools and shed light on a company's commitment and performance towards these stakeholders.

In conclusion, it is evident that stakeholders, especially investors, analysts, and customers, wield considerable influence over sustainability reporting. Their role is pivotal, marking them as crucial players in shaping companies' sustainability trajectory.

Given the ease with which sustainability information can be tailored to the goals of the sustainability reporting, it is not surprising that they have faced criticism for their lack of credibility (La Torre et al., 2018). The findings of this study also demonstrate the validity of these criticisms but provide strong evidence that the most effective way to ensure the credibility and quality of the information is through its independent assurance. Studies have identified the benefits of independent assurance; for example, it can improve the quality of internal management and decision-making (Ballou et al., 2012; Mori et al., 2014), strengthen the reputation of management (Marx & van Dyk, 2011; Rhianon Edgley et al., 2010), positively influenced investment decisions and increased the company's ability to secure capital (Cheng et al., 2015; O'Dwyer et al., 2011) and reduced capital costs (Casey & Grenier, 2015). Assurance by an independent third party can also encourage improvements in sustainability-related projects and enhance sustainability performance, internal management, and the accuracy and reliability of the information disclosed (Boiral et al., 2019). The study supports these findings and suggests auditors are best placed to carry out this process.

Finally, the research underscores that Icelandic companies are notably behind in sustainability reporting compared to their counterparts in neighboring countries. This might be due to a late implementation of the NFRD, the size of Icelandic companies and their unique set of stakeholders. However, they possess the potential to evolve their sustainability practices swiftly. Increased

automation can expedite the disclosure process, especially for more prominent enterprises. Government must play a more defined role for effective forward progression. Strengthening legal infrastructure and offering more transparent administrative guidance emerge as important pillars for future evolution.

Interestingly, the study sheds light on the necessity for firms, even those not currently mandated to produce sustainability reports, to embark on a sustainability-centric trajectory. These companies' long-term success and relevance hinge on their ability to seamlessly incorporate sustainability within their overarching operational frameworks, which can bolster their market competitiveness and set the stage for a promising future.

Positioning sustainability as a high-priority area within management, ensuring distinct ownership, and instilling stringent oversight is instrumental for companies to thrive in this domain. Findings are unequivocal in suggesting that to realize legislative ambitions. Governments must architect more transparent sustainability-focused policies, amplify their proactive initiatives, and fortify the governance and oversight of sustainability reporting.

Moreover, it is paramount for the legislative bodies to integrate new EU regulations centered on sustainability information expeditiously. Doing so will address several challenges Icelandic enterprises grapple with in cultivating more sustainable commercial methodologies. Fulfilling these sustainability commitments is pivotal, especially considering the international and European legal obligations governments are beholden to, with climate concerns at the forefront.

In summation, a profound comprehension of the driving factors behind the success of sustainability initiatives, coupled with insights into how administrations, especially regulatory bodies, are perceived and experienced, can offer invaluable inputs for future policymaking and legislation in this domain.

6. CONCLUSION

The shift from voluntary to mandatory sustainability reporting with the implementation of NFRD into Iceland laws has impacted the sustainability practices of Icelandic companies. The overall experience and implication of implementing legal provisions that mandate sustainability reporting has been positive and affective. The NFRD has deeply integrated sustainability considerations into roles like CFOs, compliance officers, and auditors, thereby fortified the corporate sustainability journey. However, the NFRD has not sufficiently managed to drive companies towards meaningful sustainability reporting, mostly due to the discretion it provides with the content of sustainability information. The most influential driver for sustainability reporting is communication and pressure from various stakeholders. Other factors like competition, market opportunities and reputational risk influence reporting practices as well. The research indicates how stakeholder and legitimacy theories provide explanations for sustainability reporting in the data analyzed.

The study shows a positive interplay but also tension between law, corporate governance and external drivers that pushes companies towards more sustainable way of doing business. It suggests a legislative reform, focusing on needing more detailed legal frameworks and homogeneous reporting standards accompanied by transparent, efficient, and skilled government oversight. Independent assurance is key to the quality of sustainability reports and auditors would be best fit to assure the data. Lack of comparability of sustainability information seems to be the biggest challenge presented by the NFRD.

The CSRD will extend the scope of mandatory sustainability reporting to a broader group of companies, including SMEs. In this context, and although our results are not generalizable, our study has important practical implications. It suggests that companies with good oversight over their stakeholders and those with high levels of stakeholder engagement are better equipped to adapt to the shift from voluntary to mandatory sustainability reporting. Policy makers and the legislator should also be aware of the forces that influence the reporting practices of companies when implementing the new requirements into national legislation, make sure the implementation process if fast and transparent as this might affect the competitiveness of companies, especially those that operate on other markets than the Icelandic one or are engaged with foreign stakeholders. The regulator has to have enough human and capital resources for carrying out the role of overseeing the reporting.

In the near future, sustainability reporting faces complex challenges, as identified by interviewees. A recurring concern is the difficulty of anchoring such information to the core business operations of enterprises. Companies of all sizes, beyond just the major listed ones, must adopt an operational perspective on sustainability reporting, moving beyond mere regulatory compliance. The research suggests that successful reporting should be embedded within a company's everyday operations to bolster its competitiveness, operational efficiency, and long-term relevance.

Despite its contribution, this study has limitations. As a qualitative study, it does not have generalization value but only provides clues about the research topic. In this specific study, the sample is small with its obvious limitation. However, the study provides with a starting point for future research on the topic of sustainability reporting in Iceland as well as for SMEs that have a legal obligation to report sustainability information. We would suggest for future research a larger sample with more diverse interviewees. It would be valuable to repeat the study after the implementation of CSRD and research both the short term and long-term effects of the new CSRD on managers' view towards sustainability reporting.

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