SUSTAINABILITY REPORTING: WEIGHING BENEFITS AND COSTS IN THE WAKE OF THE EU'S OMNIBUS PACKAGE

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Abstract

In recent years, sustainability reporting has evolved from a voluntary good practice into a cornerstone of corporate accountability. With the adoption of the Corporate Sustainability Reporting Directive (CSRD), the European Union mandated environmental, social, and governance (ESG) disclosures for thousands of companies, aiming to enhance transparency, improve capital allocation, and promote a culture of sustainable business. However, the introduction of the 2024 Omnibus Simplification Package marked a shift in direction. In response to growing concerns over regulatory burdens, the European Commission proposed reducing reporting obligations for 80% of small and medium-sized enterprises (SMEs) and exempting 70% of non-EU firms, raising questions about the future integrity and effectiveness of ESG disclosures.

Academic literature strongly supports the benefits of sustainability reporting. Foundational studies (Christensen et al., 2021) show that mandatory ESG transparency reduces information asymmetry and improves market efficiency. Meta-analyses by Friede et al. (2015) and

Atz et al. (2023) confirm that strong ESG practices are associated with better financial performance. Further research shows that ESG reporting aligned with the EU Taxonomy reduces firms' cost of capital and strengthens investor trust (Alves & Meneses, 2024; Jang et al., 2020). Buallay (2019) finds that financial institutions with transparent ESG disclosures achieve stronger market performance, albeit with slightly reduced operational efficiency.

The reputational value of sustainability is another critical factor. Fatemi et al. (2018) and Khan (2022) highlight that ESG reporting has a positive impact on firm valuation — provided the disclosures are of high quality. In emerging markets such as Malaysia, sustainability reporting has been shown to reduce both debt and equity financing costs. According to Li et al. (2018), internal governance and chief executive officer (CEO) power influence how ESG disclosures create firm value.

In this context, Degregori et al. (2025) and Santos et al. (2022) also highlight the growing importance of sustainability reporting in SMEs and the value derived from incorporating ethical approaches into decision-making. They argue that the adoption of sustainability frameworks within SMEs can yield significant long-term advantages, contributing to enhanced reputation and trust among stakeholders, despite the challenges posed by the complexities of reporting compliance.

Moussa and Elmarzouky (2024) investigate how ESG reporting impacts the cost of capital in UK firms, suggesting that transparency can reduce financing costs and foster financial stability. Rahman et al. (2024) explore the mediating role of sustainability reporting quality, showing that high-quality ESG disclosures enhance the relationship between green banking initiatives and firm value. Sunny and Apsara (2024) add further evidence from emerging economies, demonstrating that sustainability reporting can significantly influence financial performance, particularly in volatile markets. Meanwhile, Valentinetti and Rea (2025) focus on the role of digitalization in sustainability accounting and reporting, offering insights into how technological advancements can streamline ESG reporting processes, ensuring more accurate and efficient data management.

Despite these benefits, the costs of reporting are not negligible. CSRD compliance can require significant annual investments. Kiesnere and Baumgartner (2019) identify administrative complexity, compliance costs, and limited internal expertise as key barriers — particularly for SMEs. Aragón-Correa et al. (2008) argue that small firms often lack the resources to implement formal environmental strategies, making uniform CSRD requirements excessive. Rudžionienė and Brazdžius (2023) highlight the balance between the costs and benefits of sustainability reporting, showing that while the adoption of comprehensive ESG frameworks offers firms long-term strategic advantages, it also imposes considerable immediate costs.

The Omnibus Package was designed in response to this tension between regulatory ambition and operational feasibility and introduces the principle of regulatory proportionality. It proposes simplified reporting for SMEs, exempts many non-EU companies, and allows for the gradual adoption of third-party verification to ease initial burdens. The Commission also expressed interest in leveraging digital tools and IT systems to automate ESG reporting, a move supported by studies such as Lombardi and Secundo (2021) and Pizzi et al. (2024), which advocate for integrated digital platforms to reduce costs and improve data quality.

However, simplification carries significant risks. Without strong regulatory obligations, the likelihood of symbolic or superficial reporting (i.e., greenwashing) increases. Lozano et al. (2016) and Morioka and de Carvalho (2016) warn against ESG practices lacking genuine strategic integration. Empirical studies by Cahan et al. (2015) and Pérez et al. (2020) show that voluntary disclosures often receive less media attention and lack comparability. Serafeim and Yoon (2022) find that markets react more strongly to negative ESG news, suggesting that inconsistent reporting can damage corporate reputation.

The absence of uniform requirements may also undermine global competitive fairness. As Christensen et al. (2021) and Lukács and Molnár (2025) highlight, firms subject to different regulations operate on uneven playing fields.

The core dilemma remains: how can we preserve the effectiveness of ESG reporting without stifling the competitiveness of firms, especially SMEs? According to Bielawska (2022) and Cantele and Zardini (2018), small companies can benefit competitively from sustainability when practices are well integrated into business processes. Bacinello et al. (2021) show that SMEs with coherent corporate social responsibility (CSR) strategies can match or outperform larger firms. Dragomir and Dumitru (2023) reiterate that the perceived value of non-financial information depends on clear structuring and external assurance.

In light of this evidence, we propose a study to assess the differentiated impact of the Omnibus Package on three categories of firms:

- EU-based SMEs are subject to simplified reporting;
- non-EU firms exempt from CSRD obligations;
- large firms subject to full reporting requirements.

The aim is to evaluate whether simplified reporting can maintain integrity and competitive value, and to identify critical success factors (e.g., digitalization, organizational culture, external verification). The study will propose a scalable model of "Proportionate Sustainability Reporting" that calibrates requirements and tools based on firm size, sector, and operational capacity — ensuring strategic alignment while minimizing unnecessary burdens.

In a context of escalating environmental and social pressures, the challenge is not whether to simplify or regulate, but how to design a reporting system that is effective, credible, and accessible. The Omnibus Package may offer an opportunity for innovation — but only if guided by empirical evidence and oriented toward sustainable value creation.

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