

SUSTAINABILITY REPORTS, CORPORATE GOVERNANCE, AND ORGANIZATIONAL UNITS

Arni Claessen^{*}, Throstur Olaf Sigurjonsson^{**}, Stefan Wendt^{***}

^{*} KPMG, Reykjavik, Iceland; University of Iceland, Reykjavik, Iceland

^{**} *Corresponding author*, School of Business, University of Iceland, Reykjavik, Iceland

Contact details: School of Business, University of Iceland, Gimli (G-224), Saemundargata 2, 102 Reykjavik, Iceland

^{***} Department of Business and Economics, Reykjavik University, Reykjavik, Iceland



Abstract

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This study examines how Icelandic companies disclose sustainability-related governance practices and evaluates the impact of the new Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) (European Commission, 2025) on future disclosure practices. Building on Claessen's (2023) approach and using qualitative methodology, the research combines document analysis of sustainability reports from ten leading Icelandic firms with semi-structured interviews with company representatives. The study finds that current governance disclosures cover only 20–30 percent of ESRS minimum requirements. Key challenges include limited knowledge of ESRS among board members and consultants, weak communication structures, insufficient metrics and verification procedures, and resource constraints. The recent changes introduced by the 2025 Omnibus Act (European Council, 2025) further complicate compliance, intensifying the urgency for firms to adapt. The findings underscore the need for Icelandic companies to invest in training, enhance internal governance systems, and build robust reporting frameworks to meet regulatory demands. Without such efforts, companies risk legal and reputational repercussions. This research provides timely, country-specific insights into governance disclosure gaps and offers practical recommendations for aligning with the European Union's (EU's) evolving sustainability reporting landscape.

Keywords: Sustainability, ESG, European Sustainability Reporting Standards, Corporate Sustainability Reporting Directive, Reporting, Governance

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1. INTRODUCTION

Sustainability reporting has received considerable attention from practitioners and academics in recent years (Jeke et al., 2025; Nguyen et al., 2025; Poulsen & Sigurjonsson, 2024; Shaban & Zarnoun, 2024; Sotti & Santucci, 2023; Suhardjo et al., 2024). The lack of transparency and the poor quality of information in sustainability disclosures have long been criticized. The lack of standardization and,

consequently, comparability, verifiability, relevance, and comprehensibility has been a focus of criticism (Jonsdottir et al., 2022; Fischer, 2025). Consequences of low-quality sustainability information and disclosures include, for example, greenwashing, a lack of trust in the information, and impediments to directing investment into sustainable economic activities that raise corresponding capital, such as via green bonds (Oehler et al., 2018; Mitchell et al., 2024).

Criteria for high-quality financial disclosure have been defined, for example, in the International Accounting Standards Board (IASB) conceptual framework. They include relevance, faithful representation, comparability, verifiability, understandability, and timeliness (Claessen, 2023). Still, they are relevant not only to readers of financial statements but also to other stakeholders and more generally beyond financial reporting (Oehler & Wendt, 2017, on good consumer information). In line with the criteria for financial information and to address the low quality of sustainability disclosures, the European Parliament approved the Corporate Sustainability Reporting Directive (CSRD No. 2022/2462/EU) in November 2022.

The purpose of this study is to analyze:

- the disclosure of governance practices for sustainability in sustainability reports;
- the potential effect of the implementation of the CSRD with the European Sustainability Reporting Standards (ESRS) on governance and disclosure of governance.

The challenges and obstacles companies face in implementing the ESRS will be analyzed, as well as the need for corporate governance and organizations to adapt to align with the increased disclosure requirements. The research question, therefore, is:

RQ: What effect does the implementation of the ESRS have on the governance of Icelandic companies and the disclosure of governance information in sustainability reports?

The CSRD is intended to support the European Union's (EU's) sustainability goals and ensure that investors, consumers, and other stakeholders can access information about companies' sustainability performance (European Commission, 2025). It includes, among other things, the introduction of the ESRS, which sets detailed disclosure requirements for environmental, social, and governance (ESG) aspects in sustainability reports and requires independent third-party assurance. Companies must provide information on the risks and opportunities associated with environmental and social aspects, as well as the impact of their activities on people and the environment. Increased transparency regarding sustainability issues is an important component of the EU's efforts to change companies' behavior toward environmentally friendly goals and to direct investments toward green and sustainable activities (Leuz & Wysocki, 2016).

Twelve standards have been published, including two fundamental or cross-cutting standards and ten topical standards addressing specific issues. The basic ESRS 1 and 2 standards contain general requirements for preparing and presenting sustainability information. The topical standards contain explanatory requirements for environmental issues (E1–E5), social issues (S1–S4), and governance (G1). ESRS 1 and ESRS 2 are mandatory; however, compliance with the topical standards is contingent on materiality analysis. The twelve standards encompass 99 explanatory requirements and over 1,100 data points. Topics covered include, among others, carbon emissions, human rights, environmental impacts across the value chain, biodiversity, and more. One of the goals of implementing the standards is to prevent companies from engaging in greenwashing

(Marquis et al., 2016). In 2025, the European Commission adopted the Omnibus Act, which amended the ESRS to ease the reporting burden, particularly for smaller, less complex undertakings. The act introduced phase-ins for specific data points, flexibility in sector-agnostic disclosures, and clarified the use of materiality assessments. While this reduces some of the technical reporting pressure, it raises new governance challenges: companies must now actively justify omissions and demonstrate robust materiality processes. These changes underscore the importance of governance structures that are agile, informed, and transparent, thereby reinforcing the central theme of this study.

Large companies in Iceland are required to disclose various non-financial information related to sustainability issues, as outlined in the Icelandic Act on Annual Accounts No. 3/2006. Still, with the implementation of ESRS, regulations will need to be substantially adjusted or replaced. We are unaware that the corresponding impact on governance related to sustainability issues in Icelandic companies has been analyzed before. There has been little research on the information disclosure of Icelandic companies in their annual accounts. However, Claessen (2023) finds that substantial improvements are necessary in information disclosure and compliance with accounting standards.

This paper is organized as follows. Section 2 covers the theoretical background. Section 3 explains the data and methodology. Section 4 presents the results, Section 5 discusses our findings, and Section 6 concludes the research.

2. LITERATURE REVIEW

In this section, we first discuss research on the influence of sustainability reporting on organizations' behavior, decisions, and investments, commonly referred to as the real effects (Kanodia & Sapra, 2016). We then discuss research on compliance with disclosure requirements, including those related to the ESRS governance disclosure requirements.

2.1. Real effects of mandatory disclosure requirements on organizations

Leuz and Wysocki (2016) discuss the impact of sustainability disclosure requirements on various aspects of business operations. One of the key factors is governance and management oversight with respect to sustainability performance. They argue that organizational units adapt their activities to sustainability disclosure standards, as companies will need to provide more information, and stakeholders will be better positioned to monitor and respond to management decisions on sustainability issues. Companies, therefore, face incentives to comply with the requirements and report accordingly to avoid potential negative consequences of noncompliance. Examples of negative consequences include downward pressure on the stock price from investor selling, as well as the discontinuation of business relationships with customers and suppliers. Guo et al. (2017) find evidence that companies respond to increased sustainability information requirements and that corresponding disclosure requirements are practical.

Sun (2024) finds a positive correlation between the integration level of ESG disclosures and ESG performance, supporting the notion that sustainability reporting has an enhanced impact on internal decision-making and acts as a stakeholder-oriented reporting tool.

We contribute to this stream of the literature by examining the effects of the ESRS requirements on governance and disclosure of governance in companies. We therefore provide insight into the challenges associated with implementing the ESRS.

2.2. ESRS and compliance with disclosure requirements

Standardization in sustainability reporting guidance is a challenge (Fischer, 2025). However, corporate disclosure and reporting based on a harmonized regulatory framework is vital to ensure consistent and valuable information for investors and other stakeholders (Healy & Palepu, 2001). Compliance with statutory disclosure requirements can, therefore, help reduce market inefficiencies resulting from asymmetrically distributed information when companies possess information relevant to decision-making that other stakeholders lack (Healy et al., 1999). It also means that companies are compelled to disclose information they may want to conceal from stakeholders (Darrough, 1993). Compliance with statutory disclosure requirements in annual reports, primarily based on accounting standards, and the inclusion of explanations beyond the statutory minimum have attracted some attention from researchers. Corresponding studies have shown that European companies typically comply with 70% to 90% of International Financial Reporting Standards (IFRS). Still, many companies comply with fewer than 70% of IFRS requirements (Tsalavoutas et al., 2020). This means that companies face a challenge in fully complying with detailed statutory disclosure requirements, and improvements are needed.

The ESRS includes extensive information requirements about governance, as good governance plays a key role in the successful implementation and compliance with sustainability standards (Sigurjonsson & Kostyuk, 2024; Colak & Sarioglu, 2025). ESRS 2 includes disclosure requirements related to governance and sustainability issues. The disclosure requirements are set out in the following five sections (GOV 1-GOV 5):

- GOV 1: Information must be provided on the composition of the company's administrative, management, and supervisory bodies, including their roles and responsibilities, as well as access to expertise and skills in ESG matters (15 data points).
- GOV 2: Information on how the administrative, management, and supervisory bodies are informed about ESG matters, and how these matters were addressed. (four data points).
- GOV 3: Information on how sustainability-related performance is integrated in incentive schemes (five data points).
- GOV 4: Information on due diligence regarding sustainability information (one data point).
- GOV 5: Main aspects of risk management and internal control systems concerning the sustainability reporting process (five data points).

The authors are unaware of any studies on how well companies already meet the upcoming ESRS disclosure requirements, or on how well the governance of sustainability matters is organized to comply with the ESRS requirements. A new layer of complexity has been introduced by the 2025 Omnibus Act, which modifies several ESRS requirements. The act grants companies greater discretion through materiality assessments but requires stronger internal governance to ensure that reporting omissions are justified and transparent. These amendments emphasize the importance of internal processes, documentation, and control structures, particularly those related to the GOV 2 and GOV 5 requirements of ESRS 2, which require that accountability for exclusion decisions be traceable.

3. RESEARCH METHODOLOGY

The purpose of this study is to analyze:

- 1) the disclosure of governance practices for sustainability in sustainability reports;
- 2) the potential effect of the implementation of the CSRD with the ESRS on governance and disclosure of governance.

We build on Claessen's (2023) methodological approach. We split the methodology into two parts, with both parts following a qualitative approach, and employ ten Icelandic companies.

First, we apply document analysis. We collect the companies' sustainability reports for 2023 and analyze their current disclosure of the governance dimension of ESG. Following the approach of Glaum and Street (2003) and Tsalavoutas et al. (2020), we employ a checklist that covers the explanatory requirements of the ESRS 2 on governance (GOV 1 to GOV 5) and identify the degree to which the sustainability reports for the year 2023 comply with the minimum disclosure requirements of the (to be implemented) standards concerning governance. GOV 1 to GOV 5 include 30 data points on governance. For each item, we assess whether it is reported or deemed irrelevant. We then determine the total degree of compliance (with the to-be-implemented standard) for each company and analyze deviations.

Second, we interview company representatives. We employ purposive sampling to capture multiple perspectives on the questions. The interviewees are members of audit committees, chief financial officers (CFOs), and managers of sustainability and finance teams, where applicable. The interviews were conducted online from February to March 2024, with one conducted in person. Table 1 includes an overview of the interviewees. The interviews are semi-structured, based on the ESRS GOV 1 to GOV 5 disclosure requirements and the checklist results. The interviews focus on the current state of governance issues as one dimension of ESG, the expected impact on governance, and the main challenges of implementing the ESRS. Confidentiality and anonymity have been assured. The interviews were transcribed, coded (using open coding based on themes in GOV 1 to GOV 5), and analyzed according to the interview framework, which included corresponding requirements for explanation and clarification. For a fundamental coverage of this methodological approach, see also Corbin and Strauss (1998).

Qualitative methodology is best suited because it allows a deeper understanding of this novel topic (Siggelkow, 2007). We gain insight into the potential effects of implementing the ESRS on governance and the disclosure of governance for the companies analyzed. We selected companies defined as entities of public interest under the Icelandic Act on Annual Accounts, which must implement the ESRS. The selection of the 10 companies and the interviewees was primarily based on the researchers' access to data and the availability of interviewees.

Table 1. Profile of interviewees and companies' compliance with GOV 1 to GOV 5

<i>Firm</i>	<i>Interviewee</i>	<i>Compliance with GOV 1 to GOV 5</i>
F1	Head of sustainability	30%
F2	Head of sustainability	27%
F3	Head of sustainability	30%
F4	Head of sustainability	20%
F5	Financial director	20%
F6	Financial manager	20%
F7	Financial director	20%
F8	Financial director	20%
F9	Head of sustainability	27%
F10	Head of the audit committee	27%

An alternative research approach would adopt quantitative content analysis combined with a survey-based research design. A larger sample of Icelandic (or Nordic) companies subject to the CSRD could be examined to enhance generalizability. Sustainability reports would be coded using the ESRS governance one to five indicators to construct numerical disclosure indices reflecting the extent and depth of governance reporting. These indices could then be analyzed using descriptive statistics and regression models to examine systematic differences across firm characteristics, such as size, industry, ownership structure, and international exposure, as well as changes over time following ESRS implementation. In parallel, a structured questionnaire could be administered to CFOs, sustainability managers, and board members to assess perceived readiness, implementation costs, governance adjustments, and expected benefits of the CSRD, using standardized Likert scales. This approach would enable hypothesis testing and statistical inference regarding the determinants and consequences of governance disclosure under the ESRS, while offering broader external validity, albeit at the expense of some of the contextual richness provided by in-depth interviews. Based on our qualitative approach, future research should adopt such a quantitative research approach to broaden the understanding of this topic.

4. RESULTS

We structure the presentation of the results in this section according to the interview framework and the GOV 1 to GOV 5 disclosure items. For each GOV group, we first present the compliance of the 2023 sustainability reports with the (to-be-implemented) ESRS disclosure requirements for governance, and then, we present the potential impact of ESRS on governance and the main challenges in implementing it based on the interviews.

4.1. Composition, role, and responsibility of administrative, management, and supervisory bodies, and access to ESG expertise and skills (GOV 1)

Comparing the current disclosures of 10 companies with the fifteen GOV 1 data points indicates that the companies meet approximately 40%-60% of the GOV 1 requirements. Compliance with GOV 2 to GOV 5 requirements is significantly lower, and overall compliance with the disclosure requirements (GOV 1 to GOV 5) ranges from 20% to 30% for the companies we analyzed. Higher compliance with GOV 1 stems from similar disclosure requirements in annual reports to which companies are already subject. Table 1 presents the overall compliance level for each company.

The interviews revealed that all companies had employees or teams responsible for sustainability issues, but the number of employees assigned to these roles varied substantially across companies. The smallest company dedicated more than half of its resources to sustainability issues, while the largest company had a team of five employees. However, this also means that all analyzed companies have formally defined employees' roles and responsibilities related to sustainability issues. However, the review and control of sustainability information are generally not formalized, despite most companies regularly informing their boards about sustainability issues. In these companies, sustainability information is reviewed by the audit committee; however, none of them has a dedicated subcommittee on sustainability issues. Two companies have established dedicated sustainability committees; however, their roles are not well defined, and they do not hold regular meetings. These two companies have a separate department that deals with sustainability directly under the chief executive officer (CEO).

Knowledge of sustainability issues varies within the companies, and the interviewees agreed that knowledge of sustainability issues and disclosure requirements needs to be significantly improved. Several interviewees also mentioned a lack of knowledge and experience among consultants and other experts.

The companies we analyzed are at various stages in their sustainability journey. A typical pattern became obvious regarding how sustainability issues develop and mature within the management structure. First, sustainability issues are typically handled by a single expert or employee, but across departments, depending on the company. For example, these responsibilities may be assigned to the communication department, business development, the human resources department, or the finance department. As the focus on sustainability and the number of projects increase, a sustainability department reports directly to the CEO. The sustainability department undertakes projects related to sustainability issues, including risk assessment, strategic planning, goal setting, and internal and external disclosure. As sustainability issues affect most aspects of a company's operations, the employees who deal with sustainability issues work across departments and divisions. When a specific sustainability issue has been formulated and developed to a certain extent within

the sustainability department, it is transferred to the department most closely associated with the issue. Internal and external disclosure related to sustainability issues is transferred to the finance department. Policy management and follow-up are transferred to the legal department. The human resources department typically addresses sustainability issues related to employees. Communication regarding sustainability issues with suppliers is transferred to the purchasing department. According to this pattern, responsibilities for sustainability issues originate centrally but expand as these issues develop and their scope increases. At that stage, the role of the sustainability team or department is to coordinate and oversee.

The interviewees state, for example:

"We need to define processes and responsibilities better and probably triple the resources during the implementation" (F4, personal communication, February 21, 2024).

"Sustainability issues are immature and in the hands of the financial department; there is the ambition to improve, but in-house knowledge is lacking" (F8, personal communication, February 28, 2024).

"Increased emphasis on sustainability issues will impact nominations and hiring because it is necessary to ensure that there is expertise in sustainability issues" (F10, personal communication, February 22, 2024).

"This is new for everyone, and one of the problems we have encountered is that the consultants we rely on also lack experience and knowledge" (F2, personal communication, February 9, 2024).

Regarding sustainability issues, employees, managers, and members of boards and subcommittees need knowledge and expertise. Building this knowledge is a major challenge when implementing the ERS, both within companies and among consultants and other experts. Nomination committees, boards, and managers will increasingly need to consider knowledge of sustainability issues when making hiring decisions. This will require new recruitment criteria and significant investments in education and training.

4.2. Information on how the administrative, management, and supervisory bodies are informed about ESG matters (GOV 2)

GOV 2 requires information on how the board and supervisory committees are informed about sustainability issues. This includes, among other things, information on communication channels; disclosure frequency regarding effects, risks, and opportunities related to sustainability issues; results of internal monitoring of sustainability issues; and key issues identified through a double materiality assessment. Our review of the sustainability reports revealed that very limited information is provided on these aspects. The interviews also revealed that corresponding policies or procedures have not been formulated. However, it was noted that a formal review is conducted when preparing the sustainability report, during which the managers and the audit committee review the report and the issues raised therein.

Companies will need to formally define their communication channels and controls regarding sustainability issues. They must also define and disclose the decision-making process for important sustainability issues. This means that decision-making and internal control of sustainability information will be similar to those for financial information. CEOs, boards, and subcommittees must formally address sustainability issues deemed important and explain how they are addressed.

One of the biggest challenges regarding GOV 2 is determining what is considered a significant sustainability issue. The importance of financial information is assessed based on criteria that consider the amounts in the context of the company's operations and finances. The importance of sustainability issues is assessed based on the quantities and other factors that affect them, as well as the external and internal environments (double materiality).

"The management can monitor the overall goals but cannot see the details" (F4, personal communication, February 21, 2024).

"We do not have a special sustainability committee, and I believe sustainability issues belong on the audit committee's table" (F10, personal communication, February 22, 2024).

As many Icelandic companies are relatively small, communication channels are often informal. However, to meet the GOV 2 requirements, they must define how sustainability issues are communicated and monitored.

4.3. Information on how sustainability-related performance is integrated into incentive schemes (GOV 3)

According to GOV 3, detailed information on how sustainability performance is considered in incentive systems must be provided. The reports of all companies we analyzed state that they have an incentive system in place for managers. However, only one company stated in its sustainability report that success in sustainability matters was taken into account in the incentive system. This means that none of the companies in our sample complied with GOV 3, indicating that they will need to significantly improve their disclosure in this area.

Integrating goals for success in sustainability issues into the incentive system is necessary. However, developing appropriate metrics to measure sustainability performance and managers' influence on it will be challenging. Many factors related to success in sustainability issues are not under the direct influence of the company and its managers, such as carbon emissions in the value chain or customers' social behavior. GOV 3 also requires information on, for example, the weight of success in sustainability issues within the incentive system, the criteria for evaluating success, and other relevant factors. None of the reports we reviewed provided sufficient detail on incentive systems.

4.4. Information on due diligence regarding sustainability information (GOV 4)

GOV 4 imposes strict requirements for the disclosure of processes that ensure the reliability of sustainability information (due diligence). In each

chapter of the sustainability report, the link between the corresponding information and the control elements that ensure its reliability should be presented. None of the companies in the sample provided detailed information on how to verify the reliability of sustainability information or how to monitor it. However, larger companies had documented processes up to a certain level, while smaller companies had more informal processes. Managers believe that they have the necessary overview to ensure the reliability of sustainability information and that it is not urgent to implement clearly defined processes. It can be challenging for smaller companies to invest the time and costs required to document and maintain these processes.

“I’m worried that working on exciting sustainability projects will not be possible because too much time is spent in bureaucracy” (F4, personal communication, February 21, 2024).

The scope of these processes is such that companies will need to implement software solutions on top of their existing information systems to manage sustainable processes and their monitoring. Most of the companies in the sample were not far along in this implementation.

“There are no formal processes, and we will have to buy a system to manage the information and ensure its reliability — how is this done?” (F9, personal communication, February 25, 2024).

4.5. Main aspects of risk management and internal control systems concerning the sustainability reporting process (GOV 5)

The disclosure requirement regarding risk management and internal control in connection with the preparation of the sustainability report includes, among other things, a description of the risk assessment, processes, and control elements, as well as a discussion of how the results are communicated to managers, the board, and sub-committees of the board. Consequently, similar requirements for risk assessment and internal control will be applied to the sustainability report and the preparation of the annual report. The interviews revealed that, in most cases, the process of preparing the sustainability report was informal and lacked clearly defined procedures. The employees who address sustainability issues gathered information from other areas: staff information from the human resources department, supplier information from the purchasing department, governance and policy information from the legal department, and so forth. Alternatively, specific issues in the report were assigned to these departments. All interviewees mentioned that obtaining detailed and reliable data on sustainability issues was often difficult.

Obtaining reliable data from third parties is a challenge. Examples include detailed information on carbon emissions, employee-related issues, and information on the value chain. Although it may be possible, in many cases, to obtain such information by investing substantial effort, the information or underlying data could not be confirmed due to the absence of control elements that would ensure their reliability. There are numerous opportunities to carry out this work more efficiently and to better coordinate internal and external reporting on sustainability issues.

Companies will need to establish a process for preparing their sustainability reports, similar to the one used for preparing financial information and annual accounts. They need to document the process for preparing sustainability information, conduct a risk assessment, and implement control measures. It is also necessary to ensure a formal review of the preparation of sustainability information and to define communication channels. The interviews revealed that, in line with financial reporting, responsibility for preparing sustainability information is increasingly being transferred to the finance department, even though the sustainability team remains responsible for overseeing sustainability issues. The work involved in preparing a sustainability report is added on top of the already existing workload of the employees, which is even more problematic, as the sustainability report must be issued and signed at the same time as the annual report, in a situation where most employees are already overloaded with work on the annual report and accounts. One interview stated this directly:

“Work on sustainability issues is added on top of other people’s work, and there is no time to do it” (F1, personal communication, February 7, 2024).

A similar situation exists for auditors, who must verify the accuracy of sustainability information. There is considerable pressure associated with auditing annual accounts, and confirming sustainability information adds to that workload. This additional work will be significant, and large investments are expected for accountants and auditors in training to verify sustainability information.

Some interviewees highlighted the technical complexity of certain ESRS, particularly the five standards related to environmental and climate issues. Specialized training for personnel or contracted professionals is required to understand and meet these standards, and companies will increasingly need to hire staff with expertise in sustainability. Not only that, but also in the context of a lack of expertise on the part of auditors, the interviewees raised concerns that failure to follow the ESRS would have no consequences, and companies would get away with circumventing the standards, thereby increasing the risk of “greenwashing”. This means that companies would publish only information on sustainability aspects that present a positive image, omitting weaknesses and areas for improvement.

“We are concerned that non-compliance does not have consequences and that regulators do not follow up” (F3, personal communication, March 2, 2024).

However, business partners, such as customers and suppliers, will also exert greater pressure to comply with the ESRS. One interviewee also mentioned the importance of sustainability consultants.

5. DISCUSSION

This study aimed to analyze the effect of the introduction of the ESRS on governance and disclosure of governance in Icelandic companies. The results offer insight into the current situation and the primary challenges and obstacles that companies encounter when meeting the increased

mandatory disclosure requirements. The analysis of current disclosures on governance related to sustainability issues indicates a compliance level of 20%-30% of the (to-be-implemented) minimum disclosure requirements of the ESRS. Significant work is required to enhance the disclosure of information in sustainability reports. The findings are in line with findings on insufficient compliance with financial disclosure requirements for European companies and Icelandic companies (Tsalavoutas et al., 2020; Claessen, 2023). Compliance with financial disclosure requirements is, though, still considerably higher. Financial disclosure has been long established, whereas the sustainability disclosure requirements that we focus on were still at the to-be-implemented stage at the time of the analysis.

The companies we analyzed are at different stages in their sustainability journeys and in their sustainability-related governance. The interviews revealed a pattern in how sustainability issues and governance develop, from an individual employee addressing sustainability issues to a team or department directly under the CEO, and the distribution of responsibilities across various departments, such as finance, human resources, and the legal department. The role of the sustainability department is then to coordinate. The companies are at different phases of this development process.

The interviews revealed numerous challenges in implementing the ESRS. The main challenges and obstacles, as well as opportunities for improvement, include:

- Lack of experience and knowledge regarding ESRS among members of boards and sub-committees of the board, managers, consultants, and other experts (GOV 1).
- Lack of formally defined communication channels and monitoring of sustainability issues (GOV 1).
- Lack of clearly defined criteria and metrics regarding which issues are considered essential and, therefore, need to be addressed formally and approved by the CEO, board, or sub-committees of the board (GOV 2).
- Lack of the right metrics for sustainability performance and their implementation in the incentive system and corresponding disclosure in the sustainability report (GOV 3).
- Large investments in human resources and information systems are needed to implement and maintain sustainability-related processes (GOV 4).
- Increased burden and workload for employees, because detailed sustainability reports need to be prepared and published at the same time as the annual reports with financial information. In many cases, the same group of employees deals with financial and sustainability reporting (GOV 5).
- External parties are unable to verify sustainability information due to challenges in obtaining detailed and reliable data on sustainability issues and a lack of corresponding control activities and processes (GOV 5).
- Dependence on information from third parties, e.g., emission figures, supplier and customer

behavior, the value chain, etc. Reliable methods for evaluating information and ensuring the reliability of data from external sources are needed (GOV 4 and GOV 5).

- Challenges for auditors to work with employees within the companies that have no experience working with auditors, and to ensure the reliability of judgmental text disclosures instead of factual numbers and amounts.

- Challenges for regulators to get specialized staff to monitor sustainability reporting (GOV 5).

6. CONCLUSION

Icelandic companies encounter several challenges that they need to address when implementing the ESRS. However, companies, consultants, auditors, and other experts must also develop the knowledge and expertise necessary to facilitate the implementation of the ESRS. Successful implementation is necessary to foster economic change toward greater sustainability. Given the relevance of ESRS implementation in Iceland, our findings are also applicable on a broader scale and are informative for companies and other stakeholders in other countries.

A limitation of this research is the access-driven qualitative sample that constrains generalizability and potentially increases the risk of selection bias. The compliance assessment relies on a relatively coarse checklist approach focused on ESRS 2 governance items (and on 2023 reports pre-implementation), which may under-capture disclosure quality and materiality judgments.

There are also plenty of research opportunities ahead. These include analyses of the impact that detailed disclosure and assurance of sustainability information will have on companies' decisions and behavior, not only with respect to sustainability issues. Moreover, in terms of effective and efficient regulation, the benefits and costs of implementing the ESRS, the usefulness of sustainability information, and the organization of sustainability-related governance need to be thoroughly analyzed. There are also opportunities, e.g., using a quantitative approach as described in the data and methodology section, to investigate the factors that influence compliance with sustainability disclosure requirements and to examine the processes and management structures surrounding sustainability issues to identify how sustainability projects and responsibilities can be best integrated into organizational structures.

The introduction of the 2025 Omnibus Act marks a significant evolution in EU sustainability policy, signaling a shift from rigid compliance to a more flexible, judgment-based approach. However, this also places greater pressure on governance mechanisms. The ability of boards, audit committees, and sustainability officers to interpret, justify, and document their decisions becomes a critical factor in their success. Our findings indicate that Icelandic companies are far from being fully prepared for this responsibility, and that improvements in ESG expertise, systems, and internal communication channels are more crucial than ever.

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