The Impact of Corporate Sustainability Reporting Regulation on Business and Financial Performances of Companies in Bosnia and Herzegovina

Tajana Serdar Raković
Faculty of Economics, University of Banja Luka, Banja Luka, Bosnia and Herzegovina
tajana.serdar-rakovic@ef.unibl.org

CroEconSur
Vol. 26
No. 2
December 2024
pp. 63-93

Received: November 20, 2023
Accepted: July 7, 2024
Research Article

doi:10.15179/ces.26.2.3

Abstract

Given the global trends and initiatives for environmental preservation and transition to sustainable development, the corporate sector has been facing a turning point in corporate reporting. The sustainable business requirements also initiate a series of new challenges in the financial and accounting sector related to the development of accounting solutions for integrating sustainability issues into financial statements. In addressing the green transition problems, the EU has adopted the Corporate Sustainability Reporting Directive (CSRD), which modernizes and strengthens the rules concerning the social and environmental information companies must report in their financial statements. The research was carried out by conducting a survey among the population interested in corporate finances, especially accountants. The main goal of the research is to analyse the impact of sustainable reporting regulation on the corporate sector's financial performance and companies' operations in Bosnia and Herzegovina. The results show that EU CSRD will significantly impact doing business and performances of companies and that the companies that adapt to new sustainability reporting regulations will have higher chances of obtaining positive financial performances and adequately addressing the increasing demand of stakeholders for more comprehensive business reporting.

Keywords: corporate reporting, sustainable business, corporate sector, financial performances, sustainability reporting

JEL classification: Q56, G30

1 Introduction

Compared to the last several decades, corporate reporting is experiencing the most significant challenges in the new global environment that is focused on sustainable development and green transition. Global sustainable initiatives and goals have changed corporate reporting practices considerably. Across the world, both in developed and developing countries, the need for enhanced transparency and accountability in the corporate sector is rising. Corporate sustainability reporting emerged in some studies in the 1970s, but it has not been focused on during the next 20 years. Afterwards, global attention has been directed towards decreasing reserves of natural resources and the importance of sustainable development, sustainable business and, consequently, new forms of corporate reporting have become critical issues. Many vital organizational stakeholders have recognized that financial reporting cannot satisfy all of their information needs, and their call for more and different information has emerged, as stated by the International Federation of Accountants (IFAC, 2017). Nowadays, corporate reporting must focus on financial information and nonfinancial issues, including broader sustainability issues, such as environmental and social issues.

The corporative reporting regulative on sustainability reporting includes several frameworks as well as standards (Damnjanović, 2021):

- Integrated Reporting (now part of IFRS Foundation). International Integrated Reporting Framework is used to encourage the adoption of integrated reporting to help companies explain the process of value creation to providers of financial capital, enhance accountability, and support integrated thinking (Integrated Reporting, 2023).
- IFC Sustainability Framework. This framework is meant to induce capital flows to less developed markets by decreasing actual and potential risks, increasing transparency, and improving the business performance of companies (International Finance Corporation (IFC), 2023).
- GRI Standards have been developed to enable all interested parties to disclose sustainability information, no matter the size, industrial sector or location.
- SASB Standards (now part of IFRS Foundation) support corporations in providing industry-based disclosures regarding risks and opportunities related to sustainability issues that can influence cash flow, cost of capital, or financial sources (SASB, 2023). As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation undertakes responsibility for the SASB Standards (SASB, 2023).
- IFRS Sustainability Disclosure Standards.

Global Reporting Initiative (GRI, n.d.) was one of the first initiatives for sustainability reporting, emerging in the world's most widely used sustainability reporting framework. This framework sets out the tenets and indicators for evaluating and reporting nonfinancial performance and economic, environmental, and social impacts of the companies and other entities. It evolves through the consensus-seeking multi-stakeholder approach (World Economic Forum, 2023). Sustainability reporting based on GRI Standards proffers information about the company's or other entity's positive or negative impact on sustainable development.

Further development of corporate reporting on sustainability led to the formation of the new International Sustainability Standards Board (ISSB). The IFRS Foundation announced the establishment of a new International Sustainability Standards Board on 3 November 2021, as well as the consolidation of the Climate Disclosure Standards Board (created in 2007) and the Value Reporting Foundation by June 2022 (International Financial Reporting Standards Foundation (IFRS), 2023). The Climate Disclosure Standards Board (CDSB, 2022) has been closed, fully consolidated, and integrated into the IFRS Foundation. On the other hand, the International Sustainability Standards Board has been introduced as a response to strong market demand for sustainable reporting (IFRS, 2023). As the IFRS Foundation stated, the ISSB is developing standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures addressing the needs of investors and the financial markets. The International Sustainability Standards Board provides and implements IFRS Sustainability Disclosure Standards (CDSB, 2022). IFRS Sustainability Disclosure Standards have been adopted to introduce a global baseline of disclosure requirements, developed to give shareholders and the public high-quality, globally comparable sustainability information. The information from sustainability reporting may be used by organizations on a standalone basis or incorporated into requests to meet broader stakeholder or public policy needs. Today, IFRS Standards are developed by two standard-setting boards, the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).

When it comes to the EU, three key EU regulations regulate companies' reporting on sustainability and nonfinancial performance:

- Directive 2014/95/EU—Non-Financial Reporting Directive (NFRD);
- 2022/2464/EU—Corporate Sustainability Reporting Directive (CSRD); and
- EU Taxonomy Regulation 2020/852/EU (regulates economic activities considered climate neutral).

The most crucial change in sustainability reporting regulations is the adoption of the Corporate Sustainability Reporting Directive. The EU has adopted the Corporate Sustainability Reporting Directive (CSRD), which entered into force on 5 January 2023. The new Directive modernizes and strengthens the rules concerning the social and environmental information companies must report in their financial statements. In addition to the costs arising from doing business in compliance with environmental standards in the corporate sector, another challenge is the accounting coverage of corporate innovations and finding accounting solutions for integrating sustainability issues into corporate reports. As a result of CSRD implementation, all large and all listed companies are required by EU law to disclose information on observed risks and opportunities arising from social and environmental issues and on the influence of their activities on natural resources, ecosystems, and the environment (European Commission, 2023a). The initiative to introduce CSRD in the EU has been led by the EU's goal of becoming the first climate-neutral continent. The European Green Deal is meant to transform the EU into a modern, resource-efficient, and competitive economy, ensuring no net emissions of greenhouse gases by 2050, economic growth decoupled from resource use, and no person and place left behind (European Commission, 2023b).

Observing the world's biggest financial market, there is no standalone mandatory sustainability reporting nor clear disclosure framework in the U.S. The United States Securities and Exchange Commission (SEC) only requires companies to report on information that may be material to investors, which includes ESG-related risks (Filosa et al., 2021). The critical aspects of corporate reporting according to sustainable development initiatives include environmental, social, economic and institutional aspects (United Nations Conference on Trade and Development (UNCTAD), 2016). By meeting the needs of shareholders and fulfilling the requests of authorities and bodies in charge, the companies' sustainable corporate reporting has become mainstream business practice globally. However, voluntary corporative reporting on sustainability creates several challenges. First of all, the incomparability among the companies may occur, the scope of reporting may vary vastly, and the trust gained by shareholders may need to be more credible. On the other hand, obligatory corporative reporting on sustainability will add new demands to the already complicated financial reporting practices.

Besides legal requirements regarding corporate financing, the potential users of corporate reporting's expectations and objectives have changed: they are more diverse than the conventional view suggests. Financial information is still a foundational pillar of corporate reporting, but evidence shows increasing demand for more comprehensive business reporting on value creation, risks, resources, and social and environmental impacts. Nowadays, users of corporate reports and financial statements want to know the companies' investment risks' influence on the environment and ask for more integrated, screen-adapted, and user-friendly reports. One of the fundamental changes in the upcoming years will be a review of existing accounting practices in terms of valuation of natural assets and disclosure of environmental risks.

2 Theoretical Background and Conceptual Framework

Previous studies reveal that sustainability information is essential in investors' and other stakeholders' analysis when valuing companies' future performances. Many studies on the importance of sustainability reporting for the corporate sector have been initiated by the introduction of the EU Directive on Non-Financial Reporting (Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014), which has been amplified by the entering of CSRD into force in the EU. Aureli et al. (2020) have found positive changes in corporate practice caused by the transition from voluntary to mandatory disclosure of nonfinancial information under the influence of the EU Directive on Non-Financial Reporting. De Villiers et al. (2022) have investigated the future of sustainability reporting standards by examining the current practical projects and the Global Reporting Initiative's position in the nonfinancial and sustainability reporting field. They concluded that GRI would continue to hold their global position in generating multi-stakeholder accountability and sustainability reporting standards.

Other studies have proved the existence of a causal relationship between sustainability reporting and corporate financial and ESG performances. Shabbir and Wisdom (2020) highlighted the positive and significant relationship between internal environmental investments and the company's financial performance. They found a significant difference between the profitability of environmentally conscious and environmentally non-conscious companies. Baalouch et al. (2019) have investigated the impact of various factors on the quality and credibility of environmental information disclosure. The authors have concluded that the company's environmental performance has a positive and significant effect, meaning that sustainability disclosures support the stakeholders' understanding of how companies can operate effectively and achieve profit. Dhaliwal et al. (2011) have deduced that sustainability disclosure verifies the companies' environmental, social, and governance performance. This conclusion implies that sustainability disclosure and ESG performances are not the same. Disclosure is seen as a strategic decision of the companies, while ESG performance is seen as a strategic goal, requiring efforts to upgrade.

Previous studies have shown that the disclosure of sustainability information, such as cash flow, can improve a firm's financial performance (Longoni & Cagliano, 2018). The study of Li et al. (2023) gives guidance on the sustainability information disclosure practice of companies. The authors concluded that companies could decrease the cost of equity capital by introducing comprehensive sustainability information disclosure. In a survey conducted by PwC (2022) among investors globally, it was found that investors see sustainability as a priority for companies and a factor that requires financial discipline and greater transparency. Corporate reporting is viewed in two ways: financial reporting (reporting on financial performance) is seen as effective, while reporting on data security and sustainability factors is seen as significantly less effective concerning their priority levels in companies (PwC, 2022). Two-thirds of investors claimed they want companies to disclose the monetary value of their activities' environmental and societal effects. This testifies to the importance of sustainability issues for strengthening corporate performance and facilitating the shareholders' decision-making. Empirical results in the banking sector show that ESG significantly impacts bank performance (Buallay, 2019). Experimental evidence suggests that sustainability positively predicts future performance (Hartzmark & Sussman, 2019).

The role of stakeholder demands from sustainability reporting, the stakeholders' trust in and the perception of the credibility of sustainability reports are the subject of several studies. Xiao and Shailer (2022) have examined stakeholder perception of sustainability reporting credibility and have demonstrated that their perceptions of credibility have been affected by four factors: assurance and accountability, source (management) characteristics, message characteristics, and standards and ratings. Liao et al. (2015) have concluded that the information about greenhouse gas emissions is a significant, vital factor in stakeholders' decision-making process. Michelon et al. (2015) determine CSR information richness as the degree of information usefulness for the stakeholders' valuation of corporate activities' social and environmental impact and management attitude towards CSR. Audit of environmental and sustainability reports is essential in increasing the stakeholders' trust in companies. As a proactive signal of the plausibility of corporate sustainability reporting practice, sustainability reports audit enhances the perception of accountability and the company's reputation, boosting the stakeholders' trust (Braam et al., 2016). Cho et al. (2020) have shown a positive correlation between the disclosure of sustainability information and the assessment of the company's value by the stakeholders and the capital market.

Some companies reporting sustainability actions are rising, making corporate sustainability disclosure a mainstream approach in nonfinancial reporting. The obligatory sustainability reporting aims to enhance information transparency, credibility, comparability, and scope of sustainability reporting. Companies that are more environmentally damaging, particularly those in environments where they are more exposed to supervision and global standards, are less likely to engage in selective disclosure (Marquis et al., 2016). Sustainability reporting and accountability expand the spectrum of information used in corporate decision-making and assessing corporate success and performance (Laine et al., 2021). The pursuit of fulfilling the stakeholders' needs and sustainable development goals has led to the implementation of mandatory sustainability disclosures in the EU and to the increase in requests for ESG reporting worldwide.

3 Research Design and Methodology

Upon examining the literature and previous studies, it has become evident that the authors have mainly used case studies and survey research to investigate corporate reporting in the new sustainable business environment. We have opted to use a survey based on a questionnaire among accountants, firm owners, managers, financial managers, and financial experts. Building upon prior analyses, the research hypotheses were developed.

Hypotheses Development

H1: Adopting the EU Directive on Corporate Sustainability Reporting will significantly affect companies' future financial performance and ability to do business in Bosnia and Herzegovina.

H2: Companies that adapt to new sustainability reporting regulations will have a higher chance of obtaining positive financial performance and adequately addressing stakeholders' increasing demand for more comprehensive business reporting.

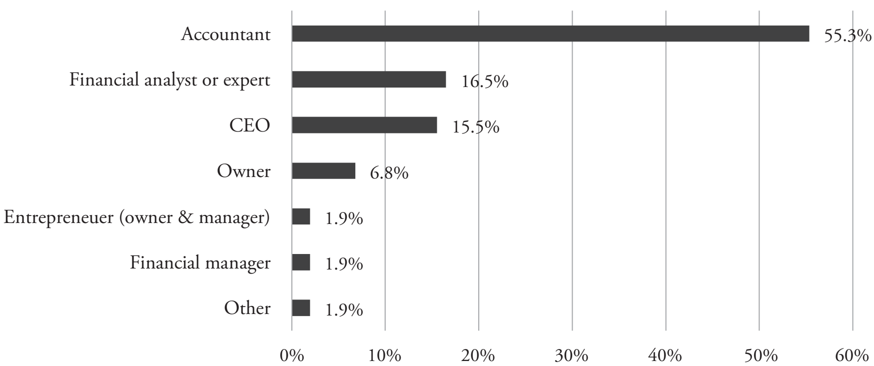
Sample and Data Collection

After significant events and crises hitting the world since 2020, the time has come to upgrade the form and framework of corporate reporting and disclosures. Corporate reports, including company sustainability reports, have to be substantial, transparent, and credible, ensuring the stakeholders get and can access all critical information. The results of other studies (Cho et al., 2020; Hartzmark & Sussman, 2019; Li et al., 2023; Longoni & Cagliano, 2018; Shabbir & Wisdom, 2020), when compared with ours, have confirmed our hypotheses. Relevant information found in literature and practical studies proves that the companies involved in sustainable corporate reporting have more success in corporate governance and higher operative business results. This research examines the accountants, CEOs, and financial experts involved in corporate reporting on the new requirements for compiling and publishing sustainability reports. The main goal of the research is to analyse the impact of sustainable development initiatives on the corporate sector's financial performance and doing business in Bosnia and Herzegovina.

One hundred and forty respondents were interviewed to conduct the study, but the research was done on a sample of 103 respondents. As the introductory question in the questionnaire targeted the respondents' familiarity with the new sustainability reporting regulation in the EU and its demands, we excluded 37 respondents who said they had yet to become familiar with the new EU Corporate Sustainability Reporting Directive. Only the participants who were acquainted with the subject of analysis were included in further research. We used the information obtained from 103 respondents, including accountants, CEOs, financial experts / financial analysts, business owners, entrepreneurs, financial managers, and other relevant parties related to corporate reporting (such as university professors). Most questions were closed: multiple-choice questions (single or multi-select), opinion scale, multi-select drop-down list, binary questions, and multi-factor matrix (standard scale). Also, there were some questions in the form of open-ended comments (essay box), where participants could express their opinions about the survey subject. In order to obtain results and confirm the hypotheses, we used the Chi-square test. The survey was limited to examining corporate reporting on sustainability in Bosnia and Herzegovina. We also used data from linked studies of other relevant institutions and authors.

The following figures represent the structure of the respondents regarding their professional positions and work experience.

Figure 1: *The Respondents' Professional Position in B&H Companies*

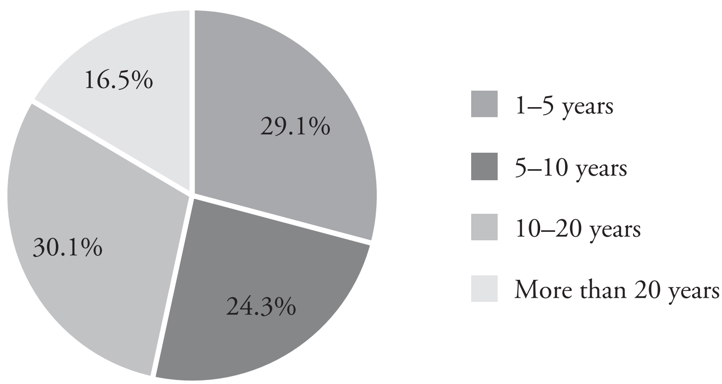


Chi-Squared test	$\chi 2$ value	df	Significance (p)
	158.891	6	< 0.0001

Source: Author's survey.

The most numerous category includes accountants, who comprise 55.3 percent of respondents. The participation of accountants in the sample is significantly higher compared to other respondents, given that accountants are primarily engaged in the preparation of financial as well as sustainability reports in companies. Financial analysts and financial experts participate with 16.5 percent, CEOs (board members) with 15.5 percent, and company owners with 6.8 percent in the structure of respondents. The entrepreneurs, financial managers, and others participate in the sample with 1.9 percent each. The other category includes university professors with expertise in corporate finance. The chosen categories of respondents have been included in the research to examine the opinion of the broadest possible group of interested and informed parties involved in the corporate field or those who will be able to influence changes in the B&H corporate sector. The chi-square test, as expected, shows that the difference between the sizes of categories is considered to be highly statistically significant. Such results are caused by the accountants' participation magnitude in the sample, given their expertise in and knowledge of nonfinancial and sustainability reporting issues.

Figure 2: *Work Experience at the Current Position in the Company*



Chi-Squared test	χ2 value	df	Significance (p)
	4.767	3	0.1897

Source: Author's survey.

By conventional criteria, the difference between the categories of respondents according to years of professional experience is not considered statistically significant. It means that all categories of work experience are represented in the sample.

The awareness of the importance of corporate reporting on sustainability exists in Bosnia and Herzegovina, which is especially recognized in the case of companies connected to the EU market. Bearing in mind that the trend of sustainable development and sustainable business is global, it can be expected that the EU regulation on sustainability corporate reporting will start regulation changes in the rest of the world.

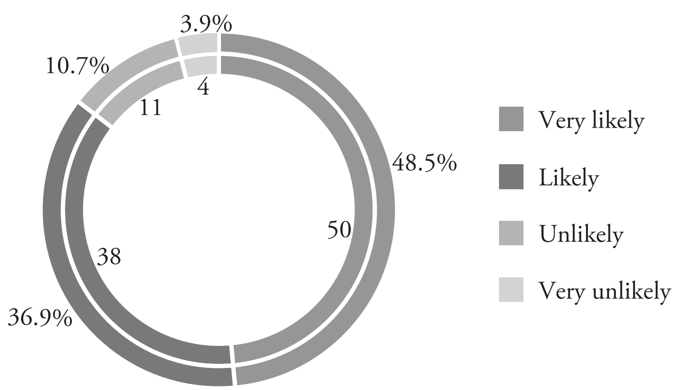
4 Research Results

The research started by examining the respondents' familiarity with the changes in sustainability reporting regulation in the EU. Thirty-seven respondents who denied familiarity with the EU CSRD were omitted from the research. The research then focused on 103 respondents who claimed they had been acquainted with the changes in sustainability reporting regulation in the EU.

The keys for testing the H1 hypothesis are the answers to the following questions, as presented in Figures 3, 4, 5, and 6.

Figure 3: *Likeliness of Making Corporate Reporting Work Harder for Accountants and Financial Experts by Introducing the New Sustainability Regulation in the EU (CSRD)*

Do you think that the new sustainability reporting will make the job of accountants and financial experts who deal with corporate reporting more difficult and to what extent?



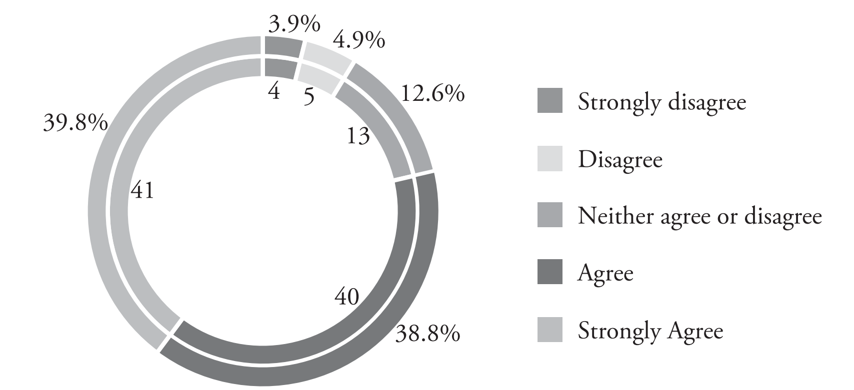
Chi-Squared test	χ2 value	df	Significance (p)
	55.485	3	< 0.0001

Source: Author's survey.

The respondents are optimistic that sustainability reporting is getting more complex (significantly (*very likely*)—48.5 percent and *likely*—36.9 percent). A small percentage of respondents think that accounting and financial reporting will not become more difficult and complex (*unlikely*—10.7 percent and *very unlikely*—3.9 percent). This difference between the opinion categories is considered to be highly statistically significant.

Figure 4: *Importance of Corporate Sustainability Reporting for Future Financial Performances of the Companies*

Is Corporate Sustainability Reporting important to the company future financial performance and business?



Chi-Squared test	χ2 value	df	Significance (p)
	66.466	4	< 0.0001

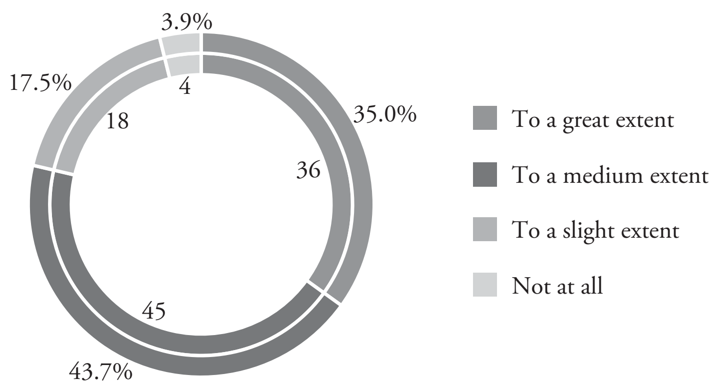
Source: Author's survey.

From the previous figure, it can be seen that most respondents (78.6 percent) believe that reporting on sustainability is an essential factor in future financial performance and a variable that significantly determines the value of business (*strongly agree*—39.8 percent and *agree*—38.8 percent). Only 8.8 percent of respondents believe that reporting on sustainability will not affect the company's future financial performance and business. In comparison, 12.6 percent believe they are not sufficiently competent to make a statement in this area. The difference between the groups that agree and disagree with CSRD's importance for business in the B&H corporate sector is extremely statistically significant ($p < 0.0001$).

Although Bosnia and Herzegovina is not a member of the EU, it is directly linked with the EU market. B&H is also a signatory to many international agreements, directives, and protocols concerning environmental protection and sustainable development. The following figure shows the extent to which the adoption of the Directive on Corporate Sustainability Reporting will affect companies and their operations in Bosnia and Herzegovina.

Figure 5: *The Extent of the Directive on Corporate Sustainability Reporting's Influence on Companies and Their Operations in Bosnia and Herzegovina*

Extent in which the adoption of the Directive on Corporate Sustainability Reporting will affect companies and their operations in Bosnia and Herzegovina



Chi-Squared test	χ2 value	df	Significance (p)
	39.175	3	<0.0001

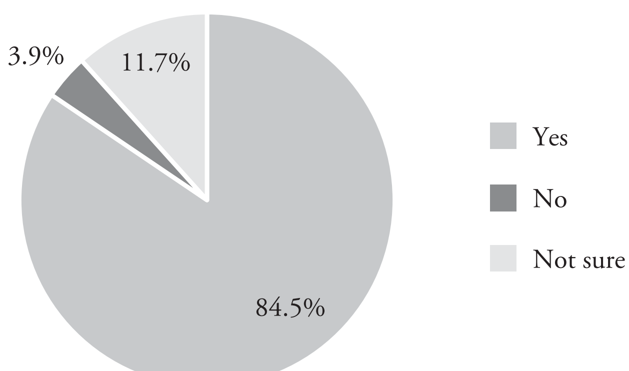
Source: Author's survey.

The highest percentage of respondents hold that adopting the Directive on Corporate Sustainability Reporting will have a medium impact on the companies' financial performance and doing business in Bosnia and Herzegovina (43.7 percent). Over one-third, or 35 percent, think the new regulation is crucial for the companies' future business, financial performance, and operations. 17.5 percent of respondents stated that the new regulation would slightly impact companies and their operations. The majority of the respondents believe the CSRD will have a significant influence on the companies in B&H. However, the effect of new regulatory changes introduced by the EU in sustainability reporting still needs to become visible in practice. The Chi2 test shows that the difference between the categories of respondents is extremely statistically significant. The results should be interpreted by taking into account that the respondents were guided by the fact that Bosnia and Herzegovina is not a member of the EU when forming their opinion on the importance of reporting on sustainability. B&H corporate sector is closely connected with the EU market, so with the approximation of B&H legislation to the Acquis Communautaire, more and more EU regulations are becoming mandatory in Bosnia and Herzegovina.

The respondents observed the significance of new regulations for corporate sector financial performance and then observed their significance for the companies operating on the foreign market and export-oriented B&H companies.

Figure 6: *Significance of Adopting CSRD for B&H Companies Operating on the Foreign Market and Export-Oriented Companies*

Do you consider CSRD will have a significant impact on companies operating on the foreign market and export-oriented companies?



Chi-Squared test	χ2 value	df	Significance (p)
	122.074	2	0.0001

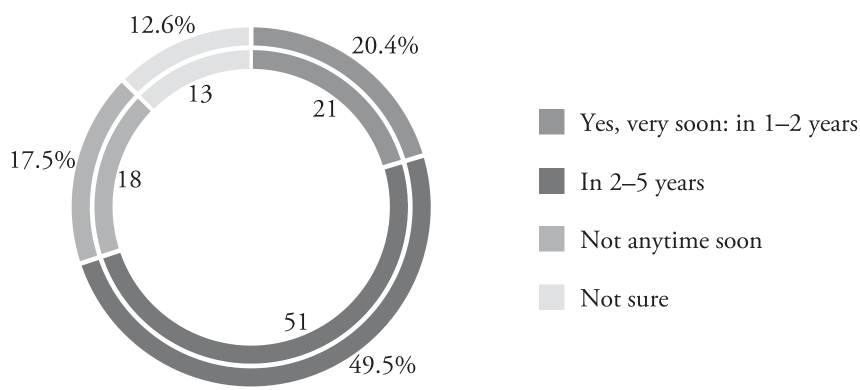
Source: Author's survey.

Even if the respondents had the opinion that the EU CSRD is not of the highest relevance for doing business and the financial performance of companies in the country, they agreed that CSRD would significantly impact companies operating in the foreign market and export-oriented companies. This conclusion is statistically significant ($p < 0.0001$). The significance of the new regulation is recognized—84.5 percent of respondents believe that, for such companies, the Directive will mean the beginning of major changes in business operations and, therefore, the company's financial performances.

The following issues are significant for testing the H2 hypothesis (Figures 7, 8, 9, and 10).

Figure 7: *Predicted Period in Which Bosnia and Herzegovina Will Introduce the Obligation to Report on Sustainability*

Do you think that Bosnia and Herzegovina will follow the EU's moves and soon introduce the obligation to report on sustainability?



Chi-Squared test	χ2 value	df	Significance (p)
	34.282	3	<0.0001

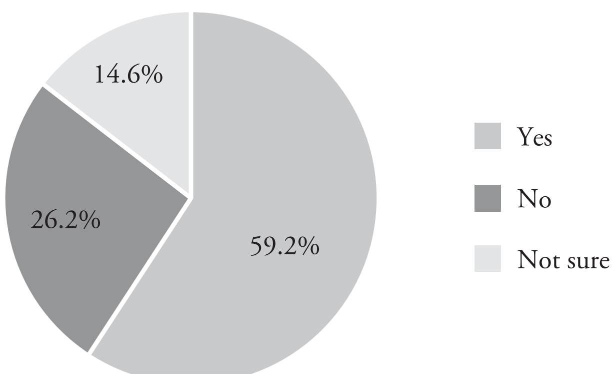
Source: Author's survey.

The dominant opinion of the survey is that Bosnia and Herzegovina will introduce obligatory sustainable reporting in 2 to 5 years (49.5 percent). One-fifth of the respondents think this will become a reality in B&H even sooner.

On the other hand, 17.5 percent believe that corporate sustainability reporting will be optional. The 12.6 percent of the interviewed have abstained from giving an opinion. However, the difference between these opinion groups is statistically significant, meaning the prevailing opinion is that sustainability reporting will become compulsory in the period of 1–5 years. The figure is to be interpreted as follows: the shorter the period until the expected introduction of the new regulative, the greater the effect of sustainability reporting on the companies' financial performance and operations.

Figure 8: *Willingness to Prepare Corporate Sustainability Reports Voluntarily*

Would you voluntarily agree to prepare a sustainability report for your company along with regular financial reports?



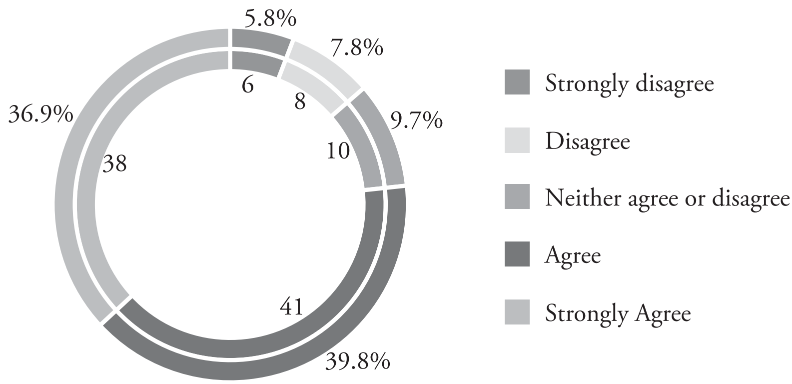
Chi-Squared test	χ2 value	df	Significance (p)
	33.147	2	<0.0001

Source: Author's survey.

Given the new EU regulation, respondents have declared their willingness to prepare sustainability reports and regular financial reports voluntarily. Most respondents (59.2 percent) are willing to prepare sustainability reports voluntarily. 26.2 percent have had a negative attitude about introducing voluntary reporting unless required by the regulator or mandatory application of international standards. 14.6 percent have not been sure about their attitude towards voluntary sustainability reporting. However, the difference between the three categories of answers is statistically significant, given that most surveyed have a favourable opinion about instituting voluntary sustainability reports.

Figure 9: *Impact of Adaption to the Sustainability Reporting Regulative on Positive Financial Performance*

The companies which adapt to new sustainability reporting regulations will have higher chances to obtain positive financial performances



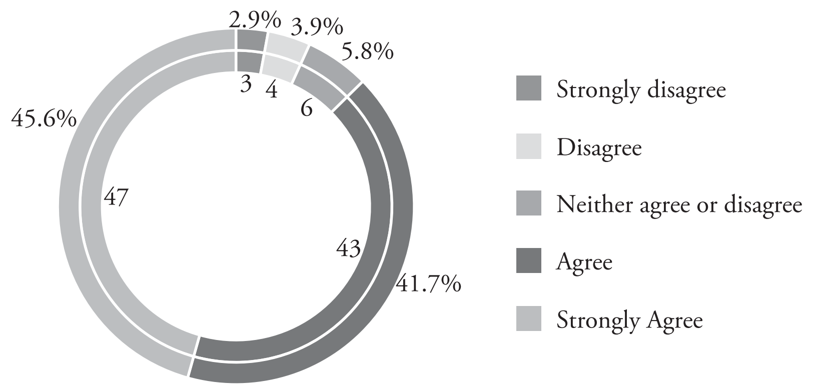
Chi-Squared test	χ2 value	df	Significance (p)
	58.408	4	<0.0001

Source: Author's survey.

To test the H2 hypothesis, we have examined the influence of adaptation to sustainability reporting regulations on the companies' financial performances. Most respondents are optimistic about the mentioned influence: 36.9 percent *strongly agree*, and 39.8 percent *agree*. Only 13.6 percent *disagree* with the statement, and 9.7 percent had no clear opinion. The Chi2 test showed that the difference between the categories is extremely statistically significant.

Figure 10: *Impact of Adaption to Sustainability Reporting Regulative on Adequately Addressing the Increasing Reporting Demands of Stakeholders*

The companies which adapt to new sustainability reporting regulative will have higher chances to adequately address the increasing demands of stakeholders for wider business reporting



Chi-Squared test	χ2 value	df	Significance (p)
	96.951	4	<0.0001

Source: Author's survey.

Similarly to the previous figure, most respondents consider the adaptation to the new sustainability reporting regulative to have a significant impact on addressing the demands of stakeholders for more comprehensive business reporting: *strongly agree*—45.6 percent and *agree*—41.7 percent. Only 6.8 percent believe sustainability reporting does not increase the chances of adequately responding to stakeholder needs. The statistical significance is even stronger than in Figure 9, which confirms our H2 hypothesis.

The following table represents the mean value of perception and percentage of perception of all respondents for Likert scale questions.

Table 1: *Likert Scale of Respondents' Opinions on Sustainability Issues*

Respondents' answers on sustainability issues	**Likert scale, 1–4**		
	Mean value of perception	*% of perception*	*Mode*
1. Will the new way of sustainability reporting make the jobs of accountants and financial experts who handle corporate reporting more complex, and to what extent?	3.30	82.50%	4
2. To what extent will adopting the Directive on Corporate Sustainability Reporting affect companies and their operations in Bosnia and Herzegovina?	3.10	77.43%	3
	Likert scale, 1–5		
	Mean value of perception	*% of perception*	
3. Is Corporate Sustainability Reporting important to the company's future financial performance and business?	4.06	81.17%	5
4. Companies adapting to new sustainability reporting regulations will have higher chances of obtaining positive financial performances.	3.94	78.83%	4
5. Companies that adapt to new sustainability reporting regulations have a higher chance of adequately addressing stakeholders' increasing demands for more comprehensive business reporting.	4.23	84.66%	5

Source: Author's survey.

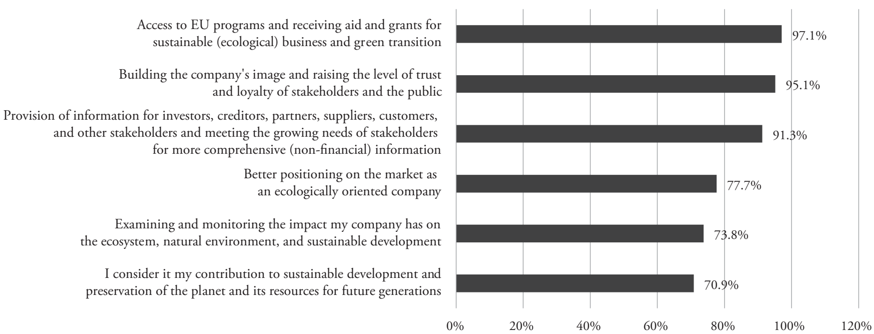
The Likert 1–4 scale results display the mean value for the likeliness of making corporate reporting work harder by introducing CSRD of 3.30 and the mean value for the extent of CSRD's influence on the companies and their operations of 3.10. The median value accounts for 82.50 percent of opinions for the first question and 77.43 percent for the second question. Likert 1–5 scale reveals the mean values of 4.06, 3.94, and 4.23 for the third, the fourth, and the fifth question, respectively.

Respondents' perceptions shift to the right on the scale towards the maximum value (4 on the Likert 1–4 scale and 5 on the Likert 1–5 scale) for all questions. The percentage of opinions related to mean value is above average (more than 77 percent) for all the questions, confirming the research hypotheses. The reported values are close to the Likert scale's maximum values, representing agreement with the stated viewpoints.

Additionally, the reasons for accrediting the importance of sustainability reports are examined and presented in Figure 11.

Figure 11: *Reasons for Considering the Sustainability Report a Significant Addition to Regular Financial Reports*

Sustainability report is a significant addition to regular financial reports because of the following...



Chi-Squared test	χ2 value	df	Significance (p)
	8.111	5	0.1502

Source: Author's survey.

The results show that access to EU programs and receiving aid and grants for sustainable (environmental) businesses (97.1 percent) is the first reason respondents are ready to include a sustainability report in regular reporting. Another essential reason is to build the company's image and raise stakeholders' trust and loyalty (95.1 percent). The third place of importance is providing information for investors, creditors, partners, and other stakeholders, as well as meeting the needs of stakeholders for more comprehensive (nonfinancial) information (91.3 percent). According to the results, it is clear that financial reasons and the need to satisfy the interests of stakeholders and other interested parties are more valued as reasons for sustainability reporting in Bosnia and Herzegovina. The need to preserve the environment and biodiversity and concerns about climate change are not cited as direct, original reasons for introducing sustainability reporting.

Direct sustainability factors as reasons for including sustainability reports in regular financial reporting were evaluated as follows: better positioning on the market as an ecologically oriented company—77.7 percent, examination and monitoring of the impact that the company has on the ecosystem, natural environment, and sustainable development—73.8 percent, and the contribution to sustainable development and preservation of the planet and its resources for future generations—70.9 percent. However, the difference between financial and ecological reasons for valuing sustainability reports is not statistically significant.

The awareness of the importance of corporate reporting on sustainability exists in Bosnia and Herzegovina, which is especially recognized in the case of companies connected to the EU market. Bearing in mind that the trend of sustainable development and sustainable business is global, it can be expected that the EU regulation on sustainability corporate reporting will initiate regulation changes in the rest of the world.

5 Discussion

The results have clearly shown that new sustainability regulations and initiatives significantly affect businesses in terms of their operations, future performance, and profitability. The H1 hypothesis, *Adopting the EU Directive on Corporate Sustainability Reporting will significantly affect companies' future financial performance and ability to do business in Bosnia and Herzegovina*, has been tested, as presented in Figures 3, 4, 5, and 6. Several viewpoints have been analysed: the likeliness of making corporate reporting work harder for accountants and financial experts by introducing CSRD, the importance of corporate sustainability reporting for future financial performances of the companies, the extent of CSRD's influence on the companies and their operations in Bosnia and Herzegovina and the significance of adopting CSRD for B&H companies operating on the foreign market and export-oriented companies. The results have revealed that the majority agree with all of the viewpoints. The Chi-square test has shown that the difference between groups with positive and negative attitudes is statistically significant ($p < 0.001$) in all analysed standpoints.

The H2 hypothesis reads: *Companies that adapt to new sustainability reporting regulations will have a higher chance of obtaining positive financial performance and adequately addressing stakeholders' increasing demand for more comprehensive business reporting*. This hypothesis has been tested using Figures 7, 8, 9, and 10. The issue of inquiry has been the predicted period in which Bosnia and Herzegovina will introduce the obligation to report on sustainability, willingness to prepare corporate sustainability reports voluntarily, impact of adaption to sustainability reporting on positive financial performance, and impact of adaption to sustainability reporting regulative on adequately addressing the increasing reporting demands of stakeholders. Similarly to H1, the results show a generally positive consensus given the analysed standpoints and extremely statistically significant differences between groups with positive and negative attitudes.

The Likert scale used for testing both H1 and H2 shows that the respondents' perceptions have shifted towards the maximum scale value (4 on the Likert 1–4 scale and 5 on the Likert 1–5 scale) for all questions, representing agreement with the stated viewpoints. The percentage of respondents' perceptions related to mean value is highly above average (77 percent and more) for all the questions, which confirms the research hypotheses.

Furthermore, the reasons for accrediting the importance of sustainability reports are questioned and presented, showing an awareness of the importance of corporate sustainability reporting for doing business. The test showed that the difference between financial and ecological reasons for estimating sustainability reports is not considered statistically significant. The respondents are willing to prepare sustainability reports voluntarily (59.2 percent), which is a positive indicator for the future of sustainable business in Bosnia and Herzegovina. The reasons for providing the *YES* answer regarding sustainability reporting are financial and ecological, and the reasons for providing the *NO* answer are primarily because of the increased workload and more obligations. Previous research supports our results (Buallay, 2019; Cho et al., 2020; Hartzmark & Sussman, 2019; Longoni & Cagliano, 2018; Li et al., 2023). Therefore, we conclude both our hypotheses have been confirmed.

6 Conclusions

Considering the importance and global effect of the new EU regulation represented by CSRD, monitoring and reporting on sustainability performance should be at the same level of quality and rigour as financial reporting. Companies should focus their reporting on what is most important to their stakeholders, including sustainability factors, in order to preserve and increase the value of their company. The new sustainability reporting standards increase sustainability reports' clarity, consistency, and comparability, contributing to their financial significance. In the coming period, the pressure on companies related to the fulfilment of sustainability goals and higher efficiency and transparency of sustainability reporting will increase. Given that the trend of sustainable development and sustainable business is global, the regulation model of the EU CSRD will also initiate regulation changes in the rest of the world.

The results of our research showed that most respondents believe that reporting on sustainability is a significant factor in future business and a variable that significantly affects the company's financial performance, thus confirming our research hypotheses. Awareness of the importance of corporate reporting on sustainability is present in Bosnia and Herzegovina, especially in companies oriented to the EU market. The reasons for introducing the reporting changes in the B&H corporate sector are primarily evaluated by observing the effect of sustainability reports on financial results. This means that the respondents are aware that the new regulation has a significant possibility of influencing the company's future operations. Environmental reasons themselves are still not considered sufficient to make the changes to reporting, knowing the still insufficiently developed public awareness of the importance of sustainable development and sustainable business in B&H; however, they are reaching the level of representation of financial reasons for sustainability reporting. Corporate reporting on sustainability is becoming a substantial and essential part of financial reporting, fulfilling the aim of protecting natural resources and achieving a green transition, as well as adjusting to new information requests from stakeholders.

Limitations of the Research

To adequately understand and interpret the results we have reached, it is necessary to state the limitations we encountered during the research. First, the research refers to one country: the respondents were mainly from Bosnia and Herzegovina. A broader research area or a comparative analysis of Bosnia and Herzegovina and the neighbouring countries was not considered due to the difficulties in collecting data and the possibility of excessive expansion of the research topic.

Finally, the research is primarily based on a questionnaire. It reflects the respondents' perceptions, and there may be a possibility that the actual situation deviates to some extent from the stated opinions. Previous research has supported the study; however, given that the research topic is new, similar studies in the region are almost non-existent or mainly refer to some aspects of our research. However, we note that the valuable responses of the respondents were excellent (103 relevant completed questionnaires out of 140), and the sample is statistically significant considering the size of the research country. The conclusions and results of the research should be interpreted with the mentioned limitations in mind.

Guidelines for Future Research

This study is a pioneering initiative in examining the impact of corporate sustainability reporting regulations on the business and financial performance of companies in Bosnia and Herzegovina. Previous studies and our research have shown that sustainability information is becoming a crucial determinant in investors' and other stakeholders' decisions guided by performances and operations valuations of companies. Pursuing the fulfilment of the stakeholders' needs and sustainable business goals will lead to the worldwide spread of the request for sustainability reporting. So far, sustainability reporting needs to be more adequately documented, it is not comparable between companies, and of low capacity for integration into the decision-making process, which the introduction of EU CSRD has recognized. In the following period, there will be a significant increase in interest in the theoretical and practical examination of the interconnection between the factors and sustainability reporting, on the one hand, and financial performances and doing business, on the other hand. Therefore, our research can be considered a scientific challenge that enables the drawing of a complete picture of the impact of sustainable reporting initiatives on the success and operations of businesses, providing a reason for further research in this area.

Literature

Aureli, S., Del Baldo, M., Lombardi, R., & Nappo, F. (2020). Nonfinancial reporting regulation and challenges in sustainability disclosure and corporate governance practices. *Business Strategy and the Environment, 29*(6), 2392–2403. https://doi.org/10.1002/bse.2509

Baalouch, F., Ayadi, S. D., & Hussainey, K. (2019). A study of the determinants of environmental disclosure quality: Evidence from French listed companies. *Journal of Management and Governance, 23,* 939–971. https://doi.org/10.1007/s10997-019-09474-0

Braam, G., Uit de Weerd, L., Hauck, M., & Huijbregts, M. (2016). Determinants of corporate environmental reporting: The importance of environmental performance and assurance. *Journal of Cleaner Production, 129,* 724–734. https://doi.org/10.1016/j.jclepro.2016.03.039

Buallay, A. (2019). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality*, *30*(1), 98–115. https://doi.org/10.1108/MEQ-12-2017-0149

Cho, S.-Y., Kang, P. K., Lee, C., & Park, C. (2020). Financial reporting conservatism and voluntary CSR disclosure. *Accounting Horizons, 34*(2), 63–82. https://doi.org/10.2308/horizons-17-093

Climate Disclosure Standards Board. (2022). *Consolidation of CDSB*. https://www.cdsb.net/

Damnjanović, S. (2021). *Korak po korak do nefinansijskog izveštaja*. Forum za odgovorno poslovanje, Smart kolektiv, USAID. https://api.pks.rs/storage/assets/Prirucnik_Korak-po-korak-do-nefinansijskog-izvestaja.pdf

de Villiers, C., La Torre, M., & Molinari, M. (2022). The Global Reporting Initiative's (GRI) past, present and future: Critical reflections and a research agenda on sustainability reporting (standard-setting). *Pacific Accounting Review*, *34*(5), 728–747. https://doi.org/10.1108/PAR-02-2022-0034

Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y, G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review, 86*(1), 59–100. https://dx.doi.org/10.2139/ssrn.1687155

Directive 2014/95/EU of the European Parliament and the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. *Official Journal of the European Union, 330/1*. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095

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. *Official Journal of the European Union, 322/15*. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464

European Commission. (2023a). *Corporate sustainability reporting.* https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

European Commission. (2023b). *The European Green Deal*. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

Filosa, M., Alqaseer, F., & McGovern, M. (2021). *The state of U.S. sustainability reporting*. Harvard Law School Forum on Corporate Governance. https://corpgov.law.harvard.edu/2021/11/02/the-state-of-u-s-sustainability-reporting/

Global Reporting Initiative. (n.d.). *GRI Standards*. https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

Hartzmark, S. M., & Sussman, A. B. (2019). Do investors value sustainability? A natural experiment examining ranking and fund flows. *The Journal of Finance, 74*(6), 2789–2837. https://doi.org/10.1111/jofi.12841

International Federation of Accountants. (2017). Enhancing organizational reporting: Integrated reporting key. *IFAC Policy Position 8*. https://www.ifac.org/_flysystem/azure-private/publications/files/PPP8-Enhancing-Organizational-Reporting-Jan-2017.pdf

International Finance Corporation (2023). *Sustainability Framework.* https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards

International Financial Reporting Standards Foundation. (2023). *International Sustainability Standards Board.* https://www.ifrs.org/groups/international-sustainability-standards-board/

Integrated Reporting. (2023). *Integrated Reporting Framework*. https://www.integratedreporting.org/resource/international-ir-framework/

Laine, M., Tregidga, H., & Unerman, J. (2021). *Sustainability accounting and accountability*. Routledge. https://doi.org/10.4324/9781003185611

Li, L., Zheng, X., & Wang, S. (2023). The effect of sustainability information disclosure on the cost of equity capital: An empirical analysis based on Gartner top 50 supply chain rankings. *Journal of Risk and Financial Management, 16*(8), 358. https://doi.org/10.3390/jrfm16080358

Liao, L., Luo, L., & Tang, Q. (2015). Gender diversity, board independence, environmental committee and greenhouse gas disclosure. *The British Accounting Review, 47*(4), 409–424. https://doi.org/10.1016/j.bar.2014.01.002

Longoni, A., & Cagliano, R. (2018). Sustainable innovativeness and the triple bottom line: The role of organizational time perspective. *Journal of Business Ethics, 151*(4), 1097–1120. https://doi.org/10.1007/s10551-016-3239-y

Marquis, C., Toffel, M. W., & Zhou, Y. (2016). Scrutiny, norms, and selective disclosure: A global study of greenwashing. *Organization Science*, *27*(2), 483–504. https://doi.org/10.1287/orsc.2015.1039

Michelon, G., Pilonato, S., & Ricceri, F. (2015). CSR reporting practices and the quality of disclosure: An empirical analysis. *Critical Perspectives on Accounting, 33*(1), 59–78. https://doi.org/10.1016/j.cpa.2014.10.003

PwC. (2022). The ESG execution gap: What investors think of companies' sustainability efforts. *PwC's Global Investor Survey 2022*. https://www.pwc.com/gx/en/issues/esg/global-investor-survey-2022.html

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. *Official Journal of the European Union, 198/13.* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN

SASB. (2023). *SASB Standards overview*. https://sasb.org/standards/

Shabbir, M. S., & Wisdom, O. (2020). The relationship between corporate social responsibility, environmental investments and financial performance: Evidence from manufacturing companies. *Environmental Science and Pollution Research, 27*, 39946–39957. https://doi.org/10.1007/s11356-020-10217-0

United Nations Conference on Trade and Development. (2016). *Enhancing the role of reporting in attaining the sustainable development goals: Integration of environmental, social and governance information into company reporting*. Trade and Development Board, Investment, Enterprise and Development Commission. https://unctad.org/system/files/official-document/ciiisard78_en.pdf

World Economic Forum. (2023). *Global Reporting Initiative*. https://www.weforum.org/organizations/global-reporting-initiative-gri

Xiao, X., & Shailer, G. (2022). Stakeholders' perceptions of factors affecting the credibility of sustainability reports. *The British Accounting Review, 54*(1), 101002. https://doi.org/10.1016/j.bar.2021.101002