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Managerial implications of non-financial disclosure regulation: Directive 2014/95/EU

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Palabras Clave:

ESG control systems; ESG based incentives, EU non-financial reporting directive; sustainability accounting.

RESUMEN:

We examine the impact of the EU non-financial reporting directive (NFRD) 2014/95/EU on the firm's environmental, social and governance (ESG) controls and procedures and ESG outputs. Additionally, we also explore the potential role of ESG based incentives in moderating these links. We analyze these managerial implications through the lenses of contingency theory taking a mixed methods approach that allowed for triangulation. We combine multiple regression models using EIKON data, with qualitative semi-structured interviews with practitioners. Overall, our findings suggest that: (i) the NFRD increases ESG controls and procedures; (ii) in a cascading effect, the social pillar is the most impacted operational output; and (iii) regarding to the potential role of ESG compensation policies, the evidence is mixed about the impact on operational outputs. Our results extend prior research by analysing the role of a reporting regulation on internal controls and procedures. By illustrating how non financial reporting regulation shapes internal controls and procedures, we attend to the calls made in prior literature to advance the understanding of the internal management control mechanisms associated with sustainability reporting initiatives.