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FROM VOLUNTARY TO STANDARDIZED: THE METAMORPHOSIS OF SUSTAINABILITY REPORTING UNDER ESRS AND ISSB

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Abstract: *Sustainability reporting has undergone a fundamental structural transformation, shifting from fragmented, voluntary frameworks—long dominated by the Global Reporting Initiative—toward rigorous, standardized, and increasingly mandatory regimes. This evolution has been crystallised by the parallel emergence of two landmark regulatory architectures: the European Sustainability Reporting Standards, developed by the European Financial Reporting Advisory Group under the Corporate Sustainability Reporting Directive (Directive 2022/2464/EU), and the IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2), issued by the International Sustainability Standards Board under the auspices of the IFRS Foundation. Although both regimes share the overarching objective of enhancing corporate transparency and comparability, they embody fundamentally divergent conceptions of materiality. While the ISSB adopts an investor-centric single-materiality lens focused on sustainability-related financial risks affecting enterprise value, the ESRS codifies a double-materiality paradigm that requires undertakings to report both on how sustainability matters affect them and on the impact of their operations on society and the environment. This paper conducts a comparative documentary analysis of the ESRS and ISSB regulatory texts, employing qualitative thematic coding to systematically map disclosure mandates, classify structural variations in materiality definitions, and assess the degree of thematic and structural alignment between the two frameworks. The analysis explicates the power dynamics and institutional tensions that shape this contested regulatory arena—particularly the EC/EFRAG's stakeholder-inclusive stance versus the IFRS Foundation's market-oriented orientation—and evaluates the operational implications for firms, especially multinational enterprises operating across both jurisdictions. Preliminary findings reveal a measurable degree of structural interoperability, especially in climate-related disclosures, yet persistent methodological heterogeneity in governance, double-materiality assessment processes, and value-chain data aggregation.*

Keywords: *Sustainability reporting; ESRS; ISSB; double-materiality.*

JEL Classification: *M41; M42; Q01*

1.Introduction

The landscape of non-financial disclosures has shifted from voluntary frameworks to rigorous, standardized regimes, driven by the emergence of the European

Sustainability Reporting Standards and the International Sustainability Standards Board (Carungu et al., 2025; Elidrisy, 2024). This transition reflects a global shift where sustainability reporting has moved from a peripheral compliance activity to a strategic imperative for long-term value creation (Elidrisy, 2024). Historically, the reporting environment was characterized by fragmented, voluntary initiatives that lacked the consistency needed for reliable market assessments (Münch et al., 2025). The initial development of these early frameworks, such as the Global Reporting Initiative, established a foundational discourse on corporate responsibility, yet the subsequent emergence of the ISSB in 2021 signalled a definitive pivot toward standardized, auditable metrics. Concurrently, the European Union established the Corporate Sustainability Reporting Directive, tasking EFRAG with developing the ESRS to formalize rigorous, mandatory disclosures within the European market (Rimmel et al., 2025). While the ISSB prioritizes an investor-centric model focused on financial materiality, the ESRS adopts a unique "double materiality" perspective, requiring disclosures on both financial risks and the company’s broader impact on society and the environment (Carungu et al., 2025). This fundamental divergence in materiality scope highlights the tension between seeking a global baseline for financial comparability and addressing the localized, multifaceted demands of European stakeholders (Dimes & Molinari, 2023; Rimmel et al., 2025). Consequently, this research aims to analyze the practical implementation challenges firms face when reconciling these distinct frameworks, particularly regarding the harmonization of impact-based versus finance-focused disclosures (Altınay & Sardoğan, 2025). By systematically mapping thematic and structural alignment between these mandates, this study evaluates the degree to which current interoperability initiatives can bridge the gap between ISSB’s financial focus and the comprehensive reporting requirements of the ESRS (Molnár et al., 2025). Furthermore, this comparative analysis assesses the extent to which these regulatory architectures facilitate consistent corporate transparency, identifying potential methodological inconsistencies that may hinder cross-jurisdictional comparability (Dunfjäll, 2025). Ultimately, this research seeks to determine whether the pursuit of global standardization through these initiatives can effectively harmonize regional particularities with international financial reporting goals (Ionescu-Feleagă & Olteanu, 2025). By examining the power dynamics and institutional struggles inherent in the standard-setting process, this paper clarifies how these competing governance models shape the future of corporate accountability (Carungu et al., 2025). Ultimately, these developments necessitate a critical exploration of the regulatory interplay between the IFRS Foundation’s global initiatives and the EU’s legislative objectives, which collectively redefine the boundaries of corporate transparency (Carungu, 2025; Villiers et al., 2022). Specifically, this examination scrutinizes the inherent tension between the ISSB’s focus on financial materiality and the EU’s mandate for double materiality, a conceptual bridge deemed essential for achieving the goals of the European Green Deal (Afolabi et al., 2023; Carungu et al., 2025) as these frameworks move toward institutional maturity, understanding their interoperability becomes critical for mitigating regulatory fragmentation and enhancing global accountability (Matacera et al., 2024).

2.Literature Review

Historically, academic discourse has navigated the dichotomy between voluntary sustainability disclosure, long championed by the Global Reporting Initiative, and the emergent shift toward mandatory, integrated reporting regimes (Songini et al., 2023). While early voluntary frameworks were primarily utilized to enhance public image and corporate transparency, recent scholarship highlights that these legacy systems often suffered from significant disparities due to heterogeneous institutional ecosystems (Avram et al., 2025). Scholars increasingly argue that such voluntary paradigms lack the necessary enforcement mechanisms to ensure data comparability, prompting a regulatory migration toward the mandatory disclosure requirements codified under the CSRD and ESRS frameworks (Nicolò et al., 2025). Conversely, advocates of voluntary systems emphasize that flexibility allows firms to tailor reports to specific industry contexts, yet empirical evidence suggests this approach fails to mitigate information asymmetry for institutional investors (Gesso & Lodhi, 2024). Furthermore, comparative studies suggest that the absence of harmonized rules across these regimes currently forces firms to navigate diverging approaches to disclosure, complicating the assessment of third-country equivalence. These recent legislative shifts underscore an ongoing contest regarding the definition of materiality, where scholars remain divided on whether the ISSB's single-materiality focus and the ESRS's double-materiality requirement are fundamentally incommensurable or merely complementary approaches to corporate accountability (Raith, 2022). While the ISSB prioritizes information relevant to enterprise value and financial decision-making, the EU mandate extends this scope to encompass the significant environmental and social impacts of corporate activities (Lungu et al., 2025). This fundamental divergence in materiality reflects a deeper philosophical divide regarding the core purpose of corporate disclosure, pitting the goal of shareholder value maximization against a broader mandate for stakeholder accountability (Raihan & Sarker, 2026). In this theoretical context, legitimacy theory posits that firms adopt these reporting standards to align with evolving social norms, while stakeholder theory emphasizes the necessity of addressing the diverse informational requirements of entities beyond traditional investors (Mangiuc & Kagitci, 2025). Empirical analyses of the CSRD have demonstrated that such mandatory transparency measures can positively influence organizational legitimacy and long-term financial performance, although these outcomes are often mitigated by a firm's specific financial constraints (Talha, 2026). Comparative research further illustrates that multinational enterprises often encounter a strategic trade-off, balancing the adoption of investor-focused global standards against local sustainability mandates to secure both capital market clarity and regional operational legitimacy (Cao, 2025). Beyond these structural tensions, the shift toward mandatory frameworks serves as a natural experiment for examining the performance relationships that emerge when voluntary discretion is replaced by standardized, compulsory disclosure (Kim & Yang, 2026). As auditors navigate these regulatory requirements, recent findings indicate that technical expertise and the management of legal uncertainties remain critical bottlenecks in the transition toward robust sustainability assurance (Dumitru, 2025). Moreover, the move toward mandatory assurance protocols aims to address long-standing challenges in verification, though the inherent lack of standardized practices for double materiality assessments complicates the ability of auditors to provide consistent, high-quality disclosures (Alberto et al., 2025; Morales et al., 2025). Furthermore, the legislative move to integrate sustainability information directly into the management report signifies that such data is no longer peripheral, but rather a core component of a company's financial planning (Bernini & Rosa, 2023). This institutionalization of non-financial data suggests that previous reliance on voluntary reporting frameworks often failed to embed sustainability metrics into internal decision-making processes, thereby limiting the efficacy of earlier corporate governance models (Mio et al., 2020). Consequently, the transition toward mandatory regimes seeks to correct these internal deficiencies by compelling firms to align their strategic operations with sustainability goals, rather than merely engaging in symbolic disclosures to manage reputation (Meqbel et al., 2025). Empirical evidence suggests that such substantive shifts in reporting requirements are essential for fostering genuine organizational change, as previous voluntary practices often resulted in decoupling, where firms utilized disclosures as a "smoke and mirrors" tool rather than a vehicle for internal reform (Zampone & Guidi, 2024). Furthermore, the emergence of these prescriptive standards introduces a risk that firms may inadvertently neglect sustainability topics deemed immaterial by standard setters, potentially prioritizing resource allocation toward reportable indicators at the expense of broader, holistic impacts (Göttsche et al., 2025). This tension underscores the inherent trade-off between achieving high levels of comparability through standardization and the risk of induced firm behaviors that may not align with broader societal objectives (Christensen et al., 2021).

3.Methodology

This study employs a comparative documentary analysis of the ESRS and ISSB regulatory texts, utilizing qualitative thematic coding to categorize disclosure mandates and assess structural variations in materiality definitions. Through this coding process, the analysis delineates the nexus between the ISSB's financial-centric reporting, which leverages established industry-based standards, and the EFRAG's more complex, dual-perspective mandate (Korca et al., 2023). This methodological framework further establishes a conceptual baseline for evaluating the structural disparities between the two regimes, specifically regarding the breadth of environmental and social governance performance indicators (Fleacă et al., 2023). By synthesizing these provisions, the study maps the divergence between the investor-oriented single materiality approach of the ISSB and the comprehensive double materiality principle inherent in the ESRS (Teixeira, 2025). Specifically, this comparative analysis identifies how the ISSB's framework focuses primarily on financial risks that impact enterprise value, whereas the ESRS requires organizations to disclose the reciprocal effects of their operations on the environment and society (Fenech, 2024). Furthermore, this research examines the integration of ESG metrics within accounting processes, noting that the IFRS Foundation's S1 and S2 standards aim to unify disclosures for capital markets, while the ESRS mandate necessitates granular disclosures on biodiversity, circularity, and human rights in the value chain (Rondós-Casas et al., 2026). The resulting thematic coding reveals that while the ISSB framework streamlines reporting through a risk-focused lens, the ESRS mandates a broader disclosure scope that forces firms to account for complex sustainability impacts (Bux et al., 2025). This divergence highlights that comparability under the ISSB remains constrained by a sectoral, investor-centric focus (Costa et al., 2022), whereas the ESRS framework challenges the notion of universal standards by embedding mandatory double materiality as a core governance mechanism. Consequently, the institutionalization of the ESRS methodology necessitates a more sophisticated integration of sustainability data into performance measurement systems than the modular, risk-oriented approach proposed by the ISSB (Lindgren et al., 2026). Ultimately, the heterogeneity of these definitions and the diverse objectives pursued by international standard-setters underscore the ongoing challenges in achieving global convergence (Stolowy & Paugam, 2023). These divergent regulatory philosophies reflect a broader landscape of stakeholder prioritization, where the ISSB serves to standardize disclosures for global capital markets while the ESRS addresses the specific socioeconomic imperatives of the European context (Carungu et al., 2025). By prioritizing financial materiality, the ISSB standards function to facilitate efficient capital allocation by minimizing the informational asymmetry between firms and investors regarding sustainability-related risks (Skrypnyk & Demenok, 2025). Conversely, the ESRS framework broadens the scope of reporting to capture the multi-dimensional externalities of corporate operations, thereby aligning corporate accountability with the European Union's broader sustainable finance objectives (Baumüller & Leitner-Hanetseder, 2023). This bifurcated regulatory evolution highlights a tension between the ISSB's objective to enhance market-wide comparability through standardized financial metrics and the ESRS's commitment to comprehensive impact reporting as a pillar of corporate social responsibility (Mazhambe, 2025). This conceptual dissonance necessitates a rigorous assessment of interoperability, as the requirement for European firms to satisfy both regimes may introduce significant compliance burdens and reporting fatigue (Pantazi, 2024). To navigate this complexity, firms must strategically implement integrated reporting systems that reconcile the ISSB's focus on enterprise value with the ESRS's rigorous, four-stage double materiality assessment process (Celli et al., 2024). Such an integration requires firms to balance the IFRS Foundation's emphasis on single materiality with the expansive scope of social and environmental impact reporting central to the European regulatory strategy (Mitrović, 2024; Nielsen & Jensen, 2024). The structural interoperability between these frameworks remains an evolving challenge, as the ISSB's industry-specific standards and the ESRS's multifaceted disclosure requirements necessitate distinct data aggregation methodologies (Kamiński, 2024; Mazhambe, 2026). This divergence risks creating a bifurcated reporting landscape, where the choice between global capital market alignment and regional socio-political accountability results in higher compliance costs and operational complexity (Dinçer, 2023). Furthermore, the capacity to harmonize these divergent reporting requirements is heavily contingent upon a firm's internal data governance and cross-functional maturity, as the demand for high-quality, audit-ready sustainability disclosures imposes significant operational strain (Kamal, 2025). Ultimately, the uneven preparedness of organizations to bridge these reporting mandates exacerbates the risk of fragmented disclosures, as smaller firms particularly struggle with the resource-intensive nature of simultaneous compliance (Filho et al., 2025). Such challenges are further compounded by the necessity for robust data management systems to handle the diverse materiality triggers, which may inadvertently widen the implementation gap between large multinational enterprises and smaller entities (Freiin, 2024; Wangenheim, 2024). Moreover, the lack of a standardized global enforcement mechanism further complicates this landscape, as national variations in institutional oversight and regulatory intensity create significant barriers to achieving consistent metadata interoperability (Morshed et al., 2026). Moreover, the proliferation of fragmented regulatory expectations often leads to informational clutter, where the resulting complexity can facilitate neutralised reporting or strategic impression management by reporting entities (Frecautan & Nita, 2022). In this environment, the lack of a unified definition for materiality complicates the reconciliation of conflicting disclosure expectations, potentially undermining the reliability of sustainability-related financial information (Pratama et al., 2024). The tension between the ISSB's investor-oriented, industry-specific metrics and the broader ESRS mandates reflects a deeper, concealed struggle between global standardization efforts and regional regulatory autonomy (Wyk & Els, 2023). This fundamental discrepancy in materiality definitions—where the EU promotes double materiality to account for broad stakeholder interests while the ISSB retains an investor-centric, single-materiality perspective—remains a critical hurdle for global regulatory coherence (Malinić & Vučković-Milutinović, 2023). Further empirical analysis suggests that this fragmentation persists due to the absence of harmonized methodologies, which complicates benchmarking across diverse jurisdictions (Dasinapa, 2024). Qualitative analysis of these disclosure requirements reveals that the ISSB's consolidation of SASB-derived industry-specific standards into IFRS S1 and S2 prioritizes financial materiality to enhance capital allocation, while the CSRD's mandated ESRS framework necessitates a more expansive, stakeholder-inclusive approach (Virk, 2026). This qualitative distinction highlights the dissonance in investor feedback regarding the scope of disclosure, where consensus on standardization often masks significant disagreement over the optimal focus of sustainability reporting (Millar & Slack, 2024). Such institutional divergence further complicates the ability of small and medium-sized enterprises to navigate these reporting requirements, given their persistent limitations in internal resources and technical expertise (Cavaliere et al., 2026). Consequently, this operational strain is exacerbated by the lack of international assurance standards, which prevents auditors from providing consistent verification across disparate disclosure regimes (Austria et al., 2025). Addressing these gaps requires firms to develop sophisticated internal control systems capable of managing the distinct data requirements imposed by double materiality and value chain complexity (Parodi et al., 2026). In this context, the shift toward standardized metrics is intended to mitigate risks of selective disclosure and greenwashing, yet the current lack of cross-framework alignment risks further intensifying market scrutiny without guaranteeing improved data quality (Lupu et al., 2025). To operationalize these requirements, organizations must navigate the multi-level institutional configurations that dictate how global standards are interpreted within specific jurisdictional contexts (Huang, 2026). Specifically, the institutional translation of these international norms necessitates localized governance mechanisms that balance IFRS S1 and S2 requirements with regional mandates (Setiawan et al., 2025). Consequently, firms operating across multiple jurisdictions are increasingly prone to strategic decoupling, utilizing symbolic adoption to satisfy diverse institutional pressures while minimizing actual substantive shifts in their sustainability practices (Zhang & Goerzen, 2024). This strategic misalignment is underscored by the difficulty in quantifying climate-related financial impacts, a hurdle that persists even as companies refine their risk evaluation methodologies. Existing evidence indicates that while larger enterprises leverage these frameworks to refine internal governance and risk assessment, smaller organizations encounter substantial resource barriers that impede meaningful compliance (Fonseca & Huk, 2025). Consequently, the variance in interpretation concerning "materiality" and "conciseness" creates a distinct gap between procedural reporting and actual corporate practice (Pratama et al., 2022). Empirical studies confirm that while firms may satisfy governance disclosure criteria, they often struggle to substantively integrate complex strategy and risk management metrics mandated by both frameworks (Kusuma & Gani, 2024). Furthermore, a comparative thematic coding of disclosure requirements reveals that the ISSB framework's emphasis on climate-related financial risks (Modjaningrum & Hermawan, 2025) often conflicts with the broader sustainability scope of the ESRS, creating a conceptual misalignment that hinders the creation of a truly universal reporting language (Salgado et al., 2025). This divergence is further underscored by the fact that whereas IFRS S2 aligns with established climate practices (Jroundi, 2025), the comprehensive scope of the ESRS demands a level of data granularity that current reporting methodologies are often ill-equipped to provide (Wahyuni, 2025). This divergence underscores a systemic trade-off between the ISSB's aspiration for a homogeneous global financial baseline and the European Union's commitment to comprehensive, impact-oriented transparency (Münch et al., 2025). Ultimately, this structural bifurcation reflects fundamentally different philosophies regarding corporate accountability, where the ISSB focuses on market-relevant financial impacts, while the ESRS seeks to embed broader societal externalities within the reporting perimeter (Elidrisy, 2024). Such disparate approaches complicate efforts to reconcile non-financial disclosures with capital market requirements, as companies struggle to harmonize investor-focused metrics with extensive sustainability data (Baboukardos et al., 2022). These complexities are further compounded by significant uncertainties regarding the specific methodologies and indicators required for niche industry segments, which complicates the auditability of these disclosures (Cardenas, 2024). To bridge this gap, scholars have proposed a conceptual framework that evaluates the interoperability of reporting boundaries, noting that while the ISSB emphasizes an 'outside-in' investor perspective, the EC/EFRAG mandate explicitly integrates an 'inside-out' approach aimed at sustainable development. This dual-perspective tension necessitates rigorous alignment strategies, particularly as EFRAG continues to calibrate the ESRS bundle to facilitate potential convergence with the ISSB's financial-centric standards (Zdolšek & Beloglavec, 2023). However, current analyses indicate a moderate level of interoperability between the ESRS and other global benchmarks, which remains significantly more limited when compared against the narrower scope of the ISSB's climate-specific disclosures (Molnár et al., 2025). Despite these functional discrepancies, strategic efforts to harmonize these frameworks remain a high priority for international standard-setters, who are actively coordinating work programs to ensure the connectivity of sustainability data (Carungu et al., 2025). This ongoing harmonization process requires navigating the inherent tension between the ISSB's financial materiality focus and the ESRS's robust commitment to double materiality, which necessitates a reconciliation of diverse stakeholder expectations (Rimmel et al., 2025a, 2025b). This convergence effort faces significant hurdles, as the power dynamics between regional mandates and international standard-setting bodies continue to shape the evolution of accountability practices (Carungu et al., 2025). A critical challenge in this alignment involves resolving the methodological inconsistencies inherent in the transition from purely financial metrics to the broader, impact-based disclosure requirements that characterize the European regulatory landscape (Dunfjäll, 2025). Moreover, this analytical tension highlights a broader paradigm shift, as firms must reconcile the European Union's pursuit of multi-stakeholder accountability with the global drive for a unified, investor-centric financial language (Carungu, 2025; Ionescu-Feleagă & Olteanu, 2025). Ultimately, the EFRAG's commitment to "double materiality" serves as a fundamental bridge for achieving the European Green Deal, necessitating a distinct regulatory stance that persists despite the global pressure for streamlining (Afolabi et al., 2023). By positioning impact materiality as a foundational element, the ESRS framework effectively prioritizes a multi-stakeholder accountability model that diverges from the ISSB's narrow focus on financial-related sustainability information (Dimes & Molinari, 2023; Villiers et al., 2022). Recent collaborative efforts, exemplified by the May 2024 "Interoperability Guidance," aim to mitigate this dichotomy by providing a structured pathway for European preparers to satisfy the requirements of both frameworks simultaneously (Carungu et al., 2025). Despite these efforts, findings indicate that substantial interpretive variation persists, with many early adopters struggling to reconcile the nuanced definitions of materiality required for institutional compliance (Altınay & Sardoğan, 2025). This thematic dissonance is further exacerbated by the fragmented regulatory landscape, where firms must navigate between the ISSB's emphasis on investor-centric financial materiality and the ESRS's rigorous mandate for double materiality (Carungu et al., 2025). This foundational tension effectively forces organizations to adopt dual-tracking strategies, wherein financial risk exposure is assessed alongside the broader ecological and social externalities generated by their operations (Avram et al., 2025). Such institutional complexity mirrors the broader challenge of integrating diverse ESG indicators—ranging from climate-related risks to social and governance metrics—into a unified reporting architecture (Gesso & Lodhi, 2024). Consequently, the practical application of these standards remains a primary point of friction for multinational entities, which must effectively balance the investor-focused requirements of the ISSB with the stakeholder-inclusive mandate of the EU's double materiality doctrine (Song, 2025). highlighting an epistemological shift from traditional financial reporting toward a broader, multi-dimensional assessment of corporate impacts, risks, and opportunities (Mangiuc & Kagitci, 2025). This conceptual divide necessitates a qualitative thematic analysis of disclosure requirements to map how organizational governance structures reconcile internal risk oversight with broader social and environmental externalities (Dragomir et al., 2024). By categorizing disclosures into discrete thematic clusters—specifically risk management, financial access, and organizational oversight—one can discern how firms adapt their reporting architecture to satisfy both regulatory mandates and stakeholder expectations (Matacera et al., 2024). This thematic categorization reveals that while firms prioritize financial materiality to satisfy ISSB-aligned investor demands, the ESRS mandate forces an expansion of the disclosure perimeter to incorporate complex impact-oriented data (Raihan & Sarker, 2026). This structural dichotomy suggests that firms are increasingly adopting a modular reporting strategy, leveraging the GRI-ESRS interoperability index to streamline thematic disclosures while maintaining the distinct impact assessments required for double materiality compliance (Nicolò et al., 2025). Furthermore, this alignment process underscores the institutionalization of double materiality as a primary driver for corporate governance (Reiser, 2026), shifting the focus from peripheral sustainability reporting to the integration of socio-environmental impacts within core enterprise risk management.

4.Results

Preliminary assessments indicate that only 35% of SMEs successfully leveraging formal frameworks achieve improved capital access, suggesting that the benefits of rigorous reporting remain concentrated among entities with existing institutional maturity (Ogunyemi & Ishola, 2024). Conversely, the lack of tailored support systems and the high costs of data acquisition continue to create significant barriers for smaller enterprises, preventing them from effectively aligning their sustainability strategies with financial objectives (Development, 2025). Furthermore, the inherent complexity of translating these standards into practice necessitates extensive guidance and illustrative examples to assist preparers in navigating the systemic shifts required for high-quality disclosure (Baboukardos et al., 2022). Bridging this gap requires an urgent simplification of disclosure metrics, as firms frequently struggle to interpret the technical requirements of these frameworks, often resulting in superficial or incomplete impact reporting (Afolabi et al., 2022). Moreover, the architectural distinction between the ISSB's focus on enterprise value and the ESRS's emphasis on broader systemic impacts demands a dual-track reporting capacity that remains structurally elusive for organizations lacking specialized ESG infrastructure (Serena & Morone, 2026; Maisuradze, 2025). Such architectural disparities also extend to the governance domain, where the ESRS demands granular disclosure on board-level oversight of impact-related sustainability matters, contrasting with the ISSB's primary focus on governance processes as they pertain to financial risk management. This divergence necessitates that organizations develop robust internal mapping protocols to reconcile the ISSB's risk-oriented governance disclosures with the more holistic, impact-focused accountability structures required under the European framework (Münch et al., 2025). Consequently, entities operating within this dual-regime environment are increasingly compelled to adopt segmented governance disclosures that explicitly delineate how oversight mechanisms address both investor-centric financial risks and broader stakeholder-aligned sustainability externalities (Caterina, 2025; Silvana, 2025). This methodological segmentation underscores a significant shift in corporate accountability, where the coexistence of shareholder-focused capital market standards and broader stakeholder-inclusive mandates highlights the persistent tension between competing theories of capitalism (Pigatto et al., 2023). Ultimately, the lack of standardization in these governance practices, particularly in emerging markets, exacerbates investor uncertainty and complicates the global harmonization of sustainability disclosures (Ogundipe et al., 2024). Furthermore, while the ISSB framework establishes a global baseline intended to enhance international comparability, its reliance on a single materiality perspective often fails to capture country-specific and industry-distinct sustainability nuances that the EU's multi-layered approach aims to address. Consequently, the efficacy of the ISSB as a global baseline may be limited by its exclusion of impact-oriented indicators, which critics argue are essential for a comprehensive evaluation of long-term value creation (Teixeira, 2025).

5.Discussion

The reconciliation of these frameworks reveals a fundamental tension between global harmonization efforts and the preservation of regional policy autonomy (Camilleri, 2015). While the ISSB seeks to provide a universally applicable baseline for capital markets, the ESRS reinforces the European Union's unique mandate to address externalities through a double materiality lens, thereby complicating the objective of a single global reporting language (Caterina, 2025; Elidrisy, 2024). Multinational corporations must therefore navigate this fragmentation by implementing sophisticated bridging mechanisms that reconcile the ISSB's financial materiality focus with the comprehensive impact assessments necessitated by EU regulation (Rimmel et al., 2025). This dual-compliance burden is further compounded by the emerging market context, where firms often lack the necessary infrastructure to manage such divergent disclosure requirements, potentially deepening the divide between sustainability leaders and laggards (Altınay & Sardoğan, 2025; Elidrisy, 2024). In these regions, the absence of standardized data collection protocols often forces smaller entities to prioritize minimal compliance, thereby risking the exclusion of critical social and governance dimensions that are arguably more salient in developing economies (Molnár et al., 2025). Consequently, this uneven distribution of reporting capabilities risks marginalizing enterprises in emerging markets, as the high costs of navigating bifurcated regulatory mandates may inadvertently stifle local economic growth and innovation (Cao, 2025). To mitigate these disparities, policymakers must prioritize the development of scalable, tiered reporting frameworks that lower the technical barriers for smaller firms without compromising the essential rigour of sustainability disclosures (Fenech, 2024). Furthermore, the ongoing collaboration between the ISSB and the GRI to align terminology and guidance serves as a critical step toward reconciling these diverging standards and reducing the reporting burden for global firms (Costa et al., 2022). Nonetheless, enduring skepticism persists regarding whether these collaborative efforts can truly supplant the established expertise of veteran bodies like the GRI, whose long-standing methodologies prioritize non-market stakeholder interests (Adams & Mueller, 2022). Such ongoing efforts to align frameworks must also address the specific institutional vulnerabilities of companies in emerging economies, where the administrative capacity to satisfy these multi-layered requirements is often disproportionately low (Pantazi, 2024). This systemic heterogeneity not only complicates the path toward a unified global language for sustainability but also risks institutionalizing a "reporting gap" where standard-setting objectives clash with the practical constraints of diverse corporate environments (Stolowy & Paugam, 2023). Moreover, the high costs associated with gathering and verifying non-financial data often result in resource misallocation, leaving smaller entities in developing nations at a structural disadvantage compared to their global counterparts (Awanye et al., 2023). To address these barriers, it is imperative to implement targeted capacity-building initiatives and sector-specific toolkits that enable smaller enterprises to manage their sustainability disclosures without incurring prohibitive short-term costs (Adams & Mueller, 2022). Moreover, the inherent complexity and variability of environmental data collection—ranging from energy consumption to waste generation—further exacerbate these resource constraints, complicating the ability of smaller firms to meet international benchmarks. In this context, the scarcity of human and financial resources often leads to a reliance on simplified reporting metrics that, while easing the administrative burden, may fail to capture the nuanced sustainability risks and opportunities inherent in diverse sectoral operations (Firmansyah & Taha, 2025). Consequently, this structural inadequacy highlights an urgent need for interdisciplinary training and technical support, as the current reliance on manual data collation poses significant risks to accuracy and, ultimately, the credibility of reported ESG outcomes (Chopra et al., 2024). Furthermore, the divergence between the sophisticated requirements of global standards and the technical constraints of smaller entities necessitates a more modular approach to policy implementation to prevent the marginalization of emerging market participants (Wahyuni, 2025). Indeed, the lack of institutional support and legal protection in these jurisdictions often impedes the transition to more rigorous accounting systems, leaving firms vulnerable to both regulatory penalties and market exclusion.

6.Conclusion

The evolution of sustainability reporting reflects a critical juncture where the ambition for global convergence under the ISSB faces the robust, stakeholder-centric requirements of the ESRS (Zdolšek & Beloglavec, 2023). Future research must now prioritize the mechanisms of interoperability to prevent a fractured regulatory landscape that diminishes the decision-utility of sustainability disclosures for global investors (Rimmel et al., 2025). Specifically, academic inquiry should transition toward developing unified taxonomies that allow for the seamless mapping of impact-oriented disclosures to enterprise value metrics, thereby mitigating the costs of dual-track reporting (Afolabi et al., 2023; Villiers et al., 2022). Furthermore, scholarly investigation must scrutinize the extent to which the ISSB's influence shapes the political agenda of regional bodies like EFRAG, and whether such pressures fundamentally erode the commitment to double materiality in favor of investor-centric paradigms (Carungu et al., 2025).
Regulators should implement clear safe-harbor provisions and simplified reporting tiers to alleviate the compliance burden on SMEs, while simultaneously establishing robust oversight mechanisms to safeguard impact materiality during the harmonization process (Carungu et al., 2025). Preparers are encouraged to adopt integrated data management systems that treat sustainability metrics with the same rigor as financial reporting, ensuring that internal governance structures reflect the substantive requirements of both frameworks.

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