# The Transversality of Sustainable Business Information and the SDGs in Less Complex Entities

*Less complex entities (LCE) are a type of organizations whose qualitative characteristics differ from those considered for a small or medium-sized enterprise or SME. The International Auditing and Assurance Standards Board* **(***IAASB***)** *published in July 2021 the draft in the consultation phase on the International Standard on Auditing Financial Statements for Less Complex Entities which includes the qualitative characteristics of these entities, among which the activity, the business model and industry can be highlighted, organizational structure, ownership or supervisory structure, regulation and transactions and information processing, accounting estimates, among others. These types of organizations must meet sustainability standards if they want to be competitive in the long term and ensure compliance with the Sustainable Development Goals (SDGs) as required by globalization. The new EU Sustainability Directive, without being mandatory for LCEs, should be considered as the "roadmap" of business operation for the presentation of information. This paper presents an approximation of the model of transversality of non-financial information to the EU Directive and the SDGs as a way to effectively align a profitable business with sustainable development under the integral vision of the economic, social and environmental dimensions of Sustainability.*

**Keywords:** *Sustainability Directive, LCE, SDGs, Sustainable Development*

## Introduction and Methodology

Less complex entities (LCEs) are a type of organization whose qualitative characteristics differ from those considered for a small or medium-sized enterprise or SME, whose classification and differentiation from the rest of the companies is based on quantitative variables. These organizations play an important role in the global economy, since they represent a large part of the business fabric. This type of organization is the first pillar or referent object of this research.

The second point of reference or analysis is sustainability which, in recent years has become a crucial issue in the business world and especially since the approval of the UN 2030 Agenda and, in this sense, it is essential that LCEs comply with sustainability standards and the Sustainable Development Goals (SDGs) to ensure their long-term viability and contribute to global sustainable development. Therefore, it is important to investigate how LCEs can comply with these standards and how the new EU Sustainability Directive and the non-financial reporting cross-cutting model can help them achieve this goal. Sustainable development refers to meeting the needs of the present generation without compromising the ability of future generations to meet their own needs (UN, 1987).

The purpose of this research is to explore how LCEs can comply with sus-

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tainability standards and SDGs in the long term while maintaining their competitiveness in the market. To this end, the following specific objectives are proposed: a) Identify the qualitative characteristics of LCEs and their impact on sustainability; b) Analyse the sustainability standards and SDGs that LCEs must comply with; c) Assess the challenges and opportunities faced by LCEs to comply with sustainability standards and SDGs; d) Explore how the new EU Sustainability Directive and the non-financial reporting mainstreaming model can help LCEs to comply with sustainability standards and SDGs.

Considering the above, the research questions we have posed are the following:

> RQ1: How can less complex entities (LCEs) meet sustainability standards and ensure compliance with the Sustainable Development Goals (SDGs) over the long term while maintaining their competitiveness in the marketplace?
> RQ2: How can the new EU Sustainability Directive and the cross-cutting model of non-financial reporting help these organizations align their business objectives with holistic sustainability that encompasses the economic, social and environmental dimensions of sustainability?

Both will be addressed in the different sections of this paper. The scope of this study will focus on LCEs and their "capacity" to comply with sustainability standards and SDGs while maintaining their competitiveness in the market. It will analyse the qualitative characteristics of LCEs, the sustainability standards and SDGs they must meet, as well as the challenges and opportunities they face in meeting these standards. It will explore how the new EU Sustainability Directive and the cross-cutting non-financial reporting model can help LCEs align their business objectives with holistic sustainability that encompasses the economic, social and environmental dimensions of sustainability and ESG (Environmental, Social and Governance) factors.

The limitations that have been identified in this study are resource limitations, both financial and human, which make it difficult to carry out an exhaustive investigation. However, we have specifically identified the following:

1. *Limitations on access to information*: some companies may be reluctant to share detailed information on their sustainability practices and business strategies.
2. *Difficulties in defining less complex entities*: there is no clear and universally accepted definition of what constitutes a less complex entity, which can make the identification and selection of relevant case studies difficult.
3. *Time constraints*: the time available for conducting the study may be limited, which could prevent a thorough and in-depth investigation.
4. *Cultural and regional constraints*: the way in which sustainability and social responsibility issues are addressed may vary from one region to another and may be affected by cultural factors, which could limit the applicability of the results at a global level.

It is important to recognize these limitations to ensure that the study is conducted in a rigorous manner consistent with its objectives. In the absence of quantitative data on the application and adoption of sustainability reporting for LCEs, our research is presented in a first phase, which will be concluded at the time of the official definition of LCEs and the presentation of sustainability information. First, we will conduct a systematic literature review to gather relevant information on LCEs, sustainability standards, SDGs and the EU Sustainability Directive. The literature review includes the search for documents, reports and case studies related to LCEs and sustainability. In a further development, we will conduct a case study to analyse how one or several LCEs have implemented sustainability standards and aligned their business objectives with integrated sustainability that encompasses the economic, social and environmental dimensions of sustainability. For this purpose, qualitative methods such as interviews and focus groups could be used to collect information from LCE managers and employees, as well as other relevant stakeholders such as suppliers, customers and regulators. In conclusion, we will use quantitative methods to analyse the data collected in the case study, such as statistical and regression analyses, to identify the relationships between the factors influencing the implementation of sustainability standards in LCEs.

In the paper presented, a non-financial reporting cross-cutting approach is conducted to analyse how the EU Sustainability Directive and the non-financial reporting cross-cutting model can help LCEs to align their business objectives with comprehensive sustainability and with the integration of the Sustainable Development Goals of the UN Agenda 2030, which will attempt to answer the research questions posed.

## Conceptualization of LCE and Revision of Literature

The origin of the term Less Complex Entities (LCE) cannot be determined with certainty, being used in different contexts, at different times and by different authors and organizations, being popularized in recent years by the International Accounting Standards Board (IASB) and especially by the International Auditing and Assurance Standards Board (IAASB), which uses it to refer to entities that, due to their size and complexity, can justify the use of a framework of accounting standards, which uses it to refer to entities that, due to their size and complexity, may justify the use of a more simplified and decision-oriented financial reporting framework.

The International Auditing and Assurance Standards Board (IAASB) refers to LCEs as "those that are simpler and clearer in nature" (IAASB, International Standard on Auditing Financial Statements for Less Complex Entities (LCE), 2022, p. 6). More specifically, the term is associated with entities that are smaller in size, have a simple organizational structure (fewer hierarchical levels and fewer departments), less complex management, less regulation or less stringent, have less impact on the economic and social environment, greater flexibility and are able to adapt quickly to changes in the environment, and are closer to the client with greater proximity to their needs and demands. Above all, they differ from SMEs in their lesser organization, lesser degree of formality in processes and policies, lesser capacity for innovation due to their limited resources, smaller size and scope, less accounting and tax complexity, greater dependence on the local and regional economy, making them more vulnerable to change.

When we talk about SMEs we refer to their size and not to their complexity and for this purpose, at the EU level, we have as a criterion the one contained in Article 2 of Commission Regulation n. 651/2014 (Regulation (EU) No. 651/2014, 2014), where the objective limits are defined in financial terms and number of employees.

The text defines the types of company by establishing a transparent method for calculating the financial limits and the number of employees. To belong to a category, the limit on the number of employees must be met and the turnover or balance sheet figure must not be exceeded. Specifically, the aforementioned article states the following:

**Table 1.** *SME Criteria according to European Commission Regulation n. 651/ 2014*

| Categories | Company size | Annual turnover (millions of euros) | Annual balance sheet (millions of euros) |
|---|---|---|---|
| Micro, Small and Medium-Sized Enterprises (SMEs) | Up to 250 employees | No more than 50 | No more than 43 |
| SME - Small Business | Up to 50 employees | No more than 10 | No more than 10 |
| SME - Microenterprise | Up to 10 employees | No more than 2 | No more than 2 |



It is important to bear in mind that these figures are applicable at the level of the European Union, where more than 99% are SMEs, employing 94 million people and generating more than half of the added value of the business fabric as a whole (Government of Spain, 2019, p. 4) and that in each country there may be different criteria for defining SMEs depending on their specific characteristics and the economic and social environment in which they operate.

In general, LCEs can be said to be small and medium-sized companies that do not have a high degree of complexity in their operations and structures, and can therefore be audited and regulated with a more simplified approach. In general, LCEs are considered to have fewer than 250 employees and an annual turnover of less than 50 million euros. The exact definition of an LCE may vary by country or region.

The interest in these entities is motivated by the publication in July 2021 by the International Auditing and Assurance Standards Board (IAASB) of the draft International Standard on Auditing Financial Statements for Less Complex Entities (LCE), which was open for consultation until January 31, 2022 (IAASB, 2021). The IAASB has preferred to speak of LCE and not of SMEs, due to the fact that the term complexity of the entity has been used instead of its size, since in the current economic environment small but complex entities can be identified and others that are not considered SMEs but may be considered less complex. However, there is no clear and universally accepted definition of what is considered a less complex entity, which can make it difficult to identify and select relevant case studies for the application of the standard in question. This is a major limitation in the implementation of the standard and one reason why qualitative characteristics have been defined to identify LCEs.

If we relate LCEs to SMEs, we can point out that the former differ in the following aspects:

- less organization,
- lower degree of formality in processes and policies,
- smaller size and scope,
- less accounting and tax complexity,
- and greater dependence on the local and regional economy, which makes them vulnerable to change,
- and less capacity for innovation due to their limited resources,

So SMEs may be more innovative in some cases, due to their ability to adapt quickly to change and their focus on specific market niches an entity may qualify as an SME rather than an LCE.

In the same line pronounces Accountancy Europe (Accountancy Europe, 2018) an approach to the LCE concept can be found. According to the publication, a small or less complex entity is characterized by having one or more of the following specific characteristics:

- *Governance of the entity*: in a small or less complex entity, the governance of the organization is usually very involved in the development of the activity, and usually no executives or managers are identified. In addition, the group of stakeholders is usually small compared to larger and more complex companies. In this type of entity, the owner(s) usually have a predominant role in decision making and day-to-day management of the organization.
- *Business environment and internal control*: In a smaller entity or a less complex LCE, the business model is easy to understand and does not present difficulties in relation to the risk and asset environment. The reference and procedural documentation is accessible and easy to understand, as are the processes it represents. Although the control environment is easily understandable, the segregation of duties and the establishment of the different procedures to be followed following internal control models, such as the application of the COSO Model (COSO, 2014), which is widely known internationally, are not clearly identified.
- *Accounting process*: In a small or less complex entity, the accounting process must be simplified because the number of transactions and operations performed by the organization are small in scale. Consequently, the preparation and presentation of financial information is simplified compared to larger and more complex companies.

In summary, the qualitative characteristics of the LCEs are:

**Table 2.** *Qualitative Characteristics of a LCE according to the Draft ISA-LCE*

| Scope | Characteristics |
|---|---|
| Business activities and business model and industry | Well-defined, no **generalized risk** of technological obsolescence, legal liability or reputational risk |
| Organizational structure | **Few business lines and products,** few employees involved in financial reporting functions |
| Ownership or supervisory structure | Owner-manager or with **ownership and management** concentrated **in a small number of individuals**, all those responsible for the governance of the entity are involved in the management of the entity |
| Regulation or regulatory oversight | Operations **are not subject to a higher degree of regulation** or regulatory oversight |
| Transactions and information processing | **Clear or straightforward transactions, few personnel involved in financial reporting functions** |
| Entity's IT environment and IT systems | Uses **commercial software with no** or limited modifications, **clear and simple organizational structure** |
| Entity's accounting estimates | Fair value accounting estimates that use quoted prices in active markets for identical assets or liabilities, estimates have a limited number of assumptions for which it is relatively straightforward to obtain sufficient audit evidence |

Source: Own elaboration based on the draft ISA-LCE.

International accounting standards for LCEs must take into account the IFRS for SMEs (IAASB, 2009), which focuses on the presentation of financial statements, although it also includes some non-financial reporting requirements. Thus, the presentation of financial statements should include company policies on corporate governance, risks and uncertainties (section 3), information on the composition of capital, debt issuance and the company's ability to meet its long-term financial obligations (section 4), income statement and statement of comprehensive income with information on revenues generated by the main activity and associated expenses (section 5) and in the statement of cash flows, information on cash flows related to the company's operating, investing and financing activities. Although these requirements are not as extensive as those established by the International Integrated Reporting Standards (IFRS) on non-financial aspects, they do include non-financial information requirements to provide a more complete picture of the company's performance and financial position, although the concept of sustainability, in its three dimensions, economic, social and environmental, is not reflected in the IFRS indicated, nor is there any reference to the concept of LCE. This is a limitation in the development of our research.

The purpose of the deletion of the ISA-LCE and the definition of this type of entity is to guarantee the verification of its activity through the auditing of accounts, in order to guarantee their transparency. Therefore, this, indirectly, must involve the preparation of sustainability information, based on the latest regulatory trends, in order to enhance transparency in the information and its impact on the environment and compliance with the SDGs.

## Integration of Sustainable Information in the Non-financial Information of the LCEs

Regardless of the size of an entity, as well as its purpose, sustainability has become a social phenomenon present in all aspects and areas of business, which we can consider as a paradigm shift that presents limitations, opportunities, challenges and demands at a general level.

The turning point that has generated the exponential importance of sustainability was the publication of the United Nations Agenda 2030 for Sustainable Development: a plan of action for people, the planet, prosperity and universal peace, publishing the Sustainable Development Goals (SDGs). It is worth noting that the 2030 Agenda promotes the role played by small and medium-sized enterprises, and therefore LCEs, in the international economic fabric, given that SDG 8, and specifically target 8.3 states that it "aims to promote development-oriented policies that support productive activities, the creation of decent jobs, entrepreneurship, creativity and innovation, and foster the formalization and growth of micro, small and medium-sized enterprises, including through access to financial services" (Global Compact Network Spain; Economists; CEPYME, 2019).

The sustainability economy has become mandatory for all types of companies, based on the movement of good business practices with society and the environment. In this sense, the SDGs have become the starting point for compliance with a set of regulations linked to sustainability, which must be complied with, in the long term by all types of entities. The first sustainable compliance regulation was derived from the 2014 European Directive (EUROPEAN COMMISSION, 2017), which required the presentation of a Non-Financial Information and Diversity Statement as of January 1, 2018, although it was not mandatory for SMEs and LCEs.

The benefits that the preparation of this report brings to the entities are the following:

- Transparency and trust in stakeholders.
- Reliability of the information through the external and independent verification process.
- Global information on the organization.
- Generation of useful information for the decision-making process.
- Improved organizational performance.
- Compliance with the SDGs.

The elaboration of the NFI implies a knowledge of the SDGs but although, for the case of Spain. 78% of SMEs are aware of the 2030 Agenda and therefore, the preparation of non-financial information, compared to 97% of large companies[2], a situation that is not favourable in the new paradigm of sustainability. From

[2]These data were obtained from the report "The Contribution of Spanish companies to the Sustainable Development Goals". La Caixa Foundation. June 2022. Barcelona. https://elobservato

which we can deduce that the main limitation for the implementation of sustainable information is training in sustainability. At this time, in the absence of a clear and concrete definition of a LCE, we cannot carry out a complete and quantitative analysis of the impact of sustainability on the information presented. This will be our objective in a later period.

The European Directive 2014 has been amended by the end of the year 2022. The EU Council has approved the Directive on sustainability reporting[3] (European Parliament and Council, 2022), requiring companies to provide specific detailed information, which strengthens the company's accountability, avoiding divergences between the different existing standards and facilitating a transition towards a sustainable economy, aligned with the Sustainable Development Goals of the 2030 Agenda within the framework of the European Green Pact and the Sustainable Finance Agenda. The objective has focused on modifying the concept of "non-financial reporting" to "sustainability reporting", in order to equate it with traditional financial reporting.

The EU Sustainability Directive (CSDR) establishes a framework for non-financial reporting by companies in the European Union (EU), with the aim of aligning business objectives with integrated sustainability that encompasses the economic, social and environmental dimensions of sustainability. All large companies are included, whether listed or not, as well as SMEs listed on regulated markets. In the case of SMEs, it will apply from January 1, 2026. Unlisted SMEs may adopt it on a voluntary basis, but micro-enterprises are excluded. As indicated in the first section of this paper, LCEs can be identified in general terms with unlisted SMEs, in a first approximation, until a definitive definition is adopted by international organizations.

Although it is not mandatory for LCEs, it is considered a "roadmap" for their business operations. LCEs can use the EU Sustainability Directive as a tool to improve their transparency and accountability, enabling them to meet sustainability standards and ensure compliance with the Sustainable Development Goals in the long term, while maintaining their competitiveness in the market. In addition, the non-financial reporting cross-cutting model is used to align business objectives with long-term sustainability goals, which helps LCEs improve their business performance in terms of sustainability.

The CSDR establishes that sustainability information should be collected in the broad components: *environmental, social, human rights and governance factors,* and incorporates the definition of the terms «sustainability factors» established in Regulation (EU) 2019/2088, focusing on what is called "sustainability risk risk" an environmental, social or governance event or condition that, if it occurs, could lead to a material negative impact on the value of the investment (European Parliament and Council, 2019). Assumes alignment with the SDGs.



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[3]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 sustainability reporting by companies.

**Proposed Roadmap for the Implementation of CDRS in LCEs**

Considering the limitations exposed in previous paragraphs related to LCEs, the advantages of the preparation of information on sustainability, considered as competitive advantages, should start from the *integration of the concept of sustainable development in the corporate culture*. It should be considered as a balance of ecological, social and economic values. For this reason, although the preparation of the non-financial information NFI and in the future the CSDR is not mandatory at this time, information on sustainability is necessary for all types of companies, regardless of their size. Therefore, we propose the following *phases in the integration of sustainability in corporate reporting:*

a) Integration of the concept of sustainable development in the corporate culture. Adaptation of the 2030 Agenda and Corporate Social Responsibility.
b) Approach to business objectives and strategies in three major areas, prioritizing the corresponding SDGs:
    a. Ecological and environmental objectives
        i. Integrity of the activity with the ecosystem
        ii. Biodiversity
        iii. Global approaches and compliance with standards.
    b. Social and human objectives
        i. Delegation of powers
        ii. Active participation in decision making
        iii. Social mobility
        iv. Social cohesion
        v. Cultural identity
        vi. Institutional development
        vii. Family reconciliation
    c. Economic objectives
        i. Growth
        ii. Equilibrium
        iii. Efficiency
c) Study of sustainable technologies available and necessary to face the future. Economically and environmentally sustainable technologies will be those that (Shen, 1999):
    a. Effectively reduce environmental pollution.
    b. They represent an important technical advance with a lower rate of waste generation.
    c. They are, in a generic way, applicable from their initial stages of development.
    d. They offer a favourable relationship of social and economic performance.
d) Study of available and future Information and Communication and digitization technologies to optimize the time and efficiency of the processes and the generation of information.
e) Study of the opportunities involved in the elaboration and study of sustain-

able information.

f) Information and transparency on the actions and achievements reached.

*Integration of Sustainable Development into the Corporate Culture*

Corporate Social Responsibility makes it possible to ensure the commitment of LCEs to sustainable development, in its three dimensions, which, in turn, are implicit in the concept of sustainability. The current and future business strategy of any type of company depends on the corporate insertion of these concepts (Kwarteng, Dadzie, & Famiyeh, 2016) (Galpin & Whittington, 2015) (Ahen & Zettining, 2015) in the corporate culture in order to achieve long-term competitiveness. It has been proven in numerous studies that there is a direct relationship between sustainable performance and value creation (Yu, 2015).

In the specific case of LCEs or SMEs and given their special characteristics, sustainability is related to their brand image, their market value, their reputation and, therefore, their long-term economic profitability (López & Iglesias, 2010). For this reason, the integration of the SDGs into the company's management and culture is recognized as the first step towards sustainability. The fulfilment of SDG 4 *"Quality education"* and 12 *"Responsible production and consumption"* would be integrated with Corporate Social Responsibility and the application of ISO 26000 (2010), "Guide to Social Responsibility". The integration of the SDGs can only be achieved with training on them.

*Approach to SDG Business Objectives and Strategies*

In the integration of SDGs and sustainability, LCEs have a long way to go. Entities should carry out a general analysis of their activities, their performance and how they can contribute to the fulfilment of the sustainability dimensions, as set out in the CDRS.

In a first phase of integration of sustainability in LCEs, the most relevant SDG objectives that should be met, in alignment with business objectives, should be related to:

- SDG 3 "Health and well-being". Improve working conditions; guarantee professional health insurance, compliance with occupational accident legislation, study of absenteeism. Work-life balance and teleworking.
- SDG 4 "Quality education". Train all employees in sustainability and Agenda 2030 and in the acquisition of higher competencies.
- SDG 5 "Gender equality". Ensure equality, both at different levels of employment and in terms of pay. Ensure work-life balance.
- SDG 6 "Clean water and sanitation". Reduce water consumption in the different facilities.
- SDG 7 "Affordable and clean energy". Development of renewable energy use and sustainable product designs.
- SDG 8 "Decent work and economic growth". Guarantee of working hours in accordance with current legislation. Hiring of people in vulnerable situa-

tions. Ensuring the safety of products and services provided.
- SDG 9 "Industry, innovation and infrastructure". Establishment of sustainable and environmentally friendly product and service designs. Reducing waste and reusing waste.
- SDG12 "Responsible production and consumption". Improve or reuse materials in different activities. Waste reduction. Encourage the hiring of local companies, use of environmentally friendly products.
- SDG13 "Climate action. Reduction of polluting energy, use of renewable energies, reduction of greenhouse gases, recycling and reuse of those factors possible.

As can be seen, this set of SDGs, aligned with business objectives and strategies, is cross-cutting with the information areas required in the CSDR: economic, environmental, social, human resources and governance.

*Opportunities for Sustainable Information*

Sustainability information linked to sustainable development and its relevance in the business world had its beginnings in June 1992, at the United Nations Conference on Environment and Development (UN-CED) in Rio de Janeiro. It is considered as the turning point of the concern for sustainable development and the impact on the environment.

For certain authors, it is not a priority to speak only of sustainable development, but of sustainable and human development (Anstatt & Volkert, 2016). Thus, sustainability is considered as an inter-generational perspective of well-being, being necessary the maintenance of human and natural capita-les, which translates into a change in the realization of future business (Chabrak, 2015).

The enactment of the Sustainability Directive, in our opinion, has incorporated a relevant aspect in sustainable information and therefore in the deep awareness of sustainable and human development, ethics and business culture. Following Douglas (Douglas, 1999), the ethical dimension of sustainable development has two aspects:

a) Our relationship with the inhabitants of our country and the entire planet.
b) Our relationship with the land, flora and fauna of this world.

Both aspects are found in the different areas in which sustainability reporting and the implementation of the SDGs are classified, which should be implemented in all types of organizations, regardless of their size and complexity.

The answer to our second research question can be obtained from the benefits that sustainable information brings to LCEs, which we consider to be the following (the opportunities have been considered from a general perspective for all entities, although, depending on the sector to which they belong, complementary traceability will be established, which we do not deal with in this paper:

a) Increased competitiveness, innovation, cost reduction and improved supply. Cost reduction is linked to SDGs 6, 7 and 12. The reduction of business costs, without being exhaustive, derives from different relevant aspects, among which we can highlight: simplicity in the preparation and presentation of sustainability information, since it must be integrated within the Management Report; reduction of traditional energy costs, reduction of waste costs and sustainable recycling; reduction of failure costs and lack of quality commitment to customers; reduction of absenteeism costs, by ensuring greater safety and quality at work, as well as improving work-life balance and equality. Following the line of research proposed by Savall and Zardet (Savall, Zardet, & Bonnet, 2008), (Savall & Zardet, 2023), the impact of SDG alignment in LCEs would achieve the elimination of dysfunctions and hidden costs derived from business and human behaviors that affect their competitiveness, profitability, efficiency and quality of operation.

b) Compliance with regulations related to environmental responsibility, water, waste and soil contaminants, packaging and packaging waste, noise, environmental assessment, air quality, greenhouse gas emission rights. Linkage with SDG 12. 13

c) Connection with the public aware of the protection of the planet and sustainable economy. Linkage with SDG 3, 8,

d) Creation of synergies with other companies committed to sustainability, especially those in the same environment, in order to ensure what is known as "kilometer zero", Linkage with SDG 8, 9, 11. The latter focused on "sustainable cities and communities", although it is not considered a priority in the period of implementation of the transversality between sustainability information and the SDGs.

e) Facilitates access to insurance services, investments, credit lines and other public tenders. Linkage with SDG 12 and 16, "Peace. Justice and strong institutions. The implementation of the SDGs will entail reductions in certain corporate taxes, such as profit tax, based on tax deductions and benefits derived from sustainability. In relation to investments, the European Commission, approved in March 2018 an Action Plan for financing sustainable growth (European Commission, 2018), whose object is broken down into:

- Redirect capital flows towards sustainable investments.
- Assess and manage financial risks arising from climate change, resource depletion, environmental degradation and social problems.
- Promote transparency and the long term in financial and economic activity.

In a first approximation, the impact on LCEs derives from encouraging investment in sustainable products, improving corporate information related to sustainability and facilitating access to new European funds. In short, promoting the shift to "sustainable finance".

f) Integration of materiality in the business activity. One of the most relevant *aspects in the preparation of sustainability information is the determination of "materiality"*, also referred to as non-financial or environmental and social *"significance"* (EUROPEAN COMMISSION, 2017). Material information is defined as information whose omission or misreporting is reasonably believed to be likely to influence decisions that users make on the basis of the company's financial statements and, therefore, to the extent necessary to understand the impact of the company's activity. Within the concept of materiality, sustainability reporting should address topics that (GLOGAL REPORTING INITIATIVE, 2018, p. 9):

- Reflect the significant economic, environmental and social impacts of the organization, or
- Substantially influence the assessments and decisions of stakeholders.

For LCEs, the financial and non-financial information to be prepared in compliance with the sustainability principles is shown in the following table:

| | **INTERNAL SOURCES** | **EXTERNAL SOURCES** |
|---|---|---|
| FINANCIAL INFORMATION | – Financial Statements<br>– Budgets<br>– Reports<br>– Management ratios<br>– Tax returns<br>– Accounting policies<br>– Financial reporting framework applied to the preparation of annual accounts | – Information on the Internet and social networks<br>– Sector information<br>– Creditors<br>– Business information users |
| NON-FINANCIAL INFORMATION | – Business vision, values, objectives and growth strategies.<br>– Organizational structure<br>– Job descriptions<br>– Documentation | – Internet information on the development of new products and services and their possible success.<br>– Sales trends and industry developments.<br>– News in the company's sector. |

In the Sustainability Directive, both types of information become equally relevant, establishing the principle of double materiality, impact materiality and financial materiality, identifying current and future impacts, positive and negative, the severity and probability of qualitative and quantitative aspects derived from the factors that affect corporate sustainability and the integration of the SDGs in its activities and governance.

The adoption of this perspective will allow entities to identify and assess sustainability issues and SDGs that influence the value of the company and are of interest to future investors, financial institutions and creditors. At the same time, this double vision will allow to identify and assess the impacts of their performance on the economy, the environment, people, diversity, equity and inclusion, talent management, labor recruitment that can increase their productivity and therefore, their value.

Specifically, the two areas in which LCE entities must address sustainability are: the external approach, which consists of including extra practices in the company's activities, so that the organization has the opportunity to return benefits to the community; and the internal approach, which consists of integrating sustainability objectives into the company's own objectives, so that they are closely related to the organization's operational strategy and day-to-day activities. Although the first approach is relevant for the achievement of corporate sustainability objectives, the second is the challenge faced by organizations today, as it is the most efficient way to achieve economic development and generate positive changes in the environment (Schjeldahl, 2013).

g) Improving reputation, transparency and market confidence. Linkage with SDG 16. Corporate reputation is linked to business excellence and to two fundamental conditioning factors, ethics and sustainability. Transparency is related to the presentation of complete financial and sustainability information, the latter being integrated into the Management Report, as indicated in the Sustainability Directive. Sustainability seeks to create in the long term, through the participation of stakeholders and transparency of organizations (Smith, 2013). Sustainability does not seek immediate results and must be assumed by the organization's management; it is an investment for the future.

h) h) Strengthens relationships with stakeholders and the company's value chain. Linkage with SDGs 12 and 16. Sustainability reporting has become a covenant between organizations and society at large. Information has become a driver of performance in the short, medium and long term and the selection of sustainability information is an indicator of the responsibility assumed by the organizations of the activities that may have an impact on the different stakeholders with which they are linked, such as suppliers, customers, workers, government, investors, among others. In this sense, authors such as Kurzrok and Hund pronounced in 2013 (Kurzrok & Hund, 2013).

i) i) Access to new markets, such as new technologies, circular economy, inclusive business, and renewable energies. Linkage with SDGs 7, 8, 9 and 12. The Circular Economy, as a model of business performance in relation to Sustainability and Corporate Social Responsibility. In the circular economy, as in the social economy, a key factor of its success is the reinforcement of creative and innovative capacity at the local level, where proximity relations are a decisive element (European Economic and Social Committee, 2017, p. 13).

The Circular Economy refers to the reuse of by-products, the use of shared infrastructures and the use of common services. In any case, it is about achieving a greater and better use of resources. It is related to the application of good practices in management and production in organizations, extending also to good practices in waste management. It includes efficient management at all points in the value chain. The most innovative idea in this topic would be the approach that provides a practical framework for the creation of products and industrial systems in a positive relationship between ecological health and abundance and long-term economic growth (Bollinger, Braungart, & Mcdonough, 2007, p. 1337).

In short, and for the LCEs, the adoption of the circular economy paradigm and its relationship with sustainability is to assume it as a production and consumption system that, unlike the linear model based on use and throw away, promotes reuse, repair and recycling, which translates into considerable energy savings compared to the production of new materials, through the use of existing natural resources, reducing deforestation and the depletion of the planet.

## Conclusions and Future Lines of Research

At present, there is no doubt that "sustainability" has become the guiding principle of business and human actions and integration with the economy is key as a competitive strategy. As a consequence of the new paradigm, a set of Community Directives and public and private regulations have been established that promote the adoption of the principles of sustainable development in all business actions and in the preparation of information. In this sense, the new Sustainability Directive goes deeper into the relevant principles of sustainability.

Although LCEs will not be subject to the aforementioned Directive, its progressive adoption will be a competitive advantage for achieving excellence in the future. Progressiveness is achieved through the implementation, as a first step, of ISO 26000 (2010) (International Organization for Standardization-ISO, 2010) and Agenda 2030. The former establishes principles that contribute to standardizing criteria and definitions of social responsibility and assessing the economic, social, environmental and human impacts of all companies: accountability, transparency, ethical behavior, respect for the interests of stakeholders, respect for legality, international standards of behavior, and respect for human rights. The principles of the Standard are identified with the defined and differentiated sustainability aspects of the CSRD.

The adoption of sustainability will involve assessing the costs and benefits of sustainability, which implies considering two types of impacts (specifically for LCEs):

a) Economic repercussions:
    a. Savings or benefits:
        i. Increased quality of the higher priced product
        ii. Higher quantity of product due to better use of raw materi-

        als.
    iii. Lower cost of raw materials.
    iv. Sale of by-products.
    v. Lower storage costs.
    vi. Increased worker productivity.
    vii. Less packaging.
    viii. Less deferred costs.
    ix. Less cleaning costs.
    x. Sale of pollution rights.
  b. Costs:
    i. Investment in new technologies.
    ii. Costs of sustainable operations.
    iii. External advisory services.
    iv. Sustainable technologies that guarantee the change.

b) Qualitative impacts:
  a. Expansion of the range of customers.
  b. Development of know-how
  c. Reduced risk of product misuse.
  d. Less waste.
  e. Lower greenhouse gas emissions.
  f. Lower costs for local suppliers.

The adoption of sustainability as an integral paradigm will lead to "Excellence".

Our future lines of research will be defined based on the qualitative and quantitative data that LCEs will submit based on the Sustainability Directive, on a voluntary basis, from 2024 onwards.

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