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*Navigating the Future:
Assessing the Impact of Due Diligence Rules in the European
Union on Business, Environment and Workers****

ABSTRACT: This paper explores how the European Union’s new due diligence regulations are reshaping the way companies operate, particularly in relation to environmental protection, social responsibility, and labour rights. As businesses are increasingly required to examine their supply chains and identify potential risks, understanding the broader effects of these rules becomes essential. The study looks at how these regulations have developed, what they aim to achieve, and how they may influence companies’ competitiveness and long-term sustainability strategies. The

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central idea is that, although companies may initially face higher costs and administrative demands, stronger due diligence standards can ultimately encourage more responsible practices. Over time, these rules may help companies reduce risks, strengthen their reputation, and access new market opportunities. The research also considers how effective enforcement could lead to tangible improvements for the environment and for workers, supporting fairer and safer working conditions. Using a mixed-method approach, the paper evaluates both the challenges and the potential advantages of the EU's regulatory shift. The findings aim to guide policymakers, businesses, and other stakeholders as they adapt to these evolving expectations. Overall, the study highlights how due diligence regulations can contribute to a more ethical, sustainable, and socially just European economy.

KEYWORDS: EU Due Diligence Regulations; Corporate Responsibility; Environmental Sustainability; Social Accountability; Ethical Business Practices; Workers' Rights

SUMMARY: 1. Introduction. - 2. Literature Review on Evolution of Due Diligence Regulations in the European Union. - 3. Comprehensive Analysis of Due Diligence Regulations in the European Union. - 3.1. Impact of Due Diligence Regulations on EU Businesses' Competitiveness. - 3.2. Environmental Performance and Social Responsibility. - 3.3. Effects on Workers' Rights and Labor Conditions. - 3.4. Challenges and Opportunities. - 4. Conclusions

1. Introduction

In recent years, the European Union (EU) has been actively pursuing initiatives to promote corporate responsibility and accountability within its member states. One significant development in this regard has been the implementation of due diligence rules, which mandate businesses operating within the EU to conduct comprehensive assessments of their supply chains, with a specific focus on environmental sustainability, social impacts, and labor rights. As these regulations continue to evolve, it becomes increasingly important to evaluate their implications for EU businesses, the environment, and workers.

This paper seeks to provide a comprehensive analysis of the evolution and objectives of due diligence regulations within the EU. By examining the impact of these regulations on EU businesses' competitiveness, environmental performance, and social responsibility, the paper aims to shed light on the potential benefits and challenges associated with their implementation. Additionally, the paper will assess the implications of due diligence regulations for the environment and analyze their effects on workers' rights and labor conditions.

The objectives of the paper are as follows: 1. Analyzing the evolution and objectives of due diligence regulations. The paper will explore the historical development of due diligence regulations within the EU and examine their underlying objectives with regards to corporate responsibility and accountability; 2. Assessing the impact on EU businesses' competitiveness. A key focus of the paper will be to evaluate how compliance with due diligence rules affects the competitiveness of EU businesses, considering

factors such as market positioning, access to new markets, and risk management; 3. Evaluating environmental performance and social responsibility. The paper will assess the extent to which due diligence regulations contribute to improved environmental outcomes and promote social responsibility among EU businesses. 4. Analyzing effects on workers' rights and labor conditions. Another crucial aspect of the paper will be to examine the effects of due diligence regulations on workers' rights and labor conditions, including issues such as fair wages, safe working conditions, and protection from discrimination.

The research hypothesizes that stringent due diligence regulations will lead to a gradual shift towards more sustainable and responsible business practices among EU companies. Despite initial challenges such as increased administrative burden and costs, compliance with due diligence rules is expected to yield long-term benefits, including enhanced reputation, access to new markets, and risk mitigation. Furthermore, effective enforcement of these regulations is anticipated to contribute to improved environmental outcomes, better protection of workers' rights, and greater social justice.

In conclusion, this paper underscores the importance of due diligence regulations in promoting corporate responsibility and accountability within the EU. While challenges exist, the potential benefits for businesses, the environment, and workers are significant. By effectively implementing and enforcing due diligence rules, the EU can foster a culture of sustainability, ethical business practices, and social justice, thereby contributing to a more resilient and equitable society. Through a comprehensive mixed-method approach, this paper provides valuable insights into the potential

impact and implications of due diligence regulations, offering guidance for policymakers, businesses, and other stakeholders navigating the complex landscape of corporate responsibility and regulatory compliance.

2. Literature Review on Evolution of Due Diligence Regulations in the European Union

The literature review on the evolution of due diligence regulations in the European Union (EU) reveals a significant transformation over the past decades. Initially, the focus was primarily on financial due diligence in the context of mergers and acquisitions of companies. This traditional form of due diligence aimed at assessing the financial health, operational viability, and legal risks associated with business transactions to ensure informed investment decisions and mitigate potential liabilities.

During the 1980s and 1990s, financial due diligence was predominantly concerned with scrutinizing financial statements, evaluating assets and liabilities, analyzing cash flows, and identifying potential legal and financial risks. This process was crucial for investors and companies involved in mergers and acquisitions activities, providing a thorough understanding of the target company's financial condition. Key regulations, such as the EU Merger Regulation¹, provided the legal framework guiding these assessments. Literature from this period highlights the importance of rigorous

¹ European Commission (2004). Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the EC Merger Regulation), *Official Journal L 024*, 29/01/2004 P. 0001 – 0022, <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32004R0139>.

financial scrutiny to safeguard investments and ensure the stability of financial markets².

The early 2000s marked a pivotal shift as the scope of due diligence expanded beyond financial considerations to include environmental, social, and governance (ESG) aspects. This transformation was driven by several factors, including high-profile corporate scandals, increased public awareness of corporate malpractices, and the growing influence of concepts like corporate social responsibility (CSR) and sustainability. The literature documents the rising recognition of the broader impacts of corporate activities on society and the environment. The EU responded by introducing regulations that required companies to disclose non-financial information. The Non-Financial Reporting Directive (NFRD)³, adopted in 2014, was a significant milestone, mandating large companies to report on their environmental, social, and governance performance. This directive aimed to enhance corporate transparency and accountability, encouraging businesses to consider the long-term implications of their operations on various stakeholders.

In addition to non-financial reporting, the EU developed specific regulations targeting critical issues related to environmental and social responsibility. The EU Timber Regulation⁴, introduced in 2010, aimed to prevent

² Weston J.F. & Weaver S.C., (2001). *Mergers and Acquisitions*, McGraw-Hill 2001; Bruner R.F. (2004). *Applied Mergers and Acquisitions*, Wiley Finance 2004.

³ European Union (2014). Directive 2014/95/EU of the European Parliament and of 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, *OJ L 330*, 15.11.2014, <https://eur-lex.europa.eu/eli/dir/2014/95/oj>.

⁴ European Union (2010). Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who

the trade of illegally harvested timber by requiring companies to exercise due diligence in ensuring the legality of their timber sources. Similarly, the Conflict Minerals Regulation⁵, adopted in 2017, obligated companies to conduct due diligence to ensure their mineral supplies did not finance armed conflicts or human rights abuses.

These regulations marked a shift towards a more proactive and preventive approach to due diligence, emphasizing the need for companies to identify and mitigate risks across their supply chains. Academic literature from this period underscores the increasing complexity and importance of supply chain management in ensuring compliance with due diligence requirements⁶.

The introduction of the European Green Deal in 2019 represented a further acceleration in the EU's commitment to sustainability. This comprehensive policy framework underscored the importance of integrating environmental considerations across all sectors of the economy. The proposed Corporate Sustainability Reporting Directive (CSRD), set to replace

place timber and timber products on the market, *OJ L 295, 12.11.2010*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32010R0995>.

⁵ European Union (2017). Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas, *OJ L 130, 19.5.2017*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32017R0821>.

⁶ Kogg B., & Mont O. (2012). Environmental and social responsibility in supply chains: The practise of choice and inter-organisational management, *Ecological Economics* Volume 83, November 2012, Pages 154-163, <https://www.sciencedirect.com/science/article/abs/pii/S0921800911003569>; Hoffman H., Schleper M.C., Blome C., (2018). Conflict Minerals and Supply Chain Due Diligence: An Exploratory Study of Multi-tier Supply Chains. *Journal of Business Ethics* January 2018, 147(1):115-141, DOI:10.1007/s10551-015-2963-z, https://www.researchgate.net/publication/284798733_Conflict_Minerals_and_Supply_Chain_Due_Diligence_An_Exploratory_Study_of_Multi-tier_Supply_Chains.

the NFRD, seeks to enhance the scope and quality of ESG reporting, reflecting the evolving expectations of stakeholders and the growing importance of sustainability in corporate strategy⁷.

Moreover, the proposed Corporate Sustainability Due Diligence Directive aims to establish a robust framework for mandatory human rights and environmental due diligence. This directive requires companies to identify, prevent, mitigate, and account for adverse impacts across their supply chains, further embedding due diligence into the corporate governance structure⁸.

The evolution of due diligence regulations in the EU has also been shaped by international standards and frameworks. The United Nations Guiding Principles on Business and Human Rights (UNGPs), adopted in 2011, provided a global benchmark for corporate responsibility, emphasizing the need for businesses to respect human rights through due diligence processes. Similarly, the OECD Guidelines for Multinational Enterprises have guided companies in implementing responsible business conduct, influencing the development of due diligence regulations in the EU⁹.

⁷ https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

⁸ Dempere, J., Udjo, E., & Mattos, P. (2024). The Entrepreneurial Impact of the European Directive on Corporate Sustainability Due Diligence in *Administrative Sciences*, 14(10), 266. <https://doi.org/10.3390/admsci14100266>, <https://www.mdpi.com/2076-3387/14/10/266>

⁹ McVey, M. (2025). Understanding and implementing the UN Guiding Principles on Business and Human Rights in Sam De Silva, and others (eds), *Expert Essentials* (Oxford, online edn, Oxford Law Pro, 14 May 2025), <https://doi.org/10.1093/9780198972877.003.0012>, <https://academic.oup.com/oxford-law-pro/edited-volume/59931/chapter-abstract/512682392?redirectedFrom=fulltext>

Academic literature highlights the alignment between EU regulations and these international standards, noting that such alignment enhances the effectiveness of due diligence efforts and facilitates their acceptance by multinational corporations operating in diverse regulatory environments¹⁰

Recent developments indicate a continued trend towards strengthening due diligence regulations in the EU, with a particular focus on environmental, social, and governance (ESG) factors. The growing emphasis on climate-related financial disclosures, as exemplified by the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, underscores the integration of climate risks into corporate reporting and risk management practices. The EU has been at the forefront of promoting corporate responsibility and sustainability through various legislative measures¹¹.

A key initiative in this regard is the European Commission's Sustainable Finance Action Plan, introduced in 2018. This plan underscores the importance of integrating sustainability considerations into corporate decision-making processes. It aims to reorient capital flows towards sustainable investments, manage financial risks stemming from climate change, environmental degradation, and social issues, and foster transparency and long-termism in financial and economic activities. Part of this initiative

¹⁰ Buhmann, K., & Field, L. (2024). Shifting boundaries: a transnational legal perspective on the EU Corporate Sustainability Due Diligence Directive in Transitional Legal Theory, 15 (3), 370-396, <https://doi.org/10.1080/20414005.2024.2426961>, <https://www.tandfonline.com/doi/full/10.1080/20414005.2024.2426961>

¹¹ Domínguez-Quñones, M., Aliende, I., & Escot, L. (2025). Assessment of TCFD Voluntary Disclosure Compliance in the Spanish Energy Sector: A Text Mining Approach to Climate Change Financial Disclosures. *World*, 6(3), 92. <https://doi.org/10.3390/world6030092>, <https://www.mdpi.com/2673-4060/6/3/92>

includes the development of robust due diligence frameworks designed to address environmental and social risks within business operations. The plan encourages companies to incorporate ESG criteria into their strategies and operations, ensuring that they not only comply with regulatory requirements but also proactively manage potential risks and opportunities related to sustainability. This approach to due diligence reflects the EU's commitment to fostering a sustainable and resilient economy, where businesses play a critical role in achieving environmental and social objectives. Looking ahead, the evolution of due diligence regulations is likely to be influenced by advancements in technology and data analytics, which can enhance the accuracy and efficiency of due diligence processes; increasing stakeholder expectations for corporate transparency and accountability; and ongoing efforts to harmonize due diligence standards at the global level. Academic literature suggests that these factors will play a critical role in shaping the future landscape of due diligence regulations, driving more responsible and sustainable business practices¹².

3. Comprehensive Analysis of Due Diligence Regulations in the European Union

The due diligence regulations in the European Union (EU) represent a significant step towards promoting corporate responsibility and sustainability within the region. This section provides a comprehensive analysis of

¹² <https://www.oecd.org/en/topics/due-diligence-for-responsible-business-conduct.html>

these regulations, focusing on their evolution, objectives, impact on business competitiveness, environmental performance, social responsibility, and effects on workers' rights and labor conditions.

The objectives of due diligence regulations within the EU are multifaceted:

1. *Corporate Responsibility and Accountability:* The primary aim is to ensure that businesses operating within the EU adhere to high standards of corporate responsibility and accountability. This includes conducting thorough assessments of their supply chains to identify and mitigate risks related to environmental degradation, social injustices, and labor exploitation.
2. *Promotion of Sustainability:* Due diligence rules seek to promote sustainability by encouraging businesses to adopt environmentally friendly practices, such as reducing carbon emissions, minimizing waste, and conserving natural resources. These regulations push companies to integrate sustainability into their core operations and long-term strategies.
3. *Protection of Human Rights:* Another crucial objective is to protect human rights, including labor rights and fair working conditions, both within the EU and in global supply chains. This involves ensuring that businesses do not contribute to human rights violations and that they promote equitable and safe working environments.

The principles underlying due diligence regulations are based on internationally recognized frameworks, such as the United Nations Guiding Principles on Business and Human Rights and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. These frameworks emphasize:

- *Corporate Accountability:* Businesses are accountable for the impacts of their operations on society and the environment.
- *Transparency:* Clear and transparent reporting mechanisms are essential for stakeholder trust and regulatory compliance.
- *Stakeholder Engagement:* Active engagement with stakeholders, including employees, communities, and investors, is critical in ensuring responsible business conduct

These principles are fundamental to EU due diligence regulations, serving as essential pillars that ensure responsible business practices, foster sustainable development, and uphold human rights across global supply chains.

3.1. Impact of Due Diligence Regulations on EU Businesses' Competitiveness

Compliance with due diligence regulations can have profound implications for the competitiveness of EU businesses. While there may be initial challenges, such as increased administrative burden and costs, adherence to these regulations can lead to significant long-term benefits.

One of the primary challenges businesses face when implementing due diligence processes is the increase in administrative tasks and associated costs. These tasks include comprehensive assessments of supply chains to identify and mitigate risks related to environmental, social, and governance (ESG) factors. Such activities often require substantial resources, including time, personnel, and financial investment. However, the initial burden

of compliance is often outweighed by the subsequent advantages that robust due diligence processes can provide.

Firstly, companies that implement effective due diligence processes often experience improved risk management. By proactively identifying and addressing potential risks, businesses can prevent issues that might otherwise lead to significant financial and reputational damage. This proactive stance helps companies avoid legal penalties and costly disruptions, ensuring smoother operations and stability. The companies that manage ESG risks effectively are better positioned to navigate market volatility and regulatory changes, enhancing their overall resilience.

Enhanced reputation is another critical benefit. Businesses that demonstrate a commitment to ethical practices and sustainability can build stronger relationships with consumers, investors, and other stakeholders. As public awareness of corporate responsibility grows, stakeholders are increasingly scrutinizing companies' operations and supply chains. A positive reputation for sustainability and ethical behavior can differentiate a company in a crowded marketplace. Studies have shown that companies perceived as socially responsible enjoy greater customer loyalty and can command premium prices for their products and services.

Increased access to capital and markets is another significant advantage. Investors are increasingly integrating ESG criteria into their investment decisions, seeking to invest in companies that demonstrate responsible business practices. Compliance with due diligence regulations, such as the EU Timber Regulation (Regulation (EU) No 995/2010), which requires companies to ensure the legality of their timber sources, can make companies more attractive to these socially conscious investors. Additionally,

many markets now require compliance with stringent ESG standards as a prerequisite for entry. The Conflict Minerals Regulation (Regulation (EU) 2017/821), which obligates companies to ensure their mineral supplies do not finance armed conflicts or human rights abuses, is another example of how compliance can expand market reach and access new opportunities. Moreover, fostering a culture of sustainability and responsible business practices can provide EU businesses with a competitive edge in global markets. As consumers and investors increasingly prioritize ethical and sustainable practices, compliant businesses can stand out. The growing trend of conscious consumerism means that more customers are willing to support companies that align with their values. This shift in consumer behavior can translate into increased sales and market share for businesses that uphold high standards of corporate responsibility.

The European Commission's Corporate Sustainability Reporting Directive (CSRD) set to replace the Non-Financial Reporting Directive (Directive 2014/95/EU) aims to further enhance the scope and quality of ESG reporting. This directive emphasizes the importance of transparency and accountability in corporate sustainability practices, thereby reinforcing the competitive advantages of compliance.

The latest development in the EU's regulatory landscape is the Corporate Sustainability Due Diligence Directive (CSDDD), adopted in 2024. This directive mandates that large companies conduct comprehensive due diligence across their entire value chain, covering environmental impacts, human rights, and governance practices. The CSDDD sets stringent requirements for identifying, preventing, and mitigating adverse impacts, and mandates that companies publicly report on their due diligence processes.

This directive significantly raises the bar for corporate accountability and transparency, and its comprehensive scope ensures that EU businesses remain at the forefront of global sustainability efforts.

Moreover, fostering a culture of sustainability and responsible business practices can provide EU businesses with a competitive edge in global markets. As consumers and investors increasingly prioritize ethical and sustainable practices, compliant businesses can stand out. The growing trend of conscious consumerism means that more customers are willing to support companies that align with their values. This shift in consumer behavior can translate into increased sales and market share for businesses that uphold high standards of corporate responsibility.

The European Commission's Corporate Sustainability Reporting Directive (CSRD), set to replace the Non-Financial Reporting Directive (Directive 2014/95/EU), aims to further enhance the scope and quality of ESG reporting. This directive emphasizes the importance of transparency and accountability in corporate sustainability practices, thereby reinforcing the competitive advantages of compliance.

In conclusion, while compliance with due diligence regulations presents initial challenges for EU businesses, the long-term benefits significantly enhance their competitiveness. Improved risk management, enhanced reputation, and increased access to capital and markets are some of the key advantages that stem from robust due diligence processes. By fostering a culture of sustainability and responsible business practices, EU businesses can gain a distinct competitive edge in the global marketplace, aligning with the evolving preferences of consumers and investors for ethical and sustainable operations.

3.2. Environmental Performance and Social Responsibility

Due diligence regulations are instrumental in promoting environmental sustainability and social responsibility among EU businesses. By requiring companies to assess and mitigate environmental and social risks within their supply chains, these regulations contribute to reduced environmental impacts, such as carbon emissions, resource depletion, and pollution. Additionally, they encourage the adoption of sustainable practices, including ethical sourcing, resource efficiency, and fair labor practices. Businesses that prioritize environmental and social responsibility can enhance their brand image, attract environmentally conscious consumers, and strengthen their relationships with stakeholder.

3.3. Effects on Workers' Rights and Labor Conditions

One of the key objectives of due diligence regulations is to protect workers' rights and improve labor conditions within the EU and in global supply chains. By holding businesses accountable for labor exploitation and human rights abuses, these regulations enable workers to demand fair wages, safe working conditions, and protection from discrimination. Increased transparency and accountability within supply chains contribute to a more equitable distribution of wealth and resources, aligning with the EU's commitment to social inclusion and human dignity.

3.4. Challenges and Opportunities

Despite the potential benefits, there are challenges associated with the effective implementation of due diligence regulations. Ensuring compliance across diverse industries, supply chains, and member states presents logistical and regulatory hurdles. Moreover, the extraterritorial reach of these regulations may encounter resistance from non-EU businesses and raise jurisdictional issues. However, by addressing these challenges and fostering collaboration between stakeholders, the EU can navigate the complexities of due diligence regulations and maximize their positive impact.

4. Conclusions

This paper has explored how the European Union's due diligence regulations are reshaping the way businesses operate, with a particular focus on environmental sustainability, social responsibility, and workers' rights. The analysis shows that, although the initial implementation of these rules may present challenges—such as increased administrative burdens and higher costs—the long-term benefits for companies, society, and the environment are substantial. Firms that embrace due diligence not only mitigate risks and strengthen their reputation but also gain access to new markets and investment opportunities, fostering competitiveness in a global economy that increasingly values ethical and sustainable practices.

Importantly, these regulations are more than just legal obligations; they are tools for promoting responsible business conduct. By requiring companies to carefully examine their supply chains, identify potential harms, and actively prevent environmental degradation and human rights violations, the

EU is setting a standard for corporate accountability that extends beyond its borders. Workers benefit directly through safer and fairer working conditions, while society as a whole gains from more transparent, socially conscious business practices.

Looking ahead, the success of these regulations will depend on effective enforcement, ongoing stakeholder engagement, and the willingness of businesses to integrate sustainability into their core strategies. While challenges remain, this paper highlights the transformative potential of due diligence rules in fostering a more ethical, sustainable, and socially just European economy. Ultimately, these regulations demonstrate that economic growth and corporate responsibility are not mutually exclusive, but can reinforce each other when businesses, policymakers, and society work together toward shared goals.