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How do companies approach the implementation of the European Corporate Sustainability Reporting Directive in terms of strategies, challenges and opportunities?

An analysis based on the insights of ten companies.

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LIST OF ACRONYMS

CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DMA	Double Materiality Assessment
EFRAG	European Financial Reporting Advisory Group
ESAP	European Single Access Point
ESG	Environmental, Social, Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GSSB	Global Sustainability Standards Board
IFRS	International Financial Reporting Standards
IRO	Impacts, Risks and Opportunities
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
LSME	Listed Small and Medium-sized Enterprises
NFRD	Non-Financial Reporting Directive
NGO	Non-Governmental Organization
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and Medium-sized Enterprises
UN	United Nations

INTRODUCTION

Back in 2009, a group of scientists established nine planetary boundaries picturing environmental disturbance linked to the impacts of human activity and its excessive use of natural resources. The transgression of these boundaries implies incertitude and threat to the sustainability of earth. As of today, six of these boundaries have already been transgressed (Richardson et al., 2023). However, environmental issues are not the only challenge facing our world today. In 2022, 8% of the global population lived below the international poverty line with less than $2.15 a day (Schoch et al., 2022). The same year, while the poorest 50% of the earth's population earned 2% of global wealth, the richest 10% owned 76% of it (Christensen & Lelourec, 2023). Additionally, between 1950 and 2015, the worldwide production of plastic increased from 2.3 million up to 448 million tons (National Greographic, 2021).

These alarming statistics reflect the critical situation in which our world currently finds itself and the urgency with which measures to ensure a sustainable future need to be taken. It is therefore essential to enhance a transition towards a more sustainable society, one that can prosper economically while simultaneously support human activity and ensure the well-being and health of its citizens. Given the high stakes of this global mission, the involvement of all society's key players is an imperative. This thus includes companies, whose substantial impact on environment and society emphasises the crucial role they must play in this transition.

In order to tackle this collective challenge and encourage a transition of the economy towards more sustainable practices, the EU stresses the imperative need for companies to make transparent information available to all market players. It is in this context, and as part of the EU Green Deal, that the European Commission proposed a review of the corporate sustainability reporting legislation, by proposing a new directive: The Corporate Sustainability Reporting Directive (CSRD).

The CSRD, which came into effect in January 2024, gradually mandates enterprises to disclose sustainability reports. These companies are obligated to report accordingly to common standards, favouring transparency and limiting the possibilities for greenwashing. The objective is to increase both the quantity and quality of corporate sustainability information, ensuring a certain similarity and consistency among different reports, therefore facilitating comparison.

By mandating the disclosure of sustainability information, the EU seeks to raise awareness among companies and encourage the undertaking of more sustainable practices. In addition, these reports come as a response to the growing market's interest and demand for corporate sustainability information, enabling better decision-making processes for stakeholders.

It is in this context, marked by the recent implementation of the CSRD, that this thesis aims to answer the following question:

HOW DO COMPANIES APPROACH THE IMPLEMENTATION OF THE EUROPEAN CORPORATE SUSTAINABILITY REPORTING DIRECTIVE IN TERMS OF STRATEGIES, CHALLENGES AND OPPORTUNITIES?

This thesis is based on a cross-analysis of the insights of ten companies and will be divided into four main parts: literature review, methodology, findings and discussion and lastly, a conclusion.

First, the literature review will provide an overview of the context in which the CSRD is being implemented, as well as an understanding of the practice of corporate sustainability reporting and the regulatory landscape shaping it. The literature review will also deeply examine the CSRD, encompassing its objectives, content, requirements, implications for companies, etc.

Then, the qualitative research methodology used for this thesis will be explained. As part of this research, ten interviews were conducted in order to gather information and insights from companies impacted directly or indirectly by the CSRD.

Following a brief presentation of the companies interviewed, the insights from the interviews will be cross-analysed. The relevant information for our research will be outlined such as the companies' sustainability reporting practices, their CSRD compliances strategies, the challenges they face in their preparation process, as well as the opportunities they see in their compliance. This information, complemented with information from the literature review, will then allow us to answer the underlying question of this thesis.

Finally, the conclusion of this thesis will include the key findings of the research, as well as its contribution and limitations. Some recommendations for further research will also be presented.

CHAPTER 1: SUSTAINABILITY LANDSCAPE IN EUROPE

1.1. Sustainable Development Goals (SDGs)

In 2015, the United Nations adopted the Sustainable Development Goals, thereafter SDGs, as part of its 2030 Agenda for Sustainable Development. The SDGs include 17 goals (Cf. *Appendix 1.1.*) each of which is further divided into sub-objectives, creating a panel of 169 targets. Those 17 goals can be classified into the following five categories: People, Planet, Partnership, Peace and Prosperity. Through the integration of the SDGs into countries' laws and policies, the ultimate objective is to fight major global issues such as poverty and inequality so as to improve the well-being and health of society, while also ensuring the preservation of the planet (United Nations, n.d.-b). The UN acknowledged the interconnection and mutual influence of the SDGs and emphasised that the development they are seeking for must be balanced between environmental, social and economic durability (United Nations, n.d.-a). While the SDGs are initially not legally binding, all UN members committed to make efforts in the implementation of these targets in order to contribute to the UN 2030 goals (European Commission, n.d.-h). This commitment marked a significant turning point in the international mission of addressing global challenges.

1.2. European Sustainability Strategies

Following the Paris Agreement of 2015, of which the outcome was the commitment towards global efforts to limit greenhouse gas (GHG) emission in order to restrict global warming to 1.5°C, multiple European plans and regulations emerged to tackle the commitments of the agreement (United Nations Climate Change, n.d.).

In March 2018, the European Commission communicated about its "Action Plan on Financing Sustainable Growth". This new plan seeks to integrate sustainability into financial markets through the following three goals: encouraging the investment of capital in sustainable activities, ensuring the transparency of the long-term consequences of corporate activities and enabling the identification of corporate financial risk related to environmental issues in order to better anticipate and handle them (Staudt et al., 2023).

Later on, in December 2019, the European Commission shared about the "European Green Deal", a new package of policies encompassing the EU's strategy to meet the 2050 climate goals presented in the Paris Agreement of 2015, with the carbon neutrality of Europe as main objective (European Council, 2023). The Green Deal focuses on orienting a sustainable transition towards an equitable, flourishing and competitive economy by conforming European legislation with the 2050 climate objectives (European Council, 2023).

To ensure the achievements of a sustainable transition, as sought by the EU Action Plan and the EU Green Deal, the Commission acknowledged the importance of an informed society regarding sustainability matters and thus the necessity for corporations to disclose transparent, reliable and consistent sustainability information (Directive (UE) 2022/2464[1]).

1.3. Corporate contribution to the transition

The seriousness of the current environmental and social challenges doesn't only require small scale changes, but rather calls for a global transition towards sustainability. The magnitude of such a transition requires the implication of all society's actors, including enterprises whose contribution and dedication are defined as essential in order to achieve a sustainable shift (Primec & Belak, 2022). Nowadays the ultimate mission of a company is no longer restricted solely to the generation of profit for its shareholders, but also to the contribution of the well-being and development of society (Fournier, 2022).

Large companies are key elements in the transition due to their extensive range of operations, affording them the capability to significantly impact both positively and negatively the environment and social conditions. Indeed, large undertakings have a sizeable value chain, employ a large amount of people and exploit important quantities of natural resources (Schaltegger et al., 2020; Serafeim, 2013). Bellucci & Manetti (2018) stated that companies "*are becoming important global political actors with great power, but also unprecedented*

[1] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

responsibilities". Moreover, their growing activities, and consequently their impact, also underscore the essential nature of their contribution to the transition. In 1980, the 1000 largest listed companies collectively employed 21 million people and generated $7 trillion in revenue, while, in 2012, the 1000 largest listed undertakings of the time had a revenue of $34 trillion and provided employment to 73 million people (Serafeim, 2013). Yet, small and medium enterprises, which are responsible for 50% of the GHG emission of corporations and for 60% of employment among OECD countries, are equally vital in this transition (OECD, 2023).

To support EU's commitments and contribute to the transition towards a fairer, healthier and more sustainable society, companies need to adapt their strategy and align various aspects of their business models such as the implementation of their policies, supply chain, energy use, governance, etc. (Ordonez-Ponce & al., 2021; Schaltegger & al., 2020). Seeking to reduce their negative externalities without impacting the positive ones represents a real challenge for corporations (Müller & Pfleger, 2014). Depending on the companies, their convictions, resources and operating sector, Baumgartner and Ebner (2010) identify different corporate approaches to sustainability. Some companies only answer the mandatory legal requirements and standards, while others focus on building a positive and sustainable image through their external relationships. Some strategies concentrate on an efficient and sustainable use of their resources, and others tackle the sustainability challenge at a broader level by implementing it within all dimensions of their business (cited in Müller & Pfleger, 2014). To incorporate sustainability within their business models, multiple trends have emerged within the corporate world.

A first trend is the integration of Corporate Social Responsibility (CSR) into companies' policies and management. This involves an increasing consideration of environmental, social and governance (ESG) factors, using the SDGs as a framework to align corporate strategies with the EU's objectives (Delgado-Ceballos & al., 2023). In 2022, CSR Europe's report which aimed to evaluate the integration of sustainability elements within European industry federations, revealed that 90% of the interviewed panel developed a sustainability roadmap in 2021, and 60% of them integrated the SDGs. Regarding sustainability reporting, only 50% of the federations disclosed any information (CSR Europe, 2022). These figures emphasise the need for companies to provide more efforts in the achievement of the SDGs by 2030, as intended by the UN. According to CSR Europe, this ambitious objective is compromised and unlikely to be met considering where we stand now, compared to the efforts that are still required to reach the UN's target by 2030 (CSR Europe, 2023).

Another leading global trend is the decarbonization of corporate operations. As the EU set the ambitious goal of reaching net zero emission by 2050 at the centre of the European Green Deal, companies found themselves compelled to align with that target (European Commission, n.d.-a). They are expected to develop new innovative practices and technologies in order to limit their carbon emissions. Even though net greenhouse gas emissions have significantly decreased, down by 30% between 1990 and 2021, the projections incorporating the existing measures suggest a total reduction of merely 64% from 1990 to 2050. This indicates that the achievement of carbon neutrality by 2050 is unlikely to happen with the current measures in place (European Environment Agency, 2023). These findings underscore the critical importance for companies to intensify their decarbonization efforts.

This first chapter provided an overview of the global sustainable transition and highlighted the crucial role of companies' continuous efforts in limiting their negative environmental and social impacts through the rethinking of their supply chain, management system, use of resources, etc.

CHAPTER 2: CORPORATE SUSTAINABILITY REPORTING

Companies' commitment to sustainable development can be very challenging and difficult to follow for external stakeholders. Therefore, transparent sustainability reporting emerged as a crucial element in the global transition, encouraging companies' accountability and facilitating communication about their ESG practices and impacts. This chapter focuses on corporate sustainability reporting and will tackle the factors driving companies to disclose these reports, the objectives pursued with them, the concept of materiality, as well as the existing standards and regulations shaping the landscape of sustainability reporting.

2.1. Concept and definition

It is in a landscape shaped by increasing concerns surrounding corporate social responsibility (CSR), the Sustainable Development Goals (SDGs), and the issue of climate change, that sustainability reporting has emerged (Bossut et al., 2021). Sustainability reports are used by companies to communicate with their stakeholders about their sustainability-related performance, strategies and future goals (ACCA, 2016; Baumüller et al., 2022). Both in the literature and in the corporate sector, various terminologies are nowadays used to describe those reports: Sustainability reports, ESG reports, CSR reports, Non-Financial reports, Extra-financial reports, etc. (Baboukardos et al., 2023). Despite their increasing prevalence in the literature, sustainability reports still lack a proper definition and defined borders in terms of the topics they cover (Protin & al., 2014). However, the terms 'non-financial', or 'sustainability' are quite extensive and encompass multiple subjects beyond traditional financial metrics, including sustainable development, corporate social responsibility, environmental responsibility, ethics, governance, supply chain practices, human rights, etc. Eventually, all of these topics find themselves encapsulated in the acronym ESG (Environmental, Social, and Governance), which stands central when talking about extra-financial information (ACCA, 2016; Protin & al., 2014). According to the Global Reporting Initiative (GRI), sustainability reporting is defined as follows: "An organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development"[2] (GRI, 2016).

[2] The definitions of sustainability reporting vary depending on the concept of materiality considered by the author. Materiality is the key concept to decide on a sustainability reporting content. The definition of sustainability reporting provided by the GRI refers to impact materiality. See *Section 2.4. Materiality in sustainability reporting* for further details.

Unlike financial reporting, which is mandatory and highly regulated, extra-financial reporting initially started as a voluntary practice and has been evolving ever since into a widespread and common corporate practice. Originally driven by factors such as stakeholders' pressure, reputational interests, or corporate mimicry, the regulatory landscape of non-financial reporting becomes more and more regulated, compelling subjected companies to disclose specific information (Protin & al., 2014). Nowadays, non-financial reporting is a crucial component of corporate transparency and accountability. According to KPMG, in 2020, 80% of worldwide companies reported on sustainability matters. The trend is even more present among the world's 250 largest companies, reaching a 96% rate for the same year (KPMG, 2020).

2.2. Drivers

While the regulatory landscape for corporate sustainability reporting is evolving with the introduction of various voluntary and mandatory policies (Cf. *Section 2.7.* and *2.8.*), firms are also motivated by reasons beyond regulatory requirements. Indeed, the magnitude of the challenge behind these reports, i.e. the transition of an entire society towards a more sustainable perspective, concerns many actors. As a result, businesses find additional drivers to disclose extra-financial information, emanating from different stakeholders involved in the transition.

To start with, disclosing extra-financial reports allows firms to fight the pressure exerted by stakeholders, and to answer their information need. Indeed, in the current context where sustainability matters, such as the respect of the planet, ethics, human rights and societal responsibility, are becoming increasingly prominent, there is an increasing request from stakeholders for greater transparency on the sustainability impact and practices of companies (Beske et al., 2019; Christensen et al., 2021).

Additionally, companies are driven by the growing request of investors for non-financial information related to their businesses, seeking to combine financial and non-financial information to assess the risks linked to their investments (UNEP, 2019). This increasing demand can be traced down to the evolving nature of risks linked to their investments. Indeed, the predominant global ESG-issues represent important threats for companies' activities and, consequently, a financial risk for investors (Directive (EU) 2022/2464, Recital 11; Serafeim, 2013).

Moreover, providing information regarding their sustainability performance, impact and efforts is also a way for companies to build and ensure their reputation within society (UNEP, 2019). O'Donovan (2002) states that, through the disclosure of sustainability data, undertakings seek "*to gain, maintain or repair their legitimacy*" (cited in Hummel & Jobst, 2023). Indeed, those reports act as evidence of a company's transparency, its dedication to sustainable practices as well as its alignment with the current societal concerns. Firms abstaining from those reports tend to acquire a negative reputation from stakeholders (Christensen et al., 2021; UNEP, 2019).

Finally, companies also find incentives to disclose sustainability reports in the positive effects it might have on their business performance (UNEP, 2019). Indeed, fulfilling the information need of stakeholders and investors and enhancing the company's reputation are beneficial for the firms' performance. It enhances their attractiveness on the market and, as a communication tool with their stakeholders, these reports enable firms to improve their stakeholder management (Burhan & Rahmanti, 2012). Moreover, collecting and analysing their ESG-performances allow companies to identify inefficiencies and areas for improvement. In addition, assessing their ESG-related risks and opportunities not only enables businesses a better risk and change management, encompassing elements beyond financial factors, but also enhances the establishment of long-term strategies (UNEP, 2019). However, the academic literature does not agree on whether these aspects of corporate sustainability reporting actually have a positive impact on the financial performance of the firms (Burhan & Rahmanti, 2012). Indeed, it is pertinent to question the balance between the potential benefits of sustainability reporting on a firm's performance and the associated costs required for such reporting.

2.3. Objectives

In an era where societal and environmental considerations are highly popular and where the demand for ESG information is on the rise, sustainability reporting has become a considerable tool in providing comprehensive insights as to a firm's non-financial performance and strategies (Martincevic et al., 2022). The main objective of these reports is to fulfil the informative needs of stakeholders and to reduce the information gap among the latter (Baboukardos & al., 2023; Christensen & al., 2021). According to Freeman (1984), corporate reporting should answer all stakeholders' needs for information, whether or not these stakeholders can influence a firm's decision (cited in Baboukardos & al., 2023). Investors and shareholders expect transparency from companies so as to evaluate them not exclusively based on financial metrics but also by taking into consideration their sustainability practices and the broader impact they have on the environment. Sustainability reports are thus used as a complement to financial reports and provide a more global overview of the companies, which improves the decision-making process of the stakeholders (Baboukardos et al., 2023; DiPiazza & Eccles, 2002). Indeed, the financial reports issued by companies do not include all the information stakeholders need to ensure the best quality of decision, as the latter tend to increasingly consider ESG aspects when making decisions (Ioannou & Serafeim, 2017; Martincevic et al., 2022).

Moreover, as the performance of companies used to be evaluated based exclusively on financial indicators and reports, the information was mostly considered by investors looking for the short-term accomplishment of the firms (Unerman et al., 2018). The introduction of non-financial reports also aims to heighten the involvement and interest of a greater number of stakeholders (Bellucci & Manetti, 2018).

Furthermore, the long-term view is heavily emphasised in the concept of sustainability (Christensen & al., 2021). By conducting a thorough assessment of the environmental, social and governance issues related to their operations, companies are better able to identify the potential risk and opportunities they might face in the long run. This approach encourages and enables firms to develop long-term strategies and investments that take those risks and opportunities into account (Martincevic et al., 2022; UNEP, 2019).

All these objectives collectively pursue the common and ultimate goal of actively reshaping the perception of the economy and to incorporate a sense of sustainability into the purpose of business, going beyond the narrow focus of financial performance (Baboukardos et al., 2023). Nowadays, sustainability practices and reporting are well integrated by companies across the globe. Firms understand that it is essential to consider their stakeholders' information needs and to positively answer them (Martincevic et al., 2022). A growing transparency regarding their governance as well as their social and environmental impact, along with the integration of CSR into their strategies is a fundamental necessity if companies wish to stay competitive and establish a quality bond with their stakeholders (Beske et al., 2019; Martincevic et al., 2022).

2.4. Materiality in Sustainability Reporting

The concept of disclosing non-financial information emerged for the first time into the EU framework in 2003 with the publication of Directive 2003/51/EC[3] of which the primary objective was to modernise corporate accounting and reporting requirements (Baumüller et al., 2022). Recital 9 of the directive states the following *"The information [within the annual report] should not be restricted to the financial aspects of the company's business. It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position."*. However, the directive did not provide more precisions. Firms were expected to identify and disclose relevant information that was not focused solely on financial outcomes and that answered their stakeholders' expectations (Jørgensen et al., 2021). But what was considered to be relevant? And relevant to whom? Non-financial information is definitely a broad concept that includes multitudinous matters related to ESG (ACCA, 2016). Reporting on all these topics would be quite time and resources demanding, given that not all companies are equally concerned by the different ESG topics (Raith, 2022). To decide on the topics they would have to disclose on, firms had to reflect on what was relevant to their activities with respect to their industry, strategies, stakeholders' expectations, etc.

This is the context in which the notion of materiality comes into play. The term 'materiality' is employed to point out the part of information coming from a larger database that is worth being shared (Mosca & Picciau, 2020). Originating from financial reporting[4], the concept has been expanded beyond its traditional role, finding relevance in the context of sustainability disclosure. It refers to relevant ESG factors that can influence the judgement of stakeholders, and must therefore be part of sustainability reports (Jørgensen et al., 2021). The literature identifies various definitions of the concept of materiality. It is important to mention that the content of sustainability reports and the information disclosed thus directly depend on the interpretation of materiality taken into consideration by the preparers of these reports. Hicks's saying (1961), "Materiality, like beauty, is in the eye of the beholder", illustrates the diverse

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[3] DIRECTIVE 2003/51/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

[4] Messier & al. (2005) defined the concept of materiality within the context of financial reporting as follows : "The omission or misstatement of an item is material in a financial report, if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of an item." (Jørgensen et al., 2021).

interpretations of the concept, emphasizing its dependence on the individuals and their interests (cited in Baumüller et al., 2022).

2.5. Double Materiality

In the context of sustainability reporting, the literature identifies two major divergent interpretations of materiality to which the majority of standards and legislation refer. The difference between those two concepts actually lies in their interpretation of corporate social responsibility (Raith, 2022).

On the one side, there is the 'financial materiality' which is referred to as a rather traditional approach. This interpretation focuses exclusively on the shareholders' point of view and on the idea that the relevance of ESG-related information is directly and essentially linked to its impact on the financial performance of the company (Christensen & al., 2021). In this context, the meaning of corporate social responsibility is thus reduced to the protection of investors' capital (Raith, 2022). This interpretation of materiality is also referred to as the outside-in approach, assessing the impact of external ESG factors on the company (Hummel & Jobst, 2023).

On the other side, there is the interpretation of materiality which focuses on a broader set of stakeholders, called 'impact materiality' (Hummel & Jobst, 2023). In contrast to the traditional definition, this one takes into account the externalities, positive or negative, that companies can have on their environment in terms of environmental, social and governance consequences, and is referred to as the inside-out approach (Christensen & al., 2021). The materiality of topics is thus assessed regardless of their influence on the company's finances, but rather on whether or not the company has a potential impact on them. (Christensen & al., 2021).

The concept of 'double materiality' is a relatively new term, combining the two definitions of materiality mentioned above (Hummel & Jobst, 2023). Under this concept, a topic is considered relevant for sustainability reporting if it is material according to the financial materiality and/or impact materiality (Baumüller et al., 2022). This interpretation emphasises that risks and opportunities faced by companies can be significant both from a financial and non-financial point of view (Sayer, 2022).

The establishment of ‘double materiality’ stems from two main observations. First, considering the growing interest of society in sustainability, as well as the rising stakeholders’ willingness to understand the implication of companies in ESG-related issues, referring exclusively to the financial materiality within sustainability report isn’t the most relevant option anymore (Christensen & al., 2021). In addition, by only focusing on the outside-in approach, businesses can miss the fact that their externalities may result in negative financial impacts in the long-run because of the establishment of various regulations related to firms’ impact on sustainability (Hummel & Jobst, 2023). According to the concept of double materiality, firms thus have to report on how their performance and development is affected by ESG factors, but also on how their businesses and operations impact the well-being of the planet and society (Pole, 2023).

Double materiality forces businesses to acknowledge and be accountable for their externalities. It also underscores the importance of integrating financial performance with environmentally responsible behaviours by emphasizing that an organization's financial metrics are not the only key to its success (Pole, 2023; Staudt et al., 2023). On the contrary, that success also lies in its capacity to navigate ESG issues and to actively participate to the environmental and social well-being (Staudt et al., 2023). The introduction of the double materiality concept in corporate sustainability reporting represents a decisive step in the global drive for a more sustainable future and in the achievement of the SDGs.

2.5.1. Double Materiality Assessment (DMA)

In order to evaluate the double materiality of ESG topics, companies proceed to what is commonly called a ‘double materiality assessment’.

The first step of this process consists in an internal assessment, aiming to identify the potential ESG factors that are relevant, i.e. material, to the firms and their activities. The second step is then the identification of their various stakeholders, followed by an external assessment of the stakeholders’ interests regarding the ESG topics previously identified by the companies. Given that sustainability reports address a wider range of stakeholders than financial reports, which mainly focus on investors, identifying the various stakeholders’ groups is in this case all the more crucial (Beske et al., 2019). The identification and evaluation of their interests requires firms to communicate and get in contact with them. Stakeholder engagement is the process used by companies to interact with their stakeholders and determine their expectations, priorities and interests. It can take different forms such as interviews, surveys, meetings, calls, etc. or a combination of these (Bellucci & Manetti, 2018; Bossut et al., 2021; Torelli et al., 2019).

Then, in order to determine which of those topics will be reported on, companies usually place the different topics on what is called a "Double Materiality Matrix" (Cf. *Figure 1*). This matrix provides a comprehensive visual representation of the ESG topics, capturing their importance according to the two dimensions of double materiality. One axis reflects their relevance based on the impact materiality, as defined by stakeholders through the stakeholder engagement process, while the other axis indicates their importance in terms of their potential impact on the firm's performance, i.e. according to financial materiality. As topics are considered doubly material if they are deemed material according to the financial and/or impact materiality, doubly material topics encompass all the topics located in quadrants 1, 2 and 4 of the matrix (Cf. figure below). Using such a matrix enables firms to disclose information on matters that are relevant both for them and for their stakeholders (Jørgensen et al., 2021; Nielsen, 2023).

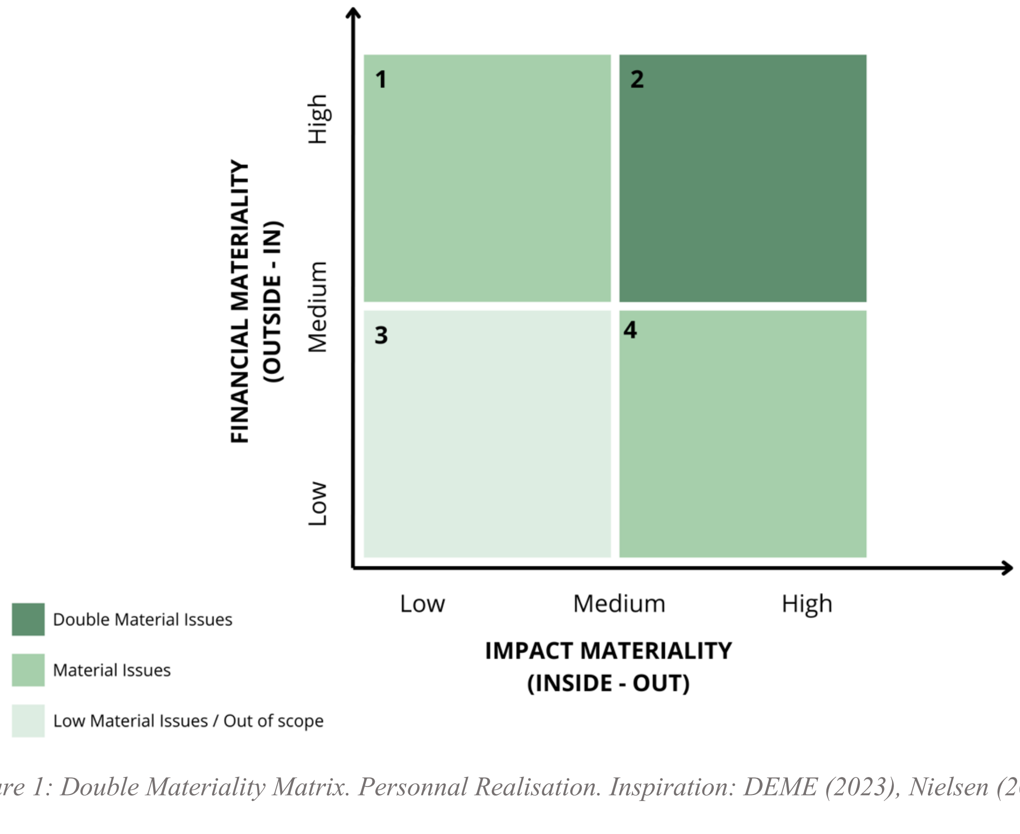

Figure 1: Double Materiality Matrix. Personnal Realisation. Inspiration: DEME (2023), Nielsen (2023).

Stakeholders thus have a central implication in this concept of materiality, as it is through their judgements that a topic is considered relevant or not (Bellucci & Manetti, 2018). The assessment of sustainability material topics through stakeholder engagement enables the disclosure of correct and pertinent information that meets the stakeholders' needs. It thus allows them to make their decisions according to reliable and relevant data (Baumüller et al., 2022; Beske et al., 2019; Jørgensen et al., 2021).

Assessing which issues are sustainability material has been and still is a huge challenge for companies (Jørgensen et al., 2021). Indeed, in addition to the existence of numerous ESG related topics that could be disclosed in a sustainability report, the involvement of a diverse range of stakeholders, with distinct perspectives and priorities, adds an additional layer of complexity (Bossut et al., 2021; Mosca & Picciau, 2020). In addition, the lack of globally shared definition for 'materiality' and "sustainable material information" in the context of reporting can definitely lead to the mediocre consistency and reliability of the information disclosed by companies, and thus, as consequence, to potentially wrong decisions made by stakeholders (ACCA, 2016; Jørgensen et al., 2021).

2.6. Criticisms

The main criticism attributed to non-financial reporting is the practice of greenwashing. Greenwashing is defined by Lyon and Maxwell (2011) as "*The selective disclosure of positive information about a company's environmental or social performance, without full disclosure of negative information on these dimensions, so as to create an overly positive corporate image*." (Cited in Moodaley & Telukdarie, 2023). The lack of regulated framework allows companies a certain degree of flexibility regarding the information they disclose and the way they present it, enabling them to emphasise what aligns best with their reputational interests (Christensen et al., 2021). This can therefore mislead the market on the actual firms' impacts and engagements towards sustainability (Moodaley & Telukdarie, 2023).

In addition, these reports are criticised for being solely a communication tool aiming to disclose data, lacking any proof of commitment towards concrete engagement and actions from companies (Baboukardos et al., 2023). Pattern (2014) mentioned that well-defined sustainability reporting obligations and sanctioning systems are necessary in order to increase and ensure the transparency levels of companies, and therefore prevent greenwashing (cited in Hummel & Jobst, 2023).

2.7. Corporate Sustainability Reporting Standards

Over the past decades, the increasing demand for transparency regarding corporate sustainability information, emanating from both investors and stakeholders, has led companies to progressively disclose more reports (Ehnert et al., 2016; KPMG, 2022; Martincevic et al., 2022). In line with this trend, multiple third-party independent organizations and NGOs developed tools such as frameworks and guidelines to help firms in their voluntary reporting process (Ehnert et al., 2016). Those initiatives also answered the stakeholders' demand for better comparability of corporate sustainability information (Jørgensen et al., 2021). In the absence of binding regulations, companies were free to choose which of these standards they wanted to follow. The simultaneous use of different guidelines was also an option, given their divergences in terms of content and scope (Martincevic et al., 2022). This section overviews three of the most popular frameworks. Even though they all aim to offer guidelines to companies in their sustainability reporting process, each one has its specificity setting it apart from the others. Their differences are to be found in the ESG topics they cover, the stakeholders to whom they are addressed, their interpretation of materiality, etc.

2.7.1. Global Reporting Initiative (GRI)

The Global Reporting Initiative, thereafter GRI, was one of the first independent organizations to offer a frame of reference for sustainability reporting, and remains nowadays the most commonly used framework by companies for this purpose (Hummel & Jobst, 2023; Staudt et al., 2023). Indeed, in 2022, according to KPMG, the GRI standards were used by 78% of the G250[5] and by 68% of the N100[6] (KPMG, 2022). The first GRI guidelines were released in 2000. In 2016, the Global Sustainability Standards Board (GSSB), GRI's governance body, published the first global set of sustainability reporting standards, which was updated in 2021 (Hummel & Jobst, 2023).

Presenting as a user-friendly framework, the GRI standards are designed for any organization regardless of its size, private or public nature, etc. (GRI, n.d.). The main objective is to facilitate companies' reporting process on their potential impacts on ESG's matters and to introduce harmonization, and thus comparability, among the sustainability reports of entities worldwide

[5] G250 are the 250 world's largest undertakings by revenue (KPMG, 2022).
[6] N100 is a sample of the world's top companies by revenue (KPMG, 2022).

(GRI, 2021b; Martincevic et al., 2022). Following those standards enables firms to assess their ESG impacts and provide an comprehensive overview of the latter to their stakeholders, enhancing their transparency regarding their contribution to sustainable development (GRI, 2021b; Staudt et al., 2023).

The GRI framework is composed of 3 different sets of standards: Universal standards, Sector standards and Topic standards. Regarding the concept of materiality, the GRI refers to the definition of impact materiality. Indeed, it defines it as follows: "*Topics that represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights*.", making a clear reference to the inside out approach (GRI, 2021a). Those standards leave organizations the flexibility to disclose their sustainability information either within their annual report or in a separate one (Hummel & Jobst, 2023).

2.7.2. IFRS Sustainability Disclosure Standards

The International Financial Reporting Standards Foundation (IFRS Foundation) is a non-profit organization aiming to set global standards for financial reporting. In November 2021, it established the International Sustainability Standards Board (ISSB) to develop guidelines for the disclosure of sustainability information dedicated to the financial markets. The first IFRS Sustainability Disclosure Standards were published in June 2023 (IFRS, n.d.-a, n.d.-b, 2023a).

In a context where investors tend to pay more attention to ESG factors when making investment decisions, the objective pursued by those standards is to deliver the users of financial information with relevant sustainability data such as the incurred sustainability-related risks and opportunities the companies might face (IFRS, n.d.-a; Ioannou & Serafeim, 2017). These main users include current and future investors, creditors and lenders (Hummel & Jobst, 2023).

The IFRS Sustainability Disclosure Standards are divided into two different sets (Hummel & Jobst, 2023):

- IFRS 1, which includes the general reporting requirements of financial sustainability information such as the aim, the scope, the content, etc.
- IFRS 2, which specifies disclosures essentially relating to climate-related matters, as well as the use of industry-based and cross-industries metrics and targets.

The materiality assessment within this framework is primarily based on the definition of financial materiality. Indeed, it refers to whether or not an ESG factor has an impact on the financial performance of a company and consequently focuses mainly on providing information to investors and capital markets (IFRS, n.d.-a). Compared to the GRI, the IFRS addresses a limited range of sustainability-related topics since its main focus is on climate-related matters (Hummel & Jobst, 2023). The ISSB allows the information to be disclosed either in the management commentary[7] of their financial report, or in a separate section within the financial report itself (Hummel & Jobst, 2023).

2.7.3. Sustainability Accounting Standards Board's Standards

The Sustainability Accounting Standards Board (SASB) is an independent and non-profit organization aiming to guide companies on how to disclose relevant sustainability information to their investors (Baumüller et al., 2022). Its framework was established in line with the idea that material topics differ from one sector to another, resulting in industry-based standards (SASB, n.d.-c).

The objective of the SASB's standards is defined as follows: *"To enable organizations to provide industry-based disclosures about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term"* (SASB, n.d.-d). Nowadays, the standards are available for 77 different industries and provide standardised accounting metrics for each one of them (Baumüller et al., 2022; SASB, n.d.-a). Those standards facilitate the comparability of companies within the same industry, based on the sustainability-related risk and opportunities they face (SASB, n.d.-b).

The concept of materiality among those standards relies on the investors' perspective as it is defined by the impact an ESG-issue has on the financial performance of a company (Baumüller et al., 2022; Bossut et al., 2021). This interpretation definitely refers to the financial definition of the concept. In August 2022, the responsibility of the SASB Standards was transferred to the ISSB (SASB, n.d.-d).

[7] The management commentary is a section of the financial report dedicated to additional information and explanations related to the statements within the report.

2.8. Corporate Sustainability Reporting Regulations

The growing pressure from society, capital markets and shareholders for transparent communication regarding companies' impact on environmental and societal issues has led to a significant increase in voluntary corporate sustainability disclosure. Nevertheless, criticism has been made that this way of reporting doesn't inevitably lead to real transparency, nor to an actual shift in companies' behaviour and practices towards sustainability (Baboukardos et al., 2023; Gafencu, 2023). Indeed, without regulations indicating which information to disclose, firms could choose to share incomplete or less relevant data, although the fact that they reported would still create an appearance of transparency to the public (Ehnert et al., 2016). Hence, the implementation of mandatory disclosure requirements became a necessity to ensure an actual change in corporate practices towards the European Union's ESG objectives (Hummel & Bauernhofer, 2023; Ioannou & Serafeim, 2017; Odobaša & Marošević, 2023).

By setting mandatory sustainability reporting regulations, regulators expect to achieve three main impacts. First, one of these targeted impacts is to positively influence the quantity as well as the quality of sustainability reports (Ioannou & Serafeim, 2017). In addition to obligating certain companies to report, these regulations can also have an influence on non-mandated firms operating in the same industry. While not regulated, some choose to comply with the disclosure of sustainability data in order to align with competitors (Al Dosari et al., 2023 cited in Baboukardos et al., 2023). Secondly, by providing investors with transparent and relevant information, mandatory sustainability reporting aims to beneficially impact the capital markets by improving their decision-making process. Finally, the major expected outcome is referred to as the "real effect" and indicates the actual shift in firms' actions and conduct towards sustainable development. This shift should result from the fact that firms are, under regulation, compelled to identify their externalities and therefore be accountable (Ioannou & Serafeim, 2017). The implementation of legislation mandating high transparency as well as the growing importance society places on sustainable development and ESG issues can be perceived by companies as a source of motivation to actively improve their business models (Ioannou & Serafeim, 2017). Such changes within companies' practices are in turn expected to have a positive impact on society and the environment they operate in (Baboukardos et al., 2023).

It is in this context, with the previous objectives in mind, that various regulations are increasingly being introduced, both nationally and internationally (Ioannou & Serafeim, 2017).

The European Union is definitely the leader of this new movement with its several pieces of mandating legislation (Hummel & Jobst, 2023). This section intends to examine the major regulations shaping the corporate sustainability reporting regulatory landscape of the EU.

2.8.1. Non-Financial Reporting Directive (NFRD)

The disclosure of reliable and qualitative corporate sustainability information is a key element in the achievement of the European Union's goal of moving towards a more sustainable economy (Hahnkamper, 2021). It is in this context of commitment to sustainability that, in 2014, the European Union adopted the Directive 2014/95/UE[8], referred to as the Non-Financial Reporting Directive, thereafter NFRD, obligating all Member States to transpose its requirements into their national law (Hahnkamper, 2021). It is in 2018, covering the financial year of 2017, that the first sustainability reports under the NFRD were disclosed (Martincevic et al., 2022). The NFRD marked a huge step forward in making companies accountable for their social and environmental externalities, as it is the first directive to obligate certain European companies to report sustainability information (Raith, 2022). Richard Howitt (2014) characterised the adoption of this directive as a "Historic date in the transition to business sustainability for all" (cited in Raith, 2022).

The key objectives of the NFRD are on the one hand to stimulate firms to switch towards more responsible business practices and strategies, and on the other hand to enhance the quantity and transparency of extra-financial information disclosed by companies. This enables stakeholders to assess and compare the ESG impacts of EU companies based on the available information (European Parliament, n.d.; Hahnkamper, 2021). However, the scope of this directive does not include all European firms. Indeed, the subject entities are the large EU public-interest companies with more than 500 employees (European Commission, n.d.-b). To be considered a large undertaking, a firm has to meet at least one of the two following criteria: a balance sheet over 20 million euro and/or a net turnover of 40 million euro (PwC, 2023a). In answer to those criteria, 11 700 firms were concerned by the NFRD (European Commission, n.d.-b).

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[8] 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.

The NFRD mandates the concerned companies to report on their implemented policies, their impact and the risks they undertake regarding the 6 following topics : environment, social matters and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity within the company (European Commission, n.d.-b; Hahnkamper, 2021). Those reports were authorised to be disclosed either within the management report of the company, or in a separate one (Dolmans et al., 2021).

However, this directive is referred to as a ‘principles-based’ directive. In this context, it means that the NFRD does not require the disclosure of specific information or indicators, nor the use of a particular framework, but only the fact of reporting extra-financial information itself (Hahnkamper, 2021; Martincevic et al., 2022; Raith, 2022). Consequently, companies could choose to follow national, European or international guidelines when reporting. In addition, the NFRD had a ‘comply or explain’ rule, which gave firms the possibility to choose not to report on one or more of the six sustainable topics listed above as long as they provided the reason they did so (Hahnkamper, 2021). The flexibility and lack of precision within the requirements of the NFRD resulted in the publication of quite different sustainable reports from one company to another, complicating their comparability (Dolmans et al., 2021).

Even though the term ‘double materiality’ was not explicitly used in the text of the directive, the materiality of information under the NFRD clearly refers to this concept. Indeed, the directive requires firms to disclose “*Information to the extent necessary for an understanding of the group's development, performance, position and impact of its activity*” (Directive 2014/95/EU, Article 1(3)). This implies that, in addition to including information about the influence of the ESG-related topics listed above on the firm’s operations (outside-in approach), the report must also include how the firm’s operations impact the environment it operates in (inside-out approach) (Hahnkamper, 2021).

As far as assurance and control is concerned, the NFRD did not mention verification processes for the reports’ contents, as it did not require the disclosure of specific information, metrics or indicators. The only requirement was that it was up to the Member States to ascertain, via auditors, that the sustainability reports were being well disclosed (Dolmans et al., 2021).

In order to provide some guidance to reporting companies, and thus to complete the NFRD, the EU issued in 2017 a first set of non-binding guidelines which included the recommendation of several sustainable reporting frameworks and standards (Hahnkamper, 2021; Martincevic et al., 2022). In 2019, a second set of non-binding guidelines was published regarding the disclosure of climate-related information and including a clearer definition of the concept of materiality under the NFRD (Baumüller et al., 2022; Hahnkamper, 2021).

Since its implementation, the Non-Financial Reporting Directive has been heavily criticised for several reasons (Hahnkamper, 2021). First, users of information complained about the lack of comparability, reliability and consistency of the reports disclosed under the directive, which was a consequence of the flexibility left to companies regarding their reports' contents (Hummel & Jobst, 2023). This resulted from the firms' possibility to exclude information about some of the general topic requirements based on the "comply or explain" rule, the insufficient precisions regarding the information to be disclosed, as well as the absence of a compulsory framework to be followed (Hahnkamper, 2021). In addition, since the NFRD had to be transposed into national law, heterogeneity in the implementation among the Member States was very common, also preventing consistency among European sustainability reports (Hummel & Jobst, 2023). Secondly, the poor amount of available information led critics to question the scope of the regulation and the restricted number of concerned firms (Hahnkamper, 2021; Hummel & Jobst, 2023). Finally, the additional costs at the time of the report's compilation linked to the lack of guidance and supervisions, as well as the divergence of requirements among different EU regulations, was a regular source of reproach towards the NFRD (Hahnkamper, 2021).

It was therefore with the intention of rectifying those imperfections that the Commission, as part of its communication of December 2019 on the EU Green Deal, shared its wish to review the Non-financial Reporting Directive (European Council, 2022; European Parliament, n.d.).

2.8.2. Sustainable Finance Disclosure Regulation (SFDR)

In November 2019, the EU adopted The Sustainable Finance Disclosure Regulation, thereafter SFDR, to encourage a transition towards more sustainable investments (Hummel & Jobst, 2023). The establishment of these reporting obligations requires financial market participants to analyse the sustainability nature of their financial products and to demonstrate transparency towards the public (Hummel & Jobst, 2023; PwC, n.d.). This induces investors to take the environmental dimension into account when making decisions, and assess the sustainability

risks linked to their potential future investments based on comprehensive and complete facts (European Commission, n.d.-g; Lafarre & Verhoeff, 2023). The harmonization of sustainability reporting amongst financial institutions also offers investors a better comparability among their investment decisions (PwC, n.d.).
The institutions that are concerned by those requirements are mainly the European financial market participants such as banks, investment firms, credit institutions, etc. (PwC, n.d.)

2.8.3. EU Taxonomy

In July 2020, the EU Taxonomy, Regulation 2020/852/EU[9], came into force as part of the European Action Plan on Financing Sustainable Growth (European Commission, n.d.-e). Indeed, this directive was adopted by the European Parliament and the European Council in order to boost the sustainable economy by facilitating and encouraging the investments of capital in sustainable activities (Hummel & Bauernhofer, 2023). With this objective in mind, the EU Taxonomy offers a system that enables the identification and transparent classification of environmentally sustainable economic activities (European Commission, n.d.-e).

The criteria used to assess the environmentally sustainable aspect of a company's economic activities are in line with the 2050 carbon neutrality target of the EU and the six following environmental goals established by the directive (European Commission, n.d.-e; Regulation 2020/852/EU, Article 9):

(1) Climate change mitigation
(2) Climate change adaptation
(3) The sustainable use and protection of water and marine resources
(4) The transition to a circular economy
(5) Pollution prevention and control
(6) The protection and restoration of biodiversity and ecosystems

For an activity to be classified as environmentally sustainable by the EU Taxonomy, it must contribute to the achievement of at least one of the six environmental objectives without causing

[9] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

substantial harm to any of them, and must be conducted in adherence with minimum safeguards[10] (Regulation 2020/852/EU, Article 3).

The scope of the EU Taxonomy covers all organizations legally mandated to disclose non-financial information (Directive 2020/852/EU, Article 1). This means that, at the time of its implementation, the EU Taxonomy legally bound all companies mandated by the NRFD, i.e. all large EU public-interest entities counting more than 500 employees. However, the recent amendment of the NFRD by the Corporate Sustainability Reporting Directive[11] considerably extended the number of companies required to report under the EU Taxonomy (Platform on Sustainable Finance, 2022).

Companies falling under the scope of the EU Taxonomy are required to disclose the degree to which their activities are linked to environmentally sustainable, i.e. to taxonomy-aligned, practices. To do so, they must communicate the proportions of their total turnover and capital expenditure that are related to taxonomy-aligned operations (Directive 2020/852/EU, Article 8). This prevents companies from greenwashing and enables investors and stakeholders to assess the environmental sustainability aspects of companies (European Commission, n.d.-e).

[10] The minimum safeguards are defined by the 'OECD Guideline for Multinational Enterprises (OECD MNE's) and the UN Guiding Principles on Business and Human Rights (UNGP). Mandating the compliance with those safeguards ensures an alignment with social and governance principles such as the respect of human and labor right standards (Oscar Gomez Fontana, 2023).

[11] The number of companies falling under the scope of the Corporate Sustainability Reporting Directive is significantly higher than the one under the NFRD. Additional information will be provided in Chapter 3, which is dedicated to the Corporate Sustainability Reporting Directive. Cf. '*Section 3.3. Scope*' for information on the CSRD's scope.

CHAPTER 3: THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

Driven by Europe's determination to achieve the 2050 targets through a sustainable transition, the Commission recognised the importance of businesses' non-financial information and highlights the pressing need for the revitalization and refinement of corporate sustainability reporting legislation (European Commission, n.d.-b).

It is in its communication of December 2019 about the European Green Deal that the Commission shared its wish to review the applicable Non-Financial Reporting Directive (NFRD) of the time (European Council, 2022). This review process resulted in the amendment of the NFRD by a more comprehensive and framing directive, the Corporate Sustainability Reporting Directive, thereafter CSRD, officially referred to as Directive (EU) 2022/2464[12]. Enacted in January 2023, this new directive will impose its initial obligations on concerned corporations starting from January 2024. (European Commission, n.d.-b).

This third chapter aims to provide an overview of the Corporate Sustainability Reporting Directive in order to acquire a global understanding of the implications this new directive has for the subject firms. The chapter is structured as follows: first, a summary of the objectives the Commission hopes to achieve with the introduction of the CSRD, followed by the implementation timeline of the directive. Then, we will look at the scope of the directive to identify the various categories of companies mandated by the CSRD. A section will then be dedicated to the new European Sustainability Reporting Standards which companies must use when reporting, followed by the overview of the main new points and requirements of the directive. Lastly, we will have a closer look at what the CSRD means for SMEs.

3.1. Objectives

The objectives of the CSRD are manifold, yet, within the context of the European Green Deal, they all converge on encouraging and facilitating the shift of the European economy towards environmentally and socially conscientious practices (Odobaša & Marošević, 2023).

[12] DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

As an amendment to the NFRD, the CSRD is intended to cover the gaps of the previous directive. Indeed, the CSRD aims to provide firms with a stricter and more comprehensive framework for sustainability reporting, leading to increased and more adequate information disclosure, and favouring the reliability, comparability and consistency of the reports (European Council, 2022; Hummel & Jobst, 2023; Viard, 2022).

Moreover, by increasing the information publicly available, the CSRD aims to increase the awareness and accountability of companies regarding their impact on the environment and society as well as to increase the public global interest towards ESG issues (European Council, 2022; Odobaša & Marošević, 2023).

Finally, these reporting improvements are meant to help investors evaluate the ESG-related financial risks of their investments and enable stakeholders to assess the social and environmental impact of companies. One of the CSRD's primary objective is indeed to enhance sustainability information access and circulation on the market (Hahnkamper, 2021).

3.2. Implementation Timeline

After the Commission announced its intention to review the NFRD in December 2019, a series of steps and a considerable amount of time were needed before the eventual replacement of the directive with the CSRD. This section aims to overview the key stages of the new directive's implementation.

The first major stage of this process was to obtain insights from the users and issuers of corporate sustainability information regarding the review of the NFRD. Those insights should help clarify the areas of improvement that the new directive needed to address. In order to do so, the Commission launched an online public consultation from February to June 2020, open to the users and the preparers of corporate sustainability information including companies, citizens, universities and research centres, NGOs, public authorities, trade unions, etc. That consultation enabled the identification of the NFRD's flaws according to the various stakeholders as well as the gathering of their opinions regarding the review of the directive

(European Commission, n.d.-c, n.d.-b). The main takeaways[13] of the public consultation can be found in *Appendix 1.2.*

The second step of the process was the Commission's presentation of a proposal for a Corporate Sustainability Reporting Directive (CSRD) in April 2021 in order to amend the NFRD. The latter was agreed upon by the Parliament and the European Council in June 2022 (European Commission, n.d.-b).

Following the Commission's request for the European Financial Reporting Advisory Group (EFRAG) to undertake preparatory work on potential EU standards for extra-financial reporting, EFRAG published in November 2022 the first draft of European Sustainability Reporting Standards (ESRS). These drafts incorporated the public comments received during a consultation period from April to August 2022 (EFRAG, 2022c).

Then, the CSRD was officially published in December 2022, and came into force 20 days later, on January 5th, 2023. As part of the European Green Deal, this new directive not only renews but also strengthens the European sustainability reporting practices, bringing them into closer alignment with the 2050 EU's objectives (European Commission, n.d.-b).

In July 2023, following a public feedback period of four weeks, the Commission enacted the ESRS proposed by EFRAG. The CSRD mandates all firms falling into its scope to report according to these ESRS (European Commission, n.d.-b).

January 1, 2024, marks the date when the CSRD goes into effect, signifying the official amendment of the NFRD by the CSRD. Henceforth, all companies falling under its scope will be subjected to its multiple requirements. However, as this new directive seeks to introduce sustainable reporting obligations gradually, not every company will be impacted equally or at the same moment (Staudt et al., 2023). Article 5 of Directive (EU) 2022/2464 stipulates that Member States have until July 6, 2024, to transpose the directive within their national laws and make the required provisions stated by the directive.

[13] These outcomes are based on the 588 legitimate opinions that were submitted during the public consultation. Among the respondents were 32.14% businesses, 20.07% trade associations, 14.29% NGOs, 7.65% European citizens, 7.14% public authorities, 5.61% educational institutions, 3.4% trade unions, and 9.69% classified as other (European Commission, n.d.-c).

3.3. Scope

The CSRD aims to increase the quantity of corporate sustainability information available by increasing the number of companies falling under the scope of the directive. Consequently, this requires a larger number of firms to be aware and accountable for their impact (European Council, 2022). While the NFRD only required large European public-interest companies with more than 500 employees to comply with reporting requirements, totaling around 11 700 companies, the new criteria will increase this figure to approximatively 50 000 firms. (European Commission, n.d.-b; European Parliament, n.d.).

The table below summarises the various companies subject to the CSRD according to the different application criteria. As the reporting requirement will be gradually implemented among undertakings, the table also indicates the first year for mandatory reporting obligations.

Company categories	Criteria	First year of reporting
Large European public-interest companies already subject to NFRD	> 500 employees	2025, covering financial year 2024
Large European companies not yet subject to NFRD	Two of the following three criteria must be met: At least 250 employees on average during the financial year; > €40M net turnover; > €20M total assets.	2026, covering financial year 2025
SMEs Listed on regulated European markets (except listed micro-undertakings[14])	Two of the following three criteria must be met: At least 50 employees on average during the financial year; > €8M net turnover; > €4M balance sheet.	2027, covering financial year 2026
Non-European companies	> €150M turnover in the EU and; At least 1 subsidiary or branch in the EU exceeding €40M net turnover.	2029, covering financial year 2028

Table 1: Scope of the CSRD. Source: Branquart, n.d.; Domingo, n.d.; European Council, 2022.

[14] The Commission considers a firm to be a micro-enterprise if it meets two of the following three criteria: Less than 10 employees, net turnover lower than €2 million and a balance sheet total of less than €2 million (European Commission, n.d.-f).

As illustrated in *Table 1*, non-EU companies might find themselves mandated by the CSRD if they have a significant activity on European territory through a subsidiary or branch based in the EU (Directive (EU) 2022/2464, Recital 20). In that case, both companies are required to disclose a sustainability report which can be done in a consolidated or separate way (Lopez Mingo, n.d.-a). Either way, the responsibility of the disclosure of the non-EU parent company's report lies with the subsidiary (Directive (EU) 2022/2464, Recital 20). If they choose to report separately, the subsidiary will have to report according to the category of companies it belongs to and the parent company will have to report for the first time in 2029, covering financial year of 2028 (Cf. *Table 1).* In case of separate reports, the CSRD provides specific guidelines on how subsidiaries should report individually (Lopez Mingo, n.d.-a).

Moreover, to ensure a thorough and consolidated picture of how businesses influence and are impacted by environmental, social and governance issues, all companies serving as parent undertaking within large corporate groups are obliged to report at the group level (Directive (EU) 2022/2464, Recital 17).

3.4. European Sustainability Reporting Standards (ESRS)

One of the main objectives of the CSRD is to improve the comparability of European sustainability reports and to enhance their content's alignment with the EU's goals. In order to do so, the new directive requires the subjected companies to disclose information according to a mandatory framework (European Parliament, n.d.). The introduction of common standards also facilitates the reporting mechanism for companies, reduces the long-term associated costs and ensures the disclosure of information on a larger number of subjects due to the mandatory requirements of the directive (European Commission, n.d.-b; European Parliament, n.d.; Odobaša & Marošević, 2023). The adoption of a mandatory common framework marks a crucial turning point in the evolution of sustainability reporting and answers the complains of numerous stakeholders and companies[15].

[15] Cf. *Appendix 1.2.Public consultation on the revision of the Non-Financial Reporting Directive* for NFRD's flaws identified by stakeholders.

3.4.1. Content of the ESRS

To develop this common framework, the Commission mandated the European Financial Reporting Advisory Group (EFRAG), to come up with a proposal of European Sustainability Reporting Standards, thereafter ESRS (European Commission, n.d.-b). EFRAG is a task force dedicated to promoting the public interest in financial and sustainability reporting (EFRAG, n.d.-b). This task force is composed of representatives of various stakeholders' groups issuing from different sectors, ensuring the consideration of divergent interests and perspectives (EFRAG, n.d.-b). EFRAG's mission was to develop a comprehensive reporting framework to assist companies in their sustainability reporting process. In addition to standardizing European reporting standards, the ESRS also take into account other European and international reporting initiatives in order to avoid overlapping obligations, complicating the work for companies (European Commission, 2021a).

All companies mandated by the CSRD are thus legally bound to report according to the ESRS (European Commission, n.d.-b). The ESRS adopt a dual materiality perspective, requiring firms to report on environmental, social and governance topics if the latter are considered material according to either or both financial and impact materiality definition (EFRAG, 2022d).

The first set of ESRS was enacted in July 2023. It is composed of 12 standards among which two are cross-cutting and sector-agnostic standards, meaning that they apply to all topics and to all companies mandated by the CSRD, and 10 topical standards. However, other specific sets for listed-SMEs, non-listed SMEs, and non-EU companies are expected to be disclosed by EFRAG in a foreseeable future (European Commission, 2023). A sector-specific set is also awaited, aiming to establish standards for companies within particular industries such as Oil and gas, Mining, Agriculture, etc. Initially scheduled for June 2024, the release of these standards was put on hold by the Commission who requested EFRAG to first focus on the sector-agnostic ESRS (EFRAG, n.d.-a). Ultimately, it is highly likely that further reporting obligations will be introduced under the CSRD (Sasfai & al., 2023).

The figure below illustrates the current structure of the ESRS, encompassing the first set of standards already published as well as the next sets of standards EFRAG aims to develop in 2024.

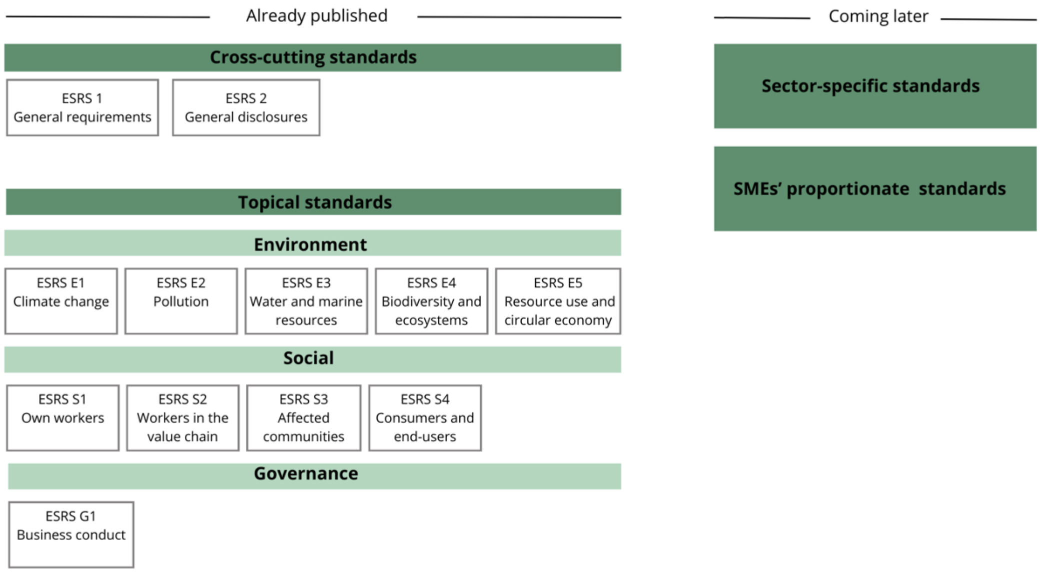

Figure 2: European Sustainability Reporting Standards. Personal Realisation. Source: EY, 2022.

ESRS 1: General Requirements

The first element of the ESRS, also referred to as ESRS 1, is the "General Requirements". It aims to provide the structure and the various key concepts that firms must follow for their reporting process. As cross-cutting standards, those requirements are mandatory for all companies falling under the scope of the CSRD (Sasfai & al., 2023).

ESRS 1 provides 5 different concepts for firms to adhere to (EFRAG, 2022d). These are:

- **Information quality**: The information disclosed must be "*relevant, represented in a faithful manner, comparable, verifiable and understandable*";
- **Double materiality**: Double materiality is the key principle to be applied when determining the relevance of topics. In order to define the topics to incorporate and omit in the reports, positive and negative sustainability-related impacts, risks and opportunities must be assessed according to this principle;
- **Boundaries and value chain**: Firms are expected to report on the material sustainability-related impacts, risks, and opportunities linked to their activities, covering all the aspects of their value chain, both downstream and upstream. However, as the European Union acknowledges the difficulties firms might encounter in the collection of all this information, as well as the time it requires, a three-year grace

period has been inserted in the CSRD. This grace period allows firms to exclude the information regarding their value chain. Nonetheless, they are required to provide an explanation for the omission and disclose their plans to gather this information for future reporting;

- **Time horizons**: The timeframe of the data disclosed in sustainability reports must be aligned with the reporting period of the financial statements, encompassing both past-oriented and future-oriented information;
- **Due Diligence**[16] : The concept of due diligence must be incorporated in companies' governance and applies to their operations as well as to their value chain.

ESRS 2: General Disclosures

The second cross-cutting standard, ESRS 2, is called "General Disclosures" and encompasses the specific reporting requirements that companies must disclose on all topical standards, independently of the materiality of the sustainability matter considered. Those standards are mandatory for all companies falling under the scope of the CSRD, regardless of their industry, striving for global relevance across all sustainability matters (EFRAG, 2022a).

ESRS 2 stipulates that firms must report according to four different areas (EFRAG, 2022a):

- **Impacts, risks and opportunities (IRO):** Processes put in place to identify the IRO's and their outcomes, i.e. companies' materiality assessment process and the material topics that will be covered in the report;
- **Governance (GOV):** Structure of the supervisory bodies and the governance measures implemented to manage the IRO's;
- **Strategy (SBM):** How the firm integrates the IRO's and its stakeholders' interests within its strategy;
- **Metrics and targets (MT):** The metrics and targets put in place regarding the various sustainability topics.

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[16] Due diligence is defined in Appendix A of ESRS 1 as follow : "Process(es) that the undertaking carries out to identify, assess, prevent, mitigate and remediate the material actual and potential adverse impacts connected with its operations, products or services through its own activities and its business relationships". Appendix C of ESRS 1 adds "Due diligence applies across the undertaking's own operations and upstream and downstream value chain" (EFRAG, 2022d).

Topical ESRS

The "Topical ESRS" include ten sustainability subjects divided into three categories: environmental, social and governance (Cf. *Figure 2*). Contrarily to the cross-cutting standards, ESRS 1 and ESRS 2, these topical standards mandate companies to evaluate the materiality of the impacts, risks and opportunities related to each topical ESRS through a double materiality assessment. If these topics are deemed material according to either or both the financial and impact definition, companies are required to include them in their reports. Otherwise, they are exempt from it (Sasfai & al., 2023). The materiality assessment of each of the Topical ESRS is obligatory and is subject to external control (European Commission, 2023).

One notable exception concerns the disclosure of climate-related information, ESRS E1. If after their assessment, companies come to the conclusion that this topic is non-relevant to their activities, they are mandated to disclose an in-depth explanation for this exclusion (Sasfai et al., 2023). The intention behind this exception is to ensure that undertakings provide information on their climate-related strategy and impact, by making it extremely difficult for them to omit this topic. In addition, not reporting according to this topical standard could be seen negatively by the stakeholders and financial markets, damaging the company's reputation (Tréfois, 2023). ESRS E1 mandates companies to disclose information on their impact and risks related to climate change, the related financial consequences, the processes and efforts put in place in order to contribute to the reach of European Union 2050's objectives, and on their Greenhouse Gas (GHG) emissions encompassing scope 1 (direct emissions), 2 (indirect emissions) and 3 (indirect emissions arising from the upstream and downstream elements of their value chain) (EFRAG, 2022b). This exception preventing companies from omitting the climate topic from their sustainability report emphasises the priority that the EU places on the climatic current situation as well as its relevance on the economy (European Commission, 2023; Tréfois, 2023).

3.4.2. ESRS alignment with global standards

The divergence within the various sustainability reporting frameworks have long been criticised by the preparers as well as the users of the reports. Indeed, it results in comparability difficulties, duplicated work for companies reporting according to different overlapping frameworks, unnecessary costs, etc. (Hahnkamper, 2021). With the development of the ESRS, a big step towards the harmonization of reporting standards has been made.

Indeed, GRI and EFRAG signed a statement of cooperation for the establishment of the ESRS, marking a crucial advancement in the alignment of European and international sustainability reporting standards (GRI, 2023). This collaboration resulted in a high interoperability of the two frameworks since many of the ESRS have drawn inspiration directly from the GRI standards (European Commission, 2023). By strongly aligning with the most common sustainability reporting standards used among companies, EFRAG conveys the idea that the transition to comply with the CSRD will not be overly demanding and that companies already reporting according to the GRI can use this framework to meet the new legal requirements (GRI, 2023). However, unlike the ESRS that focus on double materiality, the GRI framework is based on the impact materiality perspective only. This means that an assessment under the financial perspective needs to be added to an assessment made under the GRI in order to meet the ESRS requirements (EFRAG, 2023b). Seeking to enable companies to disclose a single report that would meet both the legal obligations of the ESRS and the GRI standards, the GRI is currently developing tools to enhance the interoperability of the two (GRI, 2023).

In addition, the climate related ESRS have been developed in parallel with the ISSB's standards in order to offer a strong alignment between the two and prevent replicating work for companies reporting according to the two frameworks (IFRS, 2023b). However, some divergence between the two sets of standards still exist, such as their different interpretation of the concept of materiality. Indeed, the ESRS refer to the double materiality while the ISSB's standards have a strong focus on the investors' point of view with a financial materiality perspective (IFRS, 2023b). It is also important to notice that the ISSB's standards only cover climate related sustainability, while the ESRS's scope is extended to all ESG topics (European Commission, 2023). This interoperability means that, if a company that reports according to the ISBB's standards is also mandated by the climate related ESRS obligations, the same information can be disclosed. However, this information will not be complete according to the climate related ESRS, since it will not integrate the impact materiality perspective (European Commission, 2023).

3.5. Key provisions

This section aims to address the key provisions of the CSRD, highlighting the principal changes compared to its predecessor, the Non-Financial Reporting Directive (NFRD).

3.5.1. Report location

In contrast to what was allowed under the NFRD, firms can no longer choose whether they want to include their required sustainability information in their management report or if they prefer to make a separate sustainability report to disclose simultaneously. Indeed, under the CSRD, companies are now required to dedicate a section of their management report to their sustainability report. This new requirement aims to emphasize and facilitate the understanding of the link between financial and non-financial data for the users of this information, especially for investors (Recital 57 of Directive (EU) 2022/2464).

3.5.2. Double Materiality[17]

A crucial aspect of the CSRD is the incorporation of an explicit explanation of the double materiality concept within the text of the directive. Under the NFRD, companies were required to report both on their activities' impact on people and the environment and on how sustainability related issues affected their undertakings. However, it has been shown that the adequate interpretation of this requirement was a struggle for companies who consequently did not apply it correctly while reporting (Recital 29 of Directive (EU) 2022/2464). The NFRD was indeed widely criticised for its lack of precision and guidance regarding the reporting content.

Therefore, the 29th recital of the CSRD explicitly introduces the concept of double materiality according to which companies are mandated to report under the ESRS. Double materiality emphasises that firms must consider both impact and financial materiality when assessing a topic's relevance and must disclose all information that is relevant to either or both perspectives of materiality. Those specifications are also one of the major elements of ESRS 1 (EFRAG, 2022d). In addition, ESRS 2 requires companies to disclose their double materiality assessment process (EFRAG, 2022a). This will allow the users of information to evaluate the method used by companies to decide on the material impacts, risks and opportunities they include in their

[17] Cf. *Section 2.5.Double Materiality* for more information about the concept of double materiality.

report. However, the mandate for double materiality assessments adds further complexity for companies in their reporting process, as it extends the spectrum of information requiring evaluation (Odobaša & Marošević, 2023).

The multi-stakeholders approach implied by the double materiality concept, encourages companies to satisfy the need of information of a broader range of stakeholders (Hummel & Jobst, 2023; Sayer, 2022). Indeed, beyond reporting on the impact of ESG issues on a firm's financial performance, which predominantly addresses the needs of investors, the disclosure of a company's impact on society and the environment serves the information need and interest of a broader set of stakeholders (Hummel & Jobst, 2023). Through this double materiality concept, undertakings are compelled to evaluate and therefore take responsibility for their externalities (Pole, 2023).

3.5.3. Audit Requirements

The lack of guidance and control on the sustainability reports content makes the users of this information question the consistency and credibility of the information disclosed. In order to overcome this issue, the CSRD introduced for the first time an audit requirement by an external party of the sustainability reports (European Commission, 2021b). It aims to assess the companies' compliance with the new directive by providing assurance on the process used to identify the material topic, i.e. their double materiality assessment, and by ensuring the transparent disclosure of all required information (Hummel & Jobst, 2023).

The Commission recognised the associated costs as well as the difficulty of this new audit requirement since no sustainability assurance standards are available at the moment. To help companies adapt to this new obligation, the CSRD allows a gradual implementation of the assurance process (European Commission, 2021b). Indeed, recital 60 of Directive (EU) 2022/2464 allows companies to at first provide limited assurance[18] on the disclosed information. The objective is to make it transition to reasonable assurance in the future, aiming to a comparable assurance level to that of financial reporting. The directive stipulates that, if

[18] Limited assurance is a less demanding and costly engagement which requires fewer tests and work. The conclusion of such an assurance is expressed negatively, stating that the auditor did not find any evidence of inaccuracies. Reasonable assurance, on the other hand, is more costly and requires a heavier workload. The conclusion comes in a positive form and delivers the assessment of the topic according to pre-established criteria (Recital 60 of Directive (EU) 2022/2464).

the Commission adopts sustainability assurance standards by October 1st, 2028, the legal obligation will then be extended to reasonable assurance for all mandated companies. A gradual shift from limited to reasonable assurance engagements helps to enhance undertakings' reporting methods and facilitates the market's expansion for sustainability assurance. This strategy also helps reporting entities to control their rising costs since reasonable assurance comes with a greater price tag than limited assurance (European Parliament & Council of the European Union, 2022).

3.5.4. Digitalisation

The CSRD also introduces a crucial shift regarding the digitalisation of sustainability information. Indeed, recital 55 of the directive stipulates that companies must disclose a standardised digital format of their sustainability reports, and tag their sustainability data according to a specific system allowing the digital readability and classification of the information (European Commission, 2021b). The digitalisation of reporting might induce a decrease in the costs associated to disclosure on the medium and long run for companies (European Commission, 2021b). In addition, having all the sustainability information digitally disclosed and readable will allow the gathering of all the data at a single point of access, improving the accessibility of sustainability information for investors and stakeholders in order to better inform the market and enhance a better comparability (Hahnkamper, 2021). This objective is in line with the adoption in November 2021 of the Commission's proposal on the establishment of the European Single Access Point (ESAP). This common data-base aims to gather both mandatory and voluntary financial and non-financial information disclosed by companies (European Commission, 2021b; Lopez Mingo, n.d.-b).

3.5.5. Sanction

Article 3(20) of Directive (EU) 2022/2464 stipulates that it is the duty of the Member States to impose sanctions on enterprises that fail to comply with the directive's requirements. Since the penalties for non-compliant enterprises will be determined during the national transposition of the directive into each Member State's legislation, the consequences for violating the directive may differ depending on the nation (Sellar et al., 2023). The directive states that the penalties set by Member States must be "*effective, proportionate and dissuasive*" (Directive (EU) 2022/2464, Article 3(20)).

3.6. Focus on SMEs

Small and Medium Enterprises constitute the heart of the European economic landscape, counting for 99% of the undertakings and contributing to over 50% of its GDP (European Commission, n.d.-d). According to Guido Lena, SMEs are consequently essential in the achievement of the sustainable transition as sought by the EU (cited in SME United, 2022). Considering the significant market share held by SMEs, and therefore their crucial role in the transition to a greener and more durable society, it became imperative that those entities provide market participants with transparent information on the impacts of their activities. Addressing this need, the amendment of the NFRD by the CSRD implies the incorporation of listed SMEs among the companies that are legally bound to disclose sustainability reports (Directive (EU) 2022/2464, Recital 21). This section aims to provide a closer look at the implications of the CSRD for SMEs.

3.6.1. Trickle-down effect on SMEs

Beyond the incorporation of listed SMEs among companies mandated to engage in sustainability reporting, the CSRD is expected to have a much wider indirect impact and reach even the SMEs that were initially beyond the directive's scope. Indeed, the non-listed SMEs might find themselves pressured to disclose sustainability information on their businesses in response to external demand arising from stakeholders, financial institutions, banks, etc. (European Commission, 2023). The indirect reporting responsibilities imposed on companies is known as the "trickle down" effect and finds its origins in two main phenomena (Eurochambres & SME United, 2023).

The increased demand for sustainability information from financial institutions regarding SMEs activities is one of the reasons causing the trickle-down effect (Eurochambres & SME United, 2023). Indeed, the current era is characterised by a severe increase in the interest for corporate sustainability information from various market players such as consumers, governments, suppliers but also financial institutions (Christensen et al., 2021). A survey carried out by Eurochambres and SMEunited in 2023 showed that banks were responsible for 32% of the demand for extra-financial information from SMEs that were not legally obliged to publish such information. This is the second biggest group after customers, representing 41,7% of the demand. As banks are required to report on the sustainability risks linked to their own activities, they need to collect the necessary information among the companies constituting their portfolio (Eurochambres & SME United, 2023). The growing interest of these institutions can be attributed to the evolving landscape of risks faced by businesses and the associated financial consequences. Indeed, business operations are progressively exposed to more ESG-related financial risks, mainly environmental (Directive (EU) 2022/2464, Recital 11). SMEs' sustainability information is also used as a management tool to help financial institutions in their loan allocation process (Eurochambres & SME United, 2023).

The trickle-down effect, indirectly compelling SMEs to disclose sustainability information, finds its second origin in the pressure exerted by larger undertakings, to whom they are accountable (Eurochambres & SME United, 2023). Indeed, the CSRD requires companies to report on their global impact, encompassing the externalities of the elements in their value chain such as suppliers, retailers, customers, etc. (Directive (EU) 2022/2464, Recital 33). Consequently, if an SME is part of a larger company's value chain, the latter will seek information from it to fulfil its own disclosure requirements. This implies that non listed-SMEs, even if not mandated to report sustainability information by the CSRD, will be compelled to do so to respond to larger companies' demand (Eurochambres & SME United, 2023). To prevent disproportionate requirements from large undertakings on SMEs, the future sets of standards for SMEs (Cf. Next section) will serve as reference for the information that the CSRD mandates large companies to provide regarding the SMEs in their value chains (Directive (EU) 2022/2464, Recital 21).

3.6.2. Adapted ESRS for SMEs

In the context of the CSRD, the Commission acknowledges the inability of SMEs to comply with the same standards as large companies given their relatively limited resources (European Commission, 2023). Therefore, recital 17 of Directive (EU) 2022/2464 allows listed SMEs to report following an adapted set of standards. The Commission consequently mandated EFRAG to develop a specific set of standards designed specifically for listed SMEs. In addition to simplifying their reporting process, resulting in a more proportionate workload, these adapted standards will also enable SMEs to remain competitive and meet the increasing demand from capital market participants and stakeholders for sustainability information (Branquart, n.d.; European Commission, 2023).

This tailored set of standards, referred to as the LSME ESRS, is still being developed by EFRAG and its first draft is expected to be issued in the beginning of 2024 (PwC, 2023b). The LSME ESRS are primarily rooted in the original ESRS but undergo a few adaptations to be more proportionate to SMEs, aiming to prevent unnecessary burdens. Additionally, they provide guidance for a simplified materiality assessment process and require the reporting to be disclosed in a simpler format (Branquart, n.d.). While the development of this specific set of ESRS is addressed to listed SMEs, EFRAG also intends to disclose a set of voluntary standards tailored for non-listed SMEs. These standards will be addressed to the SMEs not obligated to report under the CSRD but who are willing to do so, driven either by internal motivations or in response to stakeholders or financial institutions' demand (Branquart, n.d.; EFRAG, 2023a).

Additionally, listed SMEs can voluntarily choose to opt out from the reporting requirements for the first two years of the obligation. This means that they can report for the first time in 2029, about the 2028 financial year (European Council, 2022).

CHAPTER 4: APPLIED METHODOLOGY

4.1. Problematic and research question

The literature review provided a comprehensive examination of the practice of corporate sustainability reporting and its implications for companies. Additionally, the recently implemented Corporate Sustainability Reporting Directive (CSRD) was presented. The CSRD, aiming to foster and structure firms' disclosure of extra-financial information, is perceived as a significant step in the corporate reporting landscape, seeking to integrate sustainability as a fundamental element of companies' strategies, alongside their overall performance. By mandating companies to report on their externalities regarding ESG issues, as well as their sustainability strategies and objectives, the EU seeks to enhance businesses' transparency, awareness and responsibility.

However, achieving CSRD compliance and disclosing compliant reports require substantial preparatory work for companies. Indeed, the directive encompasses numerous reporting requirements and obligations. Given the gradually binding nature of the directive, companies will be impacted at various times over the coming years. But, regardless of their first year of obligations, businesses need to start preparing themselves to anticipate the work ahead of them.

Moreover, considering that the directive considerably increases the number of companies impacted both directly and indirectly by these reporting obligations, this situation represents a novelty for many entities. Therefore, the question of how companies are preparing for this new directive and how they perceive its impact on their businesses arises. This reflection has led us to the following research question:

« How do companies approach the implementation of the European Corporate Sustainability Reporting Directive in terms of strategies, challenges and opportunities?
An analysis based on the insights of ten companies. »

4.2. Research methodology

The academic literature identifies two main types of methodology to conduct research: the qualitative research method and the quantitative research method.

On the one hand, the qualitative research method aims to provide an in-depth, holistic and nuanced interpretation of a studied phenomenon. The gathering of information happens through conversations with open-ended questions between the researcher and the respondents. The use of open-ended questions provides flexibility and spontaneity to the discussion. Indeed, it allows the researcher to adapt the course of the discussion and ask for clarification. The information gathered through a qualitative method is more comprehensive and complex than through quantitative research. The qualitative research method is mainly used to answer “how”, “what” and “why” types of questions (Oranga & Matere, 2023). This technique does not necessitate a specifically large number of respondents and is, for this reason, usually more exploratory with findings that may not be generalizable to an entire population (Bagdonienė & Zemblytė, 2005).

On the other hand, the quantitative research method seeks to investigate the influence of an independent variable on a dependent one, the studied topic, by providing quantified impacts and results (Lakshman & al., 2000; Oranga & Matere, 2023). By collecting and analysing data, the researcher seeks to identify trends among the study group. However, this method does not provide explanations on the underlying reasons of the identified trends. To statistically analyse the results, quantitative research requires a large and diverse sample of data, which makes the results applicable to larger group and thus representative of the population (Goertzen, 2017).

This thesis was conducted using the qualitative methodology. This methodology seemed more adequate to capture a comprehensive understanding of the current situation of enterprises and obtain the perspectives of the participants. Using a quantitative approach would not have allowed an in-depth interpretation of the studied topic.

4.3. Sample Selection

To address the research question of this thesis, a total of ten interviews were conducted. When deciding on the different companies to approach, the primary objective was to assemble a sample that was as diverse as possible in terms of size, sector, structure, etc. Another crucial criterion was to identify companies that could provide us with different perspectives on the research question. Considering the gradual binding nature of the European directive discussed in this thesis, depending on the companies' size and scope of operations, it was important to reach companies that will be affected at different times and in different ways. This approach aimed to establish a comprehensive overview of the problematic. In order to do so, numerous Belgian companies, directly or indirectly concerned by Directive 2022/2464/EU and representing various sectors and sizes were contacted.

The interviewees' profiles were chosen based on the companies they work for and/or their position within the undertakings. Some individuals were interviewed for their overall professional experience from which they could provide interesting insights, while others were selected based on their expertise in corporate sustainability reporting. *Chapter 5* provides a brief presentation of the companies and individuals interviewed.

4.4. Data Collection

There are four main methods to collect data while conducting a qualitative research: Observation, in-depth interviews, focus group discussions and document analysis (Barrett & Twycross, 2018). For the purpose of this thesis, two of these methods were employed.

Firstly, online documents were analysed in order to gather publicly available information on the interviewed companies. The documents were mainly sustainability reports published by the firms on their websites. The analysis of these documents served as a preliminary step in the data collection process, facilitating a proper preparation of the interviews. The collected information also contributed to enhancing the content issuing from the interviews.

Secondly, the majority of the data was collected through conducting in-depth interviews. There are three different types of interviews: open, semi-structured and structured, each diverging in the format followed by the researcher (Barrett & Twycross, 2018). For this thesis, the ten interviews that were conducted were semi-structured and took place online. Such interviews require the use of a questionnaire, which serves as a guideline during the interviews. The creation of the questionnaire is part of the preparatory work for the interviews and must be based on previous research in order to tackle the principal themes of the study (Kallio & al., 2016). It enables the researcher to gather sought information on pre-defined subjects through established questions, while providing flexibility and spontaneity to interviewees to expand on certain topics. This type of interview thus enables the researcher to gather additional data. The interview guide used for this thesis and the transcripts of the various interviews can be found respectively in *Appendix 2* and *Appendix 3*. In order to transcribe the interviews, consents to record the discussions were obtained from the interviewees.

4.5. Data Analysis

As previously mentioned, this thesis aims to overview how companies address the implementation of the Corporate Sustainability Reporting Directive, mandating numerous European and non-European undertakings to disclose sustainability information about their businesses. In order to do so, the data analysis was performed following a five-step structure. For each of the following steps, a comparative analysis was conducted to identify similarities and divergences in the opinions and information gathered through the various interviews.

First, the current sustainability reporting practices of the interviewed companies as well as the content of their current reports will be overviewed. In addition to the information from the interviews, the companies' sustainability reports found on their websites were also used.

Secondly, the companies' preparation processes to comply with the CSRD will be analysed. This includes the various steps of their strategies aiming to address the diverse requirements of the directive, the designated persons responsible for the companies' compliance, and all the measures undertaken to ensure their readiness by their first year of reporting obligation.

Afterwards, the various motivations that companies have to comply with the CSRD will be explored. Indeed, although mandated companies are legally bound to report according to the directive, they still find certain advantages that encourage them to comply.

Following that, an overview of the different challenges that companies face during their CSRD compliance process will be provided. This covers challenges occurring during their preparation journey as well as the ones they foresee for the future.

Finally, the companies' apprehensions regarding the implementation of the CSRD as well as the content of the directive will be explored.

CHAPTER 5: PRESENTATION OF THE COMPANIES AND THE INTERVIEWEES

In this section, the companies and individuals interviewed for this research will be presented. As mentioned before, a total of ten interviews were conducted. The diversity in the firms and profiles interviewed, with distinct approaches to the CSRD, enabled a comprehensive overview of topic. *Table 2* summarises the profiles of each company along with its respective interviewee.

5.1. Atenor

Founded in 1910, Atenor is a Belgian listed company present in the sector of real estate development. The company develops urban projects that respect environmental and well-being-standards. Present in 10 countries across Europe, Atenor counts a total of 115 employees and generates a turnover of €35M. Atenor will be compelled to disclose its sustainability report according to the CSRD for the first time in 2026, covering financial year 2025 (Appendix 3.1.; Atenor, 2023a; Atenor, 2023b).

5.2. Besix RED

Founded in 1988, Besix RED is the Real Estate division of the Besix Group. The Group totals 16 000 employees around the world, a turnover of €3.4 billion and is involved in the construction sector. For its part, Besix RED is a real estate developer employing 64 persons and with a turnover of €191.5M (Appendix 3.2; Besix Group, 2023). It specialises in the development of urban sustainable buildings for 3 main activities: offices, residences and mixed-used (Besix Red, n.d.). Although Besix RED does not fall within the scope of the CSRD, they are however indirectly affected by the directive as Besix Group will be required to report at the group-level in 2026, covering financial year 2025. Besix Red is thus getting ready for CSRD in order to help the group's reporting process (Appendix 3.2.).

5.3. Carmeuse

Carmeuse, established in Belgium in 1860, is a family-owned enterprise and world leader in the mining sector. The company specialises in the extraction and production of minerals such as limestone and lime for industrial use. Operating across 15 countries with its 90 sites, Carmeuse employs about 5 300 people and has a turnover of €1.8 billion. The company is due to publish its first CSRD report in 2026, covering data from financial year 2025 (Appendix 3.3.; Carmeuse, n.d.).

5.4. Comet Group

The industrial group Comet, founded in 1986 in Belgium, is currently a key player of the circular economy, and the European leader in the recycling of ferrous and non-ferrous metals and their derived metals (Comet Group, n.d.; Guillaume, 2022). Operating through approximately thirty companies in France and Belgium, Comet currently counts 327 employees and generates a turnover of €450M. Comet will have to report under the CSRD for the first time in 2026, covering financial year 2025 (Appendix 3.4.).

5.5. DEME

Founded in 1991, the DEME Group is publicly listed and has specialised in four main activities: environmental remediation, offshore energy, marine infrastructure and dredging. Headquartered in Belgium, DEME is active in more than 90 countries and counts over 5 000 employees around the world. The turnover of the group reached €2.6 billion in 2022. (DEME, 2023; DEME, n.d.). DEME will have to report in compliance with the CSRD for the first time in 2025, covering financial year 2024 (Appendix 3.5.).

5.6. Deplasse & Associés

Founded in 1995, Deplasse & Associés is a Belgian consultancy firm for the building sector, specialised in the energy transition of infrastructures. The company assists its clients through technical and strategic support. The firm currently counts 60 employees and has a turnover of €7.3M. (Appendix 3.6.; Deplasse & Associés, n.d.).

Deplasse & Associés is not directly subject to the CSRD, as it does not meet the criteria to fall within its scope. However, they are closely interested in the topic since they support certain of their clients affected by the directive in their transition towards CSRD compliance. Among the clients that they assist, the first one that must comply with the CSRD will have to report in 2026, covering financial year 2025 (Appendix 3.6.). Their point of view on the implementation of the CSRD is therefore relevant and interesting for our research.

5.7. IBA

Founded in 1986 and headquartered in Belgium, IBA leads the market of particle accelerator technology and is specialised in four main fields : proton therapy, dosimetry, RadioPharma solutions and industrial solutions (IBA, n.d.). As a publicly listed company with approximately 2 000 employees and a turnover of €350M, IBA will be mandated to disclose its first report in compliance with the CSRD in 2025, covering financial year 2024 (Appendix 3.7.).

5.8. Lhoist

Headquartered in Belgium since 1889, Lhoist is a private and family-owned enterprise specialised in the production and distribution of lime, limestone and minerals. Leader of its industry, Lhoist is present in more than 25 countries, employs about 6 500 people around the world and generates a turnover of €3.7 billion. Being a private large entity, Lhoist will have to report for the first time in 2026, covering financial year 2025 (Appendix 3.8.; Lhoist, n.d.).

5.9. Roland de Wolf

Roland de Wolf has a very rich and varied career. He has worked in various sectors, mainly in industry companies, family-owned firms and international groups, where he has held diverse responsibilities. Since 2018, he has been guiding family-owned entities in their transition towards new generations and assisting them to implement adapted governance. Additionally, he serves as advisory board member of several medium enterprises and as chairman of the board of directors of DS Textile, a firm specialised in industrial textile solutions (Appendix 3.9.).
For the interview conducted in the context of this research, Roland de Wolf expressed a preference for sharing information based on his comprehensive experience, encompassing the various companies he encountered throughout his career, rather than focusing on a specific one.

5.10. Schréder

Founded in 1907, Schréder is a company specialised in the manufacturing and sale of lighting solutions for cities and communities. Their objective is to provide safe, practical and sustainable lighting to improve citizens' experience and generate energy savings (Schréder, n.d.). With a global presence across 33 countries, a total of 2 500 employees and a turnover of €550M, Schréder will have to report according to the CSRD in 2026, covering the financial year 2025 (Appendix 3.10).

Table 2: Description of the companies and their respective interviewees

Company	Sector	Employees	Turnover (2022)	1st year of reporting obligations	Interviewee's Name	Interviewee's Position
Atenor	Real Estate Development Industry	115	€35M	2026	Gilles Vanvolsem	ESG Manager
Besix RED	Real Estate Development Industry	64	€191.5M	/	Laurent Sempo	Sustainability Advisor
Carmeuse	Mining Industry	5 300	€1.8 billion	2026	Marie Ninane	Group Sustainability Finance Lead
Comet Group	Recycling and trade of ferrous and non-ferrous metals	327	€450M	2026	Cédric Slegers	Advisor to the General Management
DEME	Offshore construction and engineering	5 000	€2.6 billion	2025	Marouane Saaidi	Sustainability Specialist
Deplasse & Associés	Consultancy for the building sector	60	€7.3M	/	Simon Deveen	Strategy consultant
IBA	Medical Technology Industry	2 000	€350M	2025	Thomas Canon	Sustainability Program Director
Lhoist	Mining Industry	6 500	€3.7 billion	2026	Benjamin Henry	CFO
/	/	/	/	/	Roland de Wolf[19]	/
Schréder	Manufacturing and sale of outdoor lightning	2 500	€550M	2026	Renaud Gryspeerdt	Chairman of the Board of Directors

[19] As mentioned in *Section 5.9.*, Roland de Wolf is an advisory board member of several medium-sized enterprises and the chairman of the board of directors of DS Textile. However, he has expressed a preference for sharing information based on his comprehensive experience, choosing not to focus on the perspective of any specific company."

CHAPTER 6: FINDINGS

This section aims to overview the various opinions and insights on the implementation of the CSRD collected through the interviews. Divergences are mainly due to the different sectors the companies operate in, their approach to sustainability and their current state of readiness for the CSRD. The transcripts of the interviews can be found in *Appendix 3*. To illustrate specific elements, certain interview passages were translated from French to English.

6.1. Current sustainability reporting practices

Among the interviewed companies, all except Besix Red and Comet have a sustainability report available online. For Besix Red, one of the subsidiaries of the Besix Group, the reporting is currently issued at the group level, but Besix Red intends to report on its own behalf starting in 2024. Even though they will not be mandated to, they intend to follow the framework provided by the CSRD to facilitate their group's reporting. As for COMET, the company does not yet have a publicly available report but is currently working on its first one.

Carmeuse, Lhoist and Schréder published their last sustainability reports separately, while Atenor, DEME and IBA published integrated reports. This means that they incorporated their sustainability report within their annual report, providing a more comprehensive and holistic view of their companies' activities.

The content of these reports is often quite similar, as it includes elements such as the company's sustainability strategy, usually divided into three different approaches according to the three ESG pillars, their sustainability KPIs, their approach to stakeholders, their governance strategy, etc. Depending on the companies' involvement in their sustainability strategies there may also be information on the risks associated with material topics, carbon roadmaps, and the various standards or legislation that the companies follow, such as the SDGs, GRI, SFDR, EU Taxonomy, etc.

Atenor, Carmeuse, DEME, IBA and Schréder integrate the SDGs in their sustainability strategies and specify in their reports which of the 17 goals they choose to focus on. During the interviews, COMET and Besix Red also revealed that they internally utilise the SDGs, aiming to initiate a reflection on these globally shared targets. Both companies highlighted the benefits of this framework, which offers a common and comprehensive language for sustainability targets, as well as the educational purpose it might serve by providing simple, clear and visually accessible information for people less familiar with sustainability.

Before having to report under the CSRD, Atenor, IBA, and Schréder used to report according to the Global Reporting Initiative (GRI) guidelines. All three companies mentioned the advantage this brings to their CSRD preparation process, since the structure of the ESRS requirements is heavily inspired by the index proposed by the GRI. This enables them to already measure and collect the vast majority of information required by the CSRD. Schréder mentioned that, when selecting their reporting format a few years ago, the GRI came as a strategic choice, suspecting that the future sustainability reporting directive would probably be inspired by the most widely used standards among companies. IBA also specified that the most significant change in transitioning from the GRI to the CSRD is the introduction of the double materiality concept, which henceforth comes into play.

6.2. Companies' preparation process

By 2026, all the interviewed companies subject to the CSRD will be mandated to report. They are well aware of the substantial workload associated with CSRD compliance and acknowledge the necessity to start implementing measures. This section aims to overview what the companies progressively put in place to prepare their CSRD compliance.

« The 2026 data, it's tomorrow! The scope is so immense that everything takes time. » Lhoist

The CSRD and its various implications reached the ears of companies either internally via their legal watch or their people responsible for sustainability, or externally via consultancy firms who saw this new directive as a new market opportunity. To ensure awareness and understanding of the CSRD and its implications, IBA has already conducted internal workshops, and Carmeuse and Schréder plan to organise similar sessions. The concerned companies are fully aware of the work ahead of them, and the potential need to call on outside help, such as consultancy firms, which have the resources and time the companies need. Given the relatively short time available before their first reporting obligations, companies also recognise that they need to be pragmatic and make the best use of their in-house skills and resources.

« There are skills that already exist internally and were not applied to non-financial data. For example, individuals working on financial reporting have skills related to how to approach an audit, establish internal controls, etc., which we will try to replicate on the non-financial side. I believe that attempting to replicate what already exists on what's new is the most pragmatic way to approach the matter. » DEME

As to who is responsible for ensuring compliance with the CSRD, each company has its own strategy. Most require the set-up of a project management team and/or the appointment of someone to take responsibility. At DEME, a project management team independent of any department has been set up in addition to the existing sustainability team. While they recognised that it will not be sufficient and that more people will need to get involved, Lhoist has a project manager and a steering committee consisting of the sustainability manager, the CFO and a member of the legal team. At IBA, the environmental expert in charge of environmental data collection works alongside the sustainability program director. For its part, COMET plans to set up working groups of 2-3 people for each ESG pillar, i.e. environmental, social and governance, to work on the report. At Schréder, the people in charge will be the same as those previously in charge of their GRI report, usually with responsibilities in both sustainability and other areas.

Although each company has its own strategy for preparing its CSRD compliance, the main steps are often similar and include a screening of the directive to familiarise themselves with its implications, a double materiality assessment, a gap assessment, the establishment of an action plan, data collection, and sometimes a test report before their first disclosure obligation. Depending on the companies, some include precise timelines and target points.

The major first step taken by companies is the double materiality assessment, enabling them to identify the relevant topics that should constitute the content of their report. The lack of guidelines for carrying out this assessment gives companies the flexibility to establish their own methods (Cf. infra *Section 6.1.2.*). To structure their approach, make it more formal and ensure that their methods are auditable, many firms call in consulting firms, as Carmeuse, Lhoist, IBA and Atenor have done. In addition, some companies, such as IBA, DEME and Atenor, already had strategies and matrices in place to identify priority topics, which required updating to incorporate the notion of dual materiality. As for Besix Red, it will start using a double materiality matrix from 2024 on. As part of their double assessment, the most common ways companies use to engage with their stakeholders are interviews, questionnaires, meetings and calls.

For its materiality assessment, Atenor decided to follow the methodology recommended by EFRAG. This consists in first establishing a precise visualization of its value chain and, for each stage, identifying the stakeholders involved. Then, the impacts, risks and opportunities (IROs) relating to the 3 ESG pillars had to be examined by stage and by stakeholder. Afterwards, the company had to engage with its stakeholders to assess their interest in the various topics and impacts identified. To do so, Atenor held several round-table discussions with representative stakeholders' panels. They then gathered all the information on a double materiality matrix, providing a visual representation of the various ESG topics, according to their importance for both the company and its stakeholders. The matrix consequently facilitated the identification of double materiality issues.

Based on the assessment of the material issues they will have to report on, companies must identify the data they do not yet possess. Due to the time-consuming nature of such an assessment, not all the interviewed companies have yet completed their gap assessment. However, Carmeuse, Lhoist and DEME mentioned that, even if their double materiality assessment wasn't yet fully completed, they would already start working on important topics they knew would turn out to be material to save time.

« (...) we need to do things somewhat pragmatically. So, we know that there are themes that will automatically appear on this double materiality matrix and these are themes that we will already start to tackle. » Lhoist

Based on their gap assessment, the interviewed companies will then draw up an action plan implementing the following steps up to the publication of their first report, including the data collection. This plan enables them to visualise where efforts need to be made internally, as well as the tools and processes that need to be developed. At DEME, action plans are drawn up by departments, based on their own gap assessment. In addition, several enterprises mentioned a checking point a few months before their first reporting obligation, aiming to evaluate their readiness. As for Carmeuse, it will set up a core team, with one person responsible for each topic defined as material. Each leader will then have to set up their own team to collect data and manage the topic they have been assigned to.

Although Atenor, Comet, IBA and Lhoist will not yet be mandated by the CSRD in 2024, they nonetheless plan to publish and audit their report according to the CSRD as of 2024. Whereas they mentioned that their reports may not be directly 100% compliant with the directive, having these 'test' reports will allow them to assess the work and data required, get used to the new format and position themselves ahead of their competitors. They also see it as an opportunity to avoid last-minute surprises and, thanks to the experience they will acquire, offer richer reports for their first official year of reporting. Similarly, Carmeuse plans to pre-audit its double materiality assessment before its first year of data collection. The objective is to avoid discovering through the audit of their report and after its disclosure that the material topics evaluated are not correct, which would represent a significant amount of work carried out unnecessarily.

It is important to point out that the interviewed companies are currently at different stages in their CSRD preparation. Assessing their readiness is difficult, as several steps are simultaneously performed. Indeed, while the majority of them are still developing or conducting their double materiality assessment, they are also already evaluating missing information and collecting available data.

6.3. Motivations

Given that the CSRD only comes into effect for the first concerned companies in January 2024, it is still a little early to share the actual benefits deriving from the directive. However, enterprises already identify various motivations and potential opportunities driving and encouraging them to comply with the CSRD.

6.3.1. Attractiveness

The primary motivation mentioned during the interviews is the favourable brand image that could derive from their involvement in sustainability and their compliance with the CSRD. This favourable image can be a considerable advantage when it comes to attracting customers, investors and also talents.

« We can clearly see that investors or clients themselves, pushed by their own clients, are starting to ask us this kind of question. So, in terms of attractiveness and competitiveness, it is in our interest to be upfront about this. » IBA

Atenor, Comet, Deplasse & Associés, IBA and Schréder all evoke the growing interest of their clients for sustainability-related matters, who increasingly integrate them as criteria in their selection processes. A sustainable reputation thus allows companies to position themselves on the market and to attract clients that are sensitive to these criteria.

This shift in society's interests also means a growing interest in sustainability on the part of companies' potential future talents. Besix Red, IBA, Schréder and Roland de Wolf all expressed their awareness of this growing phenomenon and highlighted the importance for companies to demonstrate alignment with these evolving interests to ensure a successful transition to the new generation.

Besides attracting clients and talents, compliance with the CSRD also enhances companies' chances of accessing external sources of financing. Indeed, companies are well aware that investors and banks increasingly incorporate sustainability criteria in their investment decisions, driven both by conviction and legal or external pressure. The SFDR is an example of such legal pressure, requiring financial market participants to analyse and disclose the sustainability of their financial products. Financing sustainable projects and enterprises thus improves banks' reports and reputation and allows them to fulfil their legal obligations. Consequently, banks seek to invest in green projects and tend to offer more advantageous interest rates to sustainable companies. Banks now require corporate sustainability information to allocate loans and determine interest rates, making the disclosure of extra-financial information essential for the financial survival of companies. Being compliant with the CSRD enables companies to prove their sustainability commitment to investors, thereby influencing their decisions based on the completion of these reports. Roland de Wolf commented that bank financing is a lever as crucial as the regulations themselves when it comes to corporate sustainability reporting.

« Today, many banks and investors invest in green projects, not because it's the thing that will bring them the most money, but because they also have to be green for their own taxonomy, their own reports, for their own company. » Deplasse & Associés

Ignoring these trends could be to the great disadvantage of companies, as they risk being left out of the market by these three crucial players being clients, talents and investors.

6.3.2. External validation and common language

For companies already dedicated to environmental protection and ESG issues, the CSRD represents a means of validating their commitment and efforts in the eyes of the public. Atenor and Schréder emphasise the CSRD's crucial role as a tool for external and neutral validation of firms' activities. Indeed, Atenor pointed out existing sector-specific labels such as WELL and BREEAM in the real estate industry but noted that since these were assigned by private companies, they necessitate sizeable costs and lack full neutrality. Schréder, on their part, due to the lack of defined standards for their sector, established their own environmental indicators that their products had to meet. However, the company fully acknowledges the superior credibility and influence of labels assigned by a third party. These instances underscore the two companies' positive outlook on the validation role the CSRD will play.

Besides external validation, companies are also looking forward to the common shared language the CSRD will establish. Atenor and Comet noted a current common situation where various investors and stakeholders seeking corporate sustainably information have their own way of proceeding. Some use ESG rating agencies while others request firms to complete questionnaires or Excel sheets that they established themselves, with their own indicators. This represents sizeable work for companies as each request is different, encompassing different information, metrics and formats. The CSRD will solve this problem by providing a single element that all companies, investors, clients and institutions can use and understand, also facilitating comparisons among companies.

« The CSRD will bring a clear and sharp certification with European criteria. I find this very positive, [...]it will create a common language among investors, companies, and the market. Everyone will know what we are talking about, it will be a shared definition. Either you're compliant, or you're not. » Besix RED

6.3.3. Accountability and Awareness

By mandating group-level assessment of their impacts, risks and opportunities in relation to numerous ESG topics, the CSRD is seen by companies as an opportunity to raise their own awareness of their potential impact on the environment and to take responsibility for it. Knowing that they are required to report, companies are compelled to engage in a series of reflections and to keep the ESG criteria in mind when developing processes and strategies. However, firms emphasise the importance of the management and board of director's awareness regarding sustainability and their crucial role in providing support for the integration of sustainability within the firms' strategies.

Furthermore, the requirement to incorporate the firms' upstream and downstream value chain elements within their impact assessment will force companies to examine aspects of their activities they may have never explored before, leading to the potential discovery of never thought of externalities. While those discoveries might represent consequent work and need for improvement for companies, the interviewees are convinced that this visibility on their supply chain is a necessity to raise awareness among firms.

Moreover, besides raising awareness and accountability, the directive also forces companies to organise and analyse their data. IBA believes that structuring their data enhances a better comprehension of their own information, which then opens the door to more efficient data and process improvements. Carmeuse also emphasises that the CSRD will compel them to bring rigour and precision to their non-financial data. Indeed, various companies mentioned that, unlike financial information, sustainability data tends to be somewhat neglected and collected less precisely, as companies face fewer obligations and are not audited at that level. The CSRD now requires the establishment of KPIs and a more diligent tracking of this non-financial information, also significantly reducing the possibility for greenwashing. Carmeuse also insists that companies should see the CSRD as an opportunity to concretise their ESG strategies and strengthen their long-term commitments. Sharing their strategies transparently with the market is also seen by firms as an opportunity to build a reputation.

« (…) they provide us with the opportunity to establish a framework for a clear and defined sustainability strategy and to prove it. And at least companies that were engaging in

greenwashing now have no choice but to put everything on paper so that everyone can see what they are doing. » Carmeuse

6.4. Challenges

This section aims to explore the challenges faced by companies in their preparation process for the CSRD, as well as the ones they perceive for the future.

6.4.1. Double Materiality Assessment

Among the firms interviewed, those that already initiated efforts to comply with the CSRD all stated that the required double materiality assessment represented a major challenge for them.

The CSRD officially introduces for the first time the concept of double materiality as a criterion to identify the relevant topics companies must disclose on. The directive requires companies to conduct double materiality assessments for the various topics of the ESRS, and stipulates that the method they use to do so, i.e. to identify the relevant topics, must be controlled and audited by a third party. Enterprises recognise this assessment as the initial step of their overall reporting process as its outcome defines the content of their reports and consequently the information they need to collect. These assessments represent a significant workload for firms as they involve contacting their stakeholders to evaluate their interests regarding the potential topics of the reports.

However, and this is where companies struggle, the CSRD does not provide information on how to perform those materiality assessments. Without any strict process to follow, companies are therefore free and encouraged to develop their own strategies for implementing this assessment tool. Lhoist points out the fact that the uncertainty of the process to be followed can lead to a certain subjectivity regarding the selection of the material topics. As this is completely new for the majority of the firms, finding an adapted and performant assessment process is turning out to be quite challenging for companies. Additionally, companies emphasise that, due to the newness of the directive, they cannot rely on other firms' previous compliant reports or expertise to draw inspiration from the methods and tools they used.

« There is all this reflection, figuring out what the right method is to develop the materiality matrix, which is not specified in the CSRD or even in the various ESRS. That's an approach we have to adopt ourselves, and that is a consequent workload. » DEME

Deplasse & Associés pointed out that the underlying issue is that companies aiming to do well and prepare in advance find themselves developing evaluation processes without knowing whether these are correct and in line with the expectations of EFRAG and the Commission.

« I have a colleague who recently attended a conference organised by the EFRAG, [...] he told me that people there were talking to each other, saying things like 'So, how did you do your assessment?' 'I did it like this', 'I think we should do this' etc. » Deplasse & Associés

In order to carry out this crucial step, some companies, such as Atenor, Carmeuse, IBA, DEME and Lhoist, get help from consultancy firms. These companies have decided to be accompanied in the development of their methodology for two main reasons. First, it allows them to be guided on how to proceed, and receive advice from qualified people, resulting in a significant time-saving. Secondly, proving that their assessment process is based on an external consultation gives them the assurance that the established process will be auditable, as required by the directive. To overcome this challenge, and as mentioned before, Carmeuse decided to pre-audit its double materiality assessment before starting to collect the material data, aiming to avoid unnecessary work and last-minute surprises.

6.4.2. Data Collection

Once the material matters are identified through the double materiality assessment, companies find themselves confronted by another consequent challenge: the gap between the information they have and the information they need.

« The significant effort, as I see it for us, lies in this famous gap assessment, which is going to be very alarming because we will realize that there is probably a majority of data that we do not currently measure and collect. » Lhoist

Carmeuse, Lhoist and DEME all believe that, for the first years of reporting, the content of the sustainability reports risks being quite restrained. Companies that lack required information will probably not be able to collect all of it in time, as collecting data that has never been collected and/or measured before requires organization and may be quite challenging. In this case, companies plan to be as transparent as possible by explaining the reasons they do not have it, and the processes put in place to ensure the disclosure of that information in the next reporting.

« So, like three-quarters of companies, when we will start reporting CSRD, in the first few years many requirements will be answered with action plans because we won't yet have in place what is needed to obtain metrics for these KPIs. » Carmeuse

As far as outsourcing the data collection process is concerned, companies agree that this is not a realistic option. Comet, Lhoist and Deplasse & Associés point to the delicacy of knowing that another company would be in possession of their data, which for the most part, and especially in terms of environmental-related information, is quite sensitive.

Moreover, the interviewed companies are for the majority convinced that the implementation of new tools is essential to facilitate data collection, validation, and the tracking of its evolution. Even though the number of providers of such tools is expanding, the lack of perspective on these relatively new tools does not enable companies to ensure their maturity and effectiveness and, above all, their alignment with the CSRD disclosures. Some companies decided to develop their own data collection tools or to adapt existing ones to the requirements of the CSRD. These tools aim to facilitate their data collection process, favour the availability of information and consequently simplify the ESRS completion. In addition, centralizing information facilitates the highlighting of missing data, simplifying the identification of areas that require attention. For instance, Schréder is currently developing a new tool to manage its human resources and is taking that opportunity to integrate social parameters required by the directive. The company also established a complete and comprehensive Excel tool, encompassing numerous environmental, social and governance indicators. As for Atenor, it developed its own database with a Power BI visualization tool. Besix Red designed a tool aiming to assess the life cycle of each of its projects. These three companies assert that their tools and proactive preparation measures addressed potential information gaps, ensuring the possession of the majority of the data required by the CSRD and protecting them from perceiving the data collection process as a tremendous challenge.

Furthermore, the requirement of the CSRD to evaluate the significant impact, risk and opportunities of companies through their entire value chain, consequently encompassing their scope 3 emissions, adds another layer of complexity to the data collection process. Firms like IBA and Lhoist, operating in numerous countries, evoke the nearly impossible nature of such a requirement which mandates them to gather information from suppliers, manufacturers, distributors, retailers, clients, etc. The significance of this challenge strongly depends on the size of the company and its scope of activities.

Carmeuse and IBA mention the difficulties they face in obtaining information about the consumption of their products by customers as well as their lack of leverage to request data such as the carbon footprint of their suppliers' material. In addition, given the hundreds of different suppliers and clients that such a company has, having to request and wait for information from so many different sources would be a monumental challenge. Instead, the companies internally assess that information by the implementation of defined metrics and the use of average mixes. For instance, knowing the consumption of one of their machines, they use the average mix of the country to which they have delivered it to estimate the customer's consumption linked to their machine. The workload remains consequent, but according to IBA it is less challenging than hoping to obtain information from their value chain actors.

« It's not worth it, we don't have the capacity, the leverage to ask our suppliers [...]. And we easily have 1 500 suppliers. So, we'll never succeed if we ask each of them. And even the largest suppliers we have are not well acquainted with their data. [...] It's not an option to expect information from our suppliers. » IBA

« (...) so your scope 1 and 2, it's quite easy and straightforward. However, for us, scope 3 involves a lot, a lot of estimations. » Carmeuse

In addition, acquiring missing data requires personnel and, in some cases, a dedicated budget for which companies have more or less means at their disposal. The magnitude of this challenge depends on the maturity level of firms regarding what they already had in place in terms of sustainability and data collection. Roland de Wolf and Deplasse & Associés, commented on the difficulty the missing data collection may represent for small and medium-sized structures that may lack the necessary resources to address this issue. However, smaller structures usually measure data via a more classical approach, have fewer existing systems in place and have fewer resources to dedicate to this process. More advanced data collection requires specific competencies, techniques and technologies that are not yet generic and harder to access for smaller structures. Nevertheless, Deplasse & Associés emphasised that smaller structures with fewer people enable simpler access to information.

6.4.3. Data Consolidation

The CSRD requires large undertakings with subsidiaries to report at a group level. This enables a comprehensive overview and a better identification of a firm's global impacts, risks and opportunities at a broader corporate level. It also ensures a greater level of transparency, providing stakeholders with a more accurate representation of firms' activities and externalities. Moreover, it encourages companies to be aware of and take responsibility for the externalities of their entire corporate structure. The consolidation of data coming from various structures and sometimes different countries represents a crucial challenge for companies.

« We operate in 30-35 countries, have more than 100 factories. So, these factories will have to create a data consolidation pyramid to report at the group level. And that, that's going to require a considerable amount of work and take an incredible amount of time. » Lhoist

Nowadays, many large undertakings collect and measure their data at the level of their various entities, plants or subsidiaries. Nevertheless, this information is often gathered in diverse formats and databases, depending on the entities, their policies and the possible local regulations. For the majority, this data is not centralised at the group level. The consolidation of such data is quite challenging as it requires the use of identical or complementary tools, but also an agreement on the metrics and KPIs to be used, which might vary within a group present on an international scale for instance. Systems to validate the provided data at the group level will also need to be put in place if companies wish to ensure the disclosure of accurate, reliable and transparent information.

« For example, biodiversity is something we already have initiatives in place for, but the problem is that we operate globally. (...) So, everyone has their own methods, people don't report in the same way. There isn't anything very consolidated (…) we don't have a standardized approach for the entire company. » Carmeuse

IBA evoked their previous efforts to anticipate this challenge. The company is certified BCorp since 2021 but their certification revealed some weaknesses in their reporting. In order to improve the identified flaws, they established a sustainability improvement path which included the comprehension and assessment of their global impact. Consequently, they have been working on data consolidation and started to report at the group level since last year. This enabled them to be ready to disclose consolidated data for their first reporting year according to the CSRD. Most of the work has thus been completed, with the final stages being more of a fine-tuning and formatting exercise.

Moreover, by mandating the disclosure of sustainability information within the annual reports of companies, the CSRD also emphasises the imperative to cease dissociating financial performance and ESG topics. It promotes a comprehensive global understanding that not only includes both these elements, but acknowledges the intrinsic link between them. Another aspect of the data consolidation challenge is thus the consolidation of financial and non-financial information within the companies' reports.

Schréder pointed out the need to gradually integrate this mindset into their way of operating to minimise and limit the additional workload. The company used to have different databases for their financial and sustainability-related KPIs. Nowadays, the two have been merged into a single one gathering both targets. Sustainability KPIs become progressively "like any other" parameters and are measured and collected comparatively and at the same time as performance and financial KPIs. Moreover, the bonus of the teams is also directly linked to those non-financial targets. Schréder illustrates this by saying that, nowadays, the carbon footprint of their products is reported conjointly with the productivity of the plants where they are manufactured in as well as the quality and delivery time of the products.

« [Financial and non-financial KPIs] are measured in the same way, actually. So, it's an integral part of how we operate. Therefore, it doesn't really require additional work because we've gradually integrated it into what we do every day. » Schréder

DEME has a rather controversial opinion on this topic. They evoke that the challenge of linking non-financial information to financial information lies predominantly in the nuances that may exist between certain definitions, depending on the field in which they are considered. Overcoming this challenge required a great deal of DEME's time in its preparation for the

CSRD, as it necessitated numerous meetings between the finance team and other departments. The purpose of these meetings was to discuss the quality and collection processes of data and the consistency between financial and non-financial information in order to eventually establish commonly shared definitions and processes that were applicable across all departments.

« CSRD has this concern of wanting to absolutely link non-financial to financial data. And in theory, it seems simple, but in practice, it's much more complicated because the business doesn't always operate the way finances do. » DEME

6.4.4. Actions

Lhoist, Deplasse & Associés and Roland de Wolf all agree to say that the preparation for the directive will not be the biggest challenge faced by companies but that, instead, the real task lies in the initiation of effective changes. Enterprises see the CSRD as a way of pointing out the areas for improvement but emphasise that this is not enough. Concrete actions are needed if the CSRD is to make a tangible contribution to the EU's mission of fostering a transition to a more sustainable society. Deplasse & Associés added that the strategic sustainability plans and targets requested by the CSRD are a good thing, but that companies must then align their behaviours and actions with these goals.

« I think the hardest part for companies will be afterwards, changing, adapting. Once you have your reporting, and you realize, okay, I'm not on the right track, you need to change, that's going to be the toughest step. […]. Next year, 2024, is just a starting point. The real work is still ahead. It's this improvement that is important. The implementation is not the most significant step of the CSRD. » Deplasse & Associés

Moreover, enterprises acknowledge the difficulty it may represent as major changes require time, organization and long-term investment. Depending on how they are currently conducting their business, improvement for a more sustainable and responsible business may include adjustments in their suppliers, retailers, energy systems, transportation logistics, service delivery methods, etc. Roland de Wolf asserts that these concrete changes are already challenging for large undertakings, but most of all that they require resources and competencies that small and medium enterprises tend to lack. Another problem raised by Roland de Wolf and Deplasse & Associés is that companies are unlikely to take action unless they are compelled to do so. This is precisely why they are waiting for the directive to be transposed into national laws, to provide more details and precisions regarding the control and sanction systems. As the control and audit of companies' reports are delegated by Member States to third parties, the interviewed companies emphasise the necessity of standardizing these processes to ensure consistency in the disclosure of corporate sustainability information.

6.5. Apprehensions

While companies become more acquainted with the CSRD and begin to implement specific measures, they also start to express certain concerns. This last section aims to overview the companies' main apprehensions regarding the directive's content and implementation.

6.5.1. Subjectivity and comparability

The major fear of companies, and one of the downsides they attribute to the CSRD, is the subjective nature likely to derive from many of its elements. Initially, the CSRD is intended to provide a stricter and more formal structure to sustainability reporting, which will enable better comparison among companies, push them towards greater transparency and prevent them from engaging in greenwashing. However, firms identify various aspects of the directive that can leave room for subjectivity, both in the drafting and in the interpretation of the report.

Many of the data points required by the ESRS are quantified measures, enabling clear interpretations of disclosures, as well as easy and effective comparisons. Nevertheless, certain elements required by the directive are rather qualitative, such as companies' ethical and sustainability governance. Firms also have to estimate information such as the financial impact of material risks and the likelihood of these risks occurring. Therefore, companies have a certain flexibility in the disclosure of qualitative information in their reports. Companies fear that this subjectivity will complicate comparisons and will leave the interpretation of this information up to the user. Additionally, and as previously mentioned, firms express that the absence of a well-defined procedure for the double materiality assessment causes a certain degree of subjectivity regarding the selection of the double material topics that will require disclosure.

« What is less comparable is that sometimes you have to report on your objectives, your policy, and what you put in place, which involves text, and text that can be colored. It will be necessary to pay attention to what is said and what is read. This aspect will be much less comparable and much more subjective. » Lhoist

However, the requirements of the CSRD are perceived as a good start by the enterprises, and hoped-for future additions to the directive are expected to enhance some of its aspects. Also, while some companies consider the qualitative requirements too subjective, DEME emphasises the importance of this qualitative information in providing a more comprehensive view of a company's strategy.

« Qualitative information can be important as well because it provides a lot of insights into the company's strategy and credibility. This information speaks volumes about how the company is sustainable and resilient in relation to various risks it may encounter in the market. » DEME

Regarding the usefulness of these sustainability reports for comparison purposes, Roland de Wolf and Schréder consider that the awaited sector-specific ESRS are essential to guarantee a credible and effective comparison tool. They find it difficult to evaluate firms from different sectors based on the same criteria, which may sometimes not be equally important across different industries.

6.5.2. Financial implications

Another concern raised by companies is the financial impact of the CSRD. They assert that complying with the CSRD will entail additional costs, particularly for their first reporting. These costs may arise from the development of new processes or tools, the hiring of new people, the call on consulting firms, etc. Deplasse & Associés also underlined the significant costs that companies may face when implementing initiatives aimed at enhancing their businesses for a more sustainable version.

Moreover, the majority of the enterprises mentioned the difficulty of assessing these potential costs at the moment. Nonetheless, DEME noted that the CSRD expenses will not necessarily be entirely new for companies, at least for those who had previously been reporting on their sustainability.

« It's clear that the CSRD brings a lot more costs, but it's not something new either because we had reporting even before the CSRD. So, we had reporting costs to collect data, establish the process, etc.» DEME

Concerning potential returns on investment related to the CSRD, Besix RED and DEME underlined that corporate actions undertaken for sustainable purposes constitute long-term investments that are likely to result in a future reduction of some operating costs. However, it is still too early to assess these returns. In addition, DEME emphasised that potential returns on investments will also depend on market reactions, whether or not CSRD compliance will allow them access to new clients, talents and sources of financing.

Furthermore, Roland de Wolf mentions the possible difficulty for small and even medium-sized companies to bear the necessary costs to ensure compliance with the new directive. He opened the question of potential subsidies that could be used to ensure that SMEs keep up with the sustainable transition of the business world.

6.5.3. Balancing constraints and usefulness

While all the interviews revealed that the arrival of CSRD was positively perceived as a necessary first step towards a sustainable transition in the way companies operate, some expressed concerns regarding the constraining nature of the directive.

Although the CSRD is being implemented with a very specific aim in mind, namely, to improve the quality of sustainability reporting, promote greater transparency and enhance comparability, some fear that the "burden" side of this new directive may ultimately outweigh its helpful and utilitarian side. Companies recognise that it is important that the directive brings added value for businesses and remains a win-win situation. The directive mandates disclosure and therefore transparency. However, if authorities aim to induce a real change in how companies conduct their business, firms believe that there must be a mutual benefit, rather than simply a constraint. Otherwise, they fear that the corporate sector will not go beyond what is legally obligatory and will not actually get things moving.

« I believe that when it remains a prospective tool, there's no issue. However, when it becomes constraining, I think the responses will be entirely bland, totally neutral. Due to these constraints, companies may just do the bare minimum without seeking to go further, simply because it's too restrictive for them. I think that's a risk. » Comet

CHAPTER 7: DISCUSSION

The aim of this chapter is to provide a comprehensive answer to the research question underlying this thesis. In order to do so, elements from the literature review as well as insights gathered from the various interviews will be discussed.

To answer the question "**How do companies approach the implementation of the European Corporate Sustainability Reporting Directive in terms of strategies, challenges and opportunities?",** this chapter is structured as follows: First, we will provide an overview of the firms' positive outlook on the implementation of the CSRD. Then, we will have a look at how companies plan to ensure their CSRD compliance, followed by the challenges they face doing so. To conclude the chapter, we will summarise the key elements firms consider essential for the successful implementation of the directive.

7.1. Positive prospects

Fully aware of the workload and challenges associated with the CSRD, firms acknowledge the time and resources that will be required to appropriate and comply with the directive. However, they express an optimistic opinion on the implementation of the CSRD and its potential contribution to the EU's goals of enhancing transparent and sustainable business practices.

As highlighted in the literature review, the implementation of the CSRD is part of a much broader context than just corporate reporting. Indeed, by encouraging greater transparency and accountability from companies regarding their ESG-related impacts, it aims to promote a shift towards more sustainable business practices, respecting both the environment and society. Corporations are convinced of the positive effect this new directive will have on the quantity and quality of sustainability reporting. Although some of them were already reporting on a voluntary basis in the past, they recognise that the implementation of a legal obligation was necessary to enhance greater transparency from companies, and that this directive represents a major step in the transition towards more sustainable corporate practices. Beyond the legal binding nature of the CSRD, companies identify certain motivations for their compliance.

To start with, companies await the CSRD with enthusiasm as they view it as the emergence of a common language across the entire market. Indeed, by imposing a common reporting structure as well as specific disclosures, CSRD-compliant reports will enable information to be shared more efficiently. These reports will allow companies to provide a unified response to the demands of stakeholders and investors. Until now, these demands all required diverse information under different formats, and therefore demanded individual consideration. Now compelled to report to the same standards as their competitors, firms also welcome the CSRD as a new means of comparison, which they hope will enable them to stand out from the competition.

Moreover, the CSRD is viewed by businesses as a significant opportunity to boost their market attractiveness and competitiveness. Indeed, as they witness a growing market interest in current climate issues and ESG topics, companies see the transparency resulting from their CSRD compliance as a means of attracting customers and talents who place particular importance on these criteria. In addition, banks are also increasingly interested in the ESG performance of companies and are seeking to finance more sustainable projects and businesses. Indeed, they must themselves report on the impacts of their portfolio. Companies therefore also see CSRD as a way of accessing these sources of financing and taking advantage of more competitive interest rates. Although they see this as an opportunity, they also recognise that they indirectly have no choice but to follow these market trends, as failure to listen to the demands of stakeholders and investors could push them out of the market.

Furthermore, companies also recognise the usefulness of the CSRD in raising awareness as to the externalities they may cause. They believe that, by compelling businesses to assess their impacts from an environmental, social and governance point of view across their value chain, this will enable them to identify areas where effort is required and open a reflection about potential practice changes. Firms assert that it will encourage them to take their responsibilities and be transparent towards the market. While the majority of the interviewed firms state this as an upside of the CSRD, it is important to note that some also highlight the challenge it might represent if they discover substantial flaws in their business practices and policies. In addition, by making sustainability reporting a mandatory part of the annual report, companies will be pushed to consider the link between their financial and non-financial data, demonstrating the strategic importance of sustainability for companies' businesses.

Finally, the CSRD is also perceived by companies as an opportunity to obtain a framework for concretizing and putting on paper their sustainability strategies, policies and KPIs. It serves as a way to demonstrate to the market the efforts they have been putting in and the strategies they are currently working on. It thus also acts as a validation for companies already committed to sustainable methods, and considerably prevents greenwashing practices. Indeed, firms are compelled to disclose specific information and KPIs, preventing them from turning things to their advantage.

7.2. Compliance strategies

The literature review provided an overview of the various CSRD requirements and the information companies need to disclose in their sustainability reports. Facing a heavy workload, subject companies are aware of the necessity to start working on their compliance. They are therefore elaborating strategies to ensure meeting the directive's prerogatives by their first year of reporting obligations. The strategies established by companies contain similar key stages that they must go through before drawing up their reports. However, how each of these steps is carried out is specific to each company. Here are the various stages identified by companies to ensure their compliance with the CSRD.

First, as the reporting obligation is new to most companies, the initial step is to acquire a global understanding of the directive and what the Commission expects from them. Firms therefore take the time to screen the text of the directive as well as the various ESRS to obtain a clear picture of the information they need to disclose in their reports.

Some requirements, such as ESRS 1 and ESRS 2, apply to all companies. However, with regards to the topical ESRS, companies are only required to report on what is established as 'material' for their activities, according to the concept of double materiality. In order to assess the topics to include in their reports, i.e. the materiality of the various topical ESRS, companies carry out Double Materiality Assessments (DMAs). The different steps followed by companies to perform these DMAs match the steps identified in the literature review. First, an internal assessment during which the companies identify ESG issues related to the impacts, risks or opportunities associated with their activities. Next, they determine their relevant stakeholders and proceed to an external assessment to ascertain their interest in these various ESG topics. To do so, companies engage with their stakeholders through meetings, calls, questionnaires, surveys, etc. Once this information has been gathered, they place the topics on a double materiality matrix, which shows on one axis the importance attributed to the topics by stakeholders, and on the other axis the topics' relevance for the company's performance. Having a visual representation makes it easier for companies to identify subjects that meet the double materiality criterion. The subjects identified as doubly material are therefore the ones on which companies will have to report.

Furthermore, since DMAs represent a new exercise for companies, and as the directive does not prescribe any particular process for these assessments, firms are brought to develop their own methodologies. To do so, they often seek assistance from consulting firms, which not only have the time they lack, but are also progressively developing expertise in this emerging practice. In addition, considering that sustainability reports, and therefore DMAs, are subject to mandatory audit, getting the help of consulting firms to develop their assessment methodology provides assurance as to the auditability of their process.

Then, once they have defined the material topics that will constitute the content of their report, companies carry out a gap assessment. This process involves identifying the information required for reporting that is not currently available to the firm. Based on this gap assessment, companies then establish action plans to collect the necessary data. They may use different methods to collect the missing information, but this generally requires the implementation of tools to measure, centralise and track the various data. Once the data are collected, the last step for companies is to establish their report in accordance with the various ESRS.

Regarding the potential advantage of companies that were already reporting on a voluntary basis prior the CSRD, it strongly depends on the extent to which these reports were drawn up, and the information that was disclosed. A certain advantage is however observed for the companies that were previously reporting according to the GRI, as the ESRS requirements are strongly inspired by the GRI's structure. These companies acknowledge that it goes to their advantage because, besides the similar reporting format, they already measure and collect a significant proportion of the information required by the ESRS.

Moreover, many companies that are not subject to CSRD obligations in the first year of its implementation, i.e. 2024, plan to still draw up their next sustainability reports in line with the ESRS and the CSRD requirements. In addition to positioning themselves in relation to their competitors, companies see these 'tests' reports as an opportunity to familiarise themselves with the new reporting format, avoid last-minute surprises and, above all, identify as early as possible the data they do not have yet. Given the difficulty that collecting data that has never been collected or measured may represent, this allows firms to put into place the necessary tools and procedures to ensure having the required data for their first CSRD reporting obligation.

Finally, most firms acknowledge the time pressure they are under to prepare themselves for this new directive. To optimise their time expenditure, and as mentioned above, many entities call on external resources such as consulting firms to assist them in their preparation for the CSRD. Companies also stress the importance of developing a pragmatic preparation strategy that optimises the use of existing in-house resources. This involves adapting and enhancing existing tools rather than opting to develop new ones. It also means transferring skills already acquired, but traditionally applied in other sectors, to the non-financial sector. For instance, the finance department's expertise in reporting practices such as data collection and consolidation, auditing, etc. can be replicated in the CSRD reporting process.

7.3. Challenges

Although companies are rather positive concerning the CSRD's implementation, they also mention certain substantial challenges and concerns they face while preparing for it.

First of all, as the first obligations of the directive only come into effect in January 2024, no one, whether companies, consultancies or audit firms has a sufficiently informed perspective on the CSRD to indicate the most effective methods to adopt or assert the maturity of their offerings in terms of advice or tools. Indeed, companies may struggle with questions for which there are not yet any answers since this directive includes new requirements for all companies falling within its scope. Companies thus also lack previous compliant reports from which to draw inspiration. However, undertakings that will start complying with the CSRD in the coming years will benefit from the groundwork already undertaken by larger firms.

Secondly, companies are concerned about their ability to gather the missing data, especially those they have never yet measured. Not wishing to outsource this process, mainly to avoid another entity to detain information that might be seen as sensitive, firms may need to implement new tools and/or processes, which risks requiring thought, time, technology and budget. Moreover, as seen in the literature review, certain requirements of the ESRS, such as the disclosure of companies' GHG emissions, compel firms to take into account the impact of the actors of their value chain. This is a major concern for companies. Indeed, certain value chains are highly complex, particularly for large companies, encompassing many different layers and actors. Smaller actors within these chains, not initially compelled by the CSRD, may lack the information mandated companies need, intensifying the complexity of the data collection process. Additionally, some companies also mention a lack of leverage and/or time to solicit the diverse actors of their value chain, forcing them to use metrics and standardised information to establish their own estimations. This may raise concerns about the accuracy and consistency of such data.

Moreover, the literature review also mentions the requirement for companies to present a comprehensive overview of their impacts and externalities, necessitating if applicable, data consolidation at the group level. This is perceived as an additional difficulty by companies, as it requires the establishment of group-level policies to standardise data collection. This includes using consistent and complementary tools, aligning on metrics, format, communication methods, etc. This is seen as quite challenging for large-scale firms with entities in different countries, each currently approaching data collection via their own method.

Additionally, the costs associated with companies' CSRD compliance also raise concerns among companies. These costs may be associated to elements such as the establishment of new tools, data collection, technology, or manpower, but companies express the difficulty to assess these at this stage as they are still in the midst of their compliance process. However, some companies are convinced that investments for CSRD compliance and sustainable practices will, in the long-term, result in the reduction of operating costs through energy savings, better water and waste management, etc. Nevertheless, similarly to the costs, it is still too early to evaluate these potential financial advantages.

Lastly, a significant apprehension among companies concerns the disclosure of qualitative information. Indeed, they find the comparison of information such as ethical and sustainability governance difficult. Moreover, certain disclosures leave room for flexibility when reporting, such as sustainability risk management, future sustainability plans, occurrence estimations of potential material risks and their associated financial, social or environmental impacts, etc. As the interpretation of such information is thus left to the reader, certain companies fear that some may embellish their plans and objectives to ensure a reputation. While most businesses acknowledge the effectiveness of the CSRD in addressing corporate greenwashing, since companies are compelled to disclose specific information and metrics, some however emphasise the need for additional measures concerning qualitative information. Additionally, firms also raise concerns about the possible subjectivity in the assessment of material topics due to the lack of a well-defined procedure for the double materiality assessment.

7.4. Key success factors

The CSRD marks major advances in the corporate sustainability reporting landscape. However, firms identify several success factors they deem essential to ensure the successful implementation of the directive as well as the desired positive effects on businesses' practices.

Firstly, companies underscore that reporting about their environmental, social and governance impacts and strategies is a good start to enhance corporate transparency and awareness, but that this alone will not contribute to the EU's goals of a transition towards more sustainable business practices. Indeed, companies emphasise that these sustainability reports should enable them to identify where their efforts need to be focused and that effective changes must then follow. Firms must integrate sustainability into their core strategy, undertake concrete actions and make long-term investments that align with the objectives, plans and policies they disclose in their reports. However, companies acknowledge that the extent to which those effective changes will take place depends on the individual willingness of companies. Some will limit themselves to reporting obligations, while others will see this as an opportunity to develop their business in a more sustainable way to align with market and societal trends. In addition to their willingness, firms noted that their ability to implement sustainable changes also depends on the resources they possess, which might make it more difficult for smaller structures.

Furthermore, companies evoke the need for the EU to continue to develop the directive and assist businesses in their future reporting by providing guidance and support. This includes the development of the ESRS for SMEs, the sector-specific ESRS, assurance and audit standards as well as further guidance on double materiality assessments. Firms also emphasise the importance of standardised control and sanctions systems to ensure companies' compliance. As the CSRD stipulates that these mechanisms fall under the responsibility of Member States, companies are awaiting the transposition of the directive into national laws to become aware of the latest changes and implications. Firms also emphasise the importance of their management and board of directors in following up with this process and acknowledging the importance of sustainability in their core strategy by providing the necessary support.

Finally, companies underline that, given the crucial and global stakes behind the directive, i.e. the transition of corporate practices towards a more viable society, it is essential to ensure that the process progressively involves all potential players. Having as many companies as possible on board, aware of their externalities, collecting their data and writing sustainability reports will make the whole CSRD process easier. For instance, the more companies report, the easier it will be to assess the performance and maturity of the tools and processes put in place. It will also facilitate large companies' process to obtain data from the entities within their value chain. In addition, besides the extensive scope of the CSRD, and as seen in the literature review, the directive will also impact entities that are initially not mandated. This trickle-down effect results from larger companies, banks and investors requesting sustainability data to ensure their own commitment to sustainability. Aware of the challenge it first represents and the time it will take before being efficient, companies acknowledge the necessity of this trickle-down effect to ensure the involvement of all market players in the sustainable transition of corporate practices. However, companies raise concerns about the financial and logistical capabilities of SMEs to engage and follow up in this reporting process. Therefore, firms emphasise the high importance of support and guidance from the EU and Member States, especially for SMEs.

To conclude this chapter, it seems essential to address a final point regarding the current state of the interviewed companies regarding the CSRD. The various companies interviewed currently find themselves at different stages of their compliance process. This is understandable as that they are not all subject to the obligation simultaneously, resulting in diverse preparation times. However, whether mandated to report from 2025, covering 2024 data, or later, the interviews revealed many remaining uncertainties among firms regarding their CSRD compliance. Indeed, as most of the firms find themselves in the early stages of their compliance journey, many aspects still need to be thought through including the processes to be followed, tools to be used, the assignment of responsibilities for key stages, etc. Nonetheless, it is important to note that companies have already invested significant efforts and work in answering their future legal obligation. But, as the requirements of the CSRD are extensive and broad in scope, this necessitates a significant amount of time for companies to adjust to this brand-new directive.

CONCLUSION

This thesis aimed to address the following question: **How do companies approach the implementation of the European Corporate Sustainability Reporting Directive in terms of strategies, challenges and opportunities?**

To answer this question, the first step of the research was to conduct a literature review. First, an overview of the sustainability landscape in Europe was presented, encompassing the Sustainable Development Goals, the European Green Deal and the role companies play in the transition towards a more sustainable society. Thereafter, an investigation of the corporate sustainability reporting practice was conducted, including the drivers and objectives of the practice, the key concept of materiality, as well as the various standards and regulations shaping the landscape of sustainability reporting. Lastly, a deep analysis of the Corporate Sustainability Reporting Directive was carried out, covering the underlying objectives, the scope and key provisions of the directive, as well as the common standards firms must follow when reporting. This analysis enabled a comprehensive understanding of the CSRD's implications for businesses as well as an overview of the various requirements they are subject to.

Following that, several interviews were conducted to gather insights and opinions from companies. In this context, ten companies directly or indirectly impacted by the CSRD provided information about their sustainability reporting practices, their compliance strategies, the challenges and apprehensions they face preparing for the directive, as well as the opportunities they see in their compliance. Additionally, the sustainability reports of these firms obtained from their websites were analysed, to complement the information provided by the interviewees.

Then, we proceeded to a cross-analysis of the gathered information to compare and contrast companies' opinions. By complementing this analysis with information from the literature review, we were able to address the research question of this thesis using four different axes of response. First, despite being aware of the workload associated with CSRD compliance, as well as the time, resources, and human contribution it requires, companies have a positive and supportive approach towards the implementation of the directive. Indeed, they acknowledge the need for a legal framework to enhance corporate transparency and raise awareness as to their impacts. They also see the CSRD as an opportunity to strengthen and publicly demonstrate their sustainability strategies. Additionally, they perceive compliance as a common language, understandable by all, which can improve their attractiveness on the market.

Secondly, aware of the substantial workload ahead of them, firms establish compliance strategies to prepare their first-year obligation. These strategies encompass crucial steps such as the double materiality assessment of ESG issues, a gap assessment to identify missing data, the actual data collection, its consolidation, and conclude with the drafting of the reports.

That being, this newly implemented directive also represents significant challenges for companies. These challenges encompass their inability to refer to previous compliance strategies and compliant-reports, their need to implement new tools and processes to collect important amounts of information, the costs associated with their compliance, the difficulties large groups face in collecting and consolidating their data at group-level, the interpretation of the qualitative disclosures and their uncertainty as to the method to be used when assessing the double materiality of topics.

Considering that we are only in the early stages of the CSRD, and that the first obligations came into force in January 2024, and only for some of the companies concerned by the directive, it is worth mentioning that the majority of companies are still in the midst of their compliance process. Consequently, most of these challenges still need to be thought through by companies. It is thus important to acknowledge that this thesis does not provide answers as to how companies could overcome these challenges but rather an identification of the current challenges they face while preparing their compliance.

Lastly, companies identify several key factors they consider essential to ensure the good implementation of the CSRD and the desired outcomes. These include strong support from the EU and Member States, the firms' willingness to concretely enhance the sustainability nature of their practices, the support of the firms' management and the increased awareness of all players involved in the transition.

To finalise this thesis, the next sections will present the contribution of the research, its limitations as well as diverse recommendations for possible further research.

Contribution

By exploring how companies approach the implementation of the CSRD, this thesis makes several contributions to the literature and, additionally, benefits businesses with valuable insights.

First of all, due to the recent implementation of the CSRD, the literature lacks resources on how companies prepare for and apprehend the directive. This research contributes to filling this gap by offering valuable information drawn from the recent insights of companies directly or indirectly affected by the CSRD and currently preparing their compliance.

Moreover, the fact that the directive affects companies in a progressive way, adding entities to its scope every year from now until 2029, implies that numerous enterprises still have to initiate their compliance preparation process. Offering insights from businesses that have already established a CSRD compliance strategy regarding the challenges they currently face, the opportunities they foresee in the CSRD, etc. provides lagging companies with the opportunity to better anticipate and prepare for their own compliance process.

Finally, this thesis can also raise awareness among companies as to the importance of sustainability for their businesses, given the expanding regulatory landscape and the market's growing demand for sustainability-related information. This research can inspire companies to view the CSRD as an opportunity to elevate their sustainability engagement and further concretise their sustainability policies and strategies.

Limitations

While this thesis provides a valuable overview of how companies approach the implementation of the CSRD, several limitations of the research are worth mentioning.

First of all, it is important to acknowledge that this thesis relies on the insights of a limited number of companies. In total, ten interviews were conducted as part of this research. While this number is sufficient enough to provide a consistent and satisfactory amount of data, enabling qualitative insights into the subject of the study, it is insufficient to constitute a generalization that can be applied to all businesses. However, as the conducted interviews considered companies varying in size, structure and sector, as well as in timelines and requirements regarding their CSRD compliance, this research still provides a valuable, robust, and comprehensive overview of diverse perspectives.

Furthermore, the recent introduction of the Corporate Sustainability Reporting Directive represents an additional limit for this research. Indeed, the directive came into force in January 2023, imposing its first obligations in January 2024. Consequently, the CSRD itself and its various requirements are relatively new to companies and they do not yet have much hindsight regarding its implementation. As firms are still in their compliance preparation process, many aspects still need to be thought through and implemented. Additionally, and as mentioned before, the existing literature on this topic is limited. While the majority of the available resources covers the directive content and its implications for companies, it is still too early to find information on the actual impacts of the CSRD on companies and their compliance progress.

Finally, as it is a directive and not a regulation, the CSRD needs to be transposed by all Member States into their national law. The deadline to do so is June 6, 2024. So far, many countries including Belgium have not yet transposed the directive. Transposing a directive allows Member States a certain degree of flexibility regarding the methods and strictness of implementation they impose. As the CSRD has not yet been transposed into Belgian law, it is important to note that certain aspects of the directive and its requirements might still change for Belgian companies between the publication of this thesis and June 2024.

Further Research

To conclude this thesis, several recommendations for further research related to the Corporate Sustainability Reporting Directive will be proposed.

In the coming years, when a larger proportion of companies will be mandated by and acquainted with the CSRD, it would be relevant to undertake an evaluation of the directive's evolution. This research could explore the actual scope of the directive and see whether, as anticipated, smaller non-mandated structures such as unlisted SMEs will also be impacted. Other lines of research could also be overviewed, such as the market responses to sustainability reporting, potential changes to the directive, the various ESRS sets developed in the meantime, as well how companies overcame the challenges, they are currently face in their preparation process.

Additionally, as SMEs usually have limited resources in terms of funds, technology or manpower, concerns currently arise about their ability to follow up the evolution of the sustainability reporting landscape. Therefore, it would be interesting to investigate the situation of SMEs and explore the challenges they face in achieving CSRD compliance.

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Abstract:

The escalation of environmental and social challenges in today's world underscores the critical and urgent situation in which our society finds itself. For too long, societal and corporate evolutions have occurred without consideration for the consequences of activities on the environment and broader society. Recognizing the imperative of a transition towards a more sustainable world, the European Union stresses the pivotal role that corporations must take on. As part of its EU Green Deal Strategy, the Commission introduced the Corporate Sustainability Reporting Directive (CSRD), reforming corporate sustainability reporting obligations starting from January 2024. This new directive gradually obligates companies to disclose sustainability reports following common mandatory standards, aiming to facilitate the comparability of these reports. After reviewing the context in which the EU introduced the CSRD and the content of the directive itself, this thesis analyses the approach of ten different companies to the implementation of this new directive. The aim is to understand the companies' point of view on the CSRD, the advantages and challenges it represents for them, as well as the different strategies developed by these firms to ensure the publication of compliant sustainability reports. The findings of this thesis reveal several key elements. First, companies recognise the necessity of introducing such a directive for the enhancement of more sustainable corporate practices, as well as the potential benefits it can bring to their businesses. Moreover, they underline that it addresses the increasing market demand for reliable and comparable sustainability information in order to facilitate a better assessment of the environmental and social impact of businesses. However, the interviewed companies also point to the significant additional workload and costs involved in publishing such a report, especially as they have never yet measured or collected some of the required data. This thesis demonstrates that companies generally express a positive outlook on the implementation of the CSRD despite the challenges that the directive raises.

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