

CHALLENGES IN SUSTAINABILITY REPORTING:

A FOCUS ON THE CORPORATE
SUSTAINABILITY DIRECTIVE (CSRD)

Q3



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EXECUTIVE SUMMARY

Sustainability reporting has emerged as a crucial component of corporate governance and regulatory compliance, driven by a global push towards environmental stewardship and sustainable business practices.

Companies across industries are being compelled to integrate environmental, social, and governance (ESG) factors into their operations and report on their sustainability performance. The European Union's Corporate Sustainability Reporting Directive (CSRD) represents one of the most significant shifts in this domain, aiming to standardise sustainability reporting and ensure greater transparency.

This white paper explores the key challenges companies face in sustainability reporting, with a specific focus on the CSRD. Drawing insights from industry interviews and case studies, it identifies hurdles such as data collection, alignment with multiple standards, and the evolving landscape of stakeholder expectations. Furthermore, it examines how businesses, particularly in the European context, are navigating the transition from voluntary reporting to mandatory compliance with the CSRD.



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INTRODUCTION



Sustainability is no longer a peripheral concern for companies; it has become a strategic priority.

Businesses are increasingly recognising the need to manage their environmental and social impacts, and to report on their performance transparently.



CSRD Compliance in 2024: Key Challenges Ahead

NAVIGATING CSRD

Sustainability reporting is one of the primary means through which companies can demonstrate their commitment to sustainable practices and meet stakeholder expectations.

The CSRD represents a regulatory leap in sustainability reporting. Building on the existing Non-Financial Reporting Directive (NFRD), the CSRD imposes stricter reporting requirements, expanding the scope of companies obligated to report and enhancing the quality of disclosures.

With the CSRD's implementation starting in 2024, many companies face significant challenges as they adapt to the new regulatory framework.

THE CSRD:

A TRANSFORMATIONAL DIRECTIVE

The CSRD is part of the European Green Deal and aims to promote sustainable business practices across the EU. Key aspects of the CSRD include:

While the CSRD provides a robust framework for sustainability reporting, many companies, especially those without prior reporting obligations, are grappling with the complexities of compliance.



Expanded Scope

The CSRD extends beyond large public-interest entities covered under the NFRD to include all large companies and listed small and medium-sized enterprises (SMEs).



Digital Reporting

The directive mandates the use of the European Single Electronic Format (ESEF), a digital reporting standard to ensure accessibility and transparency of data.



Alignment with international standards

The CSRD aligns with global sustainability reporting frameworks such as the Global Reporting Initiative (GRI) and Task Force on Climate-related Financial Disclosures (TCFD).



Mandatory Assurance

Sustainability data will require third-party assurance, ensuring credibility and accuracy in reporting.



Double Materiality

Companies must report on both how sustainability issues affect their financial performance (outside-in perspective) and how their operations impact the environment and society (inside-out perspective).



KEY CHALLENGES IN SUSTAINABILITY REPORTING

DATA COLLECTION AND MANAGEMENT

One of the most significant hurdles companies face is gathering accurate and comprehensive sustainability data. In interviews with industry experts, a recurring theme was the difficulty in consolidating data from various departments, systems, and suppliers.



Fragmented Data

Sustainability data is often scattered across different parts of an organisation, including procurement, operations, HR, and finance.

This fragmentation complicates the process of creating a cohesive sustainability report.



Data Accuracy and Integrity

Ensuring that data is accurate and verified is a major concern, particularly in Scope 3 emissions reporting, which includes gathering data from supply chains. Many organisations lack the infrastructure to collect and verify this data effectively.



Technology and Automation

While some companies have invested in automated data collection systems, many others continue to rely on manual processes, increasing the risk of errors and inefficiencies especially financially. There is growing interest in digital platforms that can automate data gathering, reporting and streamline costs, but implementation remains uneven across industries.

ALIGNMENT WITH MULTIPLE REPORTING STANDARDS

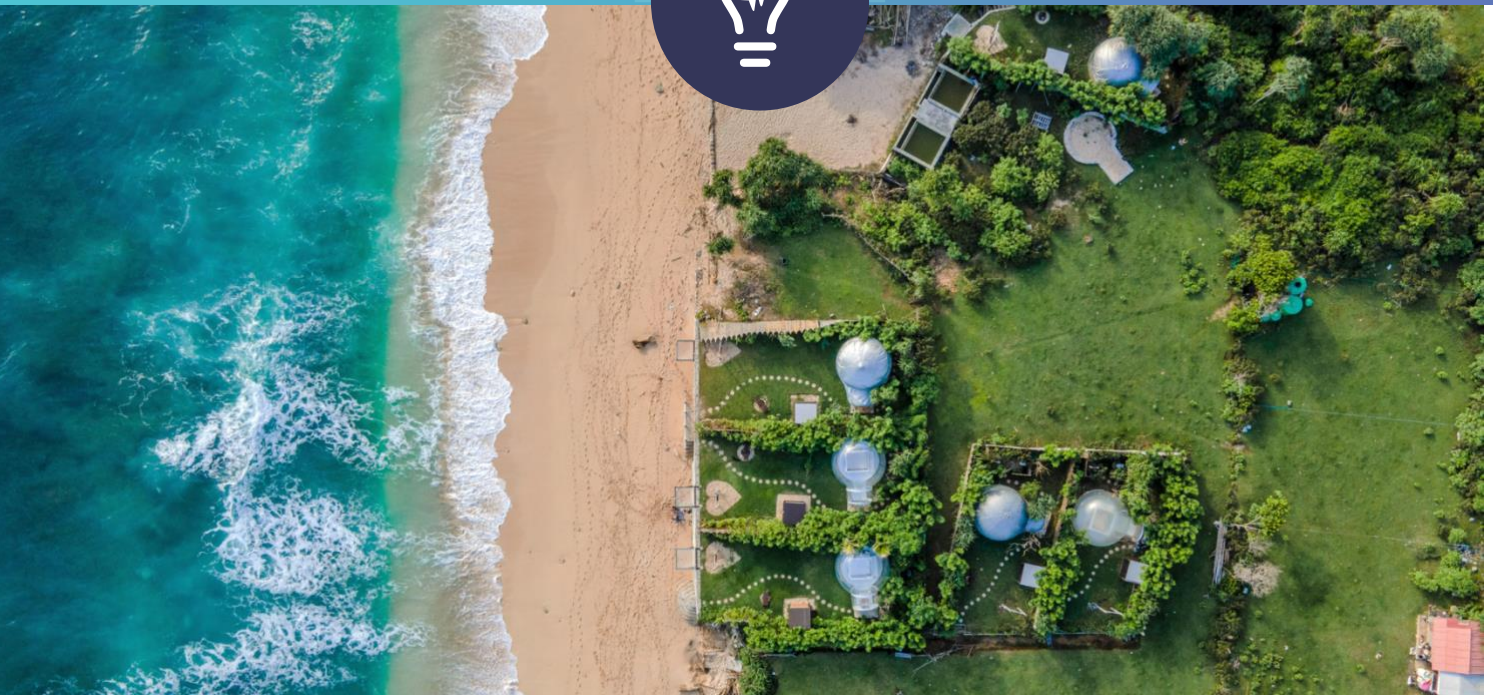
Companies are often required to align their sustainability reporting with multiple frameworks, such as GRI, TCFD, and now the CSRD. This creates significant challenges in ensuring consistency and avoiding duplication of efforts.

Overlapping Standards:

Different frameworks may have overlapping but distinct requirements, leading to confusion. Companies must navigate these differences and ensure their reports are comprehensive while avoiding redundancy.

Global vs. Regional Requirements:

For multinational companies, aligning global sustainability goals with regional requirements, such as the CSRD in Europe, can be a complex task. This is particularly challenging for companies headquartered outside the EU that need to comply with both global and regional regulations.



DOUBLE MATERIALITY



The CSRD's requirement to report under the principle of double materiality presents a conceptual challenge for many companies. While traditional financial reporting focuses on how sustainability issues affect the company, double materiality requires businesses to assess how their activities impact society and the environment.

Understanding Impact:

Many companies struggle to measure and report their broader environmental and social impacts accurately. This includes challenges in quantifying biodiversity impacts, social equity issues, and long-term environmental damage.

Internal Buy-in:

Securing buy-in from various internal stakeholders, including senior management, can be difficult. Sustainability reporting, particularly under double materiality, requires cross-functional collaboration, and many organisations are not structured to facilitate this level of cooperation.

SCOPE 3 EMISSIONS REPORTING



Scope 3 emissions, which include indirect emissions from a company's supply chain, business travel and employee commuting, are notoriously difficult to measure.

Many companies interviewed mentioned that they struggle with collecting reliable Scope 3 data due to the need for cooperation from employees, suppliers and other third parties.

SUPPLIER ENGAGEMENT:

Engaging suppliers and ensuring they provide accurate data on their emissions is a significant challenge, particularly for smaller suppliers that may not have robust sustainability reporting processes in place.

DATA GRANULARITY

Scope 3 emissions data often lacks granularity, making it difficult for companies to assess their actual environmental footprint accurately.

FINANCIAL AND HUMAN RESOURCES

Implementing the CSRD's requirements involves considerable financial and human resource investments. Many companies, particularly SMEs, may lack the budget or personnel to effectively manage sustainability reporting at the required level of detail.

Cost of Compliance:

Companies must invest in new systems, hire sustainability experts, and potentially pay for third-party audits of their sustainability data. This can be a financial burden, particularly for companies that are new to sustainability reporting.

Skill Gaps:

There is a growing need for professionals with expertise in sustainability reporting, data analytics, and compliance. However, many companies report difficulties in attracting and retaining talent with these specialized skills.



The Way Forward: Overcoming Challenges

*Despite the challenges, companies are finding ways to **navigate the complexities** of sustainability reporting. Based on the interviews conducted, the following strategies have been identified as key enablers for **successful reporting under the CSRD**:*



Investment in Technology

Many organisations are turning to digital solutions to streamline their sustainability reporting. Automated data collection systems, such as those provided by Kora Sustainability, help companies gather and verify sustainability data more efficiently. These systems also enable real-time tracking of emissions and other sustainability metrics, improving accuracy and transparency.



Collaborative Approach

Companies that adopt a collaborative approach to sustainability reporting tend to perform better. This includes working closely with suppliers to gather Scope 3 data, engaging employees in sustainability initiatives, and fostering a culture of sustainability throughout the organisation.



Capacity Building

Investing in training and upskilling internal teams is critical. Companies that equip their staff with the knowledge and tools to manage sustainability data and reporting will be better positioned to comply with the CSRD.



Proactive Engagement with Regulators

Companies that engage proactively with regulators and standard-setting bodies can stay ahead of evolving requirements. This includes participating in consultations on sustainability standards and seeking clarification on reporting guidelines where necessary.

CONCLUSION

The CSRD represents a significant shift in the sustainability reporting landscape, and companies face numerous challenges in adapting to its requirements. From data collection and alignment with multiple standards to Scope 3 emissions reporting and managing financial resources, the road to compliance is not easy. However, with the right strategies—investment in technology, collaboration, capacity building, and proactive engagement—businesses can successfully navigate the complexities of sustainability reporting and seize the opportunities that the CSRD presents.

By adopting a proactive and structured approach, companies not only ensure compliance with regulatory standards but also build trust with stakeholders and contribute meaningfully to global sustainability goals.

This white paper was developed by Kora Sustainability, leveraging insights from interviews with industry experts and stakeholders in sustainability reporting. Kora Sustainability provides comprehensive solutions for carbon tracking and sustainability reporting, helping businesses navigate the complexities of sustainability compliance.



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