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Abstract

Purpose: This thesis examines the origins and development of Sustainability Reporting in Europe, culminating with the establishment of the European Sustainability Reporting Standards (ESRS) and the Corporate Sustainability Reporting Directive (CSRD). It explores their integration into corporate reporting practices and their potential impact on corporate strategy. This study aims to understand whether mandatory ESG reporting can create an ecosystem for companies to improve their sustainability performance.
Design/methodology/approach: The research is conducted within the context of an internship at a leading sustainability consulting department.
A qualitative research methodology is employed, integrating immersive observation and participation, systematic document analysis of internal reports, client documentation, academic papers and regulatory texts, and semi-structured interviews with consulting professionals and industry experts to explore their experiences and perceptions.
Inductive Thematic Analysis and Descriptive Coding are used to identify recurring themes and patterns from the qualitative data, providing a comprehensive understanding of the origins and development of the ESRS and the CSRD, their integration into reporting practices, and exploring their relevance for corporate strategy.
Findings: The findings indicate that measuring ESG performance requires robust data collection and assessment methods with Double Materiality Assessments (DMAs) being essential for identifying and prioritizing sustainability topics by addressing both financial and impact materiality. However, the technological tools designed to support and enhance these processes are still under development.
Implementing the CSRD presents significant challenges, primarily related to data quality, transparency, and resource limitations. Companies often struggle with manual data collection processes and the need for specialized sustainability personnel. Establishing effective governance structures and aligning them with strategic goals further complicates compliance efforts.
Emerging trends suggest that the CSRD and ESRS are driving a shift towards integrating sustainability into core business practices.
Research limitations/implications: This study's limitations include its reliance on qualitative data from a specific context. The sample size and diversity of the interview participants are limited, and the evolving nature of ESRS and CSRD means best practices are not yet fully established, as of July 2024. Additionally, potential bias from focusing on specific methodologies and the European regulatory framework might affect the findings, highlighting the need for further research with a broader scope and longer-term perspective.
Practical implications: The practical implications of this research involve providing insights for companies aiming to improve their transparency on sustainability performance through effective reporting. It highlights the importance of developing robust data collection systems, investing in specialized sustainability personnel, and establishing governance structures that align with strategic sustainability goals.
Originality/value: By providing a detailed analysis of the ESRS and CSRD frameworks and their implications for corporate strategy, this research contributes to the growing knowledge on sustainability reporting and offers valuable insights for practitioners, policymakers, and academics in the field of ESG.

Introduction

Sustainability reporting has become a critical component of corporate performance evaluation, based on the criteria of Environmental, Social, and Governance factors. ESG serves as a tool for organizations to systematically assess and disclose their environmental and social impacts and the robustness of their governance mechanisms. The latest World Economic Forum Global Risks Report (2024) identifies climate change as the most severe long-term risk, highlighting how companies play a pivotal role in managing the adverse effects of climate change by building capacity and reporting on climate-related risks, opportunities, and actions. This transparency is essential for setting and achieving climate-related targets, such as those outlined in the Paris Agreement, which aims to limit the global temperature rise to 1.5°C.

The integration of sustainability reporting into corporate practices is driven by shifting consumer and employee preferences towards companies that prioritize sustainability (KPMG 2022). Business leaders face increasing pressure from regulators and the marketplace to demonstrate that their organizations are acting responsibly and sustainably. This is reflected in the adoption of the Corporate Sustainability Reporting Directive by the EU Commission on 21 April 2021, as part of the European Green Deal. On 5 January 2023, the Corporate Sustainability Reporting Directive entered into force. It modernizes and strengthens the rules concerning the social and environmental information that companies have to report. A broader set of large companies, as well as listed Small and Medium-sized Enterprises (SMEs), will now be required to report on sustainability. Some non-EU companies will also have to report if they generate over EUR 150 million on the EU market. The new rules will ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues. Finally, reporting costs will be reduced for companies over the medium to long term by harmonizing the information to be provided (European Commission 2023).

The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025. Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards. The standards are developed in a draft form by the EFRAG, previously known as the European Financial Reporting Advisory Group, an independent body bringing together various different stakeholders. The first set of ESRS was published in the Official Journal on 22 December 2023 under the form of a delegated regulation. These standards apply to companies under the scope of the CSRD regardless of which sector they operate in. They are tailored to EU policies, while building on and contributing to international standardization initiatives. The CSRD also requires assurance on the sustainability information that companies report (European Commission 2023).

Understanding their impact on climate change and aligning mitigation and adaptation efforts with the Paris Agreement's target is crucial for companies. This strategic approach enables businesses to leverage opportunities, mitigate risks, and prepare for changing weather patterns and the decarbonization of value chains (KPMG 2024). Reporting on climate impact and obtaining assurance on reported figures are ways organizations can

demonstrate a verified commitment to sustainability, build trust with stakeholders, and attract sustainable finance.

While environmental considerations are critical, social and governance factors are equally important in ensuring comprehensive sustainability reporting. Social factors include a company's impact on people, such as human rights, labor practices, community relations, and diversity and inclusion. Strong governance structures ensure accountability, transparency, ethical behavior, and sound management practices. Research has shown that companies with robust social and governance practices tend to perform better financially and have lower risks of scandals and legal issues (Eccles et al., 2014).

Social aspects of ESG reporting address issues such as employee relations, diversity, community involvement, and human rights. Companies that perform well on social criteria tend to have higher employee satisfaction, lower turnover rates, and stronger community relations, which can translate into better financial performance and a stronger brand (Grewatsch & Kleindienst, 2017). Governance factors include the structures, policies, and practices that ensure a company is managed in the best interests of its shareholders and stakeholders. Good governance practices include transparent reporting, ethical decision-making, and accountability mechanisms, which are essential for long-term success and investor confidence (OECD, 2021).

This thesis explores the origins and development of the ESRS and the CSRD, their integration into corporate reporting practices, and their potential impact on corporate strategy. The primary research question guiding this study is:

"How does Sustainability Reporting impact Corporate Strategy in Europe?"

The sub-questions examine:

1. “How is a company’s ESG performance currently measured?”
2. “What are the key challenges faced by companies in implementing the EU’s Corporate Sustainability Reporting Directive?”
3. “How can mandatory reporting under ESRS influence corporate decision-making and strategy?”

This research is conducted within the context of an internship at a Big4 Sustainability Reporting and Assurance department. It employs qualitative methods, including document analysis, ethnographic experiences, and semi-structured interviews, to obtain practical insights and inform the study's conclusions.

By integrating these findings within the theoretical frameworks of Stakeholder Theory and Institutional Theory, the study aims to provide a comprehensive understanding of the regulatory impacts on corporate behavior. It also offers guidance for future research on effectively incorporating ESRS and CSRD into companies’ sustainability reporting and strategies.

The study not only aims to contribute to academic literature but also to provide insights for practitioners seeking to navigate the evolving landscape of sustainability reporting. As organizations are facing increasing regulatory demands and stakeholder expectations, this research highlights the importance of integrating robust ESG practices into corporate strategies to build resilient businesses and contribute to a sustainable world.

1) Literature review: Origins and Development of the Sustainability Reporting Ecosystem

In the evolving landscape of corporate accountability and transparency, various frameworks have emerged to guide organizations in reporting their sustainability and non-financial impacts. This literature review provides an overview of the development and integration of key reporting frameworks, including Sustainability Reporting, Integrated Reporting, Climate Reporting and Non-Financial Reporting. The historical progression of these frameworks (Figure 1) illustrates ongoing efforts to align and standardize reporting practices globally. However, this research focuses specifically on the European context, particularly under the governance of the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards.

Figure 1: Timeline of Reporting Frameworks
(Source: Author's own elaboration)

The journey from voluntary guidelines to mandatory requirements reflects the increasing importance of transparent and comprehensive reporting on ESG factors. Initially driven by frameworks such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC), the field has progressively moved towards more robust and standardized directives. These developments helped shaping how companies disclose their sustainability impacts and integrate ESG considerations into their strategic decision-making processes.

Central to this exploration is the CSRD, a landmark directive in the European Union that significantly expands and enhances the reporting requirements of its predecessor, the Non-Financial Reporting Directive. Alongside the CSRD, the ESRS provide detailed guidelines to ensure that reported information is consistent, comparable, and reliable. This review examines the complexities of these frameworks, their historical context, and their implications for companies operating within the EU, highlighting the shift towards a more standardized and mandatory reporting landscape. By tracing the origins and development of these reporting frameworks, the aim is to provide a comprehensive understanding of the current regulatory environment and its impact on corporate reporting practices in Europe.

The evolution from non-financial indicators to comprehensive sustainability reporting within the EU's accounting directives began with the Modernization Directive (2003/51/EC), integrating non-financial key performance indicators into management commentaries and auditor reports (EU Commission, 2021d). This directive aimed to align national accounting practices with International Financial Reporting Standards (IFRS) and enhance reporting on environmental and employee matters to provide clearer insights into company development and performance. The subsequent NFRD (2014/95/EU) specifically linked non-financial reporting to sustainability accounting practices, expanding reporting obligations to cover environmental, social, and employee-related aspects (EU Commission, 2021d). Building on these foundations, the CSRD significantly expands and enhances the reporting requirements established by the NFRD. The CSRD requires a broader set of companies, including large companies and listed SMEs, to provide detailed information on sustainability matters, ensuring that stakeholders have access to consistent, comparable, and reliable data on ESG factors (European Commission, 2023).

1.1) Different Frameworks with diverse objectives

Sustainability reporting has grown into a complex practice, guided by different frameworks and standards designed to increase transparency and accountability. The literature review conducted by Baumüller & Sopp (2022) identifies four primary concepts in sustainability reporting: Sustainability Reporting aligned with the Global Reporting Initiative standards, Integrated Reporting promoted by the International Integrated Reporting Council, Non-financial Reporting under the EU's Non-Financial Reporting Directive (2014/95/EU), and Climate Reporting supported by the Task Force on Climate-related Financial Disclosures (TCFD). Efforts to align these frameworks emphasize a comprehensive corporate reporting framework centered around "dynamic materiality", accommodating diverse interpretations of materiality based on different stakeholder needs (Baumüller & Sopp, 2022).

1.1.1) Sustainability Reporting

The United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro in 1992, marked a pivotal moment in the history of sustainability reporting. It established a platform for global interaction between developed and developing countries, governments, and society, leading to the formation of the Sustainable Development Commission. This commission's mandate to encourage, support, and monitor sustainable development efforts laid the groundwork for ESG reporting frameworks. Building on the Earth Summit's momentum, John Elkington introduced the Triple Bottom Line (TBL) approach in 1998, which emphasized measuring organizational performance not only by financial profits but also by social and environmental impacts. Known as the 3P (People, Planet, Profit) measurement system, the TBL approach underscored the need for organizations to integrate social and environmental considerations into their economic activities, significantly influencing the evolution of ESG reporting (Gokten et al., 2020).

The establishment of GRI in 1997 marked a significant step toward institutionalizing sustainability reporting. Supported by the United Nations Environment Programme (UNEP), the GRI aimed to create a comprehensive environmental reporting framework, which later expanded to include economic and social impacts. The GRI system is modeled after generally accepted accounting principles (GAAP), which provide ways to simplify and unify conflicting accounting methodologies. Similarly, the GRI puts Triple Bottom Line reporting into a format that promotes clarity, accuracy, usefulness, comparability, and influence. The GRI guidelines help an organization manage its overall impact on the Triple Bottom Line, as it can improve the quality and transparency of sustainability reporting and provide a reasonable and balanced presentation of performance. (Stenzel, 2010). By 2002, the GRI became an independent entity headquartered in Amsterdam, reflecting its commitment to sustainability reporting.

The GRI Standards are structured into three main sets to cater to diverse reporting needs across industries. The first set, known as Universal Standards, includes GRI 1: Foundation, GRI 2: General Disclosures, and GRI 3: Material Topics. These standards lay down fundamental reporting principles, governance frameworks, and materiality assessments essential for comprehensive sustainability reporting. They encompass economic, environmental, social, and governance aspects, providing a structured approach that ensures organizations disclose pertinent information relevant to their operations and impacts (GRI, 2022c).

Moreover, the GRI Standards incorporate Topic Standards and Sector Standards to address specific issues and sectoral challenges. Topic Standards delve deeper into particular sustainability topics such as water and greenhouse gas emissions, offering detailed guidance on measuring and reporting these metrics. Sector Standards are tailored to industry-specific needs, aligning with the nuances and priorities of sectors ranging from finance to manufacturing. This tiered approach enables organizations to report on sustainability in a manner that is both standardized and customized to their operational context (GRI, 2022c).

1.1.2) Integrated Reporting

Integrated Reporting was born out of the need to address the limitations of traditional financial reporting, which often failed to capture the full spectrum of factors affecting an organization's ability to create value over time. The push for a more holistic approach began in the early 2000s, with various stakeholders recognizing the importance of including non-financial metrics in corporate reporting. This culminated in the formal establishment of the IIRC in 2010, bringing together leaders from corporate, investment, accounting, regulatory, and academic sectors to develop a new reporting framework (IIRC, 2013).

Despite criticisms for oversimplifying sustainability issues, the IIRC aimed to create a globally accepted Integrated Reporting framework. By December 2013, the IIRC published the 'International Integrated Reporting (IR) Framework,' advocating concise communications on organizational value creation over time, bridging gaps in sustainability reporting. IR, as defined by the IIRC, expands value beyond financial profit to include societal and environmental impacts, challenging traditional shareholder-focused models by incorporating various capitals crucial for long-term value creation. The framework's principles, which are strategic focus, stakeholder relationships, materiality, and reliability, guide organizations in balancing financial returns with broader societal benefits and sustainability (Morros, 2016).

IR has gained prominence as a framework aiming to unify financial and nonfinancial dimensions of organizational performance to bolster transparency and accountability (Lai et al., 2016). Rooted in the concept of accountability in corporate reporting, which emphasizes transparency and justification for organizational conduct according to Lai et al. (2016), IR expands this notion by requiring organizations to articulate how their strategy, governance, performance, and future prospects contribute to value creation over time (IIRC, 2013a). This narrative-based approach seeks to engage stakeholders beyond traditional financial metrics, promoting transparency and fostering dialogue.

Research supports IR's narrative approach, highlighting its potential to enhance stakeholder engagement and address communication challenges (Higgins et al., 2014; Lai et al., 2016). Since its inception with the establishment of the IIRC in 2010, voluntary adoption of IR has grown, aiming to simplify reporting while offering insights into value creation beyond financial statements. The IIRC's framework (IIRF), introduced in 2013, defines IR as a concise portrayal of an organization's strategy, governance, performance, and prospects within its external context, emphasizing clarity and plain language (IIRC, 2013a). The IIRF identifies three fundamental concepts: the value creation process, the capitals, and value creation for the organization and others. The capitals include financial, manufactured, intellectual, human, social and relationship, and natural capital, which are all essential for an organization's long-term value creation. The framework encourages organizations to report on their impact on these capitals, highlighting the interconnectedness of financial and non-financial performance (Morros, 2016).

Critics argue that IR's focus on financial capital providers may restrict its accountability to broader stakeholder groups and sustainability concerns (Flower, 2015). Despite incorporating nonfinancial capitals (manufactured, intellectual, human, social, relationship, natural), IR's primary emphasis on financial value creation and materiality

to investors suggests a bias towards market-oriented stakeholders (de Villiers et al., 2016). IR encourages dialogue with diverse stakeholders beyond financial providers, recognizing their legitimate interests, yet studies suggest IR's actual accountability to non-financial stakeholders remains limited, prioritizing investor needs (Milne & Gray, 2013).

1.1.3) Climate Reporting

The Task Force on Climate-related Financial Disclosures was established in December 2015 by the Financial Stability Board (FSB). The FSB is an international body that monitors and makes recommendations about the global financial system. The formation of the TCFD was a response to increasing recognition of the financial implications of climate change. The TCFD was tasked with developing a set of voluntary, consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders (TCFD, 2017).

In April 2016, the TCFD released its first report outlining the scope and objectives of its work. This initial document underscored the need for improved climate-related information to support informed investment, credit, and insurance underwriting decisions. It also highlighted the importance of transparency in pricing risk, including risks associated with climate change. Later in 2016, the TCFD issued a public consultation document to gather feedback on its initial recommendations. The consultation was pivotal in refining the framework to ensure it met the diverse needs of stakeholders across different sectors (TCFD, 2016).

June 2017 marked the release of the TCFD's final recommendations. These recommendations provided a clear and consistent framework for companies to disclose climate-related risks and opportunities. The framework is structured around four thematic areas (Figure 2): governance, strategy, risk management, and metrics and targets. Each of these areas is designed to help organizations disclose information that investors, lenders, and insurance underwriters need to assess and price climate-related risks appropriately. The final recommendations were widely anticipated and represented a significant step forward in climate-related financial disclosure (TCFD, 2017).

Figure 2: TCFD Framework
(Source: Financial Stability Board. (n.d.))

Following the release of the final recommendations, the TCFD garnered widespread support from organizations worldwide. By September 2018, over 500 organizations had expressed their support for the TCFD, including some of the world's largest financial institutions and corporations (FSB, 2018). In 2019, the TCFD published a status report assessing the progress of adoption and implementation of its recommendations. This report highlighted significant advancements but also noted that there was still much work to be done to improve the quality and quantity of climate-related financial disclosures (TCFD, 2019).

Support for the TCFD's recommendations continued to grow, and by 2020, over 1,500 organizations had endorsed the TCFD. During this period, the TCFD also released additional guidance to assist companies in implementing its recommendations, including detailed guidance on scenario analysis and metrics. In 2021, the TCFD issued another status report, emphasizing the increasing adoption of its recommendations and the improvement in the quality of disclosures. The report also noted that regulatory bodies in several jurisdictions were starting to incorporate the TCFD recommendations into their disclosure requirements, further embedding them into the financial reporting landscape (TCFD, 2021).

The development of the TCFD represents a significant milestone in the effort to enhance climate-related financial disclosures. By providing a clear and consistent framework, the TCFD has facilitated better understanding and management of climate-related risks and opportunities by companies, investors, and other stakeholders. The continued adoption and implementation of the TCFD recommendations are crucial in driving transparency and informed decision-making in the context of climate change.

Several review studies have critically analyzed the Task Force on Climate-related Financial Disclosures framework from different perspectives, acknowledging both the challenges and opportunities it presents for managing climate-related risks. These studies emphasize the significant need for the TCFD framework and its practical implications. For instance, Nisanci (Global Head of Public Policy at Bloomberg L.P., 2021) explains the emergence of the TCFD framework, particularly its impact on the financial sector, including insurance firms, banks, asset managers, and asset owners. Nisanci also outlines how existing frameworks align with TCFD recommendations, suggesting the potential for widespread adoption across various sectors. This alignment with other frameworks, such as those by the Carbon Disclosure Project, Climate Disclosure Standards Board, GRI, IIRC, and Sustainability Accounting Standards Board (SASB), aims to reduce the administrative burden of climate-related disclosures (TCFD, 2021a).

Edwards et al. (2020) reviewed the implementation of the TCFD framework, providing recommendations for the public sector. They argue that while the TCFD's recommendations are not a comprehensive solution for mitigating climate risks, understanding the framework's strengths, limitations, and dependencies is crucial for successful implementation. Myers (2019) highlights the slow adoption of the TCFD framework, attributing it to its voluntary nature. Myers suggests that a mandatory, rules-based framework could enhance climate-related financial disclosures' effectiveness, with new legislation potentially needed to enforce such requirements. Despite many developed countries adopting a voluntary approach, France and Japan have

implemented mandatory disclosure aligned with TCFD recommendations (IFC, 2018a; 2018b).
Additional studies have explored the role of central banks and financial regulators in implementing the TCFD framework. Park and Kim (2020) discuss the potential adverse impacts of climate change on financial stability and the banking sector's role in facilitating low-carbon transactions. They argue for a more proactive stance from central banks and financial regulators to support low-carbon projects. Chenet et al. (2021) further emphasize the finance sector's critical role, suggesting a precautionary policy framework to mitigate financial stability risks associated with climate change. This framework would enhance current climate-related financial disclosure practices, making them standardized and compulsory rather than voluntary.

1.1.4) Non-Financial Reporting

The Non-Financial Reporting Directive, formally known as Directive 2014/95/EU, was introduced by the European Union in 2014 to enhance transparency and accountability in corporate reporting on social and environmental issues. The NFRD requires large public-interest entities, such as listed companies, banks, and insurance companies with more than 500 employees, to disclose non-financial information as part of their annual reporting obligations. This directive marked a significant step toward integrating non-financial metrics into traditional financial reporting frameworks, acknowledging the increasing importance of ESG factors in corporate performance evaluation (European Commission, 2014).
The primary objective of the NFRD is to provide stakeholders, including investors, consumers, policymakers, and civil society, with relevant information on the non-financial aspects of a company's operations. This includes details on environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery matters, and diversity on company boards. By mandating the disclosure of such information, the NFRD aims to foster sustainable and responsible business practices across the EU, helping stakeholders make informed decisions and encouraging companies to be more accountable for their societal and environmental impacts (European Commission, 2014).
The introduction of the NFRD reflects a growing recognition of the need for businesses to contribute to sustainable development. It represents a shift towards a more holistic approach to corporate reporting, where financial performance is considered alongside social and environmental impacts. By moving from voluntary to mandatory reporting, the directive ensures that all relevant companies consistently disclose non-financial information, thereby increasing transparency and accountability across the board. This transition is crucial as it guarantees that sustainability considerations are not optional but integral to corporate operations, driving companies to be more responsible and aligning their activities with broader societal goals. The directive also aligns with broader EU policies aimed at promoting sustainable growth and a more inclusive economy, contributing to the EU's commitment to the Paris Agreement and the United Nations Sustainable Development Goals (European Commission, 2017) .
Aureli et al. (2020) examine the effects of EU Directive 2014/95/EU on corporate reporting strategies and Corporate Governance practices through a case study of an

Italian company. The Directive elicited varied organizational responses shaped by legislative pressures and stakeholder expectations. While initial compliance was essential, the company's adaptation extended beyond mere adherence to align with its existing values and stakeholder demands. Over time, motivations driving corporate behavior evolved from seeking legitimacy to integrating economic considerations, reflecting a nuanced response to institutional pressures.
The study underscores the interplay between institutional and resource dependence theories in shaping corporate reactions to regulatory changes, elucidating strategic adjustments and tactical maneuvers within the institutional environment. Notably, Internal Audit emerged as crucial in implementing sustainability practices, expanding its role beyond traditional assurance to include strategic oversight and organizational development. This transformation, driven by regulatory mandates, highlights the dynamic nature of corporate governance practices in response to external regulatory requirements and internal organizational dynamics. Despite its valuable insights, the study acknowledges limitations inherent in single-case research and calls for broader empirical validation across diverse organizational contexts to generalize findings and deepen understanding of regulatory impacts on nonfinancial reporting and governance practices (Aureli et al., 2020).
In a similar study, Cho et al. (2020) found that disclosing sustainability-related information positively influences stakeholder assessments and market reactions, lowers firms' cost of equity capital, and reduces earnings forecast errors. However, heightened reporting obligations may not necessarily enhance transparency, as companies might selectively disclose unfavorable information. Materiality plays a significant role in shaping the scope and effectiveness of sustainability reporting, yet its application often remains ambiguous, potentially leading to strategic topic selection (Baumüller & Sopp, 2022).

1.2) Towards Comparability

The concept of double materiality emerged as a crucial framework to address global sustainability challenges such as the Sustainable Development Goals and the Paris Agreement (EU Commission, 2019). This concept was further advocated by the High-Level Expert Group on Sustainable Finance (HLEG), established by the European Commission in 2016, with the objective of developing a comprehensive strategy on sustainable finance for the EU. The HLEG was composed of experts from civil society, the finance sector, and academia, working to integrate sustainability into the financial system and promote sustainable investment practices.
The HLEG's primary objectives included advising on how to steer the flow of public and private capital towards sustainable investments, identifying steps to protect the stability of the financial system from environmental risks, and enhancing transparency and long-termism in financial and economic activities (EU Commission, 2018). To achieve these goals, the HLEG emphasized the importance of aligning the NFRD with the TCFD guidelines. This alignment aimed to integrate financial materiality for investors with environmental and social materiality for broader stakeholders, ensuring that companies report not only the financial impacts of sustainability risks but also their impacts on society and the environment (EU Commission, 2019).

The consultation and subsequent review of the NFRD highlighted broad support for the double materiality approach, despite concerns from companies about the potential regulatory burden. The double materiality concept requires companies to disclose information necessary for investors to understand the financial implications of sustainability risks (financial materiality) and information needed by other stakeholders to understand the company's impacts on society and the environment (environmental and social materiality) (EU Commission, 2020c). This comprehensive approach aims to enhance transparency and accountability in corporate reporting, ultimately contributing to more sustainable business practices and informed decision-making by investors and other stakeholders.
The revision process led to the proposal of the Corporate Sustainability Reporting Directive, which supersedes the NFRD and introduces "sustainability reporting" in place of "non-financial reporting" (EU Commission, 2021). This directive integrates financial and non-financial aspects to provide a holistic view of company impacts, aligning with Integrated Reporting principles and TCFD guidelines (European Lab, 2021).
The shift towards sustainability reporting in EU directives reflects a progressive approach towards enhancing corporate responsibility and transparency. While these regulatory advancements aim to improve reporting quality and consistency, challenges remain in effectively applying materiality principles and balancing compliance costs with stakeholder expectations (Adams and Abhayawansa, 2021). Companies navigating these changes must adapt reporting practices to meet evolving regulatory standards, potentially transforming their management and operational strategies (EU Commission, 2018a).

1.2.1) International Sustainability Standards Board (ISSB)

The development of these standards started with a pivotal announcement by the IFRS Foundation Trustees in May 2020, signaling their intent to establish comprehensive sustainability reporting standards (IFRS Foundation, 2020a). This initiative gained further momentum through a consultation paper released in September 2020, which underscored the necessity for global standards to enhance comparability and reduce reporting complexity across companies (IFRS Foundation, 2020b).
In a collaborative effort towards comprehensive corporate reporting, prominent sustainability reporting standard-setters, including the Carbon Disclosure Project, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, and the Sustainability Accounting Standards Board, expressed their commitment in November 2020 (CDP, CDSB, GRI, IIRC & SASB, 2020). This collective initiative culminated in the consolidation of the IIRC and SASB into the Value Reporting Foundation (VRF) in June 2021, aiming to streamline and enhance sustainability reporting practices (IFRS Foundation, 2021a). Subsequently, at COP26 in November 2021, the IFRS Foundation Trustees announced their integration with the VRF and the CDSB, forming the International Sustainability Standards Board (ISSB) (IFRS Foundation, 2021c). The ISSB's primary objective is to establish a global baseline for sustainability disclosures targeted at financial markets, emphasizing transparency and comparability (IFRS Foundation, 2021c).

Turning to the Scope and Structure of the Standards, the IFRS Sustainability Disclosure Standards comprise two main components: General Requirements (IFRS S1) and climate-related disclosures (IFRS S2) (IFRS Foundation, 2023b). IFRS S1 provides overarching guidelines for sustainability disclosures aimed at primary users of general-purpose financial reporting: investors, lenders, and creditors (IFRS Foundation, 2023d). These standards incorporate principles from the TCFD and align with materiality concepts defined in frameworks such as the ESRS (see section 1.2.3). Key components of IFRS S1 include governance, strategy, risk management, metrics, and targets related to sustainability, along with principles of fair presentation and connectivity with other disclosures in financial reports.

IFRS S2 specifically focuses on climate-related disclosures, addressing both physical and transition risks across various industries (IFRS Foundation, 2023e). This component mirrors the structure of IFRS S1 and includes cross-industry metrics like greenhouse gas emissions, as well as sector-specific metrics developed in collaboration with the SASB for eleven key sectors (IFRS Foundation, 2023f).

The ISSB emphasizes compatibility with multi-stakeholder reporting standards and jurisdictional requirements, facilitating alignment with frameworks like the GRI Standards (GRI, 2023a). Companies are encouraged to utilize ESRS or GRI Standards for disclosures beyond the scope of the IFRS Sustainability Disclosure Standards, provided these disclosures meet investor information needs and align with the broader objectives of the IFRS Foundation (IFRS Foundation, 2023f).

1.2.2) Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive, introduced by the European Commission in April 2021, marks a significant evolution from the Non-Financial Reporting Directive of 2014, aiming to address perceived limitations in sustainability reporting across the EU (European Commission, 2021d). Designed as part of the Sustainable Finance and Green New Deal initiatives, the CSRD expands the scope of reporting obligations to encompass a broader range of companies and transitions from "non-financial" to "sustainability" reporting to enhance clarity and specificity (European Lab, 2021; Baumüller & Grbenic, 2021).

Following the recommendations behind the proposal of the Directive, one of the key enhancements under the CSRD is the adoption of the principle of "double materiality," requiring companies to disclose both the financial impacts of sustainability issues on their business and the business impacts on sustainability (Baumüller & Sopp, 2022). This shift aims to integrate sustainability considerations more closely with corporate strategies and improve transparency in governance practices, responding to criticisms of the NFRD's vagueness and limited scope (Alliance for Corporate Transparency, 2020).

The directive mandates a phased approach to implementation (Figure 3), with companies previously subject to the NFRD required to comply starting from their 2024 reporting cycles, while newly encompassed entities must adhere beginning in 2025 (European Commission, 2021d). Standardization efforts are overseen by the European Financial Reporting Advisory Group (EFRAG), now a designated standard setter, aimed at ensuring consistency and depth in reporting across environmental, social, and governance dimensions (European Lab, 2021).

Governance enhancements include extending responsibilities of management and supervisory boards to encompass sustainability reporting, with mandatory external assurance initially requiring "limited assurance" audits, aimed at future alignment with "reasonable assurance" akin to financial reporting standards (European Commission, 2021b). Despite these advancements, challenges remain in harmonizing CSRD requirements with international standards and ensuring effective implementation by reporting entities (Accountancy Europe, 2020).

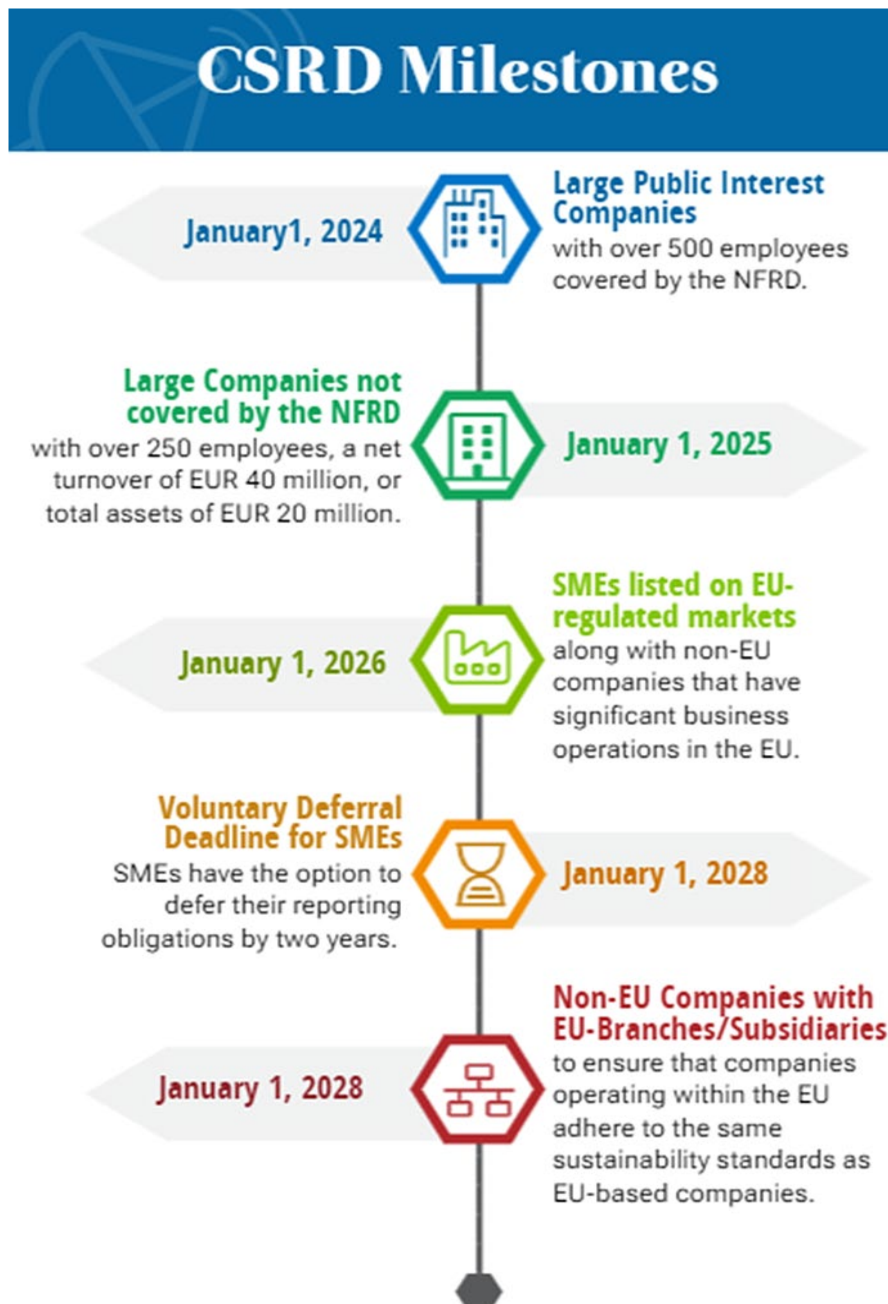

Figure 3: CSRD Key Milestones
(Source: Author's own elaboration)

In conclusion, the CSRD represents a robust step forward in enhancing sustainability reporting within the EU, departing significantly from the voluntary provisions of the NFRD. While it addresses critical deficiencies, including reporting depth and transparency, the directive introduces complexities and compliance burdens that necessitate substantial investments by affected companies. Its global implications highlight the need for organizations worldwide to assess and adapt to evolving regulatory landscapes, balancing compliance with emerging business opportunities (European Lab, 2021; KPMG, 2020).

1.2.3) European Sustainability Reporting Standards (ESRS)

Initiated by the European Commission in January 2020, the development of the European Sustainability Reporting Standards was entrusted to the EFRAG. Under the leadership of Jean-Paul Gauzès, preparatory work led to the establishment of the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) and subsequent governance reforms within EFRAG (EFRAG, 2022a, 2022b).
The ESRS encompass a comprehensive range of standards aimed at setting a benchmark for sustainability reporting across the European Union. Adopted in July 2023 through a delegated act, the ESRS mandate a double materiality approach, assessing impacts on both the company and the environment. This approach is facilitated through cross-cutting standards (ESRS 1 and ESRS 2), which outline general reporting requirements and disclosures. These standards integrate metrics and targets aligned with other EU directives to ensure consistency and comparability in reporting practices (European Commission, 2023d).
The ESRS are a critical part of the regulatory landscape established under the CSRD. These standards are designed to enhance the quality, consistency, and comparability of sustainability information disclosed by companies, making it easier for stakeholders to assess corporate contributions to ESG objectives.
The ESRS framework includes ESRS 1 and ESRS 2, which provide general requirements and disclosures, respectively, as well as Topical Standards that cover specific ESG issues in greater detail (Figure 4). Together, these components ensure a comprehensive approach to sustainability reporting.

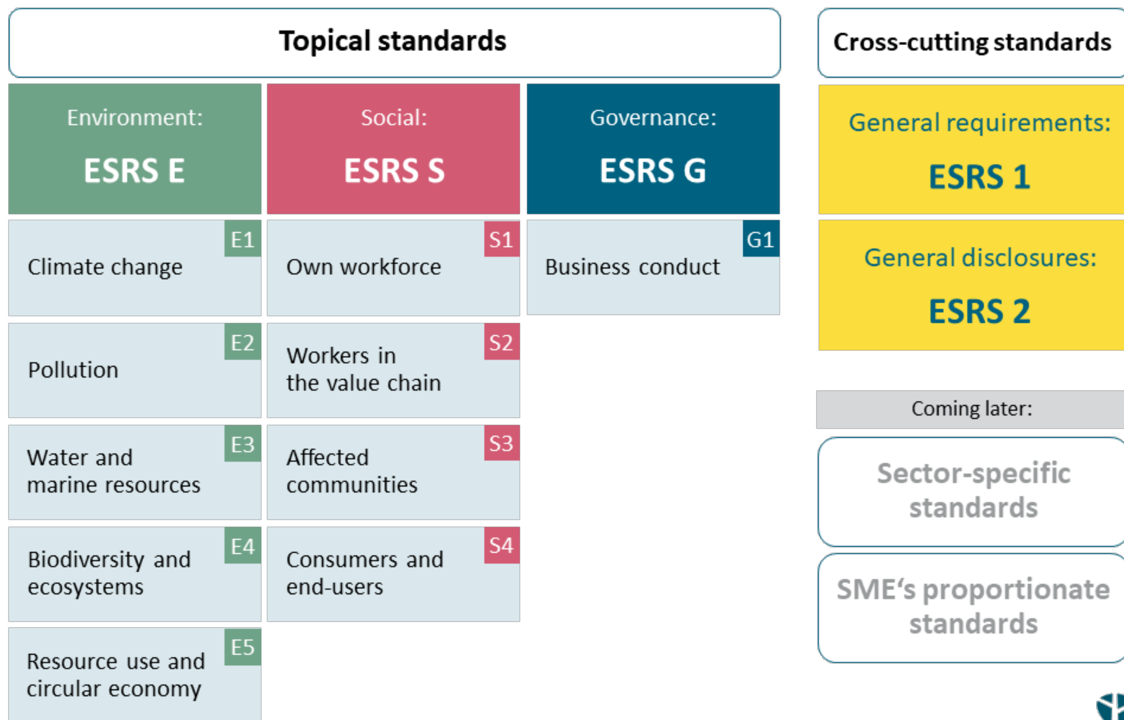

Figure 4: ESRS Framework
(Source: ***Denkstatt.*** *(n.d.))*

ESRS 1*: General Requirements* lays down the foundational principles for sustainability reporting, guiding companies on how to prepare their reports. This standard emphasizes the importance of materiality assessment, which involves identifying and reporting on sustainability topics that are significant to the company and its stakeholders. Companies are required to consider both the financial impact of sustainability issues and their broader impact on society and the environment, a concept known as double materiality (EU Commission, 2021).

The reporting principles outlined in ESRS 1, such as relevance, faithful representation, comparability, verifiability, and understandability, ensure that the information disclosed is useful and reliable. These principles help maintain the integrity and quality of sustainability reports, making them valuable tools for stakeholders.

ESRS 2*: General Disclosures* specifies the general disclosures that companies must include in their sustainability reports. These disclosures cover a broad range of topics, including governance, strategy, risk management, and metrics and targets. For instance, companies must provide details about their governance structure, including the roles and responsibilities of the board and management in overseeing sustainability issues. They also need to outline their strategies for managing sustainability risks and opportunities and how these are integrated into their overall business strategy (EFRAG, 2021).

In terms of risk management, companies must disclose the processes they use to identify, assess, and manage sustainability-related risks, and how these risks are monitored over time. Additionally, ESRS 2 requires companies to report on specific metrics and targets used to measure and manage sustainability performance. This includes both quantitative data on key performance indicators and qualitative descriptions of targets and progress.

The **Topical Standards** within the ESRS framework provide detailed reporting requirements for specific ESG issues, ensuring comprehensive coverage of all relevant topics. These standards are divided into environmental, social, and governance categories:

- Environmental Standards: These include standards such as ESRS E1 (Climate Change), ESRS E2 (Pollution), ESRS E3 (Water and Marine Resources), ESRS E4 (Biodiversity and Ecosystems), and ESRS E5 (Resource Use and Circular Economy). Companies must disclose information on environmental impacts like greenhouse gas emissions, energy consumption, water usage, and waste management (EFRAG, 2021).
- Social Standards: These standards focus on the company's impact on employees, communities, and other stakeholders. Disclosures cover labor practices, human rights, health and safety, and community engagement. Examples include ESRS S1 (Own Workforce), ESRS S2 (Workers in the Value Chain), ESRS S3 (Affected Communities), and ESRS S4 (Consumers and End-users) (EFRAG, 2021).
- Governance Standards: Governance standards address corporate governance practices, including anti-corruption measures, board diversity, and executive compensation. Key standards include ESRS G1 (Business Conduct) (EFRAG, 2021).

1.3) Comparison Between ESRS and ISSB

Hummel & Jobst (2024) conducted a comparative analysis of the European Sustainability Reporting Standards and the IFRS Sustainability Disclosure Standards, highlighting significant differences. While the IFRS Standards primarily focus on investors, emphasizing financial materiality and enterprise value, the ESRS cater to a broader range of stakeholders. This includes addressing financial materiality for investors and environmental and social materiality for a wider audience, aligning with the concept of double materiality, which considers impacts on both the company and society (Adams & Mueller, 2022).

Understanding these differences in focus and stakeholder engagement in sustainability reporting is further enriched by examining the historical development and strategic roles of key institutional actors involved in the standard-setting process, as discussed by Giner and Luque-Vílchez (2022). Their article ‘*A commentary on the “new” institutional actors in sustainability reporting standard-setting: a European perspective’* provides a comprehensive examination of the roles and strategies of institutional actors in sustainability reporting standard-setting. They focus on the European Commission/European Financial Reporting Advisory Group (EC/EFRAG) and the International Financial Reporting Standards Foundation. The article traces the historical development of these entities, detailing the EC's involvement in financial accounting regulation within the EU and EFRAG's role in endorsing International Financial Reporting Standards. The IFRS Foundation, originally focused on financial transparency, expanded into sustainability reporting to meet global demands for standardized frameworks.

Key differences between EC/EFRAG's Corporate Sustainability Reporting Directive and the IFRS Foundation's International Sustainability Standards Board are highlighted. The CSRD emphasizes inclusivity and societal impact, targeting a broad audience including investors, NGOs, and the public. It adopts a double materiality perspective, requiring companies to report on both the impacts of sustainability issues on their operations and their societal and environmental impacts. In contrast, the ISSB takes a primarily investor-oriented approach, initially focusing on financial materiality, particularly climate-related risks.
Another critical difference lies in the legal character of the standards. The IFRS Sustainability Disclosure Standards, coordinated with the International Organization of Securities Commissions (IOSCO), are set to become mandatory for companies listed on member stock exchanges following IOSCO's endorsement of IFRS S1 and S2 in July 2023. Conversely, the ESRS are mandatory under the Corporate Sustainability Reporting Directive and have been adopted as delegated acts within the EU (IFRS Foundation, 2022; IOSCO, 2023).
The standards also diverge in terms of the sustainability matters covered and the location of reporting. The IFRS standards currently emphasize climate-related information, while both the ESRS and the GRI Standards cover a wider array of sustainability issues. The ESRS requires disclosures to be included within the management report, whereas the IFRS Standards specify the management commentary or a similar report within the financial report as potential locations for sustainability disclosures. The management commentary is under revision by the IASB, which could affect its role in sustainability disclosure in the future (EFRAG, 2023; IFRS Foundation, 2022).
Hummel & Jobst, 2024 also discussed the interoperability efforts between the ESRS, IFRS Sustainability Disclosure Standards, and GRI Standards. At COP27, the ISSB highlighted its goal of maximizing interoperability between these frameworks, allowing for ESRS disclosures to be followed when an identified sustainability-related risk is not covered by IFRS standards. Both EFRAG and the IFRS Foundation have entered collaborative arrangements with the GRI to achieve interoperability between the standards. This collaboration aims to create a comprehensive corporate reporting regime that includes both impact reporting and sustainability-related financial reporting. The European Commission's delegated act for the first set of ESRS emphasizes this interoperability (GRI, 2023a; EFRAG, 2023b; European Commission, 2023). Ultimately, while the EC/EFRAG and IFRS Foundation pursue distinct paths, their collaborative efforts are crucial for establishing credible and effective global standards that enhance transparency, accountability, and sustainability in corporate reporting practices worldwide (Giner & Luque-Vílchez, 2022).

1.4) New Professional Area: Sustainability Reporting Managers

As organizations increasingly prioritize sustainability, the emergence of dedicated roles such as Sustainability Reporting Managers (SRM) highlights the evolving nature of materiality in reporting practices.
Canning et al. (2019) explore the challenges of applying the concept of materiality from financial auditing to sustainability assurance. In financial audits, materiality is a key principle used to plan audits and assess whether financial statements present a true and

fair view, often through quantifiable measures to identify significant errors or omissions. However, in the context of sustainability reporting, materiality extends beyond financial impacts to include economic, environmental, and social issues, affecting a broader range of stakeholders (Eccles et al., 2012). This expansion necessitates a greater reliance on qualitative judgment and a nuanced understanding of stakeholder needs, which are inherently more diverse and less precisely defined than in financial contexts (Moroney and Trotman, 2016).

This shift in the understanding of materiality not only influences how sustainability assurance is approached but also differentiates the roles of various types of firms in providing sustainability reporting services.

Edgley et al. (2015) found that non-accounting firms often adopt a consultancy rationale, providing advice on environmental systems and adopting an issues-focused approach. In contrast, accounting firms tend to be driven by liability concerns, focusing on reducing assurance risks through a professional logic. These differing perspectives highlight the evolving nature of materiality in sustainability assurance and the need for collaborative synergies between accounting and non-accounting assurors to effectively operationalize materiality in this context. Overall, the transfer of materiality from financial auditing to sustainability assurance involves reinterpreting the concept to address the broader and more varied impacts on stakeholders, requiring a nuanced and context-sensitive approach (Canning et al., 2019).

The literature review by Farooq and de Villiers (2019) highlights the varied approaches and challenges in preparing sustainability reports. Sustainability Reporting Managers and managers often lack experience in sustainability reporting, which necessitates learning new concepts and studying standards. This inexperience can lead to partial implementation of legal requirements or an inability to publish compliant reports initially. SRMs need to educate internal stakeholders about sustainability, requiring them to first develop their own reporting skills. Some organizations use sustainability KPIs integrated with planning and performance measurement, though there is significant variation in their development and use.

The institutional work of SRMs is categorized into four phases (Table 1), each reflecting increasing levels of maturity, complexity, sophistication, and embedding of sustainability reporting within organizations. These phases illustrate the progression of SRMs' efforts in preparing sustainability reports, including materiality assessments and stakeholder engagement.

Table 1: Sustainability Reporting Maturity Phases

Phase	Description
Phase One	SRMs initiate sustainability reporting by **educating and guiding managers** with limited knowledge. Key actions include advocacy, one-on-one meetings, workshops, presentations, and sharing documents. **Materiality assessments are informal**, based on available data.
Phase Two	The focus shifts to **enhancing managerial participation** and commitment, with line managers taking on more responsibility while

	SRMs act as facilitators. **Materiality assessments become more participative**, incorporating new stakeholder engagement channels.
Phase Three	To address sustainability reporting fatigue, GRI G4 guidelines emphasize relevant material issues, cutting report size and cost. **Materiality assessments become formal**, with direct stakeholder engagement.
Phase Four	**Sustainability KPIs** are tied to broader objectives, turning reporting into a valuable management tool. More **frequent internal reporting** integrates materiality with risk and strategic planning, embedding the process within the organization.

The analysis identifies the main challenges for SRMs (Table 2), which hinder their effectiveness in institutionalizing sustainability reporting practices:

Table 2: Challenges and Insights in Sustainability Reporting

Challenge	Description
Inexperience	Many SRMs begin with **limited experience**, learning through trial and error. They often face challenges with **interpreting reporting standards**, finding data, and meeting assurance requirements, relying on training and consultants for support (Lawrence et al., 2006).
Organizational Position	SRMs' roles vary across organizations. Some have dedicated positions, while others assign the task to existing managers. This can lead to **under-resourcing**, overburdening part-time SRMs who struggle to balance their current duties with sustainability reporting, hindering their ability to produce comprehensive reports (Bellringer et al., 2011; Lawrence & Suddaby, 2006).
Organizational Commitment	Organizational commitment to sustainability reporting varies. Some view it as a compliance task, aiming to minimize costs, driven by senior management's mindset. This **lack of support** from leaders like CEOs creates major challenges for SRMs in establishing sustainability reporting (Greco et al., 2015).
Materiality Evolution	SRMs face challenges in **applying materiality** to sustainability assurance and reporting. It shows the shift from a financial focus to one that includes economic, environmental, and social impacts. The findings emphasize the complexity of materiality assessments, requiring a balance of **qualitative judgment** and stakeholder input to determine issue relevance.
Institutional Work	SRMs' institutional work is key to promoting and **embedding sustainability reporting**. The phased progression from initiation to integration reflects how reporting evolves within organizations, driven by education, stakeholder engagement, and alignment with global standards.

However, SRMs face significant challenges, including organizational support, resource constraints, and skepticism regarding the utility of sustainability reporting. These challenges underscore the importance of addressing gaps in experience, enhancing organizational commitment, and overcoming decentralization concerns to strengthen sustainability reporting practices.

1.5) Theoretical Framework: Stakeholder Theory and Institutional Theory

This thesis is grounded in two foundational theories that provide a comprehensive framework for understanding corporate sustainability reporting practices: Stakeholder Theory and Institutional Theory. These theories combined help explain the motivations, mechanisms, and implications of sustainability reporting within organizational contexts.

Stakeholder theory posits that organizations must consider the interests of all stakeholders, not just shareholders, in their decision-making processes. This theory, introduced by R. Edward Freeman in 1984, challenges the traditional shareholder-focused view by arguing that long-term success and sustainability are achieved by addressing the needs and interests of a broader group of stakeholders, including employees, customers, suppliers, communities, and the environment.

Effective stakeholder management involves identifying stakeholders, understanding their needs and expectations, and incorporating these into strategic decision-making processes (Freeman, 1984; Donaldson & Preston, 1995). Organizations create value through relationships with stakeholders, and by addressing their concerns and needs, companies can achieve better financial performance, sustainability, and social responsibility (Harrison & Wicks, 2013).

Institutional theory examines how institutions, defined as established laws, practices, and customs, shape the behavior of organizations. It focuses on the deeper, resilient aspects of social structure, considering the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior (Scott, 2001). A key concept within this theory is isomorphism, which describes the process by which organizations become similar to each other in their quest for legitimacy. There are three types of isomorphism: coercive (due to legal and political pressures), mimetic (imitation of successful organizations), and normative (professionalization and industry standards) (DiMaggio & Powell, 1983).

Organizations strive for legitimacy by conforming to the norms, values, and expectations of their institutional environment, which helps them gain access to resources and ensures their survival (Suchman, 1995). Institutional logics, which are belief systems and related practices that guide the behavior of organizations within an institutional context, also play a crucial role (Thornton & Ocasio, 2008).

By integrating Stakeholder Theory and Institutional Theory, this thesis establishes a robust theoretical framework for analyzing the adoption and diffusion of sustainability reporting practices (Table 3). It explores how organizations respond to stakeholder demands, regulatory pressures, and industry norms through frameworks like the GRI, IR, and the TCFD (Stubbs et al., 2014). The standardization of reporting practices promoted by these frameworks reflects the influence of institutional isomorphism in shaping corporate behavior (DiMaggio & Powell, 1983).

Table 3: Underlying Theories

Stakeholder Theory	Institutional Theory
Stakeholder engagement is limited due to **lack of skills**, affecting relationship-building with key stakeholders.	Institutional norms and **lack of professionalization** hinder companies from conforming to established sustainability standards.
SRMs are often **not empowered** to engage stakeholders effectively, leading to weak sustainability integration.	The absence of **formalized SRM roles** shows how organizations fail to adopt institutionalized sustainability practices.
Lack of **senior management interest** affects stakeholder engagement and weakens long-term sustainability initiatives.	Coercive isomorphism: The organization's reluctance to follow sustainability norms due to **insufficient internal pressure**.
Stakeholder concerns are often inadequately addressed due to the superficial engagement during the materiality process.	**Institutional pressures** to comply with frameworks like GRI and CSRD may be formal but disconnected from practice.
Increased engagement with stakeholders as sustainability becomes more integral to company strategy.	Normative isomorphism: Companies begin to **mimic best practices** in sustainability reporting, aligning with industry norms.

2) Methodology

This thesis was conducted within the Sustainability Reporting and Assurance department of a Big4 firm in the Netherlands. This setting provided an opportunity for direct engagement with professionals at various levels of seniority, from consultants to managers to partners, offering a comprehensive perspective on how regulatory requirements are applied and implemented in corporate practices by the firm's clients.

2.1) Research Design

The research followed an interpretivist philosophy, which focuses on the experiences of individuals and aligns well with the study's aim to explore the nuanced practices and challenges of sustainability reporting within a professional context (Gephart, 2004). This approach is useful for understanding the complex realities within corporate environments, especially regarding how sustainability is perceived and implemented.
An inductive approach was employed, enabling the development of theories based on the qualitative data collected. This approach facilitates the emergence of patterns and theories directly from the data rather than testing pre-existing hypotheses (Thomas, 2006). Inductive research is optimal for exploratory studies like this, where the goal is to gain deeper insights into under-researched areas.
The study is based on qualitative research strategies, including ethnography, to gather in-depth insights into the practices and challenges faced by professionals in the department. Ethnography consists in the immersive observation and interaction within a specific community or organization to understand their practices and perspectives from an insider's viewpoint (Hammersley & Atkinson, 2007). The time horizon for the study was cross-sectional, focusing on a specific period to capture a snapshot of current practices and challenges in sustainability reporting after the introduction of CSRD and the ESRS.
A non-probability sampling strategy was used for the interviews, selecting participants based on their expertise and experience in sustainability reporting. This sampling ensured that the data collected was relevant and insightful, reflecting the perspectives of those most knowledgeable about the subject. The research questions guiding this study were:

1. "How is a company's ESG performance currently measured?"
2. "What are the key challenges faced by companies in implementing the EU's CSRD?"
3. "How can mandatory reporting under ESRS influence corporate decision-making and strategy?"

2.2) Data Collection Methods

A combination of ethnographic methods, document analysis, and semi-structured interviews was employed to provide a comprehensive understanding of the ESG performance measurement methods, challenges, and emerging trends in sustainability reporting under the CSRD and ESRS.

2.2.1) Ethnographic experiences

During my internship within the Sustainability Reporting and Assurance department, I had the opportunity to closely collaborate with a senior consultant on the Japan Team. This team supports large Japanese holdings with subsidiaries in the EU, where these subsidiaries are required to prepare sustainability reports that are consolidated into the parent company's overall report.
Ethnographic methods played a fundamental role in my internship experience by enabling me to gain deep insights into this department. Through direct engagement with clients and active participation in workshops, I was able to observe and document firsthand the practical challenges and strategies involved in preparing reports that comply with the ESRS. Ethnography involves immersive observation and interaction within specific communities or organizations to understand their practices and viewpoints from an insider's perspective. This approach allowed me to develop a detailed and contextual understanding of sustainability reporting practices under the CSRD and the ESRS frameworks.
Through ethnographic experiences, I gained practical knowledge of how sustainability standards are implemented in multinational contexts, the challenges involved in aligning diverse regulatory requirements with corporate strategies, and the collaboration efforts required to ensure compliance across international subsidiaries. During my internship within the Sustainability Reporting and Assurance department, I actively engaged with various aspects of the consulting team's operations, like performing Double Materiality Assessments that allowed me to analyze and evaluate the impacts of both financial and non-financial factors on each standard of the ESRS framework, gaining practical insights into how organizations navigate the complexities of sustainability disclosures.
Additionally, I participated in brainstorming sessions with top management regarding the development and implementation phases of sustainability reporting initiatives. These sessions provided me with exposure to strategic decision-making processes and allowed me to contribute ideas on enhancing sustainability practices within the clients' organizations.
Furthermore, I had the opportunity to sit in on pitch presentations with clients where the consulting team aimed to secure advisory roles in the preparation of their sustainability reports. This experience allowed me to witness firsthand the client engagement process, understand their specific needs and challenges, and appreciate the strategic importance of sustainability reporting advisory services.
Together, these experiences allowed me to understand sustainability reporting practices by immersing me in real-world scenarios where theoretical knowledge was applied to address practical challenges. They also highlighted the collaborative and strategic nature of sustainability consulting, emphasizing the importance of integrating regulatory compliance with corporate sustainability goals to achieve meaningful outcomes.

2.2.2) Semi-structured Interviews

For the semi-structured interviews (Table 4), I selected eight professionals from diverse roles within the department.

Table 4: Semi-Structured Interviews

Aspect	Details
Participants	**Eight professionals**, including a Consultant, Assurance Specialist, Senior Consultant, Manager, three Senior Managers, and a Partner, representing diverse roles.
Purpose of Interviews	To **examine the evolution** of sustainability reporting and its **impact** on corporate strategy.
Interview Structure	**Semi-structured** format with open-ended questions, allowing for both guided and flexible responses.
Duration	Interviews lasted **25 to 40 minutes**, promoting in-depth discussion.
Thematic Areas Covered	**Key themes** included professional background, the development of ESRS and CSRD, organizational readiness, consulting methodologies, impacts on corporate strategy, and future trends in ESG reporting.
Methodological Justification	Semi-structured interviews provide **comprehensive insights** while ensuring thematic coverage.
Ethical Considerations	Ethical approval obtained, with informed consent, confidentiality maintained, and data **anonymized** to protect participant identities.

This included a consultant directly involved in reporting, one specializing in assurance, a senior consultant, a manager, three senior managers, and a partner. This diverse selection ensured a broad spectrum of expertise and perspectives across different levels of seniority within the organization.

The interview guide was structured with open-ended questions designed to explore specific topics such as methodologies, challenges, and emerging trends for assessing ESG performance. The interview began with an introduction where I, Christopher, outlined the project's aims to understand the ongoing evolution of sustainability reporting and its potential influence on corporate strategy. Each interview lasted between 25 and 40 minutes. Questions were organized into several thematic areas:

- Background and Expertise: Questions about working at the Big4 company, experience with sustainability assignments, and recent engagements.
- Development and Evolution of ESRS and CSRD: Inquiries into the impact of ESG reporting standards on their work and the driving forces behind ESRS and CSRD.
- Preparation and Anticipation for ESRS and CSRD: Exploration of how companies are preparing for ESRS implementation and the common challenges they face.
- Role and Methodologies of Consulting Firms: Insights into how consulting firms assist clients in understanding and meeting ESRS and CSRD requirements, including specific tools and methodologies.
- Impact on Corporate Strategy: Anticipated influence of ESRS and CSRD on strategic decisions and examples of how these standards are already shaping corporate practices.
- Future Perspectives: Predictions on future trends in ESG reporting and sustainability strategies.

Semi-structured interviews were chosen for their flexibility, allowing participants to provide comprehensive insights while ensuring coverage of specific areas of interest

(Kvale & Brinkmann, 2009). This approach was effective in investigating complex issues and gaining a broad understanding from experienced professionals in the field of sustainability reporting and assurance.
Ethical approval was obtained prior to data collection. Participants were informed about the purpose of the research, and their consent was obtained. Confidentiality was maintained throughout the study, and data were anonymized to protect the identities of the participants. Ethical considerations are critical in research to ensure that participants are treated with respect and that their privacy is protected (Orb et al., 2001).

2.2.3) Document Analysis

In addition to the primary data obtained through interviews and ethnographic experiences, this study incorporated secondary data from diverse sources such as legal texts, internal reports, and academic research. Document analysis allowed for a comprehensive exploration of the regulatory ecosystem behind sustainability practices. By examining legal texts and regulations, the study assessed how frameworks like the CSRD and ESRS shape reporting requirements and organizational behaviors. Internal reports provided insights into company-specific approaches to sustainability reporting, detailing practices, challenges, and strategies adopted by organizations to comply with evolving standards.
Academic research served as a foundation for the analysis, offering theoretical perspectives and empirical studies that contextualized the findings and provided a robust foundation of knowledge, enabling a deeper understanding of the complex sustainability reporting practices. Document analysis played a crucial role in this research by combining primary data sources with authoritative secondary sources. It facilitated a multi-level exploration of how regulatory frameworks influence corporate behaviors, the efforts of organizational practices in meeting sustainability goals, and the theoretical insights underlying current and future developments in sustainability reporting.

2.3) Data Analysis Techniques

Thematic analysis was employed to identify, analyze, and report patterns within the qualitative data. This method involves coding the data and grouping the codes into themes, allowing for systematic identification and interpretation of patterns relevant to the research questions (Braun & Clarke, 2006). Coding techniques utilized manual methods to ensure accuracy and reliability. Initial codes were derived from the research questions and interview guide, with additional codes emerging inductively during the analysis process. Coding involves labeling segments of data to represent specific concepts or themes, facilitating the organization of data into meaningful categories crucial for qualitative data analysis (Saldaña, 2016). This approach was selected due to its flexibility and its effectiveness in uncovering detailed insights from the data collected through ethnographic methods and semi-structured interviews. Thematic analysis allows for a systematic examination of the data to identify the key themes and trends relevant to the research questions.
The process of thematic analysis started with data familiarization. This involved transcribing all interviews and carefully reviewing the field notes from ethnographic

observations to immerse myself in the data, ensuring a deep understanding of the material before beginning the coding process and setting the stage for a more detailed analysis.

Following familiarization, initial coding was conducted. During this phase, segments of the data that seemed relevant to the research questions were identified and assigned descriptive codes. Coding is a fundamental part of qualitative data analysis, as it helps in organizing the data into manageable chunks, making it easier to identify patterns and themes (Saldaña, 2016).

Once the initial coding was completed, the next step was to search for themes. This was done by examining the codes to identify patterns and relationships. These themes represented key findings related to how ESG performance is measured, the challenges companies face in preparing their sustainability reports, and the emerging trends in corporate strategy following the introduction of the CSRD and ESRS.

Finally, the findings were synthesized into narrative during the writing phase. This structured approach aimed to comprehensively address the research questions, presenting the findings in an informative manner. Thematic analysis provided a systematic framework for examining qualitative data in this study, ensuring that the research findings were robust and meaningful. By employing this method, the study uncovered insights into ESG performance measurement, challenges in sustainability reporting, and the adaptive corporate strategies in response to evolving regulatory frameworks, contributing valuable perspectives to the field of sustainability reporting.

The study's limitations include the constraint of a single Big4 company, which may introduce biases due to the specific organizational culture and practices. The responses of participants and the interpretation of the researcher could also introduce biases. Furthermore, the ongoing evolution of sustainability regulations means that corporate reporting practices are continuously changing, which could impact the relevance of the findings over time. Despite these limitations, the research provides valuable insights into current practices and challenges in sustainability reporting.

In conclusion, this methodology chapter has explained the design choices and justifications for the research conducted within the Sustainability Reporting and Assurance department of a Big4 firm. The interpretivist philosophy, inductive research approach, and qualitative data analysis methods were chosen to provide a detailed understanding of sustainability reporting practices. Ethnographic methods, semi-structured interviews, and document analysis were employed to collect comprehensive data, while thematic analysis and coding techniques ensured a systematic examination of the findings.

This methodology framework enabled the exploration of how ESG performance is measured, the challenges companies face in compliance, and the evolving corporate strategies in response to new regulatory frameworks. The insights gained from this research contribute valuable knowledge to the field of sustainability reporting, offering practical implications for both practitioners and scholars.

3) Results

The analysis revealed a crucial need for companies to adopt a mindset that fully considers all impacts of their activities (Table 5). This broader perspective is essential for effectively addressing the multifaceted nature of sustainability challenges and ensuring a thorough ESG performance assessment.

Table 5: Findings Summary

Finding	Description	Challenges
Inexperience	Many companies start with limited or no experience and face challenges interpreting standards and meeting requirements.	Mapping the entire Value Chain, struggle with data location, lack of a clear data trail for external assurance, and interpreting sustainability standards.
Organizational Position	The need for a dedicated position of SRMs to meet increasing specialization requirements.	Under-resourcing and balancing multiple roles within sustainability management.
Organizational Commitment	Organizations show varying levels of commitment to sustainability reporting, with some treating it as a compliance exercise.	Minimal compliance focus, need for senior management buy-in and support for sustainability initiatives.
Double Materiality Assessment	DMAs consider both financial materiality (company impact) and impact materiality (society/environmental impact). This dual approach ensures a comprehensive understanding of sustainability issues.	Balancing qualitative judgment, ensuring stakeholder engagement, and addressing both financial and impact factors; lack of sector-specific guidelines.
Institutional Work	SRMs and consultants engage in institutional efforts to embed sustainability reporting within organizations through educational efforts and formalized processes.	Resource constraints, organizational skepticism, and lack of integration into core business processes; managing operations across multiple countries and business units with diverse activities.

Technological Reliance	Companies are increasingly relying on technologies like data analytics, AI, and cloud computing to enhance the accuracy and efficiency of ESG data collection and reporting.	Having the right inputs and human oversight, ensuring quality data management across global operations, technology costs, and transitioning from manual processes.
Transition to Mandatory Reporting	The shift from voluntary frameworks (e.g., GRI) to mandatory standards under CSRD and ISSB increases transparency and reduces greenwashing risks.	Need to adopt a more strategic approach, requiring detailed reporting on policies, setting clear targets, and outlining specific actions to achieve them.
Governance and Strategic Alignment	Strong governance frameworks, with dedicated sustainability officers, are essential for accountability and driving sustainability initiatives within organizations.	Establishing clear policies, defining roles, and aligning sustainability goals with overall corporate strategy.
Sustainability as a Market Differentiator	Companies that adopt comprehensive sustainability practices early, driven by CSRD and stakeholder expectations, are likely to gain competitive advantages in the market.	Managing costs of early adoption, maintaining leadership in sustainability, and aligning with evolving standards.
Emerging Trends in Corporate Strategy	Shifts from traditional CSR approaches to integrating sustainability into core business practices have been observed, driven by stakeholder demands for transparency and regulatory frameworks.	Resource limitations, building internal capacity for sustainability initiatives, and evolving stakeholder expectations.

3.1) Document Analysis Findings

3.1.1) Value Chain Reporting

The objective of this section is to summarize the requirements for Value Chain (VC) reporting as outlined by the European Sustainability Reporting Standards, the Corporate Sustainability Reporting Directive, and the European Financial Reporting Advisory Group IG2 'Value Chain Implementation Guidance'.

A value chain includes the activities, resources, and relationships an organization relies on to create its products or services from conception to end-of-life. This encompasses the organization's operations, supply, marketing, distribution channels, and the regulatory environments in which it operates. According to the July 2023 Delegated Act of the European Commission, business relationships extend to direct and indirect partners, including those beyond the first tier (European Commission Delegated Act, 2023, Annex 2).

Mapping the value chain involves identifying and tracing VC activities and actors, particularly in areas with heightened risks. The GRI guidelines recommend detailing the organization’s activities, products, services, and markets served, including supply chains, downstream entities, and other significant business relationships. Key suppliers, distribution channels, customers, and end-users should be identified, and sustainability due diligence processes should highlight risk areas (GRI Standards).

Not all actors in the value chain need to be included in reports, only those relevant to material Impacts, Risks, and Opportunities. The ESRS mandates identifying and assessing material IROs across the entire value chain from a double materiality perspective, focusing on significant impacts linked to the organization's operations, products, or services (ESRS 1 - General Requirements).

Data collection for VC reporting involves gathering information on key suppliers, distribution channels, customers, and end-users. When direct data is not available, secondary sources like public reports and sector averages can be used. The data should help understand impacts, their severity, and likelihood, and track the effectiveness of actions taken to manage them (ESRS 2 - General Disclosures).

If certain VC information is not immediately available, estimates should be made using all reasonable and supportable information without undue cost or effort, including sector-specific risk assessments. Efforts made to obtain necessary data, reasons for any gaps, and future plans for data collection must be documented and explained (CSRD, Article 5(2) of Directive (EU) 2022/2464).

Reasonable effort in collecting VC data means acquiring information compatible with reasonable effort for sustainability statements. This includes quantifying potential impacts to support materiality assessments, even if complete information is not always possible. The ESRS requires detailed reporting on governance, strategy, risk management, and performance metrics related to sustainability, ensuring transparency and continuous improvement in value chain data collection and reporting (ESRS 2 - General Disclosures).

3.1.2) Stakeholder Identification and Engagement

This summary provides an overview of the legal requirements for stakeholder identification and engagement, integrating insights from the European Sustainability Reporting Standards, Corporate Sustainability Reporting Directive, European Financial Reporting Advisory Group, and Global Reporting Initiative Guidelines. The aim is to offer comprehensive guidance on meeting legal obligations for stakeholder engagement under these frameworks.

Stakeholder identification and engagement involve recognizing all parties affected by or interested in an undertaking's operations, such as employees, customers, suppliers, local communities, and shareholders. Engagement refers to the processes used to interact with these stakeholders to understand their concerns and incorporate their feedback into the company's decision-making process. According to the ESRS, undertakings must identify stakeholders through a comprehensive mapping process considering all entities affected by the company's activities, products, and services. This includes assessing the geographical, social, and economic impacts on different stakeholder groups.

Reports must include all significant stakeholders directly or indirectly impacted by the company's operations, including employees, customers, suppliers, investors, local communities, and regulatory bodies. Data collection involves gathering information on stakeholder needs, expectations, and impacts through surveys, interviews, focus groups, and other engagement methods. This data helps identify material issues relevant to stakeholders, following guidelines such as those provided by the GRI (GRI 102-42, 102-43).

If immediate information is unavailable, undertakings must document efforts to obtain it and explain reasons for any gaps, as well as future plans for improving data collection and stakeholder engagement (CSRD Article 5(2); ESRS 1). Reasonable efforts entail using all available resources, including public reports, studies, and databases, to gather necessary data without incurring undue costs or delays (ESRS 1, Application Requirement 17).

On July 31, 2023, the European Commission adopted the Delegated Act establishing the initial set of ESRS. These standards, alongside the CSRD, define the requirements for stakeholder identification and engagement, providing a framework for undertakings to report on their interactions with stakeholders. Business relationships are integral to stakeholder engagement, encompassing direct and indirect interactions with entities linked to an undertaking's operations. These relationships include contractual agreements and broader connections beyond the first tier (ESRS 1, Annex 2).

The ESRS mandates reporting on material impacts, risks, and opportunities identified through stakeholder engagement. This involves understanding significant issues that influence stakeholder decisions and impact business performance (ESRS 1, Article 64; GRI 102-44). ESRS outlines criteria for assessing materiality in stakeholder engagement, considering the severity, scale, and scope of impacts. For positive impacts, materiality considers their potential and likelihood (ESRS 1, Chapter 3.4).

Undertakings must map their stakeholders to ensure comprehensive coverage of all affected parties. This involves identifying risks and opportunities associated with stakeholder interactions and impacts (CSRD Article 5(2)). Undertakings must make

reasonable efforts to collect stakeholder data, and if data is not readily available, secondary sources such as public reports and studies may be used (ESRS 1, Application Requirement 17).

For the first three years of CSRD implementation, undertakings must disclose efforts made to engage with stakeholders, explain reasons for any data gaps, and outline future plans for data collection. This ensures adherence to regulatory standards, enhancing transparency and accountability in sustainability reporting (CSRD Article 5(2)).

3.2) Ethnographic Analysis Findings

Ethnographic research within a Big4 reporting advisory team has revealed the necessity for companies to adopt a holistic approach in assessing and managing their Environmental, Social, and Governance impacts. This approach involves examining not only direct operations but also the entire value chain, encompassing all associated stakeholders. Such inclusivity is crucial for understanding a company's overall impact, in line with the ESRS and the CSRD. By adopting a broader perspective, companies can ensure that both direct and indirect effects are identified and managed. This comprehensive view allows companies to address potential ESG issues proactively, enhancing their overall sustainability performance and contributing positively to society and the environment.

The findings underscore the importance of building internal capacity to implement sustainability practices in the business. One of the critical recommendations is the appointment of a Chief Sustainability Officer (CSO) or a dedicated project manager for sustainability reporting. This role is crucial for driving the strategic sustainability agenda, fostering a culture of sustainability throughout the organization. The CSO or project manager acts as a central figure coordinating efforts across various departments, promoting sustainability initiatives, and ensuring compliance with relevant standards and regulations. By embedding sustainability into the core operations of the company, this role helps to institutionalize sustainability practices, making them an integral part of the organizational culture and strategy.

The initial step in measuring ESG impact, as highlighted by this research, involves conducting a thorough value chain analysis coupled with a Double Materiality Assessment. The DMA concept considers both financial materiality (how sustainability issues affect the company’s financial performance) and impact materiality (how the company’s operations affect society and the environment). The DMA process starts with the ESRS standards, in which the ten topics (five on environment, four on social, and one on governance) are broken down in sub-topics and sub-sub-topics to form a comprehensive “longlist” that is continually updated. Companies must evaluate the materiality of each standard and justify any standards deemed not material. This rigorous assessment ensures that all relevant sustainability issues are addressed, providing a solid foundation for ESG reporting. By evaluating both financial and societal impacts, companies can develop a balanced and informed approach to managing their ESG responsibilities.

Once the list is narrowed down, each sub-topic is scored based on several criteria, such as the likelihood of occurrence, the scope of impact, and the size of financial impact. A Likert scale is often used to assign scores to each criterion. These scores help to

determine which topics are most material to the company. Thresholds are set to differentiate between high, medium, and low materiality issues. This process helps identifying the 20-30 most material issues that the company should focus on for their sustainability reporting.

After identifying material topics, companies need to pinpoint specific impacts, risks, and opportunities associated with each. This detailed analysis is crucial for covering all significant ESG aspects, enabling a robust understanding of the company's sustainability impact. By identifying and analyzing these factors, companies can guide their strategic decision-making and risk management processes, to address and mitigate any potential ESG-related challenges. This approach also allows the firm to capitalize on opportunities, driving sustainable growth and long-term value creation.

Effective stakeholder engagement emerged as a key practice for gathering the necessary data and information to score each ESRS material topic accurately. Engaging with all relevant stakeholders ensures that their perspectives and inputs are considered. This process enhances the accuracy of reporting and fosters stronger relationships with stakeholders, contributing to greater transparency.

Conducting a gap assessment after data collection helps identify any missing information and areas for improvement. This assessment is critical for understanding the current state of the company's sustainability practices and highlighting areas that require more attention or development. By identifying these gaps, companies can prioritize their sustainability efforts and allocate resources more effectively. Following the gap assessment, designing a strategic roadmap with specific goals and time horizons for improvement is essential. This roadmap serves as a guide for the company's sustainability efforts, outlining clear objectives and timelines. A structured roadmap ensures the right approach to enhancing sustainability performance over time, enabling continuous improvement and alignment with societal and environmental goals.

The findings from this ethnographic study underscore the necessity for a holistic approach to sustainability, encompassing the entire value chain and engaging with all relevant stakeholders. Building internal capacity through dedicated sustainability roles is vital for driving these efforts. Conducting a thorough value chain analysis and double materiality assessment forms the foundation for identifying significant ESG topics, while stakeholder engagement and data collection are crucial for accurate reporting. The gap assessment and subsequent strategic roadmap provide a structured path for continuous improvement. By adopting these comprehensive practices, companies can enhance their ESG performance and address sustainability challenges. These insights offer a detailed understanding of the complex process of sustainability reporting, highlighting practical steps for companies to follow in their ESG journey.

3.3) Interview Findings

This section presents the findings from interviews conducted with eight professionals involved in sustainability reporting advisory and assurance. The analysis addresses the research questions regarding how ESG performance is measured, the challenges companies face in implementing ESRS standards, and the emerging trends in corporate strategy under the CSRD.

3.3.1) Measurement of ESG Performance

ESG performance measurement relies heavily on data collection and assessment methods tailored to specific regulatory frameworks and standards. For instance, *Senior Manager 1* highlighted that technological integration is crucial for ensuring accurate and comprehensive data that aligns with CSRD and ESRS requirements. The use of technology not only improves data accuracy but also streamlines the reporting process, making it more efficient and reliable.

Double Materiality Assessments are a fundamental component of ESG performance measurement. These assessments help identify and prioritize sustainability topics that are most relevant to the clients, ensuring focused and effective sustainability reporting. *Manager* emphasized the significance of DMAs in their engagements, particularly in helping companies assess both financial materiality and impact materiality. This dual focus ensures that companies address not only the financial implications of sustainability issues but also their broader environmental and social impacts. By integrating DMAs into their reporting processes, companies can develop a comprehensive understanding of their ESG performance.

The shift from voluntary to mandatory reporting standards has significantly influenced ESG performance measurement. *Partner* discussed the transition from standards like the GRI to the more stringent and mandatory CSRD and ISSB standards, emphasizing the need for standardized reporting to avoid greenwashing and enhance transparency. *Assurance Consultant* also noted that the incorporation of non-financial aspects such as carbon emissions and biodiversity impacts into standardized frameworks like ESRS is crucial for comprehensive ESG reporting. Standardized reporting frameworks provide a consistent and comparable basis for evaluating ESG performance, enhancing credibility and accountability in sustainability reporting.

Senior Manager 3 added that ESG performance measurement is becoming increasingly sophisticated due to advancements in technology and data analytics. The use of innovative tools and methodologies is helping organizations gain deeper insights into their sustainability impacts and performance, thereby improving the quality and effectiveness of their reporting.

3.3.2) Challenges in Implementing ESRS Standards

Earlier, sustainability reporting often felt like a PR exercise (Senior Manager 1, 2024), focusing on current activities in social and environmental areas. GRI then pushed for more detailed historical performance data. The significant shift came with the introduction of the CSRD and ESRS standards by the EU. These are much more detailed and comprehensive, requiring companies to think strategically, report on policies, set targets, and outline actions to achieve those targets.

This evolution demands substantial effort from companies, as it's not just about reporting numbers but also about articulating strategies, policies, and stakeholder involvement. The transition to these new standards is challenging. For instance, "around 60-65% of CSRD disclosures are qualitative, focusing on policies, targets, actions, and strategies, while only 35-40% are quantitative KPIs" (Senior Manager 1, 2024). This means companies must do much more than just gather data; they need to develop and communicate comprehensive sustainability strategies.

Companies are encountering several key challenges in implementing ESRS. Firstly, mapping the value chain is a significant challenge. Unlike traditional financial reporting, which focuses on internal operations, ESRS require companies to identify material issues also throughout their supply chains, both upstream and downstream. Secondly, identifying material matters for both the company and its value chain can be complex. Companies that were already disclosing voluntarily might be more advanced, but others are still catching up. Thirdly, data collection poses a major challenge. Once material matters are identified, companies need to gather specific metrics related to environmental and social issues (Senior Manager 3, 2024). This manual process leads to inconsistencies, lack of a clear data trail, and questions about data accuracy and provenance. With the new standards, all this data needs to be audited, making it even more crucial for companies to ensure data quality and transparency.

Another major challenge for large companies is managing operations across multiple countries and business units with diverse activities. Additionally, balancing stakeholder expectations poses a significant challenge. Stakeholders may demand attention to various issues like forced labor or child labor in specific regions. However, “companies argue that they cannot address every issue globally and must prioritize focus areas where they can make the most impact.” (Senior Manager 1, 2024). These challenges will be addressed with the future use of advanced tools, software, and technological solutions, which are being developed by the firm in collaboration with Microsoft to enhance data collection and reporting capabilities.

Resource limitations, including the lack of specialized sustainability personnel, are common challenges faced by companies. *Manager* highlighted that many companies operating in Europe struggle with resource constraints and often rely on consulting firms to bridge capability gaps. Companies are preparing for the ESRS implementation by seeking extensive support from advisory firms, including the Big Four. Many companies are hiring specialists who understand both sustainability and financial reporting to bridge the gap between these areas. Some companies with existing voluntary reporting practices are ahead in their preparations, but there is a general trend of engaging advisors to ensure compliance. (Senior Manager 3, 2024).

The need for customized approaches tailored to the client's needs further complicates the implementation process. Resource limitations can hinder the effective implementation of ESRS standards, as companies that lack the necessary expertise and manpower will struggle to meet rigorous reporting requirements. The ESRS demands a full-time effort to manage the reporting process, which can be a difficult task for companies without sufficient resources (Reporting Consultant, 2024). Thus, finding knowledgeable staff and allocating sufficient manpower are critical steps in the compliance journey.

Establishing robust governance structures and aligning them with strategic goals is critical. *Senior Manager 2* noted that companies are currently focused on structuring their governance frameworks and conducting DMAs to meet new reporting requirements. However, gaining leadership attention and integrating ESG activities into everyday business operations remain significant challenges. Achieving effective governance requires a clear commitment from top management and alignment with the company's broader strategic objectives.

Senior Manager 3 also pointed out that companies face difficulties in aligning their ESG reporting with strategic goals due to evolving regulatory demands. As ESRS standards continue to develop, organizations must adapt their governance structures and reporting practices to stay compliant and maintain alignment with their strategic objectives.

3.3.3) Emerging Trends in Corporate Strategy under the CSRD

Senior Manager 1 emphasized that the CSRD and ESRS' focus on forward-looking disclosures and strategic integration is expected to improve performance metrics and strategic decision-making aligned with long-term sustainability goals. By embedding sustainability into core business practices, companies can ensure that their sustainability efforts are aligned with their overall strategic objectives, enhancing their long-term success. "Within two to three years, I expect most companies to incorporate CSRD into their strategic planning, moving beyond compliance to making it an integral part of their business operations." (Senior Manager 1, 2024).

One noticeable trend is the appointment of dedicated managers responsible for sustainability reporting. Companies are hiring individuals with expertise in sustainability to ensure they can meet the ESRS requirements. These roles are critical as the complexity of the legislation demands focused attention and knowledge. "Furthermore, we are seeing increased educational efforts within companies. Board members and employees are being educated about sustainability and its importance. Workshops and training sessions are becoming common to ensure everyone understands their role in the reporting process" (Reporting Consultant, 2024). This widespread education helps in gathering accurate data from various departments, which is essential for comprehensive sustainability reporting.

Additionally, there is a shift in corporate culture where sustainability is becoming a more prominent consideration in daily operations. Even though we are still in the early stages, these changes indicate a long-term commitment to integrating sustainability into business practices. *Assurance Consultant* underlined that early adopters of ESRS and CSRD leverage their sustainability performance to differentiate themselves in the market, while others may align their strategies over time to avoid competitive disadvantages. This trend underscores the strategic importance of sustainability reporting in corporate governance. By demonstrating strong ESG performance, companies can attract customers, investors, and other stakeholders who prioritize sustainability.

The findings from these interviews provide a comprehensive understanding of how ESG performance is measured, the challenges faced in implementing ESRS standards, and the emerging trends in corporate strategy under the CSRD. The insights highlight the critical role of data quality, resource allocation, and governance in effective ESG reporting. Furthermore, the integration of sustainability into core business practices and the use of sustainability performance as a market differentiator are emerging as key trends driven by regulatory developments and stakeholder demands. These findings contribute valuable insights to both academic understanding and practical implications for organizations aiming to enhance their sustainability practices. By addressing these challenges and leveraging these trends, companies can improve their ESG performance, meet regulatory requirements, and achieve long-term sustainable success.

4) Discussion

The findings from this study underscore the necessity for companies to adopt a holistic approach to considering the full spectrum of their activities' impacts. This approach extends beyond a company's direct operations to include the entire value chain, and all stakeholders involved, aligning with the broader literature on sustainability and corporate responsibility. Porter and Kramer (2011) advocate for creating shared value by addressing societal needs and challenges, which can drive innovation and growth. Hart and Milstein (2003) also emphasize that a comprehensive view of sustainability, which includes the entire value chain, is crucial for genuinely sustainable corporate practices. This broader perspective is essential for addressing the complexities and interdependencies in today's globalized business environment.

4.1) Interpretation of Findings

This study delved deeply into the complexities of ESG performance measurement, the challenges associated with the implementation of ESRS standards, and the emerging trends in corporate strategy under the CSRD. This chapter discusses these findings, exploring their implications and providing a comprehensive understanding of how companies can navigate the evolving landscape of sustainability reporting.
One of the primary findings is the need to develop sophisticated technological solutions, such as data analytics, cloud computing, and artificial intelligence, to enhance the accuracy and efficiency of ESG data collection and reporting. These technologies are crucial for meeting the stringent requirements set by new regulatory frameworks and for satisfying the growing expectations of stakeholders. The integration of advanced technologies into ESG reporting processes underscores the necessity for companies to adopt innovative solutions to ensure comprehensive and reliable data management.
The use of technology not only improves data accuracy but also streamlines the reporting process, making it more efficient and reliable.
This technological advancement aligns with existing literature, echoing findings by Eccles et al. (2012), who stressed the role of IT in sustainability reporting. Technologies such as data analytics, cloud computing, and AI enable companies to handle large volumes of ESG data, enhancing accuracy and efficiency. However, the development of technological tools to enhance these processes is still in progress. "The use of artificial intelligence is emerging as a trend, though it is still in the exploratory phase. AI can help process large amounts of data, but its effectiveness depends on having the right inputs and human oversight" (Senior Manager 3). This presents a challenge for companies aiming to achieve high data accuracy and comprehensive reporting. The reliance on both direct data collection and secondary sources indicates a pragmatic approach to dealing with data gaps, but also underscores the need for continued development in data collection technologies and methodologies.
Double materiality assessments were identified as core components of ESG performance measurement. This dual focus on financial and impact materiality ensures that companies address both the financial implications of sustainability issues and their broader environmental and social impacts. This finding is consistent with Adams (2020), who advocates for DMAs to ensure comprehensive sustainability reporting. Balancing

these perspectives allows companies to meet investor demands for financial performance while addressing societal expectations for sustainability. The necessity for detailed mapping of value chains, as outlined by the ESRS and CSRD, highlights the complexity and scope of sustainability impacts. The integration of both financial and impact materiality through DMAs ensures that companies address not only their financial performance but also their broader environmental and social impacts. This dual focus is crucial for a holistic understanding of sustainability, aligning corporate practices with societal expectations and regulatory requirements.

The transition from voluntary to mandatory reporting standards, such as the shift from the GRI to the more stringent CSRD and ISSB standards, underscores the need for standardized reporting to avoid greenwashing and enhance transparency. This transition is well-documented in the literature, with reports like KPMG’s 11th edition of the KPMG Survey of Sustainability Reporting (2020) noting that mandatory standards are essential for achieving consistency and comparability in ESG reporting. Standardized frameworks reduce the ambiguity and subjectivity associated with voluntary reporting, leading to more reliable and comparable ESG data.

Ensuring data quality and transparency emerged as significant challenges, particularly in diverse operations where many data collection processes remain manual. This challenge is supported by literature from the Global Reporting Initiative (2020), which highlights the complexities and inconsistencies in data collection across global operations. Manual data collection methods are subject to errors and inconsistencies, which can undermine the reliability of ESG reports. Therefore, there is a pressing need for automation and standardization in data collection processes.

Effective stakeholder engagement is key for accurate sustainability reporting. The ESRS and CSRD frameworks mandate thorough stakeholder mapping and engagement processes, ensuring that all affected parties are considered. This inclusive approach not only enhances the accuracy of ESG reports but also fosters stronger relationships with stakeholders, contributing to improved business outcomes. The results indicate that companies often face challenges in maintaining data quality and transparency, particularly when data collection processes are manual and resource intensive. This is compounded by the need for specialized sustainability personnel, which many companies are lacking.

The engagement with stakeholders through various methods such as surveys, interviews, and focus groups, while resource-intensive, is essential for gathering the necessary data to inform sustainability practices and reporting. Conducting a gap assessment after data collection helps identify any missing information and areas for improvement. This assessment is critical for understanding the current state of the company's sustainability practices and highlighting areas that require more attention or development. By identifying these gaps, companies can prioritize their sustainability efforts and allocate resources more effectively.

Resource limitations, including the lack of specialized sustainability personnel, were highlighted by multiple interviewees as a common challenge. This finding aligns with the work of Aguinis and Glavas (2012), who identified resource constraints as a significant barrier to effective sustainability practices in organizations. Companies often lack the internal expertise required to navigate the complex and evolving landscape of sustainability reporting. Investing in training and development or hiring specialized staff

is essential to overcome these limitations. The reliance on consulting firms to bridge capability gaps highlights the resource constraints faced by many companies.

Governance and strategic alignment were also found to be critical aspects of implementing ESRS standards. The need for robust governance structures to support sustainability initiatives is a recurring theme in the literature, with researchers like Ioannou and Serafeim (2012) emphasizing the importance of governance in driving corporate sustainability. Effective governance structures ensure accountability and oversight, which are crucial for the successful implementation of sustainability initiatives. The development of clear policies, roles, and responsibilities within the organization can support this governance framework. The ethnographic analysis and interviews reveal that robust governance structures and the integration of sustainability into core business practices are critical for effective ESG reporting.

The appointment of CSO or dedicated project manager for sustainability reporting is recommended as a strategic move to drive sustainability initiatives and ensure compliance with relevant standards. Establishing governance frameworks and conducting DMAs are initial steps towards meeting new reporting requirements. However, gaining leadership attention and integrating ESG activities into daily business operations remain significant challenges. This indicates a need for top management to prioritize sustainability and align it with the company's broader strategic objectives.

The integration of sustainability into core business practices, driven by the CSRD and ESRS, is leading to more comprehensive sustainability strategies. This shift from traditional CSR approaches to strategic sustainability integration is consistent with the findings of Eccles et al. (2012), who argue that embedding sustainability into core business operations is essential for long-term success. Companies are increasingly recognizing that sustainability is not just a regulatory requirement but a strategic priority that can drive competitive advantage and long-term value creation. Companies that embed sustainability into their core business practices can enhance their performance metrics and strategic decision-making, aligning with long-term sustainability goals.

Increasing stakeholder demands for transparency and accountability are shaping corporate strategies, as highlighted by *Partner*. Companies are responding to these demands by enhancing their transparency in sustainability reporting and actively engaging with stakeholders to address their concerns and expectations. Stakeholder demands for transparency and accountability are shaping corporate strategies, with the European Green Deal and SDGs being key drivers.

Sustainability reporting as a market differentiator is another emerging trend, with early adopters leveraging their sustainability performance to gain a competitive advantage. This strategic use of sustainability reporting is supported by Porter and Kramer (2011), who argue that sustainability can drive competitive advantage when integrated into corporate strategy. Companies that effectively communicate their sustainability efforts can enhance their brand reputation, attract socially responsible investors, and appeal to environmentally conscious consumers.

The integration of technological advancements, the development of sector-specific reporting guidelines, and the move towards context-based sustainability reporting that accounts for local environmental contexts and sustainable limits are anticipated to shape the future landscape of sustainability reporting.

4.2) Implications for Corporate Strategy

The practical implications of these findings are significant for organizations aiming to enhance their sustainability practices. Companies must invest in advanced technological solutions to improve data collection and reporting capabilities. Automation and digitalization can streamline data collection processes, reduce errors, and enhance the reliability of ESG reports. Additionally, companies need to address resource limitations by building internal capacity through dedicated sustainability roles and engaging external consultants when necessary. Investing in training and development can equip employees with the necessary skills to manage sustainability initiatives effectively.
Organizations should also focus on robust governance structures to support their sustainability initiatives. Establishing clear strategic goals and aligning them with corporate governance practices is essential for effective ESG reporting. Governance frameworks should include policies, roles, and responsibilities that ensure accountability and oversight of sustainability initiatives. Moreover, companies should leverage their sustainability performance as a market differentiator, using it to enhance their competitiveness and market positioning. Effective communication of sustainability efforts can enhance brand reputation, attract socially responsible investors, and appeal to environmentally conscious consumers.
The impact of the ESRS will extend beyond the EU. While the EU has been a frontrunner with the ESRS, other regions, such as the USA and Asia, are also working on their own sustainability regulations. Over time, these standards may become more aligned, creating a more interconnected global framework for sustainability reporting (Reporting Consultant, 2024). The CSRD (Article 40a) mandates that non-EU companies generating over €150m in the EU and having at least one entity in the group within the CSRD scope or at least one EU branch with revenue over €40m, must publish sustainability-related information by 1 January 2028. The CSRD references the standards for non-EU companies and allows for the use of equivalent standards if determined and agreed upon by the European Commission. EFRAG is developing separate ESRS standards for non-EU companies, with adoption postponed to June 2026. Additionally, non-EU companies must consider their value chains and manage sustainability issues arising from their interactions with EU-based entities. This could lead to increased scrutiny and pressure on global supply chains to adhere to sustainability practices (Sustainability Manager 3, 2024).
As the ESRS and CSRD are relatively new, companies and advisors are still learning and adapting. With the evolving legislation, there may be changes and refinements in the requirements. At this stage, there are no severe penalties for non-compliance, but this may change as standards become more entrenched and enforcement mechanisms are strengthened. *Senior Consultant* highlights that companies should view this period as an opportunity to build robust sustainability practices that will benefit them in the long run.

4.3) Comparison with Existing Literature

The integration of advanced technological solutions in ESG performance measurement aligns with the literature emphasizing the role of technology in sustainability reporting

(Eccles et al., 2012). The findings support the notion that technology enhances the accuracy and comprehensiveness of ESG data collection, addressing the complexities associated with manual data collection processes.

The emphasis on double materiality assessments (DMAs) is consistent with Adams (2020), who advocates for DMAs to ensure comprehensive sustainability reporting. The dual focus on financial and impact materiality allows companies to balance investor demands with societal expectations, aligning with broader trends in sustainability reporting.

The challenges of ensuring data quality and transparency, particularly in manual data collection processes, are supported by the Global Reporting Initiative (2020). The need for automation and standardization in data collection processes is crucial to address inconsistencies and enhance the reliability of ESG reports.

Resource limitations, including the lack of specialized sustainability personnel, align with Aguinis and Glavas (2012), who identify resource constraints as a significant barrier to effective sustainability practices. Companies must invest in building internal capacity or engaging external expertise to navigate the complexities of sustainability reporting.

The need for robust governance structures to support sustainability initiatives is a recurring theme in the literature, with Ioannou and Serafeim (2012) emphasizing the importance of governance in driving corporate sustainability. Effective governance frameworks ensure accountability and oversight, supporting the successful implementation of sustainability initiatives.

The integration of sustainability into core business practices, driven by the CSRD and ESRS, reflects a shift from traditional CSR approaches to strategic sustainability integration. This trend is consistent with Eccles et al. (2012), who argue that embedding sustainability into core business operations is essential for long-term success.

Increasing stakeholder demands for transparency and accountability are shaping corporate strategies, aligning with Freeman et al. (2007), who note that stakeholder engagement is crucial for corporate legitimacy and sustainability. Companies are enhancing their transparency in sustainability reporting and actively engaging with stakeholders to address their concerns and expectations.

The strategic use of sustainability reporting as a market differentiator is supported by Porter and Kramer (2011), who argue that sustainability can drive competitive advantage when integrated into corporate strategy. Companies that effectively communicate their sustainability efforts can enhance their brand reputation, attract socially responsible investors, and appeal to environmentally conscious consumers.

4.4) Implications for Theory

The findings support Stakeholder Theory, which posits that organizations must consider the interests of all stakeholders in their decision-making processes (Freeman, 1984). Effective stakeholder engagement was identified as a key practice for accurate ESG performance measurement. Engaging with stakeholders ensures that their perspectives are considered, leading to more reliable and inclusive sustainability reporting. This finding aligns with the core principles of Stakeholder Theory, emphasizing the importance of balancing the interests of diverse stakeholders. Companies that engage

in meaningful dialogue with stakeholders can identify material issues, improve their sustainability performance, and enhance their legitimacy.

Institutional Theory suggests that organizations conform to the norms and rules of their institutional environment to gain legitimacy and ensure survival (DiMaggio & Powell, 1983). The emphasis on transparency and standardized reporting frameworks under the CSRD and ESRS reflects the need for companies to align with institutional expectations for sustainability and transparency. This alignment with institutional norms enhances corporate legitimacy and compliance, as supported by the findings of the interviews. Companies adopt standardized reporting practices to meet regulatory requirements, avoid penalties, and gain acceptance from institutional investors and other stakeholders who prioritize sustainability.

The findings of this study contribute to our understanding of ESG performance measurement, the challenges of implementing ESRS standards, and the emerging trends in corporate strategy under the CSRD. By interpreting these findings through the lenses of Stakeholder Theory and Institutional Theory, this discussion highlights the importance of aligning corporate practices with societal expectations and the strategic benefits of integrating sustainability into business models. Addressing the challenges identified in this study requires continued effort and investment from both companies and policymakers, paving the way for more sustainable and resilient business practices in the future.

The integration of stakeholder perspectives into ESG measurement processes ensures that companies address the concerns and priorities of various stakeholder groups, enhancing the reliability and inclusiveness of sustainability reporting. The alignment with institutional norms and standards, as reflected in the adoption of the CSRD and ESRS, enhances corporate legitimacy and compliance, meeting the expectations of regulators and institutional investors.

Investing in technological solutions, building internal capacity, and establishing robust governance structures are crucial for effective ESG reporting. Leveraging sustainability performance as a market differentiator can enhance competitiveness and market positioning, contributing to long-term success. Addressing the identified challenges and limitations through continuous adaptation and responsiveness to evolving regulatory and stakeholder expectations is essential for advancing corporate sustainability practices.

5) Conclusions and Recommendations

5.1) Summary of Key Findings

This study delved into the complexities of ESG performance measurement, the challenges associated with the implementation of ESRS standards, and the emerging trends in corporate strategy under the CSRD. Through detailed interviews with eight professionals, we gathered meaningful insights into the current state and future trajectory of corporate sustainability reporting.

One of the primary findings is the increasing reliance on sophisticated technological solutions, such as data analytics, cloud computing, and artificial intelligence, to enhance the accuracy and efficiency of ESG data collection and reporting. These technologies are crucial for meeting the stringent requirements set by new regulatory frameworks and for satisfying the growing expectations of stakeholders. The integration of advanced technologies into ESG reporting processes underscores the necessity for companies to adopt innovative solutions to ensure comprehensive and reliable data management. This reliance on technology aligns with existing literature, which emphasizes the importance of IT in sustainability reporting.

Double Materiality Assessments (DMAs) emerged as another pivotal element in the effective measurement of ESG performance. This approach ensures that companies address both financial materiality, which concerns the financial impacts on the company, and impact materiality, which concerns the company's impacts on society and the environment. The adoption of DMAs facilitates a holistic understanding of sustainability issues, balancing investor demands with broader societal expectations.

The transition from voluntary sustainability reporting frameworks, like the GRI, to mandatory standards under the CSRD and the ISSB, has significant implications. This shift drives greater transparency and consistency in ESG reporting, helping to mitigate the risks of greenwashing and enhancing the comparability of sustainability data across different companies and sectors.

However, the implementation of ESRS standards presents several challenges. Ensuring data quality and transparency, especially in diverse and global operations where manual data collection processes still dominate, remains a significant obstacle. Additionally, resource limitations, including the lack of specialized sustainability personnel, hinder effective ESG reporting and the overall sustainability initiatives within organizations. The study identifies resource limitations as a common challenge and emphasizes the need for companies to build internal capacity through training and hiring specialized personnel.

Governance and strategic alignment were also identified as critical aspects of implementing ESRS standards. Establishing clear policies, roles, and responsibilities within the organization is essential to ensure accountability and oversight of sustainability initiatives. The need for robust governance structures to support these initiatives is a recurring theme in both the findings and the broader literature. The findings suggest that robust governance frameworks and the appointment of dedicated sustainability officers are essential for driving sustainability initiatives and ensuring compliance with relevant standards.

Emerging trends in corporate strategy highlight the increasing integration of sustainability into core business practices. Driven by regulatory frameworks like the CSRD, companies

are shifting from traditional Corporate Social Responsibility approaches to more strategic sustainability integration. This shift is further shaped by growing stakeholder demands for transparency and accountability, with sustainability reporting becoming a key market differentiator that enhances competitiveness. The study also identifies sustainability reporting as a market differentiator, with early adopters leveraging their sustainability performance to gain a competitive advantage.

In conclusion, the integration of technological advancements and the development of sector-specific reporting guidelines are anticipated to shape the future landscape of sustainability reporting. The findings underscore the critical role of advanced technological tools and methods in enhancing the accuracy and efficiency of ESG performance measurement and the importance of comprehensive approaches like DMAs in sustainability reporting. This study contributes to advancing knowledge in the field of ESG reporting and corporate sustainability by highlighting key practices, challenges, and trends under the evolving regulatory landscape of the CSRD and ESRS.

5.2) Recommendations for Practitioners and Policymakers

Based on these findings, several recommendations can be made to enhance ESG reporting and corporate sustainability practices for both practitioners and policymakers.

Firstly, companies should invest in advanced technological tools to automate and streamline ESG data collection and reporting processes. This investment is crucial for reducing errors, enhancing data reliability, and improving the overall efficiency of sustainability reporting. Companies should look to integrate cutting-edge technologies such as AI and blockchain to handle large volumes of data and provide real-time analytics.

Secondly, organizations need to address resource limitations by building internal capacity. This can be achieved through comprehensive training and development programs focused on sustainability and ESG reporting. Additionally, hiring specialized personnel with expertise in ESG reporting will help companies navigate the complexities of new standards and frameworks effectively.

Robust governance structures are essential for effective sustainability practices. Companies should establish clear policies, roles, and responsibilities to ensure accountability and oversight of ESG initiatives. Developing a dedicated sustainability committee within the board of directors can help integrate sustainability considerations into the highest levels of corporate governance.

Furthermore, companies should leverage their sustainability performance as a market differentiator. Effective communication of sustainability efforts can enhance brand reputation, attract socially responsible investors, and appeal to environmentally conscious consumers. Sustainability should be embedded into the core business strategy, not just as a compliance requirement but as a competitive advantage.

Enhancing stakeholder engagement is another critical recommendation. Companies should actively involve stakeholders in the reporting process to address their concerns and expectations. This proactive engagement helps to ensure that the sustainability reports are credible, relevant, and aligned with stakeholder priorities. Tools such as stakeholder surveys, focus groups, and public consultations can be used to gather diverse perspectives and feedback.

Finally, companies must stay updated on regulatory developments in sustainability reporting. Continuous adaptation to evolving standards and frameworks is necessary to ensure compliance and maintain corporate legitimacy. Regular training sessions and updates on regulatory changes can help companies stay informed and prepared for new requirements.

5.3) Recommendations for Future Research

While this study provides valuable insights, it also highlights several areas for future research to advance the field of ESG reporting and corporate sustainability.

Future research should conduct longitudinal studies to examine the long-term impacts of regulatory changes, such as the CSRD and ESRS, on corporate sustainability performance. Understanding these impacts over time will provide deeper insights into the effectiveness of these regulations and how companies adapt to them. Longitudinal studies can track changes in corporate behavior, reporting quality, and sustainability outcomes, offering a comprehensive view of the regulatory impacts.

Comparative research across different regions and industries can uncover the unique challenges and opportunities faced by companies in implementing ESG standards. Such studies can help tailor sustainability strategies to specific contexts, recognizing the diverse regulatory environments and market dynamics. Comparative studies can also highlight best practices and innovative approaches adopted in different settings.

Investigating the role of emerging technologies in enhancing ESG reporting capabilities is another crucial area for future research. Technologies such as artificial intelligence and big data analytics can address current challenges in data collection, transparency, and stakeholder engagement.

Expanding the sample size and diversity in future studies will enhance the generalizability of findings. Including a broader range of industries, regions, and organizational sizes can provide a more comprehensive understanding of ESG reporting practices and challenges. Diverse samples will capture a wider array of perspectives and experiences, enriching the overall insights.

Finally, research should focus on the impact of policy interventions on corporate sustainability practices. Understanding how different policy measures influence corporate behavior can inform more effective policymaking. Future research can evaluate the effectiveness of specific regulatory frameworks, incentives, and guidelines in promoting sustainable practices.

This study has contributed to advancing knowledge in the field of sustainability reporting by highlighting key practices, challenges, and trends under the regulatory landscape of the CSRD and ESRS. By interpreting these findings through the lenses of Stakeholder Theory and Institutional Theory, it underscores the importance of aligning corporate practices with societal expectations and leveraging sustainability as a strategic advantage.

The recommendations provided aim to guide practitioners and policymakers in enhancing ESG reporting and sustainability practices. Continued research in this field is essential to address the dynamic and complex nature of sustainability reporting, ensuring that companies can effectively navigate the evolving landscape and contribute to a more sustainable future.

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Appendix

Interviews

Partner

Interviewer: Can you tell me a little bit about yourself? How long have you been with this company?

Interviewee: That's a good question. I started here approximately three months ago. However, my career in this industry began 18 years ago at another Big4 firm. So, overall, I have more than 18 years of experience within the Big Four accounting firms.

Interviewer: When did you first start working on a sustainability assignment?

Interviewee: I began working on sustainability assignments when I joined three months ago. However, during my tenure at the competitor's firm, I was involved in various projects where my team contributed to the controls and governance around non-financial reporting.

Interviewer: Can you tell me about a recent engagement you had?

Interviewee: Currently, I'm involved in several assignments where we need to set up and design non-financial reporting manuals for CSRD compliance. This includes establishing governance structures and delving into specific ESRS topical standards. We aim to embed these standards within organizations, ensuring that the personnel responsible for capturing data know how to record and report it for consolidation and reporting purposes. Additionally, I'm starting with a few double materiality assessments (DMAs) as well.

Interviewer: How did the evolution of reporting standards over the past years influence your work?

Interviewee: This is a key question. Over the years, we have seen a significant shift in sustainability reporting standards. Now, with CSRD regulations being mandatory, organizations must include these in their annual reports and obtain external assurance. Previously, standards like GRI were often voluntarily applied, which triggered the development of further requirements. When reporting was voluntary, only front runners were actively participating, and sometimes it could lead to greenwashing. However, many companies did not realize how their operations impacted society or vice versa. The new regulation aims to change that by embedding sustainability into the organization's DNA. My hope is that companies won't just treat this as a compliance exercise but will transform into more conscious entities. Initially, financial reporting was the main focus, but now with mandatory ESG standards like ISSB and CSRD, there's a comprehensive shift in reporting practices.

Interviewer: What do you think were the reasons behind the development of the ESRS?

Interviewee: The European Green Deal was a major driver behind the development of the ESRS. It laid the foundation by highlighting the urgency of addressing global warming and other environmental challenges. The Green Deal, along with the Sustainable Development Goals (SDGs), pushed for a European regulation that would standardize sustainability reporting.

Interviewer: How are companies preparing for the implementation of the ESRS in their reporting?

Interviewee: Preparation varies across companies. Some, like listed companies in the Netherlands, have already integrated sustainability reporting into their practices. These companies have established governance structures, appointed Chief Sustainability Officers, and set up data streams for reporting. Others, who need to report in 2025 or later, are currently starting the process with DMAs and gap assessments. They are also hiring consultants to assist in this transition. However, there are still companies that have not yet begun, and they will face significant challenges in organizational change and reporting.

Interviewer: What are the most common challenges that companies are facing in preparing for the ESRS?

Interviewee: There are multiple challenges. First, getting sufficient attention from leadership is crucial as it affects the entire organization. It requires full board commitment, not just the efforts of a Chief Sustainability Officer. Second, understanding the organization's impact on society and capturing all potential risks and opportunities is essential. Third, having the right data is a major challenge. Companies need accurate data from their operations and their value chains, which is often difficult to obtain. Lastly, building the right controls and governance mechanisms to ensure sustainable practices are embedded in the organization is critical. Making ESG activities a part of everyday business operations is a significant hurdle.

Interviewer: How do you anticipate that the ESRS and CSRD will influence the strategic decisions of companies?

Interviewee: The ESRS and CSRD will definitely influence strategic decisions. Companies will face questions and demands for data from suppliers, clients, and other stakeholders. To remain competitive and make a positive impact on society, companies will need to adapt and evolve their ESG capabilities. This will drive internal motivation to change and align with eternal demands from the business environment.

Interviewer: Do you have any examples of how this has already started to impact corporate practices?

Interviewee: Yes, I've seen several clients receiving questions from their suppliers or clients about their sustainability data. Larger companies that are already front runners in ESG reporting are asking these questions to their stakeholders. This trend is starting to spread across the industry.

Interviewer: What future trends do you anticipate in the reporting and sustainability strategies?

Interviewee: In the future, reporting requirements will likely change business strategies significantly. Companies will need to apply full transparency, which might lead them to discontinue less sustainable activities and seek new solutions. Investments will increasingly have an ESG component, influencing decisions on new projects and plants. Companies will aim to improve their metrics and integrate sustainability into their core operations.

Interviewer: So you think companies will try to improve all their metrics?

Interviewee: Yes, companies will strive to improve their metrics, seeking actions and investments that align with sustainability goals. They will need to balance cost considerations with the benefits of transparency and sustainability. This will affect their decision-making processes and lead to a more sustainable approach to business.

Interviewer: Is there anything else that you would like to add?

Interviewee: Many of these regulations will take time for organizations to fully adapt to. Companies will need to be transparent about gaps in their reporting and focus on closing these gaps over time. This process requires significant effort, behavioral change, and long-term commitment. Sustainability won't be achieved overnight, but with dedicated efforts, organizations can make meaningful progress.
Interviewer: Thank you. That was the final question. I appreciate your insights.
Interviewee: Thank you. It was a pleasure to discuss these important topics with you.

Senior Manager 1

Interviewer: Can you tell me a little bit about yourself?
Interviewee: My role involves overseeing various phases of ESG reporting projects. I also lead the innovation team within our sustainability reporting group and collaborate with the Global department, spearheading innovation initiatives there. I primarily focus on developing tools, software, and technology solutions to support our work. It's been a rewarding journey so far. And that's a brief introduction about me.
Interviewer: What kind of engineer are you?
Interviewee: I'm an electrical engineer by training, and I also completed my master's in sustainable energy. My education combines technical, business, and policy aspects of sustainable energy. After my studies, I started working in the solar and energy storage field and was a consultant there for almost two and a half years. That sums up my background.
Interviewer: Impressive.
Interviewee: And what area are you focusing on now?
Interviewer: I'm focusing on engineering and management. With an emphasis on sustainability.
Interviewee: Yeah, nice.
Interviewer: Okay, so let's jump into the interview.
Interviewee: Yeah.
Interviewer: When did you join KPMG, and when did you first start working on a sustainability assignment?
Interviewee: I started working on sustainability assignments almost immediately, in my first month at this consulting firm. From the beginning, I was involved in sustainability reporting engagements. I'm not sure if you're familiar with all the phases of these engagements, but we conduct double materiality assessments and gap assessments. I was part of multiple projects where we performed these assessments for clients. Now, I'm more involved in the implementation phase of projects.
Once the double materiality assessments and gap assessments are completed, we help clients develop and implement roadmaps. This phase is more hands-on, focusing on compliance, strategy development, and future planning. Lately, a significant portion of my time has been dedicated to developing technology solutions. For the past three months, we've been working with the Microsoft team to build a comprehensive toolkit to support these projects. So, sustainability has been my focus since I joined this company.
Interviewer: Can you tell me about a recent engagement you had?
Interviewee: Recently, I've had four engagements. One of the biggest has been with a waste management client. We started with a double materiality assessment (DMA), followed by a gap assessment, developed a roadmap, and now we're moving into the

implementation of CSRD. It's a complex and large-scale project, which has been quite interesting.
Another significant project is this firm's own CSRD report. Along with a senior manager and another manager, I'm supporting our reporting team. We're aiming to publish a CSRD-compliant report this year, making us one of the first in the market to do so.
Additionally, I have two other engagements where we facilitate CSRD projects. In these, we're not executing the projects directly but providing interpretation, advice, tools, templates, and on-call support to clients. These are my current external engagements.
Interviewer: How did the evolution of ESG reporting standards over the past years influence how you work?
Interviewee: Interesting question. My initial experience with ESG reporting was during my master's program. Along with a colleague who is also now at this company, we wrote the first sustainability report for TU Delft, our university. Back then, we had no clear guidance on technical standards or reporting methods. We simply compiled everything the university was doing regarding sustainability into one comprehensive report, which was both challenging and liberating due to the lack of rigid guidelines.
As I transitioned into a professional role in sustainability, I began helping clients with GRI reporting, which was one of the first globally recognized standards. GRI provided substantial guidance for companies on sustainability reporting.
The significant shift came with the introduction of the CSRD and ESRS standards by the EU. These are much more detailed and comprehensive, requiring significantly more effort from companies. Unlike earlier standards that focused on past performance, the new standards are forward-looking, demanding companies to report on their strategies, visions, and how past performance impacts future plans. This shift from a more corporate social responsibility (CSR) approach to a comprehensive sustainability strategy reflects a significant evolution.
Earlier, sustainability reporting often felt like a PR exercise, focusing on current activities in social and environmental areas. GRI then pushed for more detailed historical performance data. Now, CSRD and ESRS require companies to think strategically, report on policies, set targets, and outline actions to achieve those targets. This evolution demands substantial effort from companies, as it's not just about reporting numbers but also about articulating strategies, policies, and stakeholder involvement.
The transition to these new standards is challenging. For instance, around 60-65% of CSRD disclosures are qualitative, focusing on policies, targets, actions, and strategies, while only 30-35% are quantitative KPIs. This means companies have to do much more than just gather data; they need to develop and communicate comprehensive sustainability strategies.
We see the complexity firsthand while working on our company's CSRD report and advising clients, especially those operating across multiple countries. The evolution is beneficial but also presents significant challenges.
Interviewer: What are the main challenges that clients are facing?
Interviewee: One significant challenge is that many companies are not prepared for the new sustainability standards. While some, particularly those listed on stock exchanges with existing reporting obligations, have been working on sustainability, they still encounter issues, especially with data quality. Often, companies collect data through Excel sheets sent via email from different departments and countries. This manual

process leads to inconsistencies, lack of a clear data trail, and questions about data accuracy and provenance. With the new standards, all this data needs to be audited, making it even more crucial for companies to ensure data quality and transparency.
Another major challenge for large companies is managing operations across multiple countries and business units with diverse activities. For instance, a company involved in construction, plastic manufacturing, and logistics faces different impacts, risks, and sustainability challenges in each area. Consolidating these diverse operations into a single strategy is complex and often difficult.
Additionally, balancing stakeholder expectations poses a significant challenge. Stakeholders may demand attention to various issues like forced labor or child labor in specific regions. However, companies argue that they cannot address every issue globally and must prioritize focus areas where they can make the most impact. This balancing act between stakeholder expectations and practical focus areas is another significant hurdle.
These challenges illustrate the complexities companies face in developing effective and comprehensive sustainability strategies that meet new reporting standards while balancing diverse operations and stakeholder demands.
Interviewer: Based on your understanding, what do you think the main drivers behind ESRS and CSRD were?
Interviewee: The main drivers behind ESRS and CSRD stem from the comprehensive nature of sustainability. The ESRS, for example, now includes 10 standards: five on environment, four on social, and one on governance. This highlights the broad scope of sustainability, beyond just greenhouse gas emissions. Environmental considerations now include pollution, water, biodiversity, and circular economy. Similarly, social aspects have expanded to cover not only workforce diversity and labor practices but also value chain employees, communities, and customers. Governance has always been a focus, but the breadth of coverage across different sustainability themes in ESRS is a significant advancement.
One key driver is the need for companies to start measuring and developing strategies for complex topics like biodiversity and pollution, which have traditionally been underreported or poorly understood. This shift encourages proactive rather than reactive reporting.
Another important driver is stakeholder engagement. ESRS emphasizes involving a wide range of stakeholders, including employees, affected communities, the board, NGOs, and investors. This broad engagement ensures that various perspectives are considered, enhancing the overall sustainability strategy.
Additionally, the concept of double materiality is a major driver. Companies are now recognizing that while they impact the external world, the external world also impacts them. This dual perspective helps companies assess their risks related to sustainability. For instance, climate change might pose flooding risks to coastal sites, or working in countries with poor labor laws might create legal and reputational risks. Understanding these risks allows companies to develop better strategies to mitigate them.
Overall, these drivers push companies to adopt a more holistic and forward-looking approach to sustainability, which is both challenging and necessary for long-term success.

Interviewer: How do you anticipate that the ESRS and CSRD will influence strategic decisions?

Interviewee: In the past couple of years, companies have primarily focused on understanding and complying with CSRD reporting requirements. This process is complex and requires significant investments in time, personnel, and finances. Initially, many companies are concentrating on compliance, ensuring their reporting meets the necessary standards.

As companies navigate this compliance phase, they begin to consider how they can improve their performance in specific areas. They start setting targets and developing action plans to enhance their sustainability efforts. Although some ambitious companies are already using CSRD as a strategic tool, setting comprehensive targets and strategies, others, particularly those new to sustainability reporting, are still focusing on basic compliance.

For these companies, which might only have data on GHG emissions or basic diversity metrics, it will take a couple of years to fully integrate the strategic aspects of CSRD. However, this integration is inevitable. As companies continue to report, they will gather extensive data on various sustainability topics, allowing them to set informed targets and develop effective action plans.

CSRD standards also push companies to adopt a strategic approach by requiring them to set targets and action plans. Over time, this will lead to improved performance and a shift from viewing CSRD as a compliance requirement to using it as a strategic tool. Within two to three years, I expect most companies to incorporate CSRD into their strategic planning, moving beyond compliance to making it an integral part of their business operations.

Interviewer: Thank you. And lastly, what future trends do you anticipate in ESG reporting standards?

Interviewee: Looking ahead, I anticipate several key trends in ESG reporting standards. Firstly, sector-specific reporting standards will become more prominent. Currently, the standards are quite generic, making it difficult for certain sectors to interpret them accurately. For example, financial services companies face challenges when reporting on environmental topics due to their minimal direct environmental impact. However, they do have significant indirect impacts through investments. Sector-specific standards will provide clearer guidelines for such industries, making the reporting process more precise and relevant.

Another trend will be the increasing integration of reporting with strategy. While many organizations currently focus on reporting advisory, the future will likely see a shift towards combining reporting advisory with strategy advisory. This means helping companies use their ESG reporting to inform and drive their strategic decisions more effectively.

Additionally, we can expect other international reporting standards, like the International Sustainability Reporting Standards (ISSB), to gain traction. Companies operating in the EU need to comply with CSRD, but those with operations in other regions, such as the US or Asia, might also need to adhere to ISSB standards. This will require companies to navigate multiple reporting frameworks and ensure compliance across different jurisdictions.

Technology will also play a significant role in the evolution of ESG reporting. Currently, much of the reporting process is manual and lacks automation, primarily because companies are still figuring out the new requirements. However, in the coming years, we will see substantial growth in technology solutions that streamline and enhance the sustainability reporting process. This technological advancement will make reporting more efficient and accurate, helping organizations meet their ESG goals more effectively. These trends indicate a dynamic future for ESG reporting, with increased specificity, strategic integration, global standardization, and technological innovation driving the field forward.

Interviewer: Is there anything else that you would like to add?

Interviewee: No, I think we've covered quite a few points. I'm good.

Interviewer: OK. Thank you.

Senior Manager 2

Interviewer: How long have you been with the company?

Interviewee: I started in October 2023, so it's been about nine months now.

Interviewer: OK. When did you first start working on a sustainability assignment, even outside your current role?

Interviewee: A little over ten years ago, I think. It also depends a bit on how you define sustainability, of course. But yes, I've been working in health, safety, environment, and quality for a very long time already. So, most of it is sustainability-related in that essence.

Interviewer: OK. And what does your team usually do for clients during a sustainability engagement?

Interviewee: We are fully focused on sustainability and can approach it from two perspectives. Either it is an audit client, where we help with assurance readiness—essentially guiding them on the road to assurance. On the other hand, it could be an advisory client, where we help them prepare for sustainability reporting by performing and actually doing the work. So, from one perspective, it's assurance readiness, which involves reviewing, coaching, and guiding them through the process. From an advisory perspective, it's working with them to actually do the work. In both cases, it's all concerning sustainability.

Interviewer: OK. And how did the evolution of reporting standards over the past years influence how you work?

Interviewee: It has helped by bringing more focus from clients. Their willingness to adopt and do something with it has increased, along with their focus on it and the seriousness they attach to it. It's no longer just a standalone thing; it’s something that must be included in corporate strategy and all those related areas. Even though it involves a lot of work and compliance requirements for clients, it does bring more attention to sustainability.

Interviewer: OK, great. And what do you think were the main drivers behind the development of the ESRS?

Interviewee: Transparency is one of the main things, ensuring coherence and the ability to review sustainability reports in a consistent manner. For a long time, it was possible to produce sustainability reports in a very free-form manner, despite existing standards. There were a lot of fancy presentations, decks, and fluff. Now, it’s becoming more

centralized, transparent, and easier to compare, which should hopefully lead to better results and positive impacts.

Interviewer: OK. Thank you. And how are companies preparing for the implementation of ESRS in their reporting practices?

Interviewee: Currently, most companies are in the early stages of finalizing their Double Materiality Assessments (DMA). It’s evident that this issue isn’t always prioritized or handled by the right personnel, and there is a significant need to raise awareness. Generally, companies are now getting a full picture of their material matters and understanding the material information. They are starting the process of preparing accounting manuals, drafting sustainability statements, and organizing their governance structures. Essentially, most companies are now approaching or entering the implementation phase.

Interviewer: OK. And what are the most common challenges that companies face in preparing for these standards?

Interviewee: The most common challenges include having a good governance structure and the right people to work on this, as well as having a clear roadmap. Without a clear roadmap and targets, it’s difficult to finalize the standards, which involves quite a lot of work. Companies need a solid roadmap to follow and a good governance structure with a project manager who coordinates everything. Many companies are now assigning a project manager to ensure coordination, working with certain deadlines and targets to manage the workload. It’s important to approach this process incrementally, as one client said, "You don’t eat an elephant at once; you eat it in small pieces." This approach helps tackle the work in manageable parts.

Interviewer: OK, I understand. And can you describe any specific tools or methodologies used by consulting firms to support clients?

Interviewee: Currently, we work a lot with PowerPoint and Excel. We do have some software tools to help with DMA completion. There's also ongoing work with a Microsoft tool to assist with DMA. When it comes to the actual sustainability statements, we sometimes work within the clients' existing reporting systems. So, it depends on the client. For assisting with materiality assessments and similar tasks, a lot is currently being done using standard office software.

Interviewer: OK. And how do you anticipate the ESRS and CSRD will influence the strategic decisions for companies?

Interviewee: I think companies do not always realize that sustainability already influences their decisions and strategy. Companies sometimes see it as a separate thing, but the change that hopefully will arise is that they are more aware of the impact sustainability already has on their business models and strategy. By it becoming more apparent, it might bring them to the next step and also for them to see the advantages of incorporating it and making it more clear. I do personally believe that it is already a part of a lot of companies, but they are just not aware of it or do not always view it in that sense.

Interviewer: OK. Can you provide some examples of how this has already impacted corporate practices?

Interviewee: Especially when it comes down to business models. For example, a net provider in the gas and oil sector that we currently help already has to deal with the energy transition and the related issues. This part is already embedded in their strategy

and business model purely because it's now common practice. I think they need to better realize how this relates to sustainability and how sustainability can help them embed these practices further or bring them to the next steps. It isn't a new thing; it isn't like ESRS suddenly means they have to do new things. They just have to incorporate certain practices that are already present in the organization.

Interviewer: What future trends do you anticipate in sustainability reporting?

Interviewee: And what I personally hope is that because now there's a lot of professional judgment in the sustainability reporting and to determine what is material and better for an organization, and there's also quite a lot of flexibility when it comes down to target setting and what constitutes a good target and what is sustainable. There's not much clarity on what is actually expected as being sustainable besides taxonomy, which, of course, determines if certain activities are eligible from a financial perspective and if you comply. So, what certain things are also aligned? So, what I would hope, and also personally believe, is that context-based sustainability will be the next step, where you will not only say, "OK, for example, we use a certain amount of water," but you will also look at the context and how much water can actually be consumed in a certain area without overconsuming the amount of water that is available. So, for example, if you consume water from a water-scarce environment, it could be that in a few years there is not enough water left, which, of course, has its risks. But then the question is how much water can you actually consume to ensure that you're still within sustainable limits? And that is something that is not always considered. It's mostly about saying, "OK, we reduce our water consumption by 50%, for example." But stating that it has decreased from 10 to 5,000,000 cubic meters of water consumption might sound impressive, but if you can only use 1,000,000 cubic meters of water to stay within sustainable limits, then that actually says more than just saying you reduced it by 50% or 60%, because in this case, you would actually need to reduce it by 90% to reach a sustainable level.

Interviewer: Thank you. That was the last question.

Senior Manager 3

Interviewer: Can you tell me a little bit about yourself? How long have you been with this company?

Interviewee: I’ve been with the company for nearly 15 years. Over the course of my career here, I’ve engaged in a wide range of activities, including tax advisory, audit, and accounting. In the early years, my work was more focused on tax and audit. However, for the past three years, I have concentrated entirely on sustainability reporting. My journey in sustainability began with expertise in taxonomy, and more recently, I’ve been fully immersed in the European Sustainability Reporting Standards.

Interviewer: When did you first start working on a sustainability assignment?

Interviewee: My first sustainability assignment was in May 2021. This was the initial engagement for the EU taxonomy. I was involved in advising companies on how their projects could align with the EU taxonomy regulations. This involved determining eligibility and understanding the necessary steps for companies to achieve sustainability alignment. Once I started working on these projects, I was deeply engaged in sustainability reporting, transitioning away from financial reporting to focus entirely on this area.

Interviewer: Can you tell me about a recent engagement you had? What does your team do for the client?
Interviewee: Currently, I work in a department dedicated to handling interpretations of sustainability standards. For over a year, I haven't been working directly with clients but rather with our internal engagement teams. When these teams face questions about how to interpret elements of the ESRS or the EU taxonomy, or when they need guidance on where to find responses or references, they turn to my department. We help them navigate these standards and provide initial interpretations when the guidance is unclear. Sometimes, if the issues are particularly complex, we consult with colleagues at the European level to develop a cohesive understanding. Essentially, my role is to support these teams in addressing and interpreting sustainability reporting standards.
Interviewer: How has the evolution of ESG reporting standards over the past years influenced your work?
Interviewee: The rapid evolution of ESG reporting standards has had a substantial impact on my work. When we first started with the exposure drafts of the ESRS and the EU taxonomy, the pace of change was relatively manageable. However, the release of new guidance and Q&A documents has been frequent, requiring constant updates and adjustments. Unlike financial reporting standards, which have been established for decades and evolve gradually, ESG and sustainability reporting standards are changing at a much faster pace. This dynamic environment makes the work both challenging and stimulating, as it requires continuous learning and adaptation to stay current with the latest developments.
Interviewer: What do you think were the main drivers behind the development of the ESRS?
Interviewee: The main drivers behind the development of the ESRS are the urgent need for companies to adopt more sustainable business practices. The ESRS aim to enhance transparency about how companies address environmental and social issues, alongside governance matters. The EU's objective is to ensure that companies disclose how they integrate these sustainability aspects into their strategies and operations. By mandating these disclosures, the standards are designed to push companies towards more responsible and sustainable practices, reflecting the increasing societal and investor demand for greater accountability in these areas.
Interviewer: How are companies preparing for the implementation of ESRS in their reporting practices?
Interviewee: Companies are preparing for the ESRS implementation by seeking extensive support from advisory firms, including the Big Four. Many companies are hiring specialists who understand both sustainability and financial reporting to bridge the gap between these areas. Some companies with existing voluntary reporting practices are ahead in their preparations, but there is a general trend of engaging advisors to ensure compliance. Additionally, companies are benchmarking against their peers to see how others are adapting to the new standards. They are also working on internalizing these practices by developing reporting manuals and frameworks to guide their sustainability reporting efforts.
Interviewer: What are some of the common challenges that they are facing right now?

Interviewee: Companies are encountering several key challenges in implementing ESRS. Firstly, mapping the value chain is a significant challenge. Unlike traditional financial reporting, which focuses on internal operations, ESRS require companies to consider their entire value chain. Companies need to identify material issues not only within their own operations but also throughout their supply chains. Secondly, identifying material matters for both the company and its value chain can be complex. Companies that were already disclosing voluntarily might be more advanced, but others are still catching up. Thirdly, data collection poses a major challenge. Once material matters are identified, companies need to gather specific metrics related to environmental and social issues. For multinational companies, standardizing and collecting this data across various regions and operations can be particularly difficult.

Interviewer: How do consulting firms assist in understanding and preparing for the requirements? Are there any specific tools or methodologies used by consulting firms?

Interviewee: Consulting firms assist by leveraging their expertise in both financial and sustainability reporting. While there may not be universal tools or methodologies, firms typically combine financial reporting experience with sustainability knowledge to guide clients. Having experienced professionals who understand both domains is crucial. The use of artificial intelligence is emerging as a trend, though it is still in the exploratory phase. AI can help process large amounts of data, but its effectiveness depends on having the right inputs and human oversight. Overall, the key to successful consulting is having knowledgeable people who can interpret and apply the standards accurately.

Interviewer: How do you anticipate the ESRS and CSRD will influence the strategic decisions of companies?

Interviewee: The ESRS and CSRD are likely to have a significant impact on strategic decisions within companies. The requirement to disclose how they manage material sustainability matters will increase transparency and drive companies to address these issues more proactively. Given the growing interest from investors and society in sustainability, companies will need to focus on environmental and social matters to avoid reputational and financial risks. Transparency will likely push executives to prioritize sustainability in their strategies and operations. Companies will need to evaluate their actions, set clear targets, and ensure they are managing these matters effectively to meet the standards and respond to stakeholder expectations.

Interviewer: Can you provide any examples of things that are already changing in corporate practices?

Interviewee: While I am not directly involved with corporate practices, I have observed trends in reports and industry updates. For instance, companies are increasingly setting climate change mitigation targets. Some companies are voluntarily setting targets and validating them through initiatives like the Science-Based Targets initiative, which helps ensure that targets align with the latest climate science. This trend indicates that companies are beginning to adapt to the focus on sustainability, even before the full implementation of ESRS. These voluntary actions are a positive sign of how companies are beginning to integrate sustainability into their strategies.

Interviewer: How will this influence companies that are outside of the EU and outside of the scope of the CSRD?

Interviewee: The impact of ESRS will extend beyond the EU, especially for companies that do business in the EU. Even if a company is headquartered outside the EU, it may still fall under the scope of ESRS if it has significant operations or revenue in Europe. For example, non-EU companies that are listed on European stock exchanges or have subsidiaries in the EU will be subject to these standards. This will push these companies to address and disclose sustainability matters related to their European operations. Additionally, non-EU companies will need to consider their value chains and manage sustainability issues that arise from their interactions with EU-based entities. This could lead to increased scrutiny and pressure on global supply chains to adhere to sustainability practices.
Interviewer: What future trends do you anticipate in reporting and sustainability strategies?
Interviewee: Looking ahead, I anticipate that ESRS will become a crucial tool for shaping sustainability strategies. By identifying material sustainability matters, companies can use the standards to guide their actions and prioritize issues that are most relevant to their business. While the initial reports may be rough and evolve over time, the standards will help companies focus on what matters most and integrate these considerations into their strategies. As the standards mature, we can expect more refined and useful reports that provide valuable insights for investors and other stakeholders. The next few years will involve a steep learning curve, but the long-term outcome will be more robust and meaningful sustainability reporting.
Interviewer: Is there anything else you would like to add?
Interviewee: I would just emphasize that we are at an exciting juncture in the field of ESG reporting. The standards are new, and we are still in the early stages of their development and implementation. The next few years will involve a lot of learning and adaptation as companies and consultants navigate these changes. It's a unique opportunity to be part of this evolving field and contribute to shaping the future of sustainability reporting. The potential for impact and improvement in corporate sustainability practices is significant, and it's a compelling time to be involved in this area.
Interviewer: Thank you for sharing your insights.
Interviewee: You're welcome. It's been a pleasure discussing these important topics.

Manager

Interviewer: How long have you been with your current firm?
Interviewee: Uh, one year in the Netherlands, six to seven years in Japan.
Interviewer: Great. And when did you first start working on a sustainability assignment?
Interviewee: December 2015, basically when I moved to my current firm. I started doing sustainability advisory services.
Interviewer: OK. Can you tell me about a recent engagement you had?
Interviewee: I'm currently working on a CSRD engagement, particularly for Japanese companies. Of course, I've worked with Dutch companies as well, but mostly now I have Japanese clients.
Interviewer: OK. And what does your team usually do for clients during these engagements?

Interviewee: We are now in the first phase of the CSRD journey. We help our clients perform double materiality assessments, gap analysis, and roadmap formulation. These three steps are mostly in the scope of CSRD projects that I handle.
Interviewer: OK, good. And how did the evolution of ESG reporting standards over the past years influence how you work?
Interviewee: That's a really difficult question. As you already know, ESRS is basically formulated based on GRI, SASB, and other internationalized reporting standards. This evolution is significant because, previously, we didn't have any mandatory sustainability reports—it was all about voluntary reporting. But now, with CSRD, it becomes mandatory and a compliance issue. Personally, I think this is a huge difference from before.
Interviewer: OK. Based on your understanding, what were the main drivers behind the development of ESRS and CSRD?
Interviewee: Definitely institutional investors and suppliers. Stakeholders are playing a significant role in this evolution. Institutional investors, in particular, like to compare companies based on publicly available information. Previously, they only did this based on financial information. But as you know, a company's true value cannot be measured solely by financial data. They really have to take into account sustainability information, which drives company strategy and future. This kind of movement mainly occurred from the investor side, and it subsequently affected company behavior because companies need to secure finance from investors and banks. So, it had a considerable impact on companies as well.
Interviewer: OK. How are companies preparing for the implementation of these standards?
Interviewee: Well, some companies are really ambitious and committed, while others are not, to be honest. If a company is strategy-driven and has a forward-looking perspective, they see the CSRD as a game-changer. These companies try to involve as many people as possible and use it as a good occasion to change the company culture. However, if a company views this merely from a compliance perspective, not much happens. They just want to do the minimum required. So, I would say it really depends on the company's mindset and how they choose to tackle this.
Interviewer: I understand. What are some of the most common challenges that companies are facing in preparing for the standards?
Interviewee: From the perspective of Japanese companies with operations in the Netherlands, resources are very limited. They often don't have specific sustainability personnel, so they lack the capacity to understand and progress these projects independently. As a result, they need consulting firms like ours. So, capability and resources are the biggest challenges I see so far.
Interviewer: OK. Can you describe any specific tools or methodologies used by consulting firms to support clients in this preparation?
Interviewee: Well, there isn't really a uniform or typical tool available at this moment. We always have to tailor our approach to each individual client.
Interviewer: And how do you anticipate the ESRS and CSRD will influence the strategic decisions of companies?
Interviewee: It will take some time. Companies often want to see peer information first. In the first year, they tend to do the minimum, but by the second or third year, they start

analyzing peers' information and recognizing their status within the industry. They can then reflect on whether they want to be a front runner in sustainability or just a follower. For some companies, ESRS and CSRD will be a supplement tool to their already strategic sustainability efforts. So, it really depends on the company's motivation and approach to sustainability in business.

Interviewer: OK. Thank you. What future trends do you anticipate in ESG reporting?

Interviewee: It's hard to say exactly, but with the CSRD regulation already in place and the upcoming CSDDD, the focus is initially on reporting. However, in the future, companies will need to close the gaps because new laws will require them to do thorough due diligence and risk assessments for all ESG issues. Reporting is just the beginning. As regulations get stricter, companies will not only have to share their ESG performance but also prove it with detailed checks. This means they'll have to dig deeper into their operations, assessing risks related to the environment, society, and governance. It's a shift from just reporting numbers to actively managing and reducing risks, making sustainability a key part of their business plans.

Interviewer: OK. Thank you. Is there anything else you would like to add?

Interviewee: Hopefully, I answered your questions sufficiently.

Senior Consultant

Interviewer: How long have you been with your current organization?

Respondent: I joined in April 2023, so it's been one year and four months.

Interviewer: OK. And when did you first start working on sustainability assignments?

Interviewee: With my current employer, or broadly speaking?

Interviewer: Broadly.

Respondent: I specialize in ESG. I have a Master's in Sustainability, and before that, I worked with the UN and the World Bank, focusing heavily on the SDGs. I also have field experience in international development. In essence, I've been dedicated to sustainability since I was 18 or 19, accumulating about a decade of experience in the field.

Interviewer: OK. Can you tell me about a recent engagement you had?

Interviewee: Recently, I worked with a seafood company that has European holdings and subsidiaries across Europe. They needed assistance with CSRD compliance through ESRS.

Interviewer: What does your team usually do for clients during these engagements?

Interviewee: Right. So I can take the example of the seafood company. It's one of the largest seafood companies in the world and now finds itself having to comply with CSRD through ESRS. I'm sure you know what that means.

The company does not have the capacity to undertake a project like this themselves. They don't usually have a sustainability team or people who are overly familiar with compliance. They are usually a small team at the holding level and then numerous subsidiaries which are very functional, so based on manufacturing goods and selling them, very functional, there's not a lot of admin and bureaucracy anyway. So companies like that hire us, and we help them comply with the law and also navigate the complexity

of what's happening in this sustainability ESG ecosystem that's become more and more prominent in Europe.
We often do that by helping them figure out topics that are material to them so impacts, risks and opportunities that are most relevant to them, most significant to them, because they didn't have to report on it based on a criteria predetermined with CSRD. So we help them navigate all the way from figuring out what those topics are to figuring out what they have to report and whether they have the right kind of data for it, to then figuring out what kind of controls, technologies, strategies, et cetera, they might need to actually get to the point of reporting.
There are often legal complexities as well within their very complicated structures that have to be resolved. We are also dealing with numerous Member States and therefore sometimes there can be legal complexities there as well in terms of different requirements and different countries transpose the laws differently.
So we work on a lot of these areas in the very beginning and then we work on what we call implementation. But very few clients are at that stage.
Interviewer: How did the evolution of ESG reporting standards over the past decade influence how you work?
Interviewee: Well, I am new to reporting so I cannot say exactly what's happened in the last decade, but I have a general idea. So you do have numerous reporting regulations all over the world, but usually they focus on big companies or they focus on assessing risks and opportunities. Therefore, you know they don't necessarily focus too much on the impact the company might have on the world in terms of ESG. So one evolution that's happened is this sense that it's not just about risks and opportunities for a company, it's also about what they do to the environment or to people or to human rights. So I think that's been the biggest transformation. Of course we had GRI and now we have ISSB. That's grown tremendously and being adopted by numerous countries. We had non-financial disclosure requirements and each country's oftentimes stock exchanges have certain requirements to disclose in terms of ESG, but essentially we have gone from almost no reporting and an ecosystem where in the next 10 years we'd see an incredible amount of reporting. EU was a catalyst for that, but there are other countries as well adopting ISSB and other standards and so this data will become a very central tool in this ESG transformation, yeah.
Interviewer: What were the main drivers behind the development of ESRS?
Interviewee: It's a very good question too. There are obviously political drivers for it. I think ESRS is a natural extension of financial reporting, given that the company's finances can be impacted by the risks and opportunities that emerge, whether that's regulatory or climate related risks. So, sort of disclosing that seems fairly relevant and that's been going on for a while. But the EU has gone a step further in making companies report their impacts. And I think that's going to do. But the EU is this transnational governance organization with a fair bit of expertise on climate, with a very strong desire to contribute to the Paris climate goals and therefore believes that data is one of the central ways of doing that. I also think that there was perhaps a lot of pressure, at least by companies that were doing very well or at least claim to be doing very well. Perhaps there was a bit of pressure or lobbying to make sure that other companies, their competitors who are not doing it as well, now have to suddenly report on it. And then there was obviously the pressure from civil society and nonprofits and others in the EU

ecosystem, which has been the main driver of this, as well as with other bodies that are often very independent, let's say European Central Bank for instance, you know, to get expertise pointed out to the fact that data is the first step and therefore we have, as an extension of what was happening before, which is risks and opportunities, a focus on more comprehensive reporting. Yeah, I think numerous factors played a role.

Interviewer: How are companies preparing for the implementation of ESRS in their reporting practices?

Interviewee: Well, currently, many large companies are already in the implementation phase. They are beginning to explore limited assurance, and some have already released sustainability reports. However, for most companies, especially smaller ones, they're still in what we call phase one. This involves identifying material topics, impacts, risks, and opportunities, and assessing what data they currently have or still need. There's also the challenge of coordinating with non-EU parent companies or global headquarters to align reporting efforts. They're laying down foundational work, which will eventually lead into full implementation. They need to determine the baseline situation they'll report on in a year's time, prioritize data collection, and improve data management processes.

Companies that have engaged in voluntary reporting are definitely ahead compared to those starting from scratch. Companies with a history of sustainability reporting have a significant advantage. Even if they don't meet all ESRS data requirements yet, they understand the landscape and can build on their existing frameworks. Conversely, many companies are encountering these requirements for the first time at a group level, particularly non-EU entities with operations in Europe. They're grappling with how to consolidate data across subsidiaries and whether to report as a group. This shift isn't voluntary; it's driven by compliance demands. Non-EU parent companies are also closely monitoring EU regulations, aware that they'll soon face reporting obligations for all their global entities. Some realize the importance of staying ahead, but for many, compliance is the primary motivator rather than voluntary initiative. Compliance serves as a leveling force, revealing the true sustainability practices of all companies once reporting becomes mandatory. Overall, while prior voluntary efforts provide a head start, for most companies—especially smaller or non-European ones—this is new territory, driven largely by regulatory compliance rather than proactive sustainability efforts.

Interviewer: Can you describe any specific tools or methodologies used by consulting firms to support clients in their preparation process?

Interviewee: Sure. While I can't speak for all consultancies, many use similar approaches. Each consulting firm develops its own tools and templates, and these evolve over time. For example, the concept of double materiality with ESRS is relatively new. Initially, we used basic Excel sheets, but we've since developed more user-friendly tools and are collaborating with software companies to further streamline the process.

For assurance, we have standardized tools, checklists, and procedures. Since ESRS doesn't specify exactly how to conduct double materiality, our role involves tailoring the process to fit each client's unique situation. Some clients use our templates to handle much of the work independently, while others prefer a more hands-on approach from us. Our tools are designed to be flexible. As we've progressed, we've moved from simply identifying gaps in sustainability reports to focusing on inventory analysis. This involves assessing whether a company has the necessary data related to material topics,

evaluating the quality of that data, and identifying data owners. This helps create a checklist for implementation.
We're also developing our processes further. We have teams brainstorming and working on technological solutions. We bring in advisors who specialize in specific topics, such as biology, chemistry, human rights, or civil engineering, to provide expert input.
Another key development is creating policies and manuals. With large companies, it's crucial to have consistent methods for calculating and reporting data across all entities. We help companies develop these standardized procedures.
We're also assisting companies with pilot assurances. Before they undergo formal limited assurance, they can conduct a pilot to gauge their readiness. The consulting landscape is evolving rapidly to meet clients' needs, with many new tools and methodologies emerging in the market.
There are also a lot of companies that claim to have nice software and tools for companies to take care of their internal data, controls and whatnot, so a whole business is growing around it.
Interviewer: How do you anticipate ESRS will influence the strategic decisions of companies?
Interviewee: That's a great question. While it’s still early to definitively say how the ESRS will shape strategic decisions, we can make some educated predictions based on current conversations with companies. Many companies have noted that their suppliers and customers are increasingly seeking out ESG data. This growing demand for transparency is likely to drive significant changes.
One major factor is the increased scrutiny on greenwashing. As companies move towards limited assurance and more rigorous reporting standards, the pressure to provide accurate and reliable data will intensify. Although many companies are still in the early stages of developing sustainability statements, this is expected to evolve rapidly.
In the near term, companies will likely focus on identifying and understanding material topics and the data they have or lack. This foundational step will guide their subsequent actions. For example, once companies understand what is material and where their data gaps are, they will prioritize investments to enhance data quality and completeness. This could mean investing in new technologies, improving data collection processes, or even restructuring certain business practices to ensure better compliance with ESRS requirements.
Moreover, as the landscape develops, companies will start integrating these ESG considerations more deeply into their strategic planning. This might involve reevaluating supply chains, adjusting product lines, or enhancing their overall sustainability efforts to meet both regulatory demands and market expectations. Overall, while the full impact of ESRS on strategic decisions will become clearer over time, it's evident that companies are already starting to align their strategies with the evolving expectations and requirements of the ESG framework.
there are lots of companies that have realized they need a sustainability manager to coordinate all this. So that's definitely happening. The sustainability departments of companies, which were usually on the sidelines, have gained a little more prominence because now they directly have to interact with the CFO and CEO, and that will just grow and keep happening. So, internal project governance or governance of ESG is fairly new. That’s internal strategy.

What I was talking about was external. For example, a company almost aligned with ESRS in terms of human rights might need to tweak the policy a little to claim alignment with ESRS.
I think they might invest in doing so. If companies have never received audits from the companies they've outsourced their work to, they might pay closer attention to those audits. I think these things will happen in the short term, but what will really energize this process is peer benchmarking.
Let's put it this way: if I were Albertine and I could choose between three different suppliers for rice, why would I choose the one that's going to cause me problems because they are not sustainable? It's not forcing you to be the best in the industry; it's just forcing you to do better in comparison to the industry. It's fairly comparative. Of course, there are certain products with no alternatives, and ESRS is not forcing companies to suddenly navigate away from those. It's really based on choice.
From a consumer perspective and from the perspective of companies and their operations, they will focus more on their supply chains. Why risk their supply chain if they have to disclose where they're getting their raw materials from? Maybe it might be the first time they think about it. They might have never considered that even though the lithium in the batteries comes from a supplier that's three steps down the supply chain, it impacts that geography or community. They don't have to act on it immediately, but they need to acknowledge the impact. Hopefully, policymakers, stakeholders, NGOs, media, and competitors will build on that and force change in the ecosystem.
Long story short, there are numerous ways this can be a catalyst for impact. Exactly how that turns out, we need to probably wait five years for some initial answers, and more like ten years to see how it contributes to transformation. The assurance perspective will also be very important.
Interviewer: What future trends do you anticipate in ESG reporting and sustainability strategies?
Interviewee: That's a very good question. There are a couple of trends that are fairly obvious because they are related to compliance. One thing we would see with ESRS is that now the group or the subsidiary in the EU is reporting on it, and it doesn't mean that's the end of it. Non-EU parent companies will also have to report and create a consolidated report and get assurance help. This also increases the scope of consulting services, creating a nice business opportunity for firms like mine in providing these services to our clients.
Regarding future changes, one key trend is that more and more entities and companies will be covered by reporting requirements. There is always a risk that politics might impact this, but at the moment, we haven't seen a serious challenge to reporting. However, that might emerge in the future with lobbying against it or pushback as sector standards and policies develop from reporting standards.
Countries that haven't implemented something similar to ESRS will start feeling the impact through regulations like the Carbon Border Adjustment Mechanism (CBAM), carbon trading systems (ETS), the Corporate Sustainability Reporting Directive (CSRD), and human rights due diligence laws. Companies worldwide will be affected by what's happening in the EU due to the interconnected nature of the global economy. Reporting will change in scope, reach, and impact, and the challenge to it will likely grow.

Additionally, other bodies will try to emulate this approach. The International Sustainability Standards Board (ISSB) is becoming more relevant from a risk and opportunity perspective, being adopted by many countries such as the UK, Australia, and Japan in their own ways. Every major country in the global economy will have some form of ESG reporting. I see it becoming a common practice, even though there might be challenges along the way.

Interviewer: Anything else you would like to add?

Interviewee: Certainly. The challenges are significant and varied. I haven't encountered a company that has found this process easy. Companies with large sustainability teams, like those with 100 people, are exceptions. Most companies, especially those that haven't focused on sustainability before, are struggling.

Many companies, even billion-dollar corporations with European operations that aren't very large, find themselves suddenly under ESRS scope without the necessary expertise. Finding the right people with the right skills in the market is difficult because ESG reporting is still relatively new. They have to navigate complex internal governance structures and gain stakeholder buy-in across various departments such as HR and procurement.

For example, some companies have long-standing policies against hiring external advisors. This becomes a significant hurdle because they simply cannot manage ESRS or CSRD requirements without external expertise. Internal governance challenges are the first major obstacle. Convincing stakeholders and getting everyone on board is often a shock to the system.

European companies with subsidiaries outside Europe often question why they need to comply, adding another layer of resistance. Securing finances, building the right skill set, and addressing internal governance are early challenges. Reflecting on previously unexamined areas and analyzing new topics are also tough.

Having the right advisors is crucial. Not every consultant has the necessary capacity to be effective. Companies need advisors who can challenge them appropriately while strictly adhering to compliance requirements.

Once the initial challenges are addressed, companies then struggle with determining materiality. Many companies tend to view most issues as non-material. They need to constantly reassess their value chain, risks, opportunities, and financial health. This often involves bringing together people who have never collaborated before, leading to significant learning and reflection about their own operations.

Finally, companies need to figure out what data they have and what they don't, often finding important information scattered or hidden in emails. The initial challenges are immense, but as they progress, they'll face further difficulties in aligning corporate strategy, collecting data from local entities, preparing for assurance, and navigating financial, political, and governance-related obstacles.

In summary, the challenges companies face with ESRS implementation are substantial and multifaceted, encompassing emotional, financial, political, and governance aspects.

Reporting Consultant

Interviewer: Can you tell me a little bit about yourself? How long have you been with your current company?

Interviewee: I began my journey with my current company on the 1st of September 2023, which means I'm approaching my one-year mark with the firm. Initially, I started as an intern in the Sustainability Reporting department. This was a valuable learning period where I got acquainted with the intricacies of sustainability reporting. After my internship concluded, I transitioned to a full-time role as a consultant in the same team around March of this year. In my current role, I focus primarily on sustainability reporting advisory, helping clients navigate the complex landscape of sustainability regulations and reporting requirements.

Interviewer: And did you immediately start working on sustainability assignments?

Interviewee: Yes, I did. Right from the outset, my work has been centered around sustainability. This is my first job, and I have been immersed in the sustainability field from day one. It's been an exciting and fulfilling experience to be involved in such a critical area, given the increasing importance of sustainability in today's business environment.

Interviewer: Nice. And can you tell me about a recent engagement you had?

Interviewee: Certainly. Our engagements currently focus heavily on the Corporate Sustainability Reporting Directive (CSRD), which is a significant piece of EU legislation on sustainability. We assist clients in various processes to ensure compliance with this directive. Typically, companies need to complete their sustainability reports by the end of March following the reporting year. Our work follows a structured process throughout the year, and right now, we are finalizing double materiality assessments.

Double materiality assessments involve identifying and prioritizing sustainability topics that are most relevant to a company. Given the wide array of sustainability issues, it's crucial for companies to focus on areas where they have the most significant impacts. For instance, I am currently working with a large international client in the marine and fishing industry. Our task involves conducting a double materiality assessment for their European entities. This process helps the client identify key sustainability issues and sets the stage for further compliance steps.

Interviewer: OK, very clear. And based on your understanding, what were the main reasons behind the development of the ESRS?

Interviewee: From my perspective, there were a couple of primary drivers behind the development of the European Sustainability Reporting Standards (ESRS). Firstly, sustainability reporting was largely voluntary before the introduction of these standards. There was a need for a more structured approach that could encourage, if not mandate, companies to genuinely focus on sustainability.

Secondly, the ESRS aims to improve the comparability of sustainability outcomes. Before these standards, companies followed various methodologies and frameworks, making it difficult to compare their sustainability performance. This lack of standardization also affected the transparency and credibility of the reports. Investors, consumers, and other stakeholders often found it challenging to discern whether the reported information was reliable. By introducing mandatory requirements and standardized metrics, the ESRS aims to enhance transparency, comparability, and trust in sustainability reporting.

Interviewer: OK. Thank you. And how are companies preparing for the implementation of ESRS in their reporting?

Interviewee: Companies are currently very busy preparing for the ESRS implementation, as it's new to everyone involved, including the businesses and advisory firms like ours. The legislation offers some flexibility, which means there's a level of interpretation required. This is why many companies seek external advisors who have more experience and specialized knowledge in this area.
Most companies don't have dedicated personnel who can deep dive into the ESRS and manage its complexities. Therefore, they often collaborate with advisors to navigate through the requirements. This preparation involves understanding the legislation, assessing the company's current sustainability practices, and aligning them with the new standards. It's a comprehensive effort that includes training internal teams, setting up new processes, and ensuring continuous improvement in sustainability reporting practices.
Interviewer: OK, so what are the most common challenges you see with your clients in preparing for these standards?
Interviewee: One of the most common challenges is the knowledge gap. While awareness around sustainability issues is increasing, many companies, especially those new to sustainability reporting, find the ESRS quite complex and extensive. They struggle to understand the reasons behind these requirements and how to effectively comply.
Another significant challenge is manpower. Companies often lack dedicated sustainability reporting personnel. Even if they have sustainability managers, those individuals might be focused on specific issues like human rights or environmental impacts rather than comprehensive reporting. The ESRS demands a full-time effort to manage the reporting process, which can be a daunting task for companies without sufficient resources. Thus, finding knowledgeable staff and allocating sufficient manpower are critical hurdles in the compliance journey.
Interviewer: OK, very clear. And can you describe any specific tools or methodologies used by consulting firms to support clients? Do you use any digital tools or just mainly PowerPoint and Excel?
Interviewee: We predominantly use Microsoft tools like Excel and PowerPoint for our reporting and analysis. Power BI is also utilized for better visualization of the results. However, we do leverage some specialized external tools as well. For instance, we use a tool called EnCORE for biodiversity assessments. This tool helps us understand the biodiversity issues in various geographic locations where our clients operate. Similarly, we have tools for assessing water scarcity risks, which are crucial for companies operating in areas with high water risk.
In addition, we are developing an in-house tool that aims to streamline the entire reporting process. This tool will be based on Microsoft solutions but will offer a more integrated and user-friendly environment. It will include features like questionnaires, dropdown menus, and workflow management, making the reporting process more efficient and less fragmented than using multiple scattered documents.
Interviewer: OK, nice. And how do you anticipate that the ESRS and CSRD will influence strategic decisions for companies?
Interviewee: The ESRS and CSRD will significantly influence strategic decisions for companies. The legislation doesn't just focus on reporting impacts but also requires companies to set policies, metrics, and targets. These targets need to be evaluated

annually, ensuring continuous improvement. As a result, companies will need to integrate sustainability into their core business strategy to meet these requirements.

Sustainability will become a crucial part of business decision-making. Companies will need to align their financial and operational strategies with their sustainability goals. This will likely lead to a shift in investment priorities, operational practices, and even product development. In essence, sustainability will no longer be a separate or secondary consideration but a central element of strategic planning and corporate governance.

Interviewer: OK. And can you provide any examples of what you're seeing already? You said they were pointing a project manager or sustainability manager.

Interviewee: Yes, indeed. One noticeable trend is the appointment of dedicated managers responsible for sustainability reporting. Companies are hiring individuals with expertise in sustainability to ensure they can meet the ESRS requirements. These roles are critical as the complexity of the legislation demands focused attention and knowledge.

Furthermore, we are seeing increased educational efforts within companies. Board members and employees are being educated about sustainability and its importance. Workshops and training sessions are becoming common to ensure everyone understands their role in the reporting process. This widespread education helps in gathering accurate data from various departments, which is essential for comprehensive sustainability reporting.

Additionally, there is a shift in corporate culture where sustainability is becoming a more prominent consideration in daily operations. Even though we are still in the early stages, these changes indicate a long-term commitment to integrating sustainability into business practices.

Interviewer: OK, this brings me to the last question. What future trends do you anticipate in ESG reporting?

Interviewee: I foresee several significant trends in ESG reporting. Firstly, the market will likely place a greater emphasis on sustainability performance. Just as financial metrics are scrutinized, sustainability metrics will become a key indicator of a company’s overall performance. Investors and consumers will increasingly consider sustainability reports when making decisions, driving companies to improve their sustainability practices.

Secondly, I anticipate a convergence of global standards. While the EU has been a frontrunner with the ESRS, other regions, such as the USA and Asia, are also working on their own sustainability regulations. Over time, these standards may become more aligned, creating a more interconnected global framework for sustainability reporting.

Lastly, I expect technological advancements to play a significant role. The development of sophisticated digital tools will make the reporting process more efficient and accurate. These tools will help companies manage data, track progress, and generate reports with greater ease, ultimately enhancing the quality and reliability of sustainability reporting.

Interviewer: OK. And do you think this will also affect companies outside of the scope of the CSRD like non-EU companies?

Interviewee: Absolutely. The CSRD and ESRS have implications that extend beyond the EU. One key aspect of these standards is their focus on the value chain. For instance, if a European company sources materials from a supplier outside of the EU, the European company needs to report on the sustainability practices of that supplier. This

requirement means that even non-EU companies will need to adapt and comply to some extent, as their clients in the EU will demand this information.
Moreover, as other regions develop their own sustainability regulations, we will likely see a global shift towards more comprehensive sustainability reporting. Companies that operate internationally will need to meet these varying standards, leading to a more widespread adoption of sustainable practices globally.
Interviewer: OK. Thank you. Is there anything else you would like to add that comes to mind?
Interviewee: One important point to remember is that we are still at the early stages of this journey. The ESRS and CSRD are relatively new, and everyone, including companies and advisors, is still learning and adapting. As the legislation evolves, there may be changes and refinements in the requirements.
Additionally, it’s crucial to keep in mind that, at this stage, there are no severe penalties for non-compliance. However, this may change in the future as the standards become more entrenched and enforcement mechanisms are strengthened. Thus, companies should view this period as an opportunity to build robust sustainability practices that will benefit them in the long run.
Interviewer: I had one more question about the scoring of the standards of the ESRS. How is the scoring process done?
Interviewee: The scoring process varies depending on the client's needs and the specific aspects of the ESRS we are focusing on. For double materiality assessments, for example, we assess both impact materiality and financial materiality. We start by compiling a comprehensive list of potential sustainability issues relevant to the company. This list is then narrowed down through qualitative rationales and stakeholder input.
Once we have a refined list, we score each topic based on several criteria, such as the likelihood of occurrence, the scope of impact, and the size of financial impact. We often use a Likert scale to assign scores to each criterion. These scores help us determine which topics are most material to the company. We set thresholds to differentiate between high, medium, and low materiality issues. This process helps us identify the 20-30 most material issues that the company should focus on for their sustainability reporting.
Interviewer: Very clear. Thank you.
Interviewee: OK, great.

Assurance Consultant

Interviewer: How long have you been with your current company?
Interviewee: Since April 2022.
Interviewer: And when did you first start working on a sustainability assignment?
Interviewee: I started working full-time for clients in sustainability since September 2022.
Interviewer: Can you tell me about a recent engagement you had?
Interviewee: Recently, we've been involved in implementing the CSRD. We begin by assessing material matters and comparing the client's existing voluntary sustainability reporting to identify gaps.
Interviewer: What does your team usually do for clients during a sustainability engagement?

Interviewee: Our engagements vary greatly. We don't have a one-size-fits-all approach as different projects require different phases and types of work.

Interviewer: How has the evolution of ESG reporting standards over the past decade influenced your work?

Interviewee: The development of the ESRS has greatly influenced our work by incorporating knowledge and practices from the last 10-20 years of voluntary reporting frameworks. These frameworks, which include measures for carbon emissions and biodiversity impact, have gradually evolved and been refined. This evolution has led to the standardization we see today, and our current efforts build upon these established practices. The move towards standardized reporting means that our work is now more streamlined and aligned with these comprehensive guidelines, allowing us to provide more consistent and reliable support to our clients.

Interviewer: Based on your understanding, what are the main drivers behind the development of ESRS and CSRD?

Interviewee: The primary driver is the European Green Deal, which aims to redirect capital towards organizations that align with its environmental objectives. Financial institutions need detailed information from their investees to meet these obligations, ensuring that their investments are in line with the Green Deal's goals. Additionally, other stakeholders such as NGOs and consumers are demanding more transparency and detailed information to make informed choices. This collective push from various sectors is what has fueled the development of the ESRS and CSRD.

Interviewer: How are companies preparing for the implementation of ESRS and CSRD reporting?

Interviewee: Preparation varies based on a company's experience with sustainability reporting. Early adopters, who have been proactive in this area, usually have robust data and systems in place. This allows them to create detailed and comprehensive reports. On the other hand, companies that have been slower to adopt these practices are now working hard to meet the minimum requirements and ensure compliance. They are focusing on building the necessary infrastructure and processes to catch up.

Interviewer: So the first step is building internal capacity?

Interviewee: Yes, exactly. Most companies don't have the necessary internal capacity, which is where our expertise becomes crucial. We assist by providing a deep understanding of the reporting standards and helping companies grasp the full scope of the regulations. Our role involves setting up project teams, collecting and managing the relevant data, and ensuring that their methods will meet auditor approval. This comprehensive support helps companies navigate the complex requirements and achieve compliance.

Interviewer: How do you or consulting firms assist clients in understanding and preparing to meet the requirements?

Interviewee: We are a knowledge organization, and it's essential for us to understand the standards and requirements at the highest level. Each client's context is unique, so we add value by tailoring our guidance to their specific situations. We help them apply the standards appropriately, assess material matters relevant to their operations, and report based on their current capacities. This customized approach ensures that clients can effectively navigate the complexities of the regulations and meet their reporting obligations.

Interviewer: Can you describe any specific tools or methodologies used by consulting firms to support clients in this preparation process?

Interviewee: We use a variety of tools depending on the project phase. For double materiality assessments, we often rely on internal templates and tools like Excel or PowerPoint. Additionally, digital tools from companies like Microsoft or Oracle are increasingly prominent for data management. This process is inherently interdisciplinary, involving collaboration between reporting experts, sustainability consultants, and technology specialists. By leveraging these tools and methodologies, we ensure that our clients are well-prepared to meet their reporting requirements effectively.

Interviewer: How do you anticipate the ESRS and CSRD will influence strategic decisions for companies?

Interviewee: For early adopters, these standards provide an opportunity to differentiate themselves in the market. They can leverage their advanced sustainability practices to gain a competitive edge. Companies that lag behind will initially focus on meeting compliance requirements. However, over time, they may begin to align their strategies with sustainability performance to avoid negative comparisons with their peers. This shift could drive broader strategic changes, integrating sustainability more deeply into their core business operations.

Interviewer: How important is stakeholder input in shaping companies' ESG reporting and strategies?

Interviewee: Internal stakeholders are crucial because they provide the necessary information from various departments within the company. Their insights and data are essential for accurate and comprehensive ESG reporting. While external stakeholder input, such as feedback from NGOs and consumers, is important, it is not always mandated. However, it can still significantly influence a company's ESG strategies and practices. Additionally, the auditor's influence will be significant in determining how these inputs are incorporated into the final reports and ensuring compliance with the standards.

Interviewer: What future trends do you anticipate in ESG reporting?

Interviewee: I anticipate a significant increase in sustainable investments driven by the EU taxonomy. We might start seeing the first products and financial instruments based on taxonomy-aligned KPIs. While the implementation of ESRS will be challenging, the initial standards are robust and well-developed. However, there is still uncertainty regarding the roles of sector-specific standards, small and medium-sized enterprises (SMEs), and third-country undertakings in the overall ESG reporting landscape.

Interviewer: Is there anything else you would like to add?

Interviewee: Can you remind me of your research question?

Interviewer: My research question is exploring the impact of ESG reporting on corporate strategy.

Interviewee: From my perspective, sustainability professionals and consultants were the pioneers in integrating ESG factors into corporate practices. Over time, accountants and reporting experts have standardized these ESG practices, making them comparable to financial reporting. Strategically, there is increasing pressure on companies to adjust their policies, actions, resource allocations, and targets to align with ESG goals. If societal preferences continue to favor sustainability, this could significantly influence corporate strategy in the long term. Initially, many companies will focus primarily on compliance with ESG reporting standards. However, early adopters and those in the

middle of the curve are increasingly starting to align their business strategies with sustainability objectives to enhance their competitive advantage and respond to stakeholder expectations.

Interviewer: Thank you very much for your time.

Interviewee: Happy to help.