ERM

Fast-Track CSRD Compliance

Best Practices to Follow and Pitfalls to Avoid

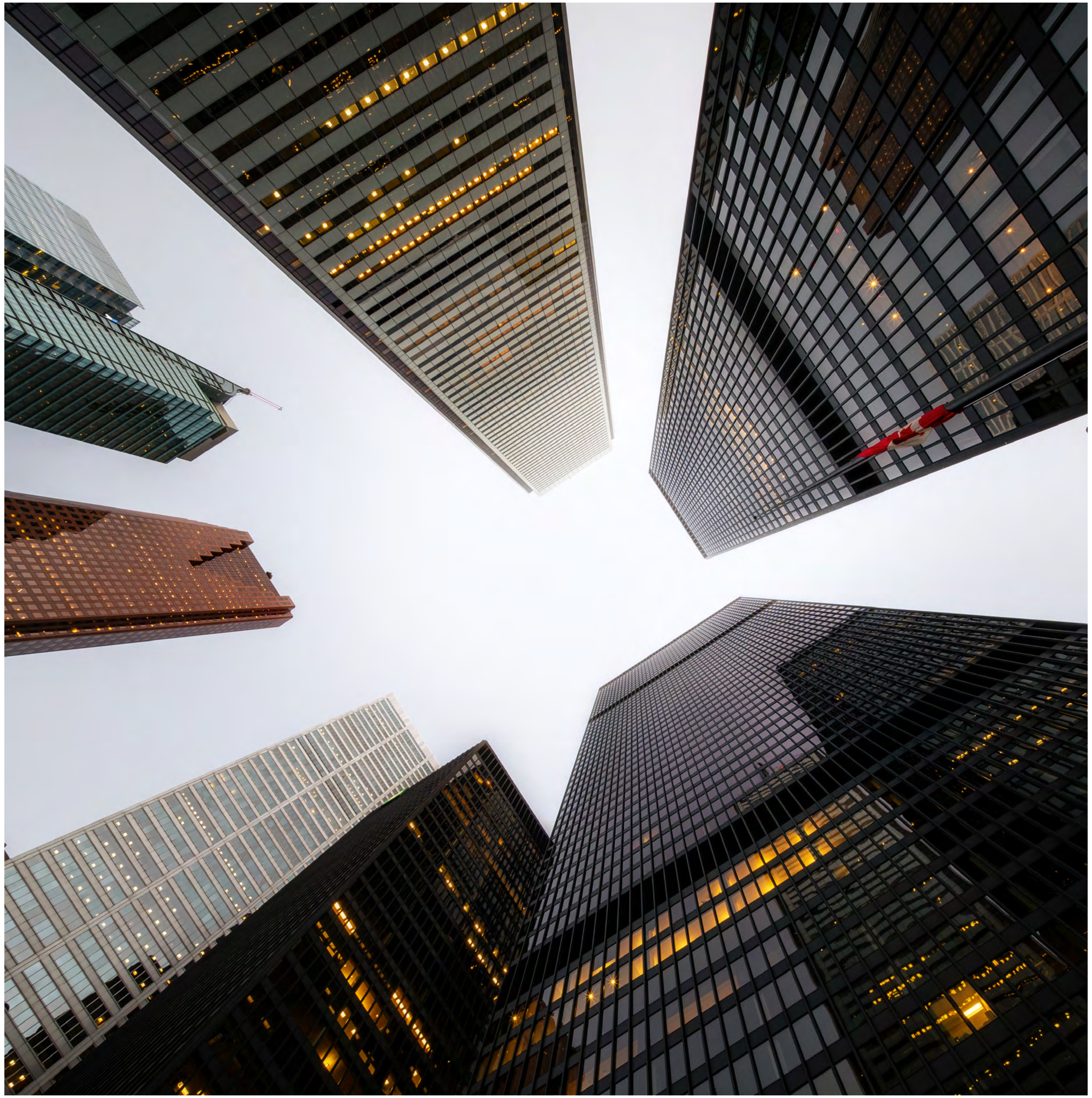
The CSRD (Corporate Sustainability Reporting Directive) and associated EU Taxonomy are complex and require a major implementation effort for all companies based in, or doing business in, the European Union.

Most companies are starting their implementation journey by first focusing on double materiality and then conducting a disclosure gap analysis, which is entirely logical as it then sets out the future data gathering and reporting roadmap.

However, while it may seem obvious to start here, the journey from identifying **"what to disclose"** towards **"CSRD & Taxonomy "reporting"** is, however, often not fully understood. This represents a liability and compliance risk – we're all too often seeing companies woefully unprepared to tackle what lies ahead. It also risks missing the opportunity to drive business value through a more optimized sustainability framework.

ERM's purpose is to shape a sustainable future, helping our clients operationalize sustainability has been our focus for the last 50 years. Mandatory disclosures have the potential to accelerate our impact, but only if they are properly understood and pragmatically implemented in a way that feels right-sized for the business in question.

Amidst the current disclosure frenzy, we wanted to take a moment to help organizations learn from our unrivalled CSRD experience. Over the last few years, we've been helping hundreds of organizations like yours prepare to not only meet the new mandatory disclosure requirements, but also to extract real commercial value in the process. Here are some common best practices and pitfalls we've learnt about along the way...



Team and Organizational Management

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Do's

CSRD implementation means change — 1

Organizational readiness must be ensured by building strategic change management into the implementation programme remit.

Establishing a central Project Management Office (PMO) — 2

Establish a central Project Management Office (PMO) reporting to an ESG Steering committee with representation from key functions: finance, sustainability, legal, EHS, HR, data, public affairs, operations, procurement, risk etc.

Developing a resourcing plan to ensure on-time delivery — 3

Develop a resourcing plan building on existing roles to ensure on-time delivery. The plan in many cases should also consider hiring vs. upskilling of internal staff as it is hard to find new talent with the right skills at the moment, and new hires most likely won't know how things work in your organization.

Planning effective onboarding and supporting upskilling — 4

Plan for effective onboarding and support to upskill and inform staff. Don't re-invent the wheel. Leverage existing roles and infrastructures like EHS, supply chain and procurement roles and processes.

Board-level accountability is best practice — 5

Make sure internal reporting lines are clear with finance, sustainability or legal functions working together or individually being accountable to lead and report to the board on progress.

Build on existing reporting governance infrastructure — 6

Current structures and processes, and internal control frameworks must be leveraged to ensure integrity of reporting and assurance readiness. The "right" operating model is company specific and will depend on the internal needs of the business, sustainability vision, and compliance requirements.

CSRD as an opportunity — 7

Take CSRD as an opportunity to further increase the maturity of sustainability information for external and internal purposes.

Prioritising CSRD and EU Taxonomy disclosures — 8

Treat CSRD and the EU Taxonomy disclosures as more than simply ticking the box. This is an investor-focused communication opportunity which could help maintain or access a lower cost of capital. EU Taxonomy disclosures, combining both sustainability and financial data, will arguably become the simplest data point for financial players to use when assessing and benchmarking your company.

Dont's

Don't wait 1

While speed and scale of "change" differ between organizations, largely based on their ambition and maturity to date, a lot of the CSRD readiness work for companies builds on itself step-by-step. Not recognizing these interdependencies frequently leads to companies needing more time than anticipated.

Not a one-off exercise 2

Don't view your team and organizational management as a one-off exercise. It is a long-term project of sustainability performance improvement.

Don't underestimate resistance to change 3

Our experience shows the need for a clear transfer of purpose and tasks from senior to middle management, and all the way to site-level operational staff. Internal buy-in is a must for successful implementation.

Assuming your messaging without risk 4

Don't assume your messaging is without risk. Greenwashing is an emerging regulatory focus. Be sure your organization's risk assessment and process design integrates the risk of misleading disclosures.

Avoid thinking short-term 5

Don't think short-term. The ESRS/CSRD regulations are not final. Sector-specific standards are in the making and disclosure requirements are emerging in jurisdictions outside of the EU as well. Change is constant, so remain adaptable.

Reporting Infrastructure

Reporting Infrastructure

Do's

Analysis of existing sustainability data flow and reporting systems 1

Do run a thorough analysis of existing sustainability data flow and reporting systems. Make a short- to long-term plan on how to develop systems to cover all jurisdictions bearing in mind legislative-, client- and stakeholder-driven disclosure needs. Automated data gathering, transfer and reporting make it easier to achieve limited assurance.

Consider using tools to document roles and responsibilities 2

Do consider using RACI or equivalent tools to document roles and responsibilities for data/information generation, compilation, and review from global to regional, country, and operational site level.

Nominate a named Topic Owner per ESRS topic 3

Do nominate a named Topic Owner per ESRS topic (Climate Change, Resource Use & Circularity, Own Workforce etc.) but do also anticipate that even within each Topic a multi function / multi disciplinary team is likely to be needed to satisfy all data requirements.

Keep an eye on the disclosures in your sector 4

Do keep an eye on the disclosures of early reporters in your sector. There's already some useful best practice emerging from those that have already interpreted the ESRS requirements and applied them to their business.

Reporting Infrastructure

Dont's

Don't get stuck with spreadsheets 1

Don't get stuck working with spreadsheets. It may seem like a short-term and cost-efficient solution, but it has a high-risk of triggering false disclosures and requires a very high level of consolidation effort for reporting. Tech enablement of reporting structure is a must.

Don't underestimate the requirements 2

Don't underestimate the requirements of the qualitative disclosures, in order to describe your strategy, metrics and disclosure roadmap you first need to have established and agreed it internally.

Don't fall into the trap of wanting to make equal progress 3

Don't fall into the trap of wanting to make equal progress across all (potential) CSRD reporting gaps. The spirit of the law is about 'having something good to report to drive value creation' as much as it is about being able to report quality information. Companies should pick their battles and build a roadmap accordingly based on a prioritization within the longer list of material disclosure topics. Ask yourself which new data points will have the most impact to your business and progress towards your sustainability goals and focus on those first. You are not alone in this. Data availability is identified as the core challenge by our clients (including two decades of voluntary sustainability reporting history).

Value Creation

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Do’s

1 Transparency and Accountability

Transparency and accountability in sustainability reporting build stakeholder trust, enhance brand reputation, and ensure compliance with evolving regulations. Take advantage of the deeper insights gathered via your reporting process to drive transformational change that delivers stakeholder value.

2 Baseline assessment of CSRD disclosure requirements

Have a baseline assessment of CSRD disclosure requirements. For each disclosure requirement, identify its impact on financial aspects i.e. revenue growth, cost savings, investment attractiveness, employee productivity and retention, and brand value and customer loyalty.

3 Short-term and long-term-scenario analysis

Based on short- and long-term-scenario driven quantitative analyses, project the financial benefits of improvement actions to improve performance and create value. Derive actionable insights from data.

4 Benefit from funding mechanisms

Explore and make sure you benefit from funding mechanisms for performance improvement initiatives.

Value Creation

Dont’s

Don’t adopt a short-term approach 1

Don’t adopt a short-term approach or cut corners to save cost. It carries significant risks. By ignoring sustainability, companies expose themselves to various threats, including regulatory fines, reputational damage, and loss of market share to more forward-thinking competitors.

Don’t ignore unsustainable parts of your business 2

Don’t ignore inherently unsustainable parts of your business or its value chain. Highlight those as business risks in internal communications to support the case for sustainability transformation.

ERM

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Sustainability is our business