Sustainability is a driver of value creation, and so too is the CSRD

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A **study by Morgan Stanley** has found that 80% of CEOs now view sustainability as a driver of value creation and wish to weave it into their long-term plans. This represents a step change in attitude away from sustainability, which is too often dismissed as a compliance afterthought or unavoidable cost. It means the EU's Corporate Sustainability Reporting Directive (CSRD) should also be seen in a different light – as a business opportunity and not a compliance-driven, box-ticking exercise.

The CSRD, due for implementation in 2025, mandates comprehensive reporting on a company's environmental, social, and governance (ESG) performance. Despite the onerous disclosure requirements the directive imposes, companies should seize the chance to turn sustainability reporting from a regulatory burden into a competitive advantage.

Reasons to think differently about CSRD

For the thousands of companies the CSRD covers, meeting its disclosure requirements is non-negotiable. But for the more enlightened – those who grasp the value proposition of sustainability – the reporting process has strategic potential.

There are several ways that CSRD reporting can contribute to competitive differentiation and long-term success.

It helps demonstrate value creation

The CSRD offers companies a platform to showcase, with clear data and metrics, how sustainability initiatives translate into tangible financial benefits.

This can include quantifying cost reductions achieved through efficiency measures, highlighting the positive impact of sustainable practices on brand reputation and customer loyalty, and demonstrating how ESG-focused innovation has opened new market possibilities.

This data-backed narrative strengthens investor confidence and builds trust with those other stakeholders – including customers, employees, regulators and communities – who prioritise ESG factors in their decision-making.

It builds trust with stakeholders through greater transparency

By outlining a strong commitment to ESG, with measurable and transparent progress on sustainability goals, and a clear roadmap for the future, businesses can win over stakeholders that share their values and stand out in a crowded marketplace.

In today's corporate world, unsubstantiated ESG claims are immediately called out as 'greenwashing' and become a major cause of reputation damage. Disclosures that are built on robust data and proof points are now the only feasible way to demonstrate that ESG really is 'at the heart of our strategy' or 'a number one priority'.

Transparency builds trust with all stakeholders, from investors and customers to employees and regulators. Investors gain confidence in a company's long-term viability in a world increasingly focused on sustainability. Customers feel assured that they are supporting a company that is aligned with their values. Employees take pride in working for an organisation committed to and recognised for responsible practices. And regulators give the green light to continue.

It shows you're positioned for future growth

New markets are opening up, and new technologies and services are needed to help address the rapidly evolving needs of the world. Companies that identify these possibilities early are more likely to be successful.

Demonstrating to stakeholders that not only are ESG risks well managed but that prospects are identified, quantified, and being acted upon will enhance confidence among investors and other stakeholders. For a comprehensive guide, read: **How Double Materiality Assessments Can Go Beyond CRSD Compliance**.

It's a gateway to unlock ESG investment

A robust CSRD report can act as a powerful differentiator when seeking ESG investment. As ESG themes become more prevalent in making investment decisions, the standardised reporting framework of the CSRD provides a consistent and comparable dataset that investors can use to make more informed decisions.

Indeed, the CSRD forms one part of the sustainable finance framework of the EU's Green Deal. Along with the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, it is designed to help capital markets efficiently allocate investment in pursuit of the EU's bold climate goals.

For companies, CSRD disclosures include a company's EU Taxonomy-eligible and aligned activities. This opens up the potential for a new wave of ESG-related capital. Investors build greater confidence in their ability to identify and value companies that prioritise ESG and sustainability, effectively identify and manage existing and potential near- and long-term risks, and capitalise on new markets and revenue streams.

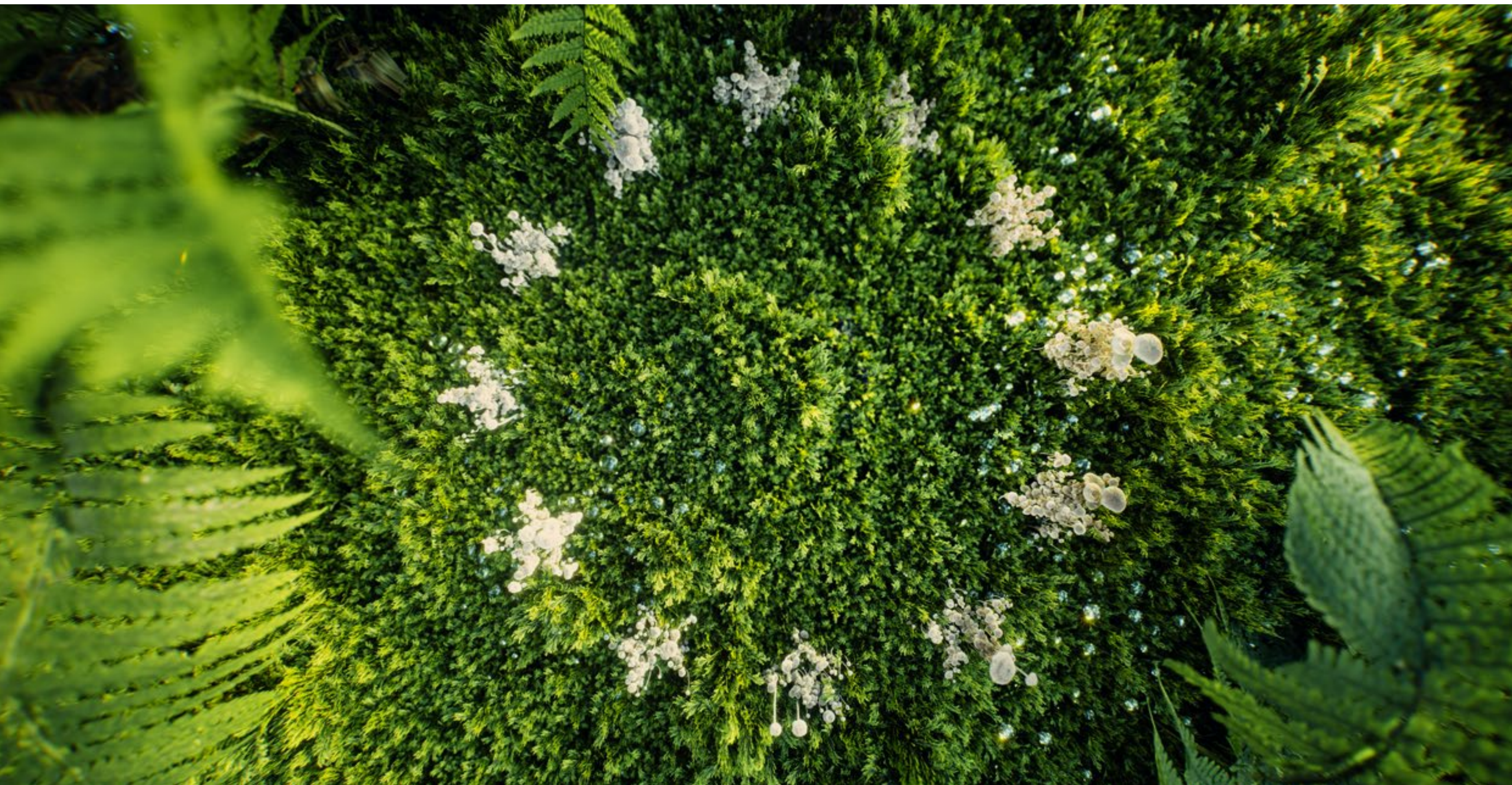
By embracing the CSRD and crafting a compelling sustainability narrative, backed by verified data and proof points, companies can position themselves to attract capital from investors and lenders.

Embracing the opportunities the CSRD presents

To truly benefit from the CSRD, companies need a proactive approach that goes beyond meeting the bare minimum requirements. They should present their strategic sustainability approach and progress in a consistent and standardised way that enhances transparency and accountability and demonstrates value creation. Some ways to do this include:

1. **Using lead and lag measures:** While the CSRD requires that metrics relating to material ESG issues are identified and disclosed, chosen indicators are often lag measures that centre around negative impacts, for example, carbon emissions or safety incidents. While these KPIs must be disclosed due to their materiality, organisations should also look to report lead measures that demonstrate how ESG themes are proactively being addressed. For example, where a company discloses their Scope 3 emissions, they may also disclose engagements with suppliers to support the lowering of their emissions in their value chain.

2. **Embracing early adoption:** Companies that begin reporting in line with the European Sustainability Reporting Standards (ESRS) required by the CSRD (in 2025) will be seen as leaders, not only in terms of their size (biggest companies must mandatorily report then), but also from an ESG perspective. Companies that go the extra mile and make disclosures (fully or in part) in line with the ESRS will reap the recognition of being progressive, proactive and leading. Early adoption also has the added benefit of acting as a trial run ahead of mandatory future reporting, giving insights into process bottlenecks, data collection gaps or challenges, while also helping to finetune disclosures across various channels. To simplify reporting under the ESRS, the EU collaborated with other voluntary sustainability reporting organisations, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the Taskforce on Climate-related Financial Disclosures (TCFD), to ensure interoperability with their standards. As a result, alignment with the ESRS can meet not just compliance requirements, but also broader stakeholder expectations on sustainability information, whether for investors, customers, employees or others.



3. **Collaborating with others:** Working with wide networks (both inside and outside your organisation) can help identify numerous previously unknown ESG opportunities and risk mitigation controls. By making CSRD compliance a company-wide endeavour, a wide range of knowledge, expertise and process efficiencies can be uncovered; whether that's assessing the scope of the regulations, carrying out the materiality assessment, identifying gaps, collecting and validating data, or producing external disclosures. And by engaging with partners upstream and downstream in the value chain, you'll not only find out more about ESG risks and opportunities but will also begin collaborating to make improvements. For example, reducing carbon, improving safety, increasing governance standards, and eradicating human rights issues. Engaging with your people and value chain partners is a surefire way to enhance ESG performance and create shared value.

4. **Telling the complete story:** Data, metrics, and KPIs are incredibly important in understanding how a business is performing across different ESG themes, but on their own, they lack context. Conversely, a strong narrative can paint an impressive picture but lacks credibility without robust proof points. To earn stakeholders' confidence, a happy balance must be struck that presents a compelling, and often differentiated, narrative supplemented by proof points. Proof points can be data-led, can result from policies and commitments, or can be case studies, projects and programmes that drive improvement. When disclosing against CSRD requirements, this thinking should be incorporated. Ask yourself: are we telling a clear and compelling story that is backed with evidence? Are we demonstrating value creation as opposed to simply evidencing compliance?

The CSRD might initially appear as another unwelcome burden – a resource-intensive mandate for ESG disclosures. And let's be honest, there's some element of truth to that. But what elevates the CSRD is its impact.

The annual report (or management report) will prominently feature CSRD disclosures. This enhanced transparency provides investors with consistent, reliable data through standardised collection, reporting and external verification processes. The CSRD goes beyond just reporting; it mandates a "double materiality" approach. You define the ESG matters most relevant to your business and how they impact each other. This assessment is then externally verified, enhancing the credibility of your reported actions.

In essence, the CSRD transcends the initial effort, and presents a strategic opportunity to stand out from the crowd and be a leader. Creating a shift in stakeholder perceptions can be transformative.