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CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD): A GUIDE FOR REPORTING ON SUSTAINABILITY IN THE EU MARKET

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Contextualization: The European Union is developing new regulations as part of the EU Green Deal to guide businesses towards sustainability and improved compliance. One key regulation is the Corporate Sustainability Reporting Directive (CSRD), which aims to increase transparency and hold companies accountable for their sustainability practices, providing stakeholders with information on their approach to sustainability issues, including environmental, social, and governance (ESG) factors and double materiality.

Objectives: The article employs the inductive method and conducts a bibliographic review and exploratory analysis of the main concepts and regulations related to corporate sustainability and sustainability reporting.

Method: The article then delves into key ideas related to sustainability reporting, focusing on ESG factors, double materiality assessment, impact measurement, and greenwashing. It concludes by analyzing the most important elements of the CSRD and the European Sustainability Reporting Standards (ESRS).

Results: The CSRD attempts to create a roadmap for a significant contribution to sustainability by broaden[ing] the range of organizations subject to regulation, establishing consistent reporting criteria, and improving sustainability disclosures' overall quality and comparability to enhance transparency and accountability and coordinating efforts.

Keywords: Sustainability Reporting; Corporate Sustainability; ESG Factors; European Green Deal.

DIRETIVA DE RELATÓRIOS DE SUSTENTABILIDADE CORPORATIVA (CSRD): UM GUIA PARA RELATÓRIOS DE SUSTENTABILIDADE NO MERCADO DA EU

Contextualização: A União Europeia está desenvolvendo novas regulamentações como parte do Acordo Verde Europeu para orientar as empresas em direção à sustentabilidade e à melhoria da conformidade. Uma regulamentação-chave é a Diretiva de Relatórios de Sustentabilidade Corporativa (CSRD), que visa aumentar a transparência e responsabilizar as empresas por suas práticas de sustentabilidade, fornecendo aos stakeholders informações sobre sua abordagem às questões de sustentabilidade, incluindo fatores ambientais, sociais e de governança (ESG) e materialidade dupla.

Objetivo: O artigo se aprofunda em ideias-chave relacionadas aos relatórios de sustentabilidade, com foco nos fatores ESG, na avaliação de materialidade dupla, na medição de impacto e no greenwashing. Conclui analisando os elementos mais importantes da CSRD e dos Padrões Europeus de Relatórios de Sustentabilidade (ESRS).

Método: O artigo utiliza o método indutivo e realiza uma revisão bibliográfica e análise exploratória dos principais conceitos e regulamentações relacionados à sustentabilidade corporativa e aos relatórios de sustentabilidade.

Resultados: A CSRD tenta criar um roteiro para uma contribuição significativa à sustentabilidade, ampliando o alcance das organizações sujeitas à regulamentação, estabelecendo critérios consistentes de relatórios e melhorando a qualidade e a comparabilidade geral das divulgações de sustentabilidade para aumentar a transparência, a responsabilidade e a coordenação de esforços.

Palavras-chave: Relatórios de Sustentabilidade; Sustentabilidade Corporativa; Fatores ESG; Acordo Verde Europeu.

DIRECTIVA DE INFORMES DE SOSTENIBILIDAD CORPORATIVA (CSRD): UNA GUÍA PARA INFORMAR SOBRE SOSTENIBILIDAD EN EL MERCADO DE LA UE

Contextualización: La Unión Europea está desarrollando nuevas normativas como parte del Pacto Verde Europeo para guiar a las empresas hacia la sostenibilidad y la mejora del cumplimiento. Una regulación clave es la Directiva de Informes de Sostenibilidad Corporativa (CSRD), que tiene como objetivo aumentar la transparencia y responsabilizar a las empresas por sus prácticas de sostenibilidad, proporcionando a las partes interesadas información sobre su enfoque a las cuestiones de sostenibilidad, incluidos los factores ambientales, sociales y de gobernanza (ESG) y la doble materialidad.

Objetivos: El artículo profundiza en ideas clave relacionadas con los informes de sostenibilidad, centrándose en los factores ESG, la evaluación de la doble materialidad, la medición del impacto y el greenwashing. Concluye analizando los elementos más importantes de la CSRD y los Estándares Europeos de Informes de Sostenibilidad (ESRS).

Método: El artículo utiliza el método inductivo y realiza una revisión bibliográfica y un análisis exploratorio de los principales conceptos y normativas relacionados con la sostenibilidad corporativa y los informes de sostenibilidad.

Resultados: La CSRD intenta crear una hoja de ruta para una contribución significativa a la sostenibilidad ampliando el alcance de las organizaciones sujetas a regulación, estableciendo criterios consistentes de informes y mejorando la calidad y la comparabilidad general de las divulgaciones de sostenibilidad para aumentar la transparencia, la responsabilidad y la coordinación de esfuerzos.

Palabras clave: Informes de Sostenibilidad; Sostenibilidad Corporativa; Factores ESG; Pacto Verde Europeo.

INTRODUCTION

The European Union is developing new regulations as part of the EU Green Deal to guide businesses towards sustainability and improved compliance. One key regulation is the Corporate Sustainability Reporting Directive (CSRD), which aims to increase transparency and hold companies accountable for their sustainability practices, providing stakeholders with information on their approach to sustainability issues, including environmental, social, and governance (ESG) factors and double materiality.

This article explores important concepts for understanding how companies will report on sustainability in the EU market under the CSRD. The first part of the article discusses sustainability and its connection to the Sustainable Development Goals (SDGs) and business, introducing the concept of the triple bottom line. It also presents a roadmap for sustainability, using the SDG Compass as a practical tool to emphasize the importance of reporting and communication in aligning business operations with sustainability.

The article then delves into key ideas related to sustainability reporting, focusing on ESG factors, double materiality assessment, impact measurement, and greenwashing. It concludes by analyzing the most important elements of the CSRD and the European Sustainability Reporting Standards (ESRS).

1. THE PROBLEM OF SUSTAINABILITY

Sustainable development is linked to how we manage and replenish our natural resources under a growth-based scenario to comprehensively improve the quality of life. According to Pearce and Turner, sustainable development "*involves maximizing the net benefits of economic development, subject to maintaining the services and quality of natural resources over time*". Thus, it aims to balance the goals of economic prosperity and attend to environmental and social concerns harmoniously to enhance the intergenerational well-being[1].

It is essential to consider that everything we produce to meet our needs relies on our natural systems. Therefore, prosperity is not something given. Instead, it depends on human interactions with the environment that represent how we extract the goods and provide the services we need to keep running the "unlimited wants" of our society[2].

Hence, instead of emphasizing short-term gains, our economic system should

[1] WORLD BANK. **World Development Report 2003:** Sustainable Development in a Dynamic World--Transforming Institutions, Growth, and Quality of Life. Disponível em: http://hdl.handle.net/10986/5985.

[2] MEADOWS, D. H. et al. **The Limits to Growth:** A Report for the Club of Rome's Project on the Predicament of Mankind. New York: Universe Books, 1972.

point out long-term sustainable growth strategies to ensure a better quality of life for people, inserting "sustainable development" as a critical concept in development studies and political practices. According to this early idea of sustainable development, neglecting the environment can threaten global ecosystems and humanity[3].

Currently, the SDGs accomplishes the mission to establish a global agenda on social and human development to take the bold and transformative steps urgently needed to shift the world onto a sustainable and resilient path.

In other words, the SDGs represent the core of the holistic planetary agenda for economic growth, social inclusion, and environmental protection, orientating all global, regional, national, and local development endeavors until 2030

2. BUSINESS AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

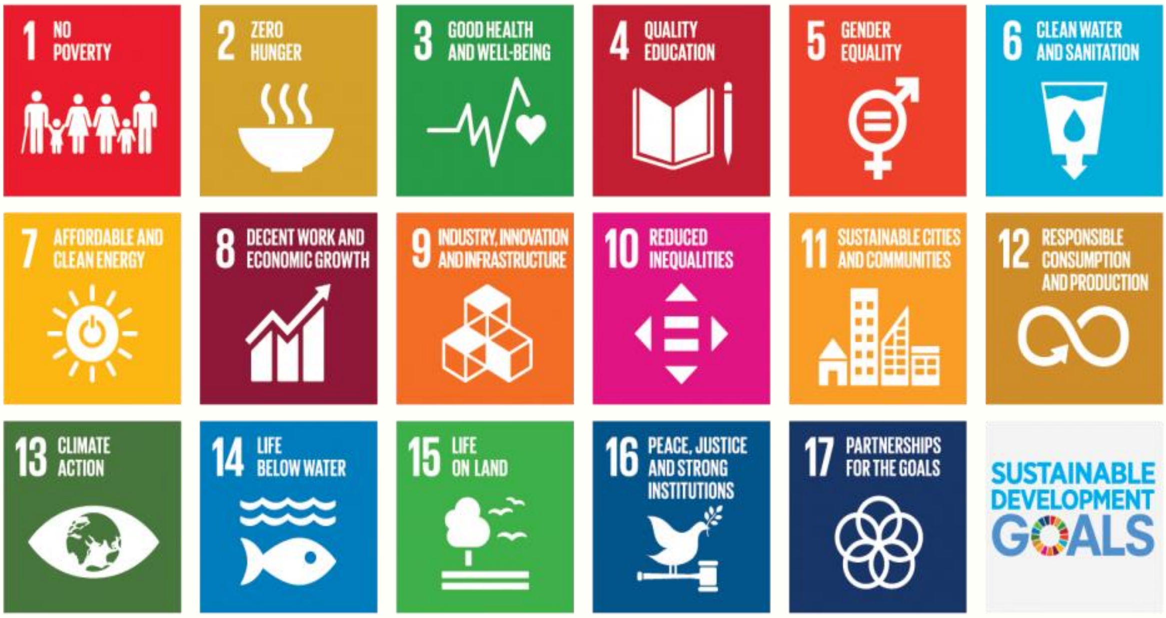
The SDGs comprehend 17 interconnected global goals elaborated to be a "*blueprint for achieving a better and more sustainable future for all*". These 17 people-centered goals are integrated, stressing that everything depends on everything and balancing sustainable development's environmental, economic, and social dimensions.

At this moment, there are 169 targets, each of them with between 01 and 03 indicators comprising 232 approved indicators to measure the progress in the achievement of the SDGs.

As a comprehensive societal process, the SDGs involves the interaction of multiple actors to cover all aspects of social life, providing an efficient method to combine the desire for environmental protection with the need for continued material and economic prosperity[4].

[3] CHESHIRE, D. **The Handbook to Building a Circular Economy.** London: RIBA Publishing, 2021. In 1972, the Rome Club published the report "*Limits of Growth*" a pioneering document to awaken ecological consciousness about the use of natural resources and environmental degradation with a clear message that still holds today: "*Man can create a society in which he can live indefinitely on earth if he imposes limits on himself and his production of material goods to achieve a state of global equilibrium with population and production in carefully selected balance*".

[4] MOFFATT, I. **Sustainable Development:** Principles, Analysis and Policies**.** London: Parthenon, 1996.



The SDGs are considered a universal program pursued and applied to all countries around the world not only poor countries. Achieving the goals requires efforts on all fronts: governments, businesses, civil society, and individuals everywhere all have an important role to play.

Business can be an essential partner in progressing on the SDGs by integrating them in their core activities and operational decisions to pursue not only profits but also social and environmental impact.

The broad reach of activities and multiple relationships developed by companies throughout their supply chains have a significant environmental, economic, and societal footprint. These different levels of impact represent an opportunity for companies to mitigate negative impacts and promote sustainable actions.

In this sense, companies should commit to focusing on three different bottom lines: profits, people, and the planet to accomplish good results on their performance by achieving positive financial impact and incorporating environmentally and socially responsible behaviors[5].

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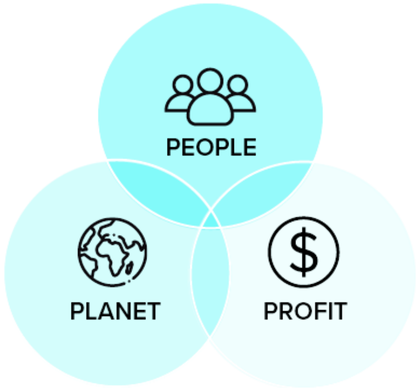
[5] GIMENEZ, C.; SIERRA, V.; RODON, J. Sustainable Operations: Their Impact on the Triple Bottom Line. **International Journal of Production Economics**, v. 140, n. 1, p. 149-159, 2012.



Undoubtedly, business action is a key driver for progress on the SDGs. This mutual need is underscored by the fact that companies cannot thrive in failed societies, and enduring success is contingent on achieving the SDGs. It's a shared responsibility and an opportunity for all.

The importance of environmental and social responsibility in all organizations' futures is becoming increasingly inevitable. Integrating SDGs at the core operations to assess their impact and communicate transparently the results is not just a choice, but a necessity for companies that aim to ensure an enduring license to perform through 2030 and beyond.

For companies, the SDGs are not just a legal matter to comply with the regulations. They are a strategic tool to unlock market opportunities and manage emerging risks. They position companies to perform their core operations and interact with multiple stakeholders, empowering them to shape their future.

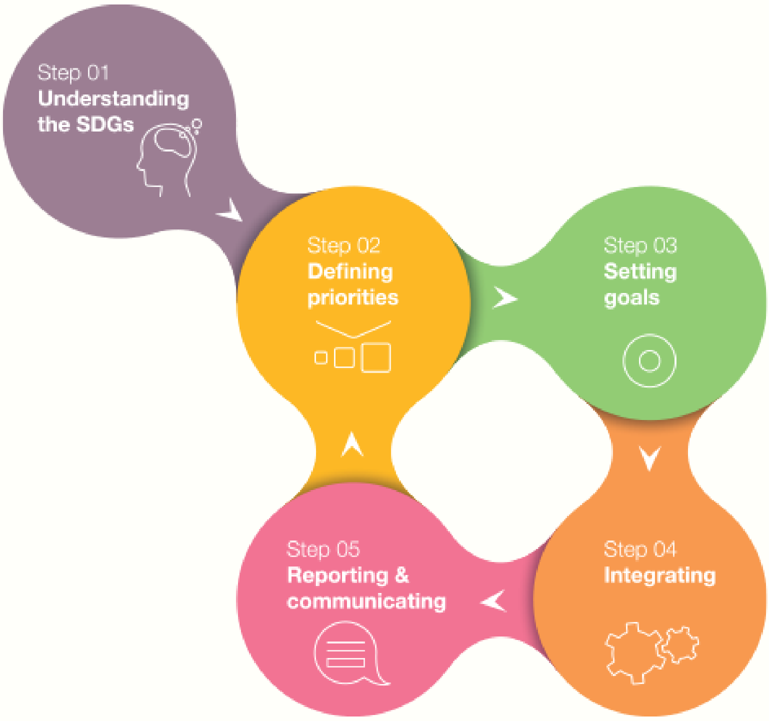
Therefore, the work and scaling up on integrating the SDGs through business solutions in every part of the organization is not just imperative, but also urgent. This is a task of significant importance, as it will help companies face challenges and build a resilient and responsible growth strategy.

There is an evident tendency and incentive for companies to engage in sustainability. However, the key to progress lies in developing business strategies that can convert the SDGs into tangible actions. This gap affects the measurement and communication of how companies are progressing in meeting the SDGs.

As a result, key stakeholders such as investors, consumers, and employees are unable to see the significant role that the SDGs play in enhancing overall business performance and ensuring its long-term sustainability.

3. ROADMAP FOR SDG INTEGRATION

How could companies align their strategies and manage and measure their contribution to the SDGs? According to the SDG Compass, five steps assist companies in maximizing their contribution to the SDGs and aligning their course to ensure that sustainability is an outcome of core business strategy[6].



3.1. Understanding the SDGs

Understanding the SDGs is the cornerstone of this process. The company's grasp of the SDGs, especially their complexity and interconnections, is crucial. It uncovers the most potential opportunities for its operations and increases business value.

3.2. Defining Priorities

Defining priorities is a key step. The company must conduct a high-level scan of its social and environmental impacts, establishing the interconnections with the SDGs across each stage of its value chains. This guides the focus of its sustainability efforts.

[6] All the information related to topic 4 and its subitems is referred to SDG COMPASS. **SDG Compass: The Guide for Business Action on the SDGs.** SDG Compass, 2015. Disponível em: https://sdgcompass.org/

3.3. Setting Goals

Setting goals is a pivotal moment. It is the right time to establish the company's baseline and set the ambition concerning the integration of the SDGs. This defines the path to making the right decisions without reputational implications. It is also a chance for the company to announce its commitment to the SDGs, building a positive interaction with multiple stakeholders.

3.4. Integrating

Step four is dedicated to engaging all company sectors in the SDGs to transform its operations effectively. The company must bring together the different departments and employees to establish an appropriate ambiance to construct a real business case for the SDGs.

These interactions count with the participation of the company's leadership, which plays a crucial role in inspiring the other employees to share the objectives and embrace the cause. Their leadership will be instrumental in the successful integration of the SDGs into the company's operations.

3.5. Reporting and communicating.

A company can generate business value by promoting sustainable impact only if it communicates effectively. The SDGs provide a common language for reporting sustainability performance and monitoring progress. This makes it easier for the company to demonstrate its unwavering commitment to compliance and its contribution to the well-being of society and the planet.

This transparency is crucial for showing investors and consumers that the company is part of a global effort to meet regulations and secure a sustainable future and that its ethical standards are uncompromising[7]..

4. REPORTING ON SUSTAINABILITY

Sustainability reports serve as a crucial conduit of transparent communication

[7] For instance, the SDG target 12.6 calls on governments everywhere to 'encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.'

between companies and their diverse stakeholders. They play a pivotal role in disclosing a company's performance and its impacts on various sustainability-related topics, thereby fostering trust and accountability.

Kaptein and Van Tulder affirmed that transparency provides information to stakeholders, giving them proper insight into the issues that are relevant to them[8]. Therefore, regarding sustainability reports, companies are expected to provide explicit information on their performance across the triple bottom line, which includes the social, environmental, and economic aspects of their operations.

Transparent and relevant reporting on sustainability is essential for communicating to stakeholders how companies deliver the SDGs in their business operations and the risks and opportunities they present.

Consumers, employees, investors, civil society, government, and the media are increasingly interested in how companies perform in resolving social issues, reversing environmental degradation, and stemming unethical practices in their supply chains.

Furthermore, the transparent information provided through sustainability reporting holds the potential to create shared value for both companies and communities. This can be achieved by promoting individual and social lifestyles, educating consumers about environmental protection, and fostering a deeper understanding of their interaction with nature.

Initially, sustainability reporting was perceived as a trust-building catalyst, aimed at enhancing the company's reputation. However, it has now evolved into a strategic tool, providing a comprehensive view of sustainability decision-making processes. This evolution keeps the audience informed and up-to-date, fostering a sense of being part of a progressive movement.

In addition to formal reports, companies are increasingly using a variety of channels to communicate sustainability strategy performance. Corporate websites, social media channels, events, product and service labeling, market, and advertising are a few of the many effective ways to communicate with stakeholders on sustainability.

When companies embark on sustainability reporting, it is crucial to address three key considerations. These include measuring the real impact, ensuring the information is reliable and not mere 'greenwashing' (misleading environmental claims), and adopting proper standards for sustainability reporting. This approach ensures the credibility and comparability of sustainability performance across companies and industries.

[8] KAPTEIN, M.; VAN TULDER, R. Toward Effective Stakeholder Dialogue. **Business and Society Review**, v. 108, n. 2, p. 203-224, 2003.

4.1. Sustainability Standards and Certifications.

The uses of certified sustainability standards, such as organic or fair-trade labels, are categorized as non-state, market-driven governance approaches that aim to improve the economic, environmental, and social sustainability of production[9]. These standards empower businesses to produce goods and services under sustainable, environmental, and social conditions.

The United Nations Forum on Sustainability Standards (UNFSS), conceptualize them as ''specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others''[10].

The sustainability standards are a key governance instrument, serving as a roadmap to facilitate the transition to a green economy[11] and to guide the integration of sustainability into business operations, instilling a sense of capability and responsibility.

Since consumers and other stakeholders cannot observe or experience the production conditions directly, sustainability standards play a crucial role. They act as a bridge, illuminating the gap with transparency and trust and thereby ensuring that the production conditions align with the consumers' perceived values.

Sustainability standards and certifications, as voluntary third-party-assessed guidelines, offer producers, manufacturers, traders, retailers, and service providers a unique opportunity to showcase their dedication to sound environmental, social, and ethical practices. This enhances their reputation and fosters trust among consumers and stakeholders.

These standards require performance in areas such as management effectiveness, branding, product quality, attributes, production and processing methods, and sustainable supply chains. They are not just about individual businesses. They emphasize capacity building and collaboration, working with partners and other organizations to support smallholders or

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[9] CASHORE, B.; AULD, G.; NEWSOM, D. **Governing through markets: Forest certification and the emergence of non-state authority.** New Haven: Yale University Press, 2004.

state authority. In Governing Through Markets: Forest Certification and the Emergence of Non-State Authority

[10] UNFSS. **1st Flagship Report of the United Nations Forum on Sustainability Standards (UNFSS).** 2013. Disponível em: https://unfss.org/home/flagship-publication/.

[11] MARX, A.; WOUTERS, J. Is everybody on board? Voluntary sustainability standards and green restructuring. **Development (Basingstoke)**, 2015. Disponível em: https://doi.org/10.1057/s41301-016-0051-z.

disadvantaged producers in making the social and environmental improvements needed to meet the standard. This collaborative approach makes the audience feel part of a more significant, impactful movement.

Typically, sustainability standards are accompanied by a verification process known as certification. This process evaluates whether an enterprise complies with a standard and provides a traceability process for certified products. This traceability assures consumers of the product's sustainability and enhances their preference for such products.

Every sustainable standard has assessment factors to help companies measure their social, environmental, and governance performance (ESG factors). Some are specialized in one particular sector, some in many. Mapping the different global frameworks that contribute to companies reporting different aspects of their social and environmental impact, it is possible to enumerate the following standards:

- *Global Reporting Initiative (GRI)* - considering a wide range of activities and stakeholders, this standard helps companies to report triple bottom line factors.
- *Carbon Disclosure Project (CDP)* - aims to describe environmental performance data related to GHG emissions, water, forests, and supply chain.
- *International Integrated Reporting Council (IIRC)* - defines guiding principles and content elements for companies to produce "integrated reports".
- *Task Force on Climate-Related Financial Disclosures (TCFD)* - incentives companies to align climate-related risk disclosures with investors' needs.

Each sustainable standard is uniquely designed, with specific assessment factors tailored to help companies measure their social, environmental, and governance performance (ESG factors). These standards cater to a wide range of industries, from specialized sectors to those with broader scopes.

Today, the world of sustainability offers a plethora of opportunities, with hundreds of standards and certification schemes for various products. These schemes span diverse sectors, from agricultural products to garment manufacturing and office buildings, providing a wide range of avenues for companies to demonstrate their commitment to sustainability.

The prevalence of eco-labels in consumer goods today is a testament to the growing consumer demand for sustainable products. With over 400 such standards and certifications existing worldwide, it's clear that sustainability has become a key consideration for consumers, further emphasizing the importance of these certifications.

Selecting a sustainability standard demands the right chemistry between a company's operations, risks, future financial performances, and reporting and communication to demonstrate trust and transparency for different stakeholders. To do this task properly, it is relevant to enter some critical concepts used mainly by these standards to make the right choice and unlock a company's potential impact.

4.1.1. Reporting through ESG Factors and Double Materiality Assessment.

As companies worldwide increasingly embrace sustainability reporting, several standards have emerged that enable a wide range of stakeholders to assess and compare sustainability reports more effectively.

Some common concepts found in these standards, such as the Global Reporting Initiative or the Corporate Sustainability Reporting Directive, include ESG factors and double materiality. These concepts are not only relevant, but also crucial for understanding how to report appropriately in the modern business landscape. They are widely used to verify the integration of sustainability criteria in business operations and to evaluate risk and future performance.

First, ESG (Environmental, Social, and Governance) factors are closely linked to the triple bottom line approach, which considers the impact of businesses on people, the planet, and profits (see item 2)[12]. These factors assess the value generated by companies through sustainability efforts integrated into their business models[13].

- Environmental factors are critical for the functioning of natural systems and include aspects such as climate change, greenhouse gas emissions, energy and water consumption, waste and pollution, and environmental degradation.
- Social factors address important issues like human rights violations, poor working conditions, and illegal labor practices, emphasizing the need for empathy and action in building a sustainable future.
- Governance factors focus on companies' management processes,

[12] Considering the triple bottom line approach, the ESG factors can be understood as a company's obligation to improve social welfare; and equitable, and sustainable long-term wealth for stakeholders (MOHAMMAD, W. M. W.; WASIUZZAMAN, S. Environmental, Social and Governance (ESG) disclosure, competitive advantage, and performance of firms in Malaysia. **Cleaner Environmental Systems**, v. 2, 2021).

[13] GILLAN, S. L.; KOCH, A.; STARKS, L. T. Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance. **Journal of Corporate Finance**, v. 66, 2021.

encompassing their structure, control, and transparency. It's important to recognize that various stakeholders throughout the supply chain play a significant role in influencing these factors and ensuring corporate accountability.

Investors are increasingly integrating these non-financial factors into their analysis processes. By doing so, they can identify material risks and uncover potential growth opportunities for future investments[14]. This ESG-rooted approach is enhancing investment strategies and instilling optimism in sustainable investing, demonstrating that financial success and sustainability can be aligned.

After analyzing the concept of ESG factors, it is essential to consider the idea of a double materiality assessment when reporting sustainability. This comprehensive evaluation takes into account both the internal financial impacts on the company (financial materiality) and the external effects on stakeholders and the broader environment (stakeholder materiality)[15].

Financial materiality assesses how ESG factors, such as revenue streams, cost structures, and long-term financial health and viability, influence a company's financial performance.

Stakeholder materiality considers the impact of a company's operations, products, and services on external stakeholders and broader societal issues, such as the environment, society in general, and local communities.

It is relevant to understand that stakeholders are crucial in identifying non-financial risks and opportunities for organizations. The transparency gained by involving a range of stakeholders and enhancing their collaboration in decision-making processes leads to solid operations and builds trust in businesses.

The first step is to establish the company's objectives, including the relevant ESG factors that are impacted by its operations and the identification of critical internal and external stakeholders. After this, it is time to enumerate and classify the ESG factors based on

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[14] According to Parikh, A. et al. (2023), there are two reasons for investors today attach great importance to ESG factors. First, through ESG investing, ethical investments practices are actively promoted. Second, ESG investing enhances the performance of a managed portfolio, thereby increasing returns while reducing portfolio risk (*The Impact of Environmental, Social and Governance Score on Shareholder Wealth: A New Dimension in Investment Philosophy*. In: Clear and Responsible Consumption, vol. 08).

[15] According to the European Financial Reporting Advisory Group (EFRAG), double-materiality involves: identifying sustainability matters that are material in terms of the impacts of the reporting entity's own operations and its value chains (impact materiality), based on: (i) the severity (scale, scope and remediability), and when appropriate, likelihood of actual and potential negative impacts on people and the environment, (ii) the scale, scope and likelihood of actual and positive impacts on people and the environment connected with companies' operations and value chains; (iii) the urgency derived from social or environmental public policy goals and planetary boundaries (EFRAG, 2021, p. 08).

their relevance to the company's operation and business model and stakeholders' expectations.

The next step corresponds to respective assessments: a) an internal financial materiality assessment using metrics and models to consider potential risks and opportunities related to ESG factors and b) an external stakeholder materiality assessment by interacting through surveys, interviews, and consultations to comprehend their perspectives and expectations.

The feedback of these assessments is relevant to prioritizing the classification of the sustainability factors by identifying commonalities and differences. It elaborates a materiality matrix that provides a better view of the priorities and establishes a classification as high, medium, or low materiality according to their impact on financial and stakeholder concerns.

This logical sequence better integrates ESG factors into the company's operation, facilitating the elaboration of sustainability reports and clearly communicating the materiality issues that affect internal and external stakeholders.

The guidelines outlined by sustainability standards help evaluate ESG (Environmental, Social, and Governance) factors and their financial effects. They establish a consistent and safe framework that can be adopted throughout a company's value chain to promote cooperation and sustainability. Additionally, these guidelines offer metrics for tracking, assessing, and enhancing progress on ESG factors alongside the company's financial performance.

4.2 Measuring Impact

The sustainable impact measurement is the process by which an organization provides evidence that its services provide factual and tangible benefits to people or the environment[16]. Impact measurement demonstrates the benefits the company generates through evidence of sustainable outcomes/impacts.

One needs to regularly assess the results and outcomes of successfully integrating sustainability factors through monitoring and evaluation of the internal and external impact developed through the venture.

Recording or documentation will further help develop efficient strategies and plans for advancement and improvement. This will also help identify what additional

[16] STEVENSON, N.; TAYLOR, M.; LYON, F.; RIGBY, M. **Social Impact Measurement (SIM): Experiencing and future directions for the third sector organisations in the East of England.** Bradford: Social Enterprise East of England, 2010.

resources and support systems are required to make the venture more successful and effective.

An example of impact measurement is whether the venture has resulted in employment development. If yes, how many people have benefitted from it? Has there been any change in the standard of living of the people in the community? Has it been able to increase and develop social and economic resources in the community?

This information needs to be recorded, firstly, for future comparison of the measuring process and to make the consumers aware of the mission's achievements and how it has impacted bringing about positive, sustainable change.

4.3 Greenwashing

Sustainability standards have the potential to bring benefits, but they may also face challenges. For example, some adopters may pretend to pursue noble objectives to gain advantages and make false or unsupported environmental claims, a practice known as "*greenwashing*."

Greenwashing is a deceptive practice where organizations make false, misleading, or untrue claims about their company, product, or service's positive impact on the environment. In other words, it refers to the act of elaborating unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly or have a greater positive environmental impact than they do[17].

The European Union is cracking down on greenwashing by introducing the Green Claims Directive. This measure aims to eliminate unreliable and confusing green marketing from the European market. The directive sets clear guidelines for companies to substantiate and communicate their environmental credentials.

With consumers increasingly concerned about the environmental impact of their purchases, around 75% of products in the EU market make some form of green claim. However, over half of these claims are vague, misleading, or unsubstantiated. Additionally, almost half of the 230 ecolabels available in the EU need more verification procedures[18].

The EU's proposal establishes minimum rules for companies to support their claims. This includes prohibiting using any product rating system that is not based on EU

[17] HAYES, A. What is Greenwashing? How It Works, Examples, and Statistics. **Investopedia**, 2024. Disponível em: https://www.investopedia.com/terms/g/greenwashing.asp.

[18] EUROPEAN COMMISSION. **Green Claims.** 2022. Disponível em: https://environment.ec.europa.eu/topics/circular-economy/green-claims_en.

common rules.

The proposal also outlines minimum transparency requirements for sustainability labels. These labels must be verified by an independent third party, such as the EU Ecolabel. This verification process involves a comprehensive review of the product's environmental impact, from its raw materials to its disposal, ensuring that the claims are accurate and not misleading.

Moreover, the directive creates a registry of trusted ecolabels, which will assist consumers in identifying reliable and credible green products.

In addition, companies will be obliged to provide independent supporting evidence alongside their green claims, and market surveillance authorities will have to enforce this provision with regular checks and severe penalties in case of infringement.

One well-known instance of greenwashing involved H&M[19]. In 2022, H&M faced accusations of "greenwashing" — meaning they were making false or misleading claims about their sustainability efforts, mainly through the use (or misuse) of the Higg Index, which is H&M's sustainability certification system.

The Higg Index is a tool designed to assess a product's environmental impact throughout its lifecycle, from design to disposal. However, H&M's self-reported Higg Index scores were often inaccurate or inflated, and the company was not fully transparent about its environmental impact.

In response to the accusations of greenwashing, H&M has made a strong commitment. The company has pledged to intensify its efforts and become fully transparent about its environmental impact. This includes publishing a list of suppliers and disclosing the environmental impact of each product and other relevant data. Additionally, the company has set ambitious sustainability goals, as outlined in H&M's latest sustainability report.

These goals include using 100% sustainably sourced materials by 2030 and achieving climate positivity by 2030. 'Climate positive' means that a company's operations result in a net removal of greenhouse gases from the atmosphere, effectively reducing the company's carbon footprint. This ambitious goal demonstrates H&M's dedication to environmental sustainability and its efforts to combat climate change.

5. Corporate Sustainability Reporting Directive (CSRD)

In 2023, the Corporate Sustainability Reporting Directive (CSRD) came into force

[19] Another example is the Volkswagen emissions scandal, in which the company was found to have manipulated emissions data to appear more environmentally friendly than it was.

as part of the European Green Deal. This directive aims to assess companies' sustainability efforts and impact. It uses a 'double materiality perspective,' considering both the financial implications of sustainability issues on a company and the impact of the company's activities on the environment and society in accordance with specific ESG factors[20].

The main objective of the CSRD is to improve information transparency and effectively communicate to stakeholders - such as investors, customers, and regulatory bodies - how companies are performing in terms of disclosing their ESG factors through the various elements outlined in the European Sustainability Reporting Standards (ESRS).

The CSRD expands on the NFRD (Non-Financial Reporting Directive) and mandates a more thorough and detailed approach to sustainability reporting. This means that companies will be required to provide comprehensive information about the effects, risks, and opportunities related to ESG factors. This may include details about physical damage to property caused by climate change, as well as investments in product re-development aimed at reducing environmental impact[21].

The new regulations require companies to disclose information about their value chain. If this information is not available, companies can explain why it is not possible to obtain it within a three-year adaptation period. This approach is intended to help companies gradually adjust to the new reporting requirements, ensuring a smooth transition.

The CSRD was introduced to unify the reporting standards in Europe. It set up mandatory guidelines and standards for companies based on the ESRS. These guidelines, to be included in annual management reports, aim to streamline reporting processes and enhance transparency. The implementation timelines, tailored to the size of the company, provide a structured path for adaptation.

Starting in 2024, the CSRD will be implemented gradually. Large EU companies, which are already subject to the NFRD[22], and large non-EU companies with more than 500 employees and securities listed on an EU-regulated market, will be the first to transition. This phased approach will facilitate a smoother adaptation to the new reporting standards.

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[20] EUROPEAN COMMISSION. **The European Green Deal.** 2023. Disponível em: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-greendeal_en.

[21] The CSRD was introduced because it was recognized that the Non-Financial Reporting Directive (NFRD) from 2014 did not effectively provide stakeholders with reliable and consistent non-financial information. The NFRD required large public-interest companies to disclose information on environmental, social, and governance (ESG) issues. However, due to its narrow focus and the absence of standardized reporting procedures, the resulting data was often incomplete and fragmented. This lack of consistency made it difficult for investors to make well-informed decisions and hindered progress towards a more sustainable economy.

[22] Large EU companies currently subject to the NFRD are those that meet at least two of the following criteria: Employees ≥ 500, Net Turnover ≥ €40 million, Total Assets ≥ €25 million.

By 2025, the CSRD will cover all other large EU companies that are currently not included in the NFRD. These standards will be based on the size of the company, which is determined by meeting at least two of the following criteria: having more than 250 employees, a net turnover of more than €40 million, or total assets exceeding €25 million.

Additionally, all large non-EU companies with securities listed on a regulated market in the EU will also be subject to these standards, provided that they meet the size criteria similar to their EU counterparts.

Starting in 2026, small and medium-sized enterprises (SMEs) in the EU will have the possibility to voluntarily opt out until 2028 if they meet at least two of the following criteria:

- Employ 25 or more people
- Have a net turnover of at least €8 million
- Possess total assets worth at least €4 million

In addition, non-EU SMEs that are listed on a regulated market in the EU must meet the size criteria of EU companies.

Starting in 2028, non-EU companies that do not have securities listed on a regulated market in the EU must meet the following criteria to report according to the CSRD:

- They must have subsidiaries or branches in the EU with a net turnover of at least €150 million in the EU over 2 years.
- They must have a branch in the EU with a net turnover of at least €40 million in the preceding financial year.

The CSRD attempts to create a roadmap for a significant contribution to sustainability by broaden the range of organizations subject to regulation, establishing consistent reporting criteria, and improving sustainability disclosures' overall quality and comparability to enhance transparency and accountability and coordinating efforts.

5.1. European Sustainability Reporting Standards (ESRS).

In a significant move, the European Commission adopted the ESRS as the sustainability reporting standard for the CSRD in July 2023. This adoption marks a turning point in how companies report on sustainability in the EU market, aiming to ensure comparability and consistency in the information disclosed by companies. When combined with financial reports, this provides a complete view of an organization[23].

The ESRS are mandatory reporting standards that are aligned with the Global Reporting Initiative standards, which are widely accepted and used by companies worldwide to report ESG factors[24]. If a business is currently reporting under these standards, it will ensure compliance with the CSRD.

The GRI standards are not just compatible with the CSRD requirements, they actually facilitate a smoother transition for companies already following GRI guidelines. This alignment ensures that companies can confidently leverage existing reporting frameworks to meet new regulatory demands.

The interoperability between GRI and CSRD is not just a claim, it can be verified by the emphasis on transparency and accountability that both prescribe. In terms of materiality assessments, the GRI provides a consistent framework to access financial and non-financial impacts.

The GRI is a globally recognized standard that not only facilitates the establishment of a common language but also ensures the comparability of sustainability information with different EU and non-EU companies as well as stakeholders.

The ESRS includes a wide range of reporting standards. This encompasses two cross-cutting standards providing a general framework, five environmental standards focusing on key ecological aspects, four social standards addressing workforce and community issues, and one governance standard emphasizing ethical business conduct.

- There are two cross-cutting standards: General Requirements (a guide for developing a sustainability statement) and General Disclosure (information to report regardless of any materiality assessment).
- There are five environmental standards: Climate Change, Pollution, Water and Marine Resources, Biodiversity and Ecosystems, and Resource Use and Circular Economy.

There are four social matters standards: Own Workforce, Workers in the Value Chain, Affected Communities Resources, and Consumers and End-users.

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23 EUROPEAN FINANCIAL REPORTING ADVISORY GROUP – EFRAG. **European Sustainability Reporting Standards (ESRS).** Disponível em: https://www.efrag.org/.

24 GRI (Global Reporting Initiative) is an independent international organization that assists businesses and other organizations in taking responsibility for their impacts by providing them with a global common language to communicate those impacts. The GRI Standards enable organizations to report information that encompasses all their most significant impacts, including biodiversity, taxes, waste, emissions, diversity, equality, health, and safety. This reporting control enables organizations to take ownership of their sustainability journey. GRI reporting promotes collaboration, transparency, and dialogue between companies and stakeholders, ensuring all voices are heard and valued in sustainability.

- There is one governance standard: Business Conduct.

In compliance with the ESRS, companies must provide quantitative and qualitative information regarding their sustainability impact and performance. Additionally, companies must disclose details about their actions to enhance their sustainability efforts and management.

The annual sustainability statement must be prepared in a specific digital format to ensure that the information is easily accessible and understandable. The management report has four distinct parts: General, Environmental, Social, and Governance, and it should include the EU Taxonomy disclosures which refers to economic activities that are aligned with a net zero trajectory by 2050 and other environmental goals.

EU Taxonomy disclosures are a crucial part of the EU's sustainable framework as it allows financial and non-financial companies to share a common definition of economic activities that can be considered environmentally sustainable. It represents an important tool for market transparency, ensuring that stakeholders are well-informed about the company's sustainability efforts[25].

Moreover, the reporting requirements also encompass a company's internal sustainability performance and its entire value chain, providing an additional layer of monitoring. This all-inclusive approach guarantees that all companies operating in the EU market contribute to global sustainability efforts

FINAL CONSIDERATIONS

Sustainability is a significant challenge of our time, requiring the combined efforts of various stakeholders. Businesses, in particular, play a critical role in this collective effort by integrating the Sustainable Development Goals (SDGs) into their operations and promoting them throughout their value chains.

In this strategic process, reporting and communicating transparent and reliable sustainability data is crucial for demonstrating to different stakeholders – including public authorities, investors, employees, communities, and individuals – how companies are performing in their sustainability commitments.

The establishment of corporate sustainability reporting frameworks and standards enhances the quality and comparability of disclosed information. For example, the Corporate Sustainability Reporting Directive (CSRD) aims to ensure that companies operating in the EU

[25] EUROPEAN COMMISSION. **The European Green Deal.** Disponível em: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-greendeal_en.

market will provide comprehensive, comparable, and reliable data on their sustainable goals.

The anticipated impact of the CSRD on approximately 50,000 companies in the EU (a substantial increase from the 11,000 companies covered under the NFRD) signals a promising shift towards more standardized sustainability reporting in the European economy, expected to foster a more sustainable and resilient business landscape.

The CSRD aims not only to include more companies but also to significantly enhance the transparency of sustainability practices. This will provide stakeholders, including investors, consumers, and regulatory bodies, with a more precise and comprehensive view of the sustainability performance of a significant portion of the economy.

While large companies may already have some experience with sustainability reporting under the NFRD, the inclusion of many SMEs in the CSRD's scope means they will need to establish reporting processes. The proactive recognition of this by the EU and its planned support demonstrate a commitment to a smooth transition for all companies, instilling a sense of security and confidence in the process and making SMEs feel valued and integral to the sustainability reporting process.

The CSRD's broader ambition to influence sustainability practices on a global scale is underscored by its inclusion of non-EU companies. This inclusion is a significant step towards promoting a more comprehensive global approach to corporate sustainability

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