Tackling the CSRD

How to collect data, reduce workloads, and deliver a compliance-worthy report fast

The **Corporate Sustainability Reporting Directive** (CSRD) will completely transform how businesses working in the EU approach sustainability reporting.

Complex requirements will require streamlined processes that maintain data integrity, reduce people impact, and save costs.

The companies that master these requirements will not only provide evidence of their commitment to ESG but establish that they have a handle on data and a way to analyse it. As such, it's an integral piece in building ESG leadership status.

The challenge, however, is that managing and collecting the required data to reap these benefits can be a complicated and intricate process. Raw data is siloed, reporting requirements are extensive, and most companies just don't have the tools they need to solve problems efficiently.

In this whitepaper, we'll explore what these challenges look like in a practical sense, evaluating the core issues around CSRD data. We'll look at what CSRD actually means, the repercussions of non-compliance, and the actionable strategies and tools you need to meet these demands in a scalable way without overspending or overburdening your team.

Corporate Sustainability Reporting Directive (CSRD): A refresher

The CSRD is a new European Union directive that means large companies doing business in the EU will need to disclose comprehensive information on their environmental, sustainability, and governance (ESG) practices.

What is CSRD?

The goal of the new directive is to increase corporate transparency and accountability, making businesses take responsibility for their impact on the environment and wider society.

Replacing the Non-Financial Reporting Directive (NFRD), CSRD significantly broadens the scope of reporting requirements. Companies will now need to produce reports on a wide range of ESG sustainability matters using a standardised reporting framework to ensure cross-industry comparability.

Who does it apply to?

CSRD applies to large EU companies, including all EU subsidiaries of non-EU parent companies, that meet at least two of the following criteria:

- Over **250 employees**
- Net turnover of over **€40 million**
- Total assets over **€20 million**

It will also cover listed small and medium-sized enterprises (SMEs) and international companies with substantial operations within the EU, even if they're headquartered overseas.

What are the reporting requirements?

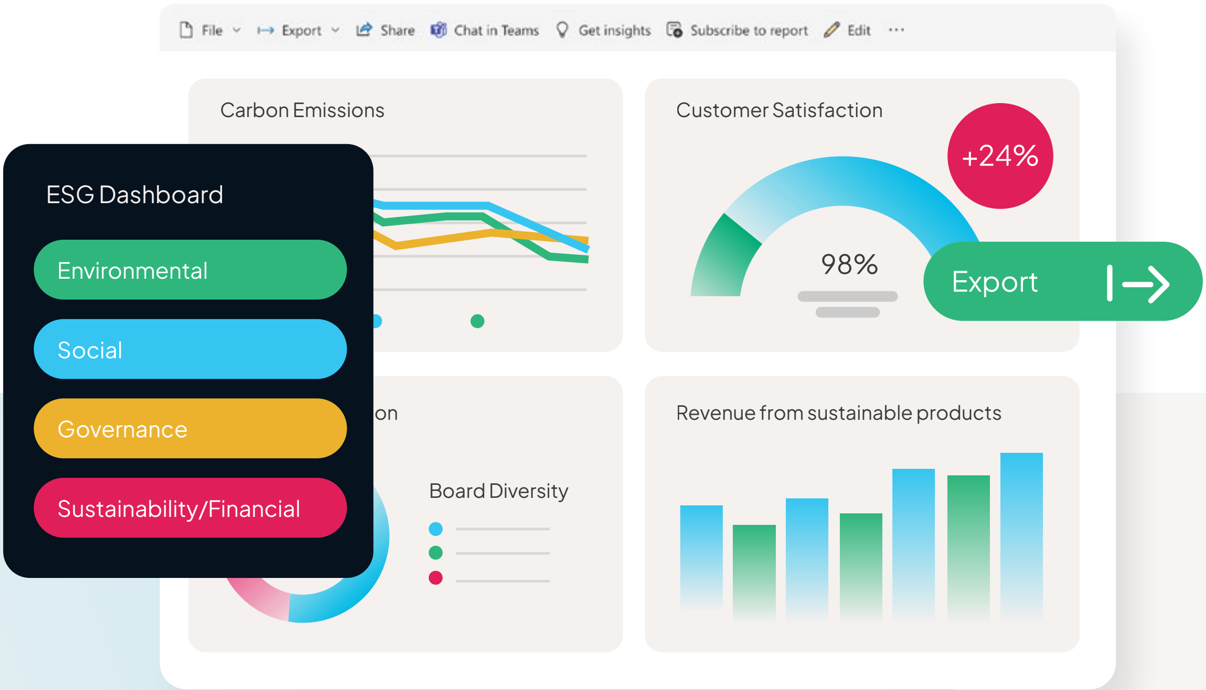
The directive requires companies to integrate detailed ESG reports into their annual management reports. These reports will need to provide a comprehensive dataset on all matters relating to ESG while integrating the concept of double materiality.

This means evaluating both how sustainability issues affect the business itself as well as how operations impact people and the environment. For example, in addition to people policies like recruitment practices or governance policies like board diversity, ESG reporting now needs to encompass both direct and indirect emissions.

Scope 1, 2, and 3 emissions will all need to be reported separately; disclosures will need to adhere to European Sustainability Reporting Standards (ESRS), which outline the specific metrics and frameworks for CSRD reporting.

They will also need to be digitally tagged and machine-readable in HTML format to ensure they can integrate into the European Single Access Point (ESAP).

Finally, CSRD will also introduce mandatory third-party assurance for sustainability reports. This is designed to stop greenwashing and ensure companies are honest in their reporting.



The timeline for compliance

The CSRD compliance requirements will be introduced using a phased approach to give companies time to adapt to the new regulations. Here's a breakdown:

2024

Large companies who are already complying with the existing Non-Financial Reporting Directive (NFRD).

2025

Large companies, and EU subsidiaries of non-EU parent companies, where at least two of the following apply: over 250 employees, a net turnover exceeding €40 million, total assets over €20 million

2026

SMEs and non-EU companies with substantial operations in the EU

2029

Third-country companies with offices in the EU and a net turnover of over €150 million

What happens if you don't comply?

Non-compliance with the CSRD can lead to penalties from the EU that run into the millions. However, this isn't the only worrying implication.

Since CSRD reports will be integrated into ESAP, investors will now have higher visibility of sustainability and compliance. This multiplies the risk of non-compliance as access to capital may be impacted.

And all of this is before even considering the brand damage associated with insufficient sustainability practices, which can be significant in itself.

CSRD's biggest challenge: **Data**

The biggest hurdle in complying with the Corporate Sustainability Reporting Directive (CSRD) is data. Even businesses with existing ESG functions can find themselves struggling to meet the complex requirements of the directive.

Double materiality

The complexity of the required data stems from what's called double materiality. The concept of double materiality is a central component of the CSRD and is likely to introduce a completely new challenge to all but the largest established ESG teams.

Companies will now have to comprehensively assess all sustainability issues that affect their business as well as how their operations impact society and the environment.

This information will then need to be cross-referenced and plotted onto a double materiality matrix to identify the most important issues facing the business in question.

To give context to this assessment, businesses will need to engage a wide range of stakeholders including staff, shareholders, customers, and their local communities. Insights from this broad spectrum of perspectives will then be used when ranking the different ESG issues identified in order of importance.

Continuous improvement is another core tenant of the CSRD, and the issues identified in the double materiality assessment will be used to gauge a business's progress towards ESG goals moving forward.

This means comparative year-on-year reporting is a necessity to evidence improvements, stay compliant, and show commitment to sustainability.

Scope 3 emissions

Another core challenge is borne from the need for granular, transparent, and auditable data from external sources due to Scope 3 emissions.

Unlike Scope 1 and Scope 2 which are easily recordable and within a company's control, Scope 3 encompasses indirect emissions that are produced across the entire value chain. This includes both upstream and downstream emissions and requires companies to engage with third-party partners who may be at wildly varying levels of data maturity.

The scope of the required emissions information is huge, encompassing everything from purchased goods or services and business travel to employee commuting and the after-sale use of consumer products.

The need to capture this data from all partners, many of whom lack the frameworks, processes, or even willingness to cooperate can become a huge burden on time and resources for procurement teams. It can also lead to data which is fragmented, difficult to reconcile, and simply inaccurate.

Time-consuming data challenges

Even with the relevant data captured, which can take huge amounts of time, it will still need significant processing before becoming usable for reporting purposes. This means collecting, storing, cleaning, and standardising before collating into a unified format.

Without the right infrastructure in place, this process can eat countless hours away while also putting huge strain on existing data management platforms. Reporting requirements can also evolve rapidly, meaning unscalable band-aid solutions can quickly lead to manual intervention and untenable workloads.

Overcoming these hurdles will require both internal departments and external partners to proactively work together and take ownership of their ESG reporting workflows. To enable this collaboration, business leaders will need to choose the right tools to allow all stakeholders to do their part with minimal impact on existing operations.

The requirements don't match reality...

As we've covered, the CSRD sets a high bar for data management, demanding auditable data across a huge volume of ESG metrics. However, in reality, there are very few businesses with existing infrastructure to support this.

This disconnect between requirements and existing tools and practices highlights the challenge that many companies face in aligning their data systems with new regulations.

In an ideal world, companies gathering detailed data on each metric for each ESG factor would be able to compile data that is:

Granular
Offering in-depth insights into every aspect of the company's operations from an energy, emissions, and social perspective.

Transparent
With full visibility of each data source and the methods used for collection, guaranteeing the information is trustworthy.

Auditable
This means the data has a clear trail back to its origin that auditors can follow and is presented in a clear standardised way.

Achieving this requires robust data collection and management systems that are designed from the ground up to cope with large datasets from a broad range of sources.

This is in stark contrast to the actual reality in many organisations, where data is:

Fragmented

Data is often housed in different departments each using their own systems and standards.

Managed manually

Organisations often end up using dozens of spreadsheets in a way that is time-consuming and susceptible to inaccuracy.

Incomplete

Companies may struggle to access all the data they need in the format they need, particularly when procurement departments are in charge of manually chasing suppliers and third parties for datasets.

Difficult to securely store

The challenge of balancing the storage of ESG data with security regulations and data protection laws like GDPR adds another layer of complexity as stakeholders who may have differing levels of GDPR understanding are working together.

Closing this gap will require an organisational shift away from manual processes towards scalable solutions that integrate automation to accurately handle large volumes of data.

Businesses will also need to create or augment existing data lake solutions to complete the journey from fragmented systems into a unified, automated platform. This will allow them to efficiently meet CSRD requirements and establish themselves as leaders in ESG and CRSD reporting.

How to clean up your data

Clean, usable data is the backbone of a successful CSRD compliance strategy, but many companies are still relying on outdated manual collection methods.

This often involves countless spreadsheets, multiple formats and disparate systems, requiring high time investment for error-prone datasets.

The solution here is clear: companies need a robust data solution that automates collection and standardises data into a single source of truth ready for ESG reporting.

5Y does just this, extracting and consolidating from core applications across the full breadth of the business. This interoperability with existing systems ensures every data point is not only collected but is consistently formatted and ready for analysis.

Where manual methods could take weeks to achieve this, gathering and verifying data on a metric-by-metric basis, modern platforms like 5Y can streamline the entire collection process by leveraging automation.

The vision for 5Y is to allow data to become part of the fabric of every organisation, where opportunities for improvement are seamlessly introduced and not part of the next big project cycle.

As such, it offers access to more data points; 5Y can capture transactional data as well as harness the power of AI to automatically collect details like kVA or Km from invoices, reducing the burden on busy financial teams. Data is stored in the cloud, allowing you to track ESG performance over time and provide evidence of improvement.

Creating a compliance report

Collecting and consolidating the required data is only the first half of the puzzle; businesses also need to transform this data into a report. This means presenting it in a way that is transparent and auditable.

A fully compliant report will include a wide array of detailed information, including carbon emissions, energy usage, water consumption, workforce diversity, governance structures, and more.
It will also need to address the concept of double materiality, evaluating the balance between factors that affect and are affected by the company. This is then compared against historical reports to show the efficacy of measures being taken.

The general structure is separated into four sections as follows:

General overview

ESRS 1 General Principles and
ESRS 2 General Disclosures and Double Materiality guidance.

Environment

ESRS E1 Climate Change,
ESRS E2 Pollution,
ESRS E3 Water and Marine Resources,
ESRS E4 Biodiversity and Ecosystems,
and ESRS E5 Circular Economy and Resource Use.

Social

ESRS S1 Own Workforce,
ESRS S2 Workers in the Value Chain,
ESRS S3 Affected Communities, and
ESRS S4 Consumers and End Users.

Governance:

ESRS G1 Business Conduct.

This level of detail requires meticulous data collection and analysis, presenting not only historical data but also an outline of sustainability goals and the actionable strategies in place to achieve them.

This dual focus requires a delicate balance of quantitative data and insights, requiring not just collection but the preparation of narratives and analyses to remain compliant.

This process can take months of dedicated effort from multiple departments and requires robust analytics to give context to the data and use it to tell a story.

5Y's self-service portal transforms this reporting process by streamlining and automating many of the required steps involved. Pre-built templates tailored to CSRD's requirements allow for the generation of comprehensive reports with minimal effort.

These templates also guide users through the input process and ensure all required information is present and formatted properly. The platform also features real-time analytics and visualisation tools, giving context to sustainability efforts and empowering leaders to quickly understand what their data means in real-world terms. Overall, 5Y is intuitive and can be managed by the client or any other supplier with minimal training.

This allows constant data-driven decisions and makes it easier to stay aligned with ESG goals throughout the year as opposed to only finding out measures have been inadequate during audits.

The platform is also continually updated to align with changing regulations, ensuring users don't need to change their workflows or tools as requirements change.

ESG and DataStream

5Y is a data platform built on Microsoft Azure architecture and designed from the ground up to support automation and out-of-the-box data and reporting models.

As opposed to costly bespoke solutions or resource-inefficient in-house builds, it's an affordable solution that can be deployed within weeks. It integrates with existing software, and can also be used by stakeholders at every level without specialist IT skills.

5Y streamlines live data collection and sets a new standard for efficiency, reliability, and speed in ESG reporting by:

Centralising data management

5Y unifies data from every source into a single, coherent system. This includes internal operations, supply chain partners, and external stakeholders for a holistic view of ESG performance.

Streamlining integration and interoperability

The platform prioritises integration with enterprise systems such as ERP and HR platforms, allowing for automatic data flows, reduced errors, and accurate reports.

Unlocking real-time analytics and insights

The analytics and visualisation capabilities of the 5Y platform allow for unrivalled data-driven decision-making while allowing non-technical stakeholders to understand and work with their data.

How does 5Ys ready-to-deploy solution compare against other third-party solutions?

For starters, many of these are batch-processing based and lack the continuous insights and advanced analytics offered. Then there are costly bespoke systems, which have no guarantee of support after the high initial upfront costs.

5Y offers a better solution, with no vendor lock-in policy and a transparent subscription-based business model.

That means our clients have the freedom to retain control of their own data without the constraints of proprietary technologies making integrating new tools or migrating platforms an expensive and complex process.

5Y is also regularly updated to comply with changing regulations, informed by a dedicated team of analytics and compliance professionals.

You can expect: *

80%

of your BI analytics ready out of the box from day one

50%

faster implementation, freeing up our team's time and budget

50%

reduction in data engineering costs

About 5Y Technology

Our platform, solutions and company are dedicated to disrupting the traditional technical landscape and powering change through data. We aim to be the catalyst for a world where data-driven operations and decision-making are the norm, enabling organisations to unlock their full potential and achieve sustainable success.

Learn more about us by visiting 5ytechnology.com
Contact us online or email hello@5ytechnology.com

*The "80% analytics-ready" figure applies specifically to engineering tasks such as data ingestion, integration, and preparation. The 50% faster implementation and 50% reduction in engineering costs are based on our observed averages across typical client projects. Actual results may vary depending on project scope, data quality, and unique business requirements.