

POCKET GUIDE

# Navigating the CSRD compliance jungle

Three big mistakes organisations make when preparing for CSRD compliance

**As the Corporate Sustainability Reporting Directive (CSRD) comes into effect, its broad scope and stringent requirements are poised to redefine the landscape of corporate sustainability reporting across the European Union.**

The directive, part of the EU's ambitious Sustainable Finance Action Plan, aims to enhance transparency and accountability, driving companies towards more sustainable practices.

However, due to the complexity and depth of the CSRD's mandates – in particular, the European Sustainability Reporting Standards (ESRS) - many organisations are confronted with a formidable challenge on the road ahead.

## How soon should I be worried about this?

The urgency of CSRD compliance can't be overstated. With the directive set to affect a wide array of companies, including non-EU entities operating within the EU market, the time to act is now. Yet a significant number of organisations find themselves unprepared to meet these new standards for a myriad of reasons: from underestimating the directive's breadth to a lack of robust sustainability data management systems, many companies are at risk of falling short of compliance.

The CSRD's emphasis on double materiality (requiring companies to report not only on the financial impact of sustainability issues but also on their broader social and environmental effects) adds another layer of complexity. This dual focus means organisations will need to do a comprehensive re-evaluation of what sustainability means for them and how this integrates into reporting and operations.

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## What do I need to do to prepare?

The directive's phased implementation timeline, while providing some leeway, underscores the need for immediate action. Companies must begin the groundwork now, from enhancing stakeholder engagement to refining their materiality assessments, to ensure they can meet the directive's requirements within the stipulated timeframe. The cost of inaction is high, encompassing not just potential regulatory penalties but also the loss of investor confidence and market reputation.

In this context, finance functions play a pivotal role. With their expertise in data management, reporting, and strategic oversight, they are uniquely positioned to lead their organisations towards successful CSRD compliance. However, this is not a journey that finance teams can undertake in isolation; the interconnected nature of sustainability demands a collaborative approach, bringing together functions from across the organisation to contribute their insights and expertise.

# Three big mistakes organisations make when preparing for CSRD compliance

It's a jungle out there! Let's take a look at some of the common mistakes that companies make in their solutions.

By understanding these pitfalls and adopting strategic measures to avoid them, finance teams can steer their organisations through the complexities of the directive, ensuring not just compliance but also a stronger, more sustainable future.

**MISTAKE ONE**

## Getting behind before you've even begun

**A common oversight for many finance teams is misinterpreting the timelines associated with CSRD compliance, particularly the distinction between the reporting year and the data collection period.**

This misunderstanding can lead to a last-minute rush to gather sustainability data, resulting in reports that are either incomplete or lack the depth and accuracy required by the CSRD.

This issue often stems from an underestimation of the time and resources needed to collect comprehensive sustainability data across various functions and operations. Given the intricate nature of sustainability reporting, which encompasses a broad range of environmental, social, and governance (ESG) metrics, adequate preparation is crucial. Without it, organisations risk not only non-compliance but also the missed opportunity to derive strategic insights from their sustainability initiatives.

## THE SOLUTION

# People, process, systems



### Advance planning

The cornerstone of effective CSRD compliance lies in meticulous, forward-looking planning.

Finance functions should spearhead the development of a detailed timeline that carefully maps out each phase of the data collection process.

This timeline should not only align with the organisation's fiscal calendar but also provide ample time for data verification, stakeholder consultations, and the integration of sustainability data into broader financial reports.



### Robust data infrastructure

Investing in a robust data management infrastructure is paramount.

This involves either upgrading existing systems or adopting new solutions capable of seamlessly integrating sustainability metrics with traditional financial data.

The goal is to create a unified data ecosystem that facilitates real-time data capture, storage, and analysis, ensuring that sustainability data is as reliable and accessible as financial data.



### Cross-functional collaboration

The finance function must champion cross-functional collaboration to ensure consistent and accurate flow of sustainability data. This should extend beyond internal teams to include suppliers and other stakeholders, ensuring a comprehensive data collection that reflects the entire value chain's sustainability performance.

By adopting a proactive stance, finance teams can effectively overcome the challenges posed by delayed preparation, setting the foundation for not only CSRD compliance but also strategic sustainability leadership.

**MISTAKE TWO**

## Thinking CSRD is a one-player game (spoiler: it's not!)

**One of the most nuanced aspects of CSRD compliance that finance functions often overlook is the extensive need for stakeholder engagement.**

This goes beyond traditional financial stakeholders to include a wide array of internal and external groups, each with a vested interest in the organisation's sustainability practices.

The mistake lies not just in failing to identify these stakeholders, but also in underestimating the depth and breadth of engagement required to meet ESRS standards. This underestimation can lead to significant gaps in sustainability reporting, where the insights and concerns of key stakeholders such as employees, suppliers, customers, and local communities are not adequately captured or addressed.

Such an oversight not only weakens the credibility and comprehensiveness of sustainability reports but also misses out on valuable opportunities to align sustainability initiatives with stakeholder expectations, thereby enhancing corporate reputation and stakeholder relations.

## THE SOLUTION

# Comprehensive stakeholder involvement



### Stakeholder analysis

The first step in rectifying this mistake is conducting a thorough stakeholder analysis to map out all relevant parties impacted by or interested in the organisation's sustainability performance.

This exercise should go beyond the immediate financial stakeholders to include a wider spectrum of groups, from internal departments contributing to sustainability data to external partners and the communities within which the organisation operates.



### Feedback mechanisms

A critical part of stakeholder engagement is the establishment of robust feedback mechanisms. These should enable the seamless collection and integration of stakeholder insights into the sustainability reporting process. Finance teams should lead in analysing this feedback, working closely with sustainability officers to refine sustainability strategies and disclosures based on stakeholder input and ensuring that the organisation's sustainability efforts are transparent and responsive to stakeholder needs. By elevating stakeholder engagement to a strategic priority, finance functions can bridge the gaps in sustainability reporting, ensuring that their CSRD disclosures are compliant and reflective of a holistic understanding of the organisation's sustainability impact and performance.



### Engagement strategy

With a clear understanding of the stakeholder landscape, finance teams should then develop a tailored engagement strategy.

This strategy should detail the mechanisms and platforms for regular, meaningful interaction with different stakeholder groups. For instance, internal workshops can be conducted to align operational teams with sustainability goals, while external forums can facilitate dialogue with suppliers, regulatory bodies, and community representatives.



**MISTAKE THREE**

## Missing out on the hidden gem that is materiality

**A pivotal aspect of CSRD compliance that finance teams may inadvertently oversimplify is the materiality assessment process.**

This is a strategic exercise meant to identify sustainability issues that are most significant to the organisation and its stakeholders.

Treating it as a mere formality or a checkbox exercise can lead to a misalignment between the organisation's reported sustainability initiatives and the actual priorities and concerns of its stakeholders, including investors, customers, and the broader community.

This oversight can stem from a lack of understanding of the 'double materiality' concept, which requires organisations to consider both the financial impact of sustainability issues on their operations and their impact on society and the environment. An oversimplified materiality assessment might fail to capture the full spectrum of material issues, potentially overlooking critical areas that could have significant implications for the organisation and its stakeholders.

## THE SOLUTION

# Strategic and iterative materiality assessments



### Materiality framework

To rectify this, finance functions should spearhead the development of a comprehensive materiality framework that aligns with the organisation's strategic objectives, risk management practices, and sustainability goals.

This framework should be rooted in the principle of double materiality, ensuring a balanced consideration of both financial implications and broader societal and environmental impacts.



### Data-driven insights

The materiality assessment should be underpinned by a robust analysis of both qualitative and quantitative data. This involves not only reviewing historical sustainability performance and financial data but also engaging with stakeholders to gather insights on emerging sustainability trends, risks, and opportunities. Finance teams should leverage their analytical expertise to interpret this data, identifying sustainability issues that could materially affect the organisation's financial health and its reputation.



### Continuous review

Given the dynamic nature of sustainability issues, materiality assessments should be seen as an iterative process that is regularly reviewed and updated, and CSRD requires this.

Finance teams should establish a schedule for periodic reassessment of material issues, considering evolving regulatory requirements, stakeholder expectations, and the organisation's own sustainability journey. This ongoing review ensures that the organisation remains agile and responsive to changes in its internal and external environment, with sustainability reporting continually reflecting the most material issues. By adopting this data-driven approach to materiality assessments, finance functions can ensure that their sustainability reporting is both compliant with CSRD requirements and reflective of the sustainability issues that matter most.

## Key takeaways

The new CSRD regulations are coming – fast. You need to be prepared for the volume of reporting that will be required for your organisation and your team internally will need to be prepared for cross-functional working to achieve compliance.

The mistakes in this guide are all about starting your CSRD journey on the right footing and creating a solid foundation for the rest of your work to evolve from.

**Remember, for a successful CSRD journey, you should:**

- Check dates and compliance requirements as well as what is required at each stage well ahead of time to ensure you have the time needed to collect the relevant data
- Gain the buy in of the teams you'll need to involve and those who'll need to act because of your compliance efforts
- Embrace materiality and the opportunities it brings to help you identify opportunities and risks ahead.

## What next?

We hope this guide helps provide you with helpful information on the most common mistakes happening in CSRD compliance today and helps you to avoid them. If you need support with understanding CSRD, why not sign up for one of our comprehensive courses?

Feeling a bit overwhelmed by the size of the project ahead? We're here to help.

Our team of CSRD experts can support you on every step of your compliance journey.

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## About VantagePoint

VantagePoint is a global technology and advisory consultancy empowering organisations to unlock the value of finance by unifying their people, processes and systems. With a strong emphasis on detail, VantagePoint's mission is to educate, inspire and enable business leaders to become champions of technology and transformation.

The company is dedicated to delivering tangible value to its partners, linking every action back to business strategy. VantagePoint's aim is to be the company that businesses aspire to work with when going through a finance technology change.



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