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**The current state of sustainability reporting and perceptions of Corporate Sustainability Reporting Directive (CSRD) in listed international companies**

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Business

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**ABSTRACT:**

Sustainability has become an increasingly important topic to focus on. The importance of sustainability has also become crucial for companies to consider in their operations, and many companies have also started to voluntarily report about their sustainability. During the last decade, the European Union has also started to regulate sustainability reporting, and in 2023, it strengthened the regulation when Corporate Sustainability reporting Directive (CSRD) entered into force.

CSRD will affect approximately 50 000 companies. The directive comes into effect gradually. First, in financial year 2024 it will only concern companies which have already been obliged for sustainability reporting due to Non-Financial Reporting Directive (NFRD) which entered into force 2014 to regulate large, public interest companies' sustainability reporting. In financial year 2025, also other large companies become subject to CSRD, and, in financial year 2026 CSRD will concern also listed SMEs. Due to the new directive, obligation for sustainability reporting broadens to concern also many companies that has not been required to publish sustainability reports previously, and the reporting will be more regulated. As a part of the new directive, the European Union introduced the new European Sustainability Reporting Standards (ESRS) which all companies that are subject to CSRD must adopt in their sustainability reporting. The new directive and common standards aim to harmonise the reporting and increase the transparency, comparability and reliability of the reports.

This study focuses on the sustainability reporting of listed international companies that have not been required to report about their sustainability. The aim of the research is to study the current state of sustainability reporting and the companies' perceptions of CSRD. The study is qualitative by nature, and semi-structured interviews are used for the data collection.

The results of this study are aligned with the previous studies and show that many companies have started voluntary sustainability reporting. However, there are no established practices for reporting. Similarly as previous studies, also this study highlights the stakeholders' perspective and involvement in reporting practices. Stakeholders' demands seem to be one of the key drivers for the companies to start to report about their sustainability. Moreover, the study provides insights of companies' perceptions to CSRD and preparation for it.

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**KEYWORDS:** Sustainability reporting, Corporate Sustainability Reporting Directive, CSRD, sustainability, sustainable development

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**VAASAN YLIOPISTO****Markkinoinnin ja viestinnän yksikkö****Tekijä:** Milja Jyrinki**Tutkielman nimi:** The current state of sustainability reporting and perceptions of Corporate Sustainability Reporting Directive (CSRD) in listed international companies**Tutkinto:** Kauppatieteiden maisteri**Oppiaine:** Kansainvälisen liiketoiminnan maisteriohjelma**Työn ohjaaja:** Peter Gabrielsson**Valmistumisvuosi:** 2024 **Sivumäärä:** 79

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**TIIVISTELMÄ:**

Vastuullisuuden merkitys yhä korostuneempi, ja sen huomioiminen on noussut myös merkittävään rooliin yritysten toiminnassa. Monet yritykset ovat myös aloittaneet raportoimaan vastuullisuudestaan. Viimeisen vuosikymmenen aikana myös Euroopan Unioni on alkanut säätelemään vastuullisuusraportointia, ja vuonna 2023 sääntelyä vahvistettiin, kun uusi kestävyysraportointidirektiivi (Corporate Sustainability Reporting Directive, CSRD) astui voimaan.

Direktiivin piirissä tulee olemaan noin 50 000 yritystä. Uusi direktiivi tulee voimaan asteittain. Ensin, tilikautena 2024 suuret, yleisen edun kannalta merkittävät yritykset, jotka ovat jo aiemmin olleen velvoitettuja vastuullisuusraportointiin tulevat kestävyysraportointidirektiivin piiriin. Sen jälkeen, tilikaudella 2025 muut suuret yritykset tulevat direktiivin piiriin, ja 2026 direktiivi laajenee entisestään koskemaan myös listattuja pieniä ja keskisuuria yrityksiä. Uuden direktiivin myötä vastuullisuusraportointi tulee pakolliseksi isommalle osalle yrityksistä, ja siten ajankohitaiseksi myös monille yrityksille, jotka eivät ole aiemmin olleet velvoitettuja vastuullisuusraportointiin. Direktiivi myös säätelee raportointia enemmän. Osana uutta direktiiviä Euroopan Unioni esitteli myös uudet kestävyysraportointistandardit (European Sustainability Reporting Standards, ESRS), jotka kestävyysraportoinnin piirissä olevien yritysten tulee ottaa käyttöön raportointiinsa. Uusi direktiivi ja yhteiset standardit pyrkivät harmonisoimaan yritysten vastuullisuusraportointia, ja tekemään siitä luotettavampaa ja vertailukelpoisempaa.

Tämä tutkimus keskittyy sellaisten listattujen ja kansainvälisesti toimivien yritysten vastuullisuusraportointiin, jotka eivät ole olleet velvoitettuja raportoimaan vastuullisuudestaan. Tutkimuksen tavoitteena on tutkia yritysten nykyisiä vastuullisuusraportointikäytänteitä, sekä yritysten näkemyksiä uudesta kestävyysraportointidirektiivistä. Tutkimus on luonteeltaan kvalitatiivinen ja tutkimusaineiston keruuseen on hyödynnetty puolistrukturoituja haastatteluja.

Tutkimuksen tulokset ovat linjassa aiempien tutkimusten tulosten kanssa. Moni yritys on aloittanut raportoimaan vastuullisuudestaan vapaaehtoisesti. Tulosten perusteella vastuullisuusraportointiin ei kuitenkaan ole vakiintuneita käytänteitä yritysten välillä. Kuten aiemmat tutkimukset, myös tämä tutkimus osoittaa, että sidosryhmien odotukset vastuullisuusraportoinnille on yksi merkittävimmistä syistä aloittaa vastuullisuusraportointi. Lisäksi tutkimus tarjoaa tietoa yritysten näkemyksistä kestävyysraportointidirektiivistä sekä siitä, miten yritykset ovat alkaneet valmistautua siihen.

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**KEYWORDS:** Sustainability reporting, Corporate Sustainability Reporting Directive, CSRD, sustainability, sustainable development

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## Abbreviations

CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EU	European Union
ESRS	European Sustainability Reporting Standards
GRI	Global Reporting Initiative
SDG	Sustainability Development Goals
NFRD	Non-Financial Reporting Directive

# 1 Introduction

*“Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future.”*

(World Commission on Environment and Development, 1987)

The definition for sustainable development by the World Commission on Environment and Development (1987) describes broadly the scope of the concept of sustainability. Sustainability has a long-term focus to the future, and it is more than solely impacting environmental matters, as it also has economic and social dimensions (White, 2015, p. 5). Sustainability has become an inseparable part of every aspect of society (Portney, 2015, p. 193), and also one of the key topics for companies to consider in their operations. Individuals, businesses, and nations have become more aware of sustainability issues and understand that human activities are damaging many vital natural resources. This has led to a growing pressure for companies to reassure their stakeholders of the responsibly performance of the company, and increased demand for transparency of how companies treat, for example, the surrounding environment or its employees. (White, 2015, p. 5). As a result, an increasing number of companies have begun to report their sustainability actions during the last 10 years (James, 2015).

## 1.1 Background

Sustainability reporting has also been brought to the fore by the European Union (EU). During the last decade the European Union has started to regulate sustainability reporting. In order to aid stakeholders of the companies to assess the companies' sustainability performance, the EU requires certain companies to provide information of the impacts of companies' operations on environment and people and describe company's the risk and opportunities regarding sustainability. (European Commission, n.d. -a)

In 2014, Non-Financial Reporting Directive (NFRD) entered into force to regulate sustainability reporting. NFRD has, however, been reviewed, and it has been identified that there are some challenges regarding its effectiveness (Directive 2022/2464). Moreover, NFRD concerns only certain large companies (Directive 2014/95). In order to specify and strengthen the requirements of sustainability reporting, in January 2023, a new European Union's Corporate Sustainability Reporting Directive (CSRD) came into force (European Commission, n.d. -a). Through this directive, the regulation for sustainability reporting will be strengthened, and sustainability reporting will also affect a larger group of companies than before. (European Commission, n.d. -a)

## **1.2 Research gap**

Most of the previous research regarding sustainability reporting has focused largely on the impacts of sustainability reporting and motivation for it. For example, Qian et al. (2020) studied those factors in the Indo-Pacific region and found that sustainability reporting is often driven by the normative or regulatory pressures by stakeholders' or reputational reasons than as an instrument in achieving for example economic benefits. The research by Prashar (2021), in turn, focused on the relationship between sustainability reporting and company's performance, and indicated that there is a connection between the level and quality of the sustainability reporting and some measures of the company's performance, such as market, accounting and operational based measures. Moreover, there is also previous research about sustainability reporting and companies' responses and impacts on Non-Financial Reporting Directive (NFRD), the current directive that is regulating sustainability reporting. For example, Esteban-Arrea & Garcia-Torea (2022) showed that companies not totally cover the social and environmental matters in their reports that they are required to report, and therefore highlights the need for the new directive that regulates the sustainability reporting more.

As Corporate Sustainability Reporting Directive (CSRD) is new, it provides a new perspective also for research and an opportunity to provide useful and novel insights regarding

the new regulation and its impacts. As stated, reporting will concern larger number of companies, and therefore, many companies must develop their reporting practices to be able to respond to the new requirements, and some companies must start to report about their sustainability for the first time due to the extended reporting obligation.

Additionally, this study provides a Finnish point of view to the topic by researching Finnish based companies. Country-specific perspective for this study is justified as the European Union Directives need to be incorporated to the national legislations (European Commission, n.d. -b) which is why the implementation of the directives can partly differ between the countries. However, this study will focus on companies which have internationalized, and thus, provide also perspective of internationally operating companies.

### **1.3 Research purpose, questions and objectives**

As stated, the new European Union Directive will change sustainability reporting, and it will affect a larger number of companies in the future (European Commission, n.d. -a). Therefore, this study aims to gain understanding of the current state of sustainability reporting in Finnish based, listed international companies that has not been required to report about their sustainability, and explore companies' perceptions of Corporate Sustainability Reporting Directive (CSRD) and their readiness to adopt it. Thus, the main research question of this study is:

How do listed international companies currently conduct sustainability reporting and what are their perceptions of Corporate Sustainability Reporting Directive (CSRD)?

Moreover, this study aims to answers the following sub-questions:

1. What are the current sustainability reporting practices of the listed international companies which have not been required to report about their sustainability previously?

2. Do listed international companies experience pressures from the stakeholders for sustainability reporting?
3. What kind of anticipated benefits and challenges do listed international companies experience or foresee in complying sustainability reporting with CSRD?

#### 1.4 Definitions of the key concepts

- **Corporate sustainability.** Sustainability can be defined as operating in a way that it will not compromise the future needs. Corporate sustainability consists of three principles: environmental, social and economic dimension. (Commission on Environment and Development, 1987; Bansal, 2005)
- **Corporate Social Responsibility (CSR).** Corporate Social Responsibility can be described as a concept in which company voluntarily considers the social and environmental matters in its operations and in stakeholder interaction (Commission of the European Communities, 2001, p. 6).
- **Sustainable Development Goals (SDGs).** In 2015, all United Nations (UN) Member States accepted the 2030 Agenda for Sustainable Development, and in the centre of the agenda are 17 set goals that are called Sustainable Development Goals (United Nations, n.d. -b).
- **Sustainability reporting.** Sustainability reporting aims to provide information about social, economic and environmental impacts of the company. It helps stakeholders to evaluate the companies' sustainability performance. (White, 2015, p. 13; European Commission, n.d. -a),
- **Corporate Sustainability Reporting Directive (CSRD).** CSRD is the new European Union Directive (2022/2464) for sustainability reporting which entered into force in January 2023. In consequence of CSRD, sustainability reporting will be more

regulated and concern now a larger number of companies than before. (European Commission, n.d. -a)

- **European Sustainability Reporting Standards (ESRS).** As part of CSRD, the European Union adopts common standards for sustainability reporting which all the companies which are affected by CSRD need to use in their reporting. (European Commission, 2023)

## 1.5 Structure of the study

The structure of the thesis is as follows. After the introduction, the next chapter is *literature review*. In this section, the relevant literature and research regarding the thesis topic is presented. This section discusses corporate sustainability and corporate social responsibility, including presenting Sustainable Development Goals. Finally, the background and evolution of sustainability reporting is discussed, and the new directive and standards are presented as well as the stakeholder approach to sustainability reporting.

The third chapter presents the *research design*. In this chapter, research approach and methodological choices are presented and justified. The case companies are also presented. Finally, trustworthiness of the study will be discussed and evaluated. After the research design, the *findings* of the research are presented and analyzed. Finally, in *conclusions* the key findings are summarized, and the research questions are answered. The theoretical contributions and managerial implications of the study are also discussed, as well as the limitations of the study, and suggestions for future research are provided.

## 2 Literature Review

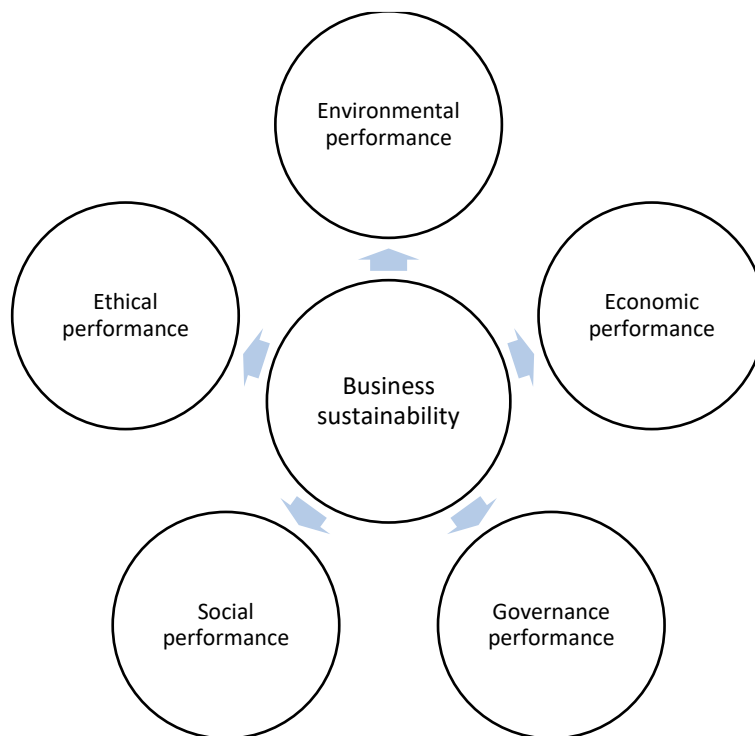
In this chapter, literature review and theoretical background of the research is created and presented. First, the concepts of Corporate Sustainability and Corporate Social Responsibility (CSR) are discussed, and United Nations Sustainable Development Goals are presented. Next, the background of sustainability reporting is discussed, including presenting the new Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS). Finally, sustainability reporting in international companies is discussed and the stakeholder theory is presented, and the theoretical framework formulated.

### 2.1 Corporate sustainability

In so called Brundtland report, the World Commission on Environment and Development (1987) defined sustainability as meeting *“the needs of the present without compromising the ability of future generations to meet their own needs”*. Similarly, as the definition by the World Commission on Environment, also Laine et al. (2021, p. 11) highlight the long-term perspective of sustainability by defining it simply *“to maintain to endure into long term”*.

One of the most commonly known approach to sustainability is the Triple Bottom Line (TBL) which was introduced by Elkington in 1998. The model consists of the three dimensions of sustainability: environmental, social and economic. The three dimensions are also known as three P's: People, Planet and Profit (Laine et al., 2021, p. 15; Gokten et al., 2020). According to White (2015, pp. 7-11) the economic dimension covers the financial effects that a company has, social dimension of sustainability considers the social impacts, for example on employees or communities, and finally environmental dimension covers the environmental impacts that companies' operations have. (White, 2015, pp. 7-11)

In context of business sustainability, Brocket & Rezaee (2012) present extension to the dimensions. The framework for business sustainability and accountability comprises of five dimension which are described in Figure 1. The five dimensions, also known as EGSEE, adds ethical and governance to earlier presented environmental, economic and social dimensions. This model describes the dimensions for business sustainability performance. Brocket & Rezaee (2012) notes that despite that enhancing economic performance is they key target for many businesses, the other dimensions must also be considered in order to ensure the value added for the stakeholders of the company. Nevertheless, in addition to profitability and possible competitive advantage, business sustainability contributes to the wellbeing of the whole society. (Brocket & Rezaee, 2012, pp. 14-15)



**Figure 1.** Five EGSEE dimensions of sustainability performance (Brocket & Rezaee, 2012, p. 15)

Furthermore, Brockett & Rezaee (2012, p. 5) have presented criteria for sustainable actions. According to them, if the following points are fulfilled, an operation can be considered sustainable:

1. It creates economic value
2. It is socially justified
3. It increases public wealth with proper mechanisms for its distribution
4. It is environmentally sound
5. It is complied with applicable laws, rules, and regulations
6. It is ethically conducted

## **2.2 Corporate Social Responsibility**

Commission of the European Communities (2001, p. 6) presents corporate social responsibility, also known as CSR, as *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”* However, perhaps one of the most common definitions for CSR is from Carroll’s (1979, p. 500), who states that *“the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”*.

There is voluntarism behind the concept of CSR. According to Brockett & Rezaee (2012, p. 148), in addition to applicable laws, rules and regulations, CSR encourage companies to operate in a manner that it increases the positive impacts of their operations and on the other hand, decrease the negative impacts that their operations and actions cause. Moreover, Brocket & Razaee (2012, p. 148) presents CSR as a process which aims to align company’s values, interests, activities, and decisions with the same factors of its stakeholders.

Porter & Kramer (2006, p. 80) also notes that by investigating the opportunities of CSR based on company's business and strategy rather than considered CSR something disconnected them, CSR can benefit both companies' competitive advantage and the society. Hence, when company operates socially responsible way, society benefits it but also by investigating the opportunities of CSR, company can, for example, develop its operations and create new innovations which can possibly become or contribute to the competitive advantage of the company. (Porter & Kramer, 2006, p. 80)

One of the commonly used theories for CSR is perhaps Carroll's (1991) pyramid which was introduced in 1991. The pyramid is illustrated in Figure 2. The pyramid consists of four parts which describes the responsibilities of the companies: philanthropic responsibilities, ethical responsibilities, legal responsibilities and economic responsibilities. The last one of these, economic responsibility, is the foundation that all the other parts rest. As the basic principle of business is to maximize the earnings per share, the company should be profitable. The next block is legal responsibilities. Companies are expected to follow the applicable laws and rules with their operations. (Carroll, 1991, pp. 40-42)

The top blocks are ethical responsibilities and philanthropic responsibilities. Ethical responsibilities consist of the moral and ethical norms that are not prohibited by laws but are still expected standards for behaviour towards stakeholders, such as consumers, employees or community. This ethical behaviour should be fair, just and respect. The top of the pyramid is philanthropic responsibilities. This part embodies being "*a good corporate citizen*". It includes the concrete actions by the corporate, such as goodwill or different programs to promote human welfare or some charity. (Carroll, 1991, pp. 41-42)



**Figure 2.** The Pyramid of Corporate Social Responsibility (Carroll, 1991)

### **2.3 Sustainable Development Goals (SDGs)**

According to United Nations (n.d. -b), in 2015, all United Nations Member States adopted Agenda 2030 for Sustainable Development, and as a part of the Agenda accepted achieving the 17 Sustainable Development Goals (SDGs) by 2030. The seventeen SDGs that were introduced in 2015 by United Nations (n.d. -a), are following:

- SDG 1. No poverty
- SDG 2. Zero hunger
- SDG 3. Good health and well-being
- SDG 4. Quality education
- SDG 5. Gender equality
- SDG 6. Clean water and sanitation
- SDG 7. Affordable and clean energy

- SDG 8. Decent work and economic growth
- SDG 9. Industry, innovation and infrastructure
- SDG 10. Reduced inequalities
- SDG 11. Sustainable cities and communities
- SDG 12. Responsible consumption and production
- SDG 13. Climate action
- SDG 14. Life below water
- SDG 15. Life on land
- SDG 16. Peace, justice, and strong institutions
- SDG 17. Partnerships for the goals.

These goals do not legally bind governments, but they are, however, expected to establish national frameworks and commit in achieving these goals by 2030. Also, the evaluation and review of the progression in implementing these goals is each country's responsibility. (United Nations, n.d. -b)

An increasing number of companies have integrated SDGs into their operations. The study conducted by PwC (2015) indicates that already in 2015, 71% of businesses had started to plan how to engage with SDGs and 13% had already recognized the needed tools to be able to evaluate their impacts against SDGs. 41% stated that SDGs will be embedded in the strategy of the company and their way of doing business. From the perspective of the citizens, according to the study, up to 90% found that it is important that companies commit to SDGs and, furthermore, 78% of the citizens stated that they would prefer to purchase goods or services from the companies that are engaged to SDGs. (PwC, 2015)

## **2.4 Sustainability reporting**

According to European Commission (n.d. -a), sustainability reporting aids stakeholders of the companies, such as investors and consumers, to assess the companies'

sustainability performance. Sustainability reporting provides information about environmental, social and economic impacts of the company or organization (White, 2015, p. 13). While it is not legally required in many countries (White, 2015, p. 19), still many organizations have started to report about their sustainability.

According to United Nations Environment Programme (2019, p. 13), despite there is not commonly agreed definition for sustainability reporting, it is generally described as *“being the practice of measuring and disclosing sustainability information alongside, or integrated with, companies’ existing reporting practices”*. United Nations Environment Programme (2019, p. 13) also notes that sustainability reporting is not only a summary of sustainability related data, as it is rather a process in which sustainability related data is evaluated and analyzed, and also utilized in incorporating and improving a company’s engagement to sustainability, and finally formed in a way that stakeholders, both internal and external, can review it. Additionally, according to Lai & Stacchezzini (2021, p. 406), sustainability reporting has increasingly holistic perspective as in addition to being transparent and communicate about company’s sustainable performance, it is about communicating how company has implanted the sustainability within its vision and governance, and thus informing about its strategy and sustaining financial performance.

#### **2.4.1 Background of sustainability reporting**

Gokten et al. (2020) divide historical development of sustainability reporting into four periods which are pre-standardization period, standardization period and post-standardization period. Pre-standardization period consists of root period, theoretical preparation period, and period of emergence. Root period, and thus, the roots of sustainability reporting trace back to years from 1962 to 1979, when awareness regarding social-environmental issues and discussion related to the connection between economic development and environment began to rise, and the first studies related to these issues were published. During the theoretical period between 1980 and 1988 remarkable reports regarding sustainability were published, such as earlier mentioned Burtland report by

World Commission on Environment and Development. The report was published in 1987, and it established the theoretical framework and acknowledge for sustainable development as a concept and pointed out the need also for sustainability reporting. The last period of pre-standardization is the period of emergence which lasted until 1998. During this period, for example Triple Bottom Line (TBL) model was introduced by Elkington (1998). Also, environmental accounting as a concept was the first tool developed for sustainability reporting, and subsequently, need for a reporting framework which includes also economic and social impacts in addition to environmental, was accentuated by GRI (Global Reporting Initiative) steering committee. (Gokten et al., 2020)

During standardization period, which started in 1999, many sustainability reporting institutions were developed, and it is therefore called institutionalization period. During this period also GRI standards for sustainability reporting were established, and they offered a framework for sustainability reporting. The standards contribute to the comparability, ensure the quality of the reporting, and as a result, lead to better transparency and accountability of the companies. Additionally, the first European Union Directive that regulates sustainability reporting came into force during institutionalization period. During this period United Nations Sustainable Development Goals were also identified. (Gokten et al., 2020)

This first directive 2014/95/EU is called Non-Financial Reporting Directive (NFRD), and it came into force in 2014. NFRD, however, concerns only large, public interest companies with more than 500 employees. Public interest companies encompass listed companies, credit institutions, insurance companies and some other companies that national authorities have designated as public interest entities. (Directive 2014/95)

According to NFRD (2014/95) companies must provide a review of their business model, policies, primary risks, outcomes, and key performance indicators (KPIs), which includes environmental matters, social and employee aspects, respect for human rights, and bribery and anti-corruption issues. In case company lacks policy in some of these areas, it

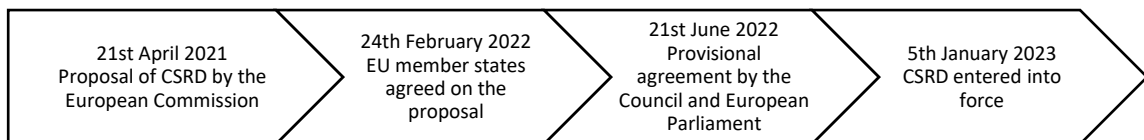
should provide explanation for reason why not. Moreover, NFRD requires companies to report about the policy regarding the diversity of their board of directors. (Directive 2014/95)

#### **2.4.2 Corporate Sustainability Reporting Directive (CSRD)**

However, in order to strengthen the commitment of the European Union to tackle the challenges related to environment and climate, in December 2019, the European Union unveiled the European Green Deal (European Commission, 2019, p. 2). The Green Deal is the new growth strategy of the European Union which aims to *“transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use”* (European Commission, 2019, p. 2). Moreover, its objective is also to *“protect, conserve and enhance the EU's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts”* (European Commission, 2019, p. 2). The Green Deal has also an important role in the strategy of implementing the United Nation’s 2030 Agenda and the Sustainable Development Goals (European Commission, 2019, p. 2). As a part of the Green Deal, it was committed to re-consider the provisions regarding the non-financial reporting (Directive 2022/2464).

According to directive 2022/2464, there are some challenges regarding the effectiveness of NFRD. There is evidence indicating that many companies do not unveil all the essential information regarding sustainability, such as greenhouse gas emissions or biodiversity related issues. Moreover, it has been pointed out that there have been issues in the comparability and reliability of the disclosed sustainability information. Therefore, it is distinct that there was a need to re-consider the requirements and create a reporting framework with efficient auditing procedures in order to guarantee the data reliability and prevent double counting and greenwashing. (Directive 2022/2464)

As a result, the new directive, so called Corporate Sustainability Reporting Directive (CSRD), entered into force in January 2023 and will replace NFRD (European Commission, n.d. -a). A timeline for the process of CSRD is presented in Figure 3. According to Council of the European Union (2022), 21<sup>st</sup> April 2021, the proposal of CSRD was introduced by the European Commission, which was agreed by the European Member States in February 2022. Four months later, in June 2022, a temporary agreement regarding the directive was made by the Council and the European Parliament, and it was endorsed and approved by the representatives of the European Union member states at the end of June 2022. (Council of the European Union, 2022). Finally, as mentioned, 5<sup>th</sup> January 2023 CSRD entered into force. (European Commission, n.d. -a)

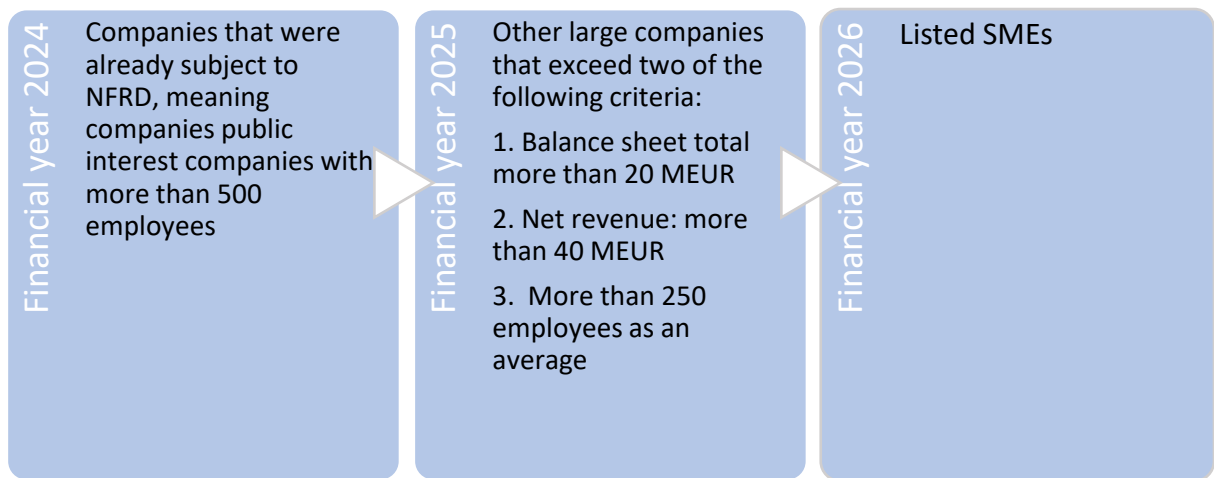


**Figure 3.** Timeline for CSRD (European Commission, n.d. -a; Council of the European Union, 2022)

Due to the CSRD, sustainability reporting concerns now a larger number of companies than before and regulate the reporting more. (European Commission, n.d. -a) While NFRD concerned approximately 11 700 companies in EU, CSRD requires nearly 50 000 companies to report on their sustainability, including listed SMEs in addition to large companies and public interest companies that NFRD already regulated. (European Commission n.d. -a; Ecobio Manager, n.d. -a)

CSRD will impact companies gradually as presented in Figure 4. The first companies that CSRD concern will have to apply the new rules in 2024 and the first reports following this directive will have to be published in 2025. These companies included the companies

that were already subject to NFRD, which means large, public interest companies, which employ more than 500 employees. After this, in 2025 CSRD must be implemented in other large companies, and the first reports according to CSRD must be published in 2026. Finally, in the financial year 2026 listed SMEs must apply CSRD into practice and publish their first sustainability reports according to CSRD in 2027. (European Commission, n.d. -a; Deloitte, 2022)



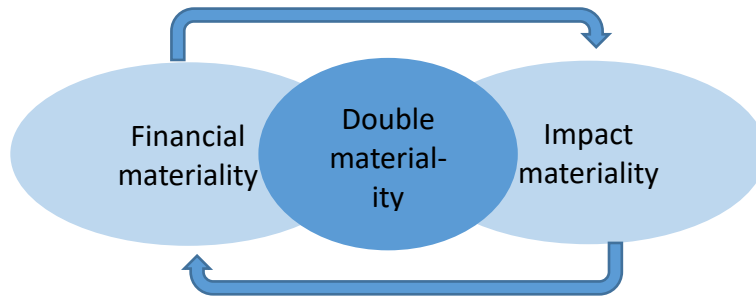
**Figure 4.** CSRD timeline for companies (Deloitte, 2022; Niskala & Palmuaro, 2023, p. 33)

As stated, CSRD regulates sustainability reports more than NFRD. CSRD has four main principles which are:

1. Double materiality
2. Value chain
3. Due diligence
4. Time horizons of the reporting (Niskala & Palmuaro, 2023; Directive 2022/2464)

Double materiality is one of the main principles of CSRD and the basis for the reporting. Materiality assessment itself is a one of key tools that is used to assess the relevance of

a sustainability topic for a company, as it helps company to determine what to focus on in sustainability reporting (Taubken & Feld, 2018). It evaluates the *“impacts, risks and opportunities to be reported”* (Commission Delegated Regulation, 2023/2772). Double materiality gives a broader aspect by including two dimensions: financial materiality and impact materiality, and with two-way aspect, meaning that it covers both sustainability impacts which are coming inside the company (inside-out) and impacts that comes outside of the company (outside-in) (Niskala & Palmuaro, 2023, pp. 47-48). Double materiality is illustrated in Figure 5.



**Figure 5.** Double materiality (adapted Niskala & Palmuaro, 2023, p. 48; EFRAG, 2024).

According to the Directive 2022/2464, the companies that CSRD regulates, are required to provide *“information necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position”*. In order to fulfill this requirement, according to article 19a (Directive 2022/2464) CSRD, the information should include a short description of the business model and strategy. This description should disclose also the company’s opportunities and resilience to the risks related to sustainability matters. The company must also present plans in order to ensure that the business model and strategy are aligned with the transition to a sustainable economy. This should include implementation actions, and financial and investment plans related to these issues. Plans should also be aligned with the goals of limiting global warming to

1,5 °C and achieving climate neutrality by 2030, and when necessary, companies also need to disclose possible operations related to coal, oil or gas. The company should also demonstrate how stakeholders' interests and the impacts of the company on sustainability matters are considered in business model and strategy, and finally, how strategy has been implemented related to sustainability. (Directive 2022/2464; Niskala & Palmuaro, 2023, pp. 33-34)

The information must also include the descriptions of the objectives that the company has set for sustainable development. The targets should be time-bound. Additionally, when relevant, this description should include targets to reduce greenhouse gas emissions by 2030 and 2050, and a report of the progression of achieving these targets. The company must also provide an explanation whether these set targets are based on scientific evidence. (Directive 2022/2464)

The description should also describe the role and knowledge of management, administrative and supervisory bodies in sustainability related matters and also express the possible of incentive programs linked to sustainability related matters for the members of the mentioned bodies. The information should also present the company's policies regarding sustainability. (Directive 2022/2464)

The implemented due diligence process regarding sustainability should also be included in the information provided. The information about the most notable adverse impact of the company's own operations and its value chain should be presented as well as the actions made to prevent, reduce, remediate or eliminate reported either actual or potential adverse impacts, and also the results if these kinds of actions are made. The company must also report on the primary risks that there are related to sustainability matters, and also it must also provide a description of how these risks are managed. (Directive 2022/2464)

According to article 19a (Directive 2022/2464) the information mentioned above must also include the relevant indicators regarding the information provided. The company needs to also present the process which describes how the information that is required according to article 19a of the Directive 2022/2464 has been identified. The information that is provided should also include applicable time horizons, meaning short- (typically 1 year), medium- (typically 5 years) and long-term (more than 5 years) time horizons. All the information mentioned should be provided about both, company's own and its value chain, including for example products and services and its supply chain. (Directive 2022/2464; Niskala & Palmuaro, 2023, pp. 48-49)

Due to CSRD, the report must be published as a separate section in the annual management report. Additionally, as a new aspect, CSRD also regulates the format of the report and requires an electronic reporting format while NFRD does not regulate the format of the report (Directive 2022/2464). Another major change is in auditing, meaning that CSRD requires an external, third party to audit for the information provided (Niskala & Palmuaro, 2023, p. 44).

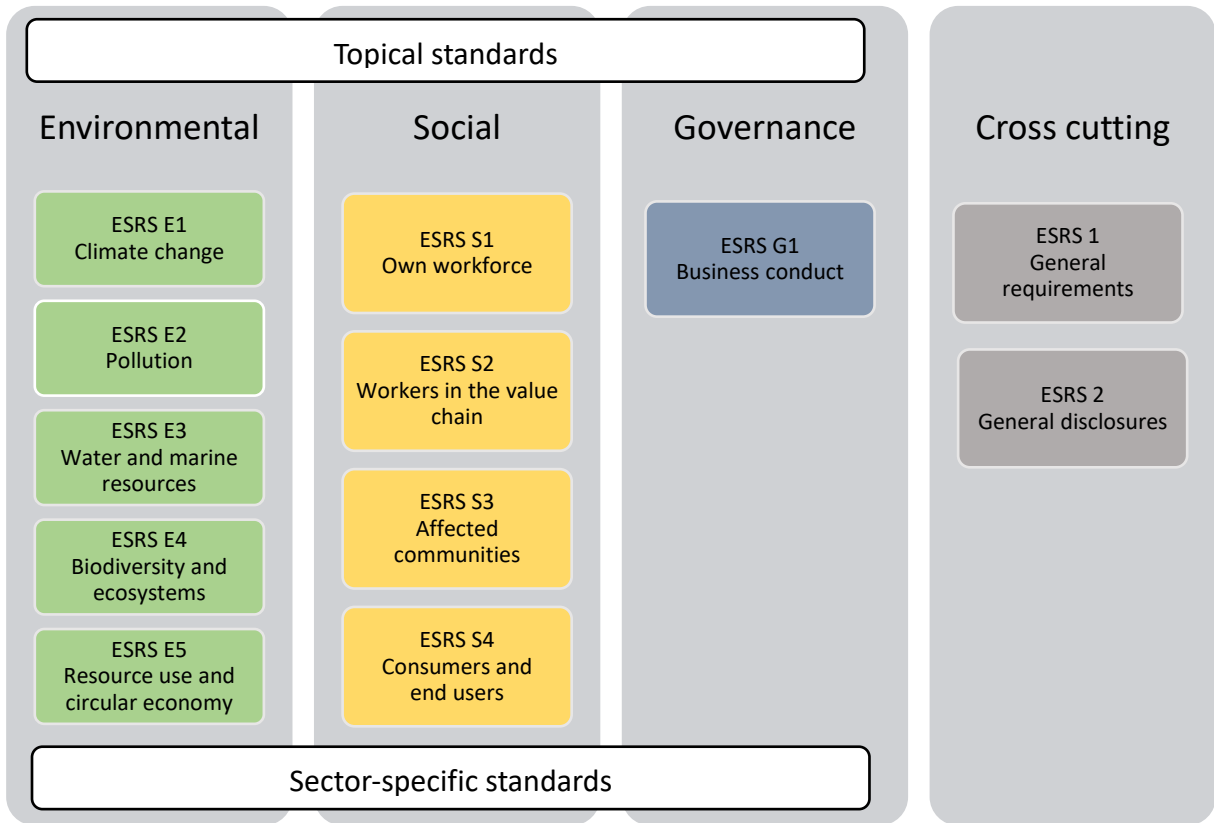
### **2.4.3 European Sustainability Reporting Standards (ESRS)**

As mentioned, even though sustainability has been already before CSRD mandatory to some of the companies, it has been noted that not all important information has not been provided by companies (European Commission, 2023). Therefore, as part of CSRD, the European Union also adopted European Sustainability Reporting Standards (ESRS) which all the companies which are affected by CSRD need to use in their reporting. ESRS aims to aid companies to manage and communicate about their sustainability performance, and thereby also to offer stakeholders, such as investors, more comparable and reliable information. (European Commission, 2023)

ESRS are developed based on the draft by EFRAG, which is an independent advisory body which is mainly funded by the European Union, which was made in 2022. Draft was

created in close collaborations with multiple parties, such as companies, investors and trade unions. (European Commission, 2023)

ESRS consists of three groups topical standards, cross cutting standards and sector-specific standards (Commission Delegated Regulation, 2023/2772). In Figure 6, the standards are presented. ESRS consists of 12 standards divided into four groups: environmental, social, governance which formulates topical standards, and cross cutting standards. Environmental standards include five standards: ESRS E1 Climate Change, ESRS E2 Pollution, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems, and lastly, ESRS E5 Resource use and circular economy. The social group consists of four standards: ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end users. Governance has one standard, ESRS G1 Business conduct. The last one group, cross cutting standards, includes ESRS 1 General requirements and ESRS 2 General disclosures which, as the name implies, cross cutting standards for all aspects. Moreover, the sector-specific standards are multi-topical and all the companies in the certain sector must apply them. Each standard contains various number of different data points to be reported. Sustainability reports should include all the information required in ESRS standards. (Commission Delegated Regulation, 2023/2772; Niskala & Palmuaro, 2023, pp. 59, 62-63)



**Figure 6.** European Sustainability Reporting Standards (ESRS) (Ramboll 2023; Commission Delegated Regulation, 2023/2772)

#### 2.4.4 Sustainability reporting in international companies

It must be noted that previously discussed sustainability reporting regulation are set by European Union, and thus, is not globally binding. However, strengthening the regulation of providing sustainability related information has been also on the agenda in other regions. For example, in The U.S. Securities and Exchange Commission (SEC) adopted in 2024 new the regulation for climate-related disclosures with similar aims as CSRD: to provide stakeholders, especially investors, more reliable and comparable information (U.S. Securities and Exchange Commission, 2024).

According to the study conducted by KMPG (2022), in 2022, 79 percent of the N100 companies reported their sustainability. N100 companies refers to the sample of 5 800

companies consisting of 100 top companies based on the revenue from 58 countries (KMPG, 2022). In turn, in 2023, KPMG (2023) published a study which examined the current state of sustainability reporting in Finland. The results showed that in 2023, 81 percent of the companies (54 responses) conducted sustainability reporting at some level.

However, this thesis focuses on Finnish based companies that have internationalized. When considering internationalized companies that operate also in foreign markets, there are some characteristics which might challenge the companies. Zahra (2005, p. 23) has identified, for example, liability of foreignness, for companies working in international markets. Liability of foreignness means that companies have to make an effort to build up connections with stakeholders in the foreign market, such as suppliers and customers (Zahra 2005, p. 23). This liability can be caused by, for example, insufficient understanding of the country, and differences in culture and business-practices, and can lead to higher operative costs and challenge the company's performance in the host country market where company, for example, have a subsidiary (Zhang & Jiang, 2021, p. 1). Foreignness can also challenge companies in global value chain management. Companies which have global value chains can experience challenges in monitoring and ensuring environmental and social standards in their global value chains which can be caused by, for example, cultural distances (Knoll & Jastram, 2021).

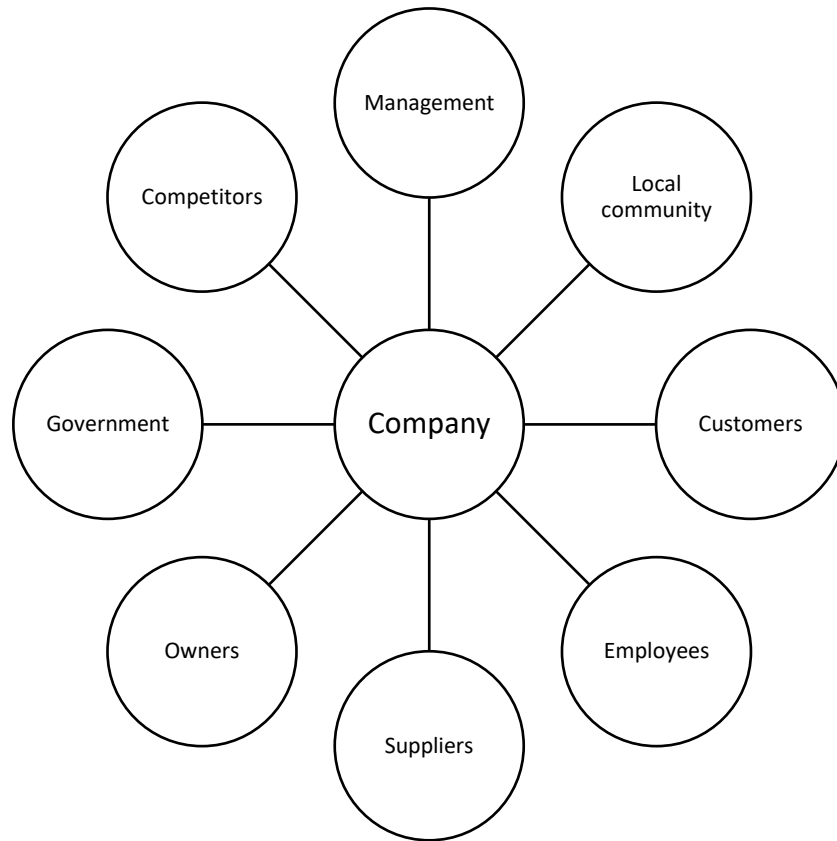
However, in relation to context of CSR, Zhang & Jiang (2021) showed in their study that responsible operations and fulfilling CSR can actually aid companies in overcoming the liability of foreignness. The study also indicated that there is a connection between the parent company's organizational reputation, which CSR can contribute to, can also aid in overcoming liability of foreignness in subsidiaries (Zhang & Jiang, 2021). This can be considered to support also publishing sustainability reports in order to disclose information about the company's responsible operations and CSR.

#### 2.4.5 Stakeholder theory

As stated, stakeholders' perspective is in central role in sustainability reporting. Herremans, et al. (2014, p. 417) also states that *"the concept of sustainability was developed in response to stakeholder demands"*. In the previous study, it has also been identified that stakeholders' pressures can be a motivational reason for sustainability reporting (Qian et al., 2020). Therefore, sustainability reporting is often, as also in this study, approached from the stakeholders' perspective.

*"Stakeholder"* as a term was first introduced in management literature in 1963 at Stanford Research Institute. Originally, the term was used to describe the groups that organization would not exist without; employees, customers, suppliers, shareowners, lenders and society (Freeman 1984, pp. 31-32). Freeman (1984, p. 46) broadened the definition to be: *"A stakeholder in an organization is (by definition) any group or individual who can affect of is affected by the achievement of the organization's objectives."* Stakeholders are vitally important in the success of a company. (Freeman, 1984, p. 25). However, White (2015, p. 7) noted that company can impact on its stakeholder can be either positively or negatively.

Freeman (1998) has identified the stakeholders of a typical large company, which are presented in Figure 7. These stakeholders are management, local community, customers, employees, suppliers, and owners. In the extended theory, also government and competitors are included, and therefore also included in Figure 7 which illustrates the stakeholders of the company. (Freeman, 1998)



**Figure 7.** Stakeholders of a company (adapted Freeman, 1998)

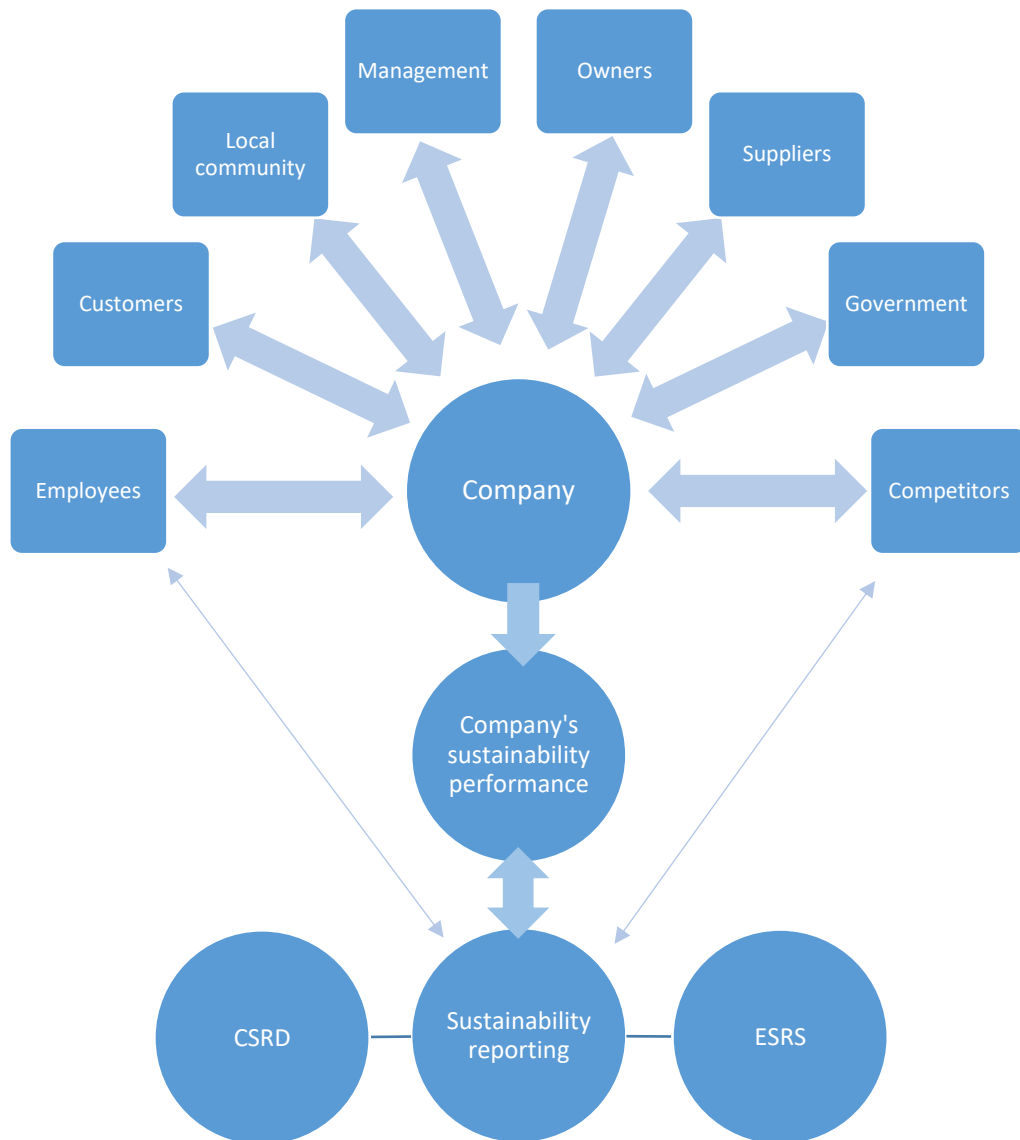
Stakeholder theory is the most commonly used approach to research related to social, environmental, and sustainability management (Hörisch, Freeman & Schaltegger, 2016). Freeman (1984) suggests the stakeholder approach to enrich the way organizations and business organizations are thought. Stakeholder theory highlights the meaning of the company values and encourages companies to consider how they want to do business and what kind of relationships they want and need in order to achieve its purpose. The company should gain understanding of each stakeholder group. It is important for the company to understand what the key questions are for each group and what their willingness is, for example, to either help or hurt the company. (Freeman, Wicks & Parmar, 2004, p. 364; Freeman, 1984, p. 26)

## 2.5 Theoretical framework

Based on the presented literature, theoretical framework for this is created and illustrated in the Figure 8. The figure describes the connections between the concepts presented in literature review.

As discussed, company impacts on its stakeholders, such as employees, customers, local community, management, owners, suppliers, government and competitors (Freeman, 1984). However, as Freeman (1984) suggests, the connection is two-way: company impact on its stakeholder, but also the stakeholders have impacts on the company. According to European Commission (n.d. -a), the purpose of sustainability reporting is to help stakeholders to assess the sustainability performance of the companies, and stakeholders' pressures can also be a driver for company to report about their sustainability (Qian et al., 2020). Therefore, there is a connection between stakeholders and sustainability reporting. This connection is also described two-way, as stakeholders also have expectations for sustainability reporting.

Due to CSRD, sustainability reporting will be more regulated and common standards (ESRS) guides the reporting (European Commission, 2023). The new requirements for the sustainability reporting can, in turn, impact on the company's sustainability performance: as the directive force the companies to focus on sustainability even more as requiring the companies to report about it, it can lead to better sustainability performance. Therefore, the arrow is illustrated two-way between sustainability reporting and company's sustainability performance.



**Figure 8.** Connections between the concepts

### **3 Research design**

Research design is a plan of how the research questions will be answered, including data collection methods and discussion about the limitations that the study has (Saunders, 2007, p. 131). In this chapter, the research design of the study is presented. First, a research approach is discussed, after which background and justification for the methodological choices are discussed. Finally, case companies and analysis methods are presented, and trustworthiness of the study is discussed.

#### **3.1 Research approach**

There are several ways to approach the research. Approaches are often presented as deductive, Inductive and abductive approaches (Saunders et al., 2023, pp. 154-155). While deductive approach tests the developed theory and hypothesis with the designed research strategy, inductive approach is based on first collecting and analyzing the data after which theory is developed as a result of the analysis. Abductive approach combines deductive and inductive approaches. When utilizing abductive approach, the data is gathered in order to examine the phenomenon, clarify patterns and identify themes, and either existing theory can be tested and modified, or a new theory can be created. (Saunders et al., 2023, pp. 154-155) Thus, the approach to this study is abductive.

Research are commonly divided into exploratory, descriptive and explanatory by its purpose. Exploratory study is especially beneficial when aiming to gain clearer and more in-depth understanding of the problem. Descriptive research aims to describe, for example, events precisely. In descriptive study, it is essential to have a comprehensive view of the phenomena before collecting the data. Finally, explanatory research aims to study problems to be able to explain the causal relationships between different variables. (Saunders et al., 2007, pp. 133-134)

As this research aims to gain understanding of the current status of sustainability reporting in listed companies that have not been required to report about their sustainability and impacts and anticipated benefits and challenges when complying reporting with CSRD, the study can be called exploratory. The three main ways to conduct exploratory research are searching for the relevant literature, interviewing the experts of the topic, and conducting focus group interviews (Saunders et al., 2007, p. 133). The first two of these are also conducted in this research.

### **3.2 Research methodology**

Research methodologies are divided into qualitative and quantitative methods to collect and analyze data. While quantitative refers to numeric data, qualitative data is non-numerical data. Data collection methods for quantitative data can be, for example, questionnaires which can be analyzed by using graphs or statistics. Qualitative data instead can be collected for example through interviews and analyzed by categorizing the data, which generates non-numerical data. (Saunders et al., 2007, p. 145)

While quantitative research often aims to testing formulated hypothesis and statistical analysis, qualitative research aims to explain and gain understanding of issues and phenomena related to business, and provide novel knowledge, for example, of how things and people actually work in real life (Eriksson & Kovalainen, 2015, pp. 3-5). As the objective of this research is to study the current status of sustainability reporting, and benefits and possible challenges that companies can face when conducting reports with complying the new Corporate Sustainability Directive (CSRD), the qualitative approach is chosen instead of quantitative.

There are also different research strategies such as survey, experiment, case study, grounded theory, action research and ethnography, and those can be also combined (Saunders, 2007, p. 135). The research strategy should be selected based on the research objectives and research questions and as it should enable the researcher to answer the

research questions and achieve the objectives (Saunders, 2007, p. 135). This research is conducted as a case study. Saunders (2007, p. 139) states that case study is a suitable strategy when the study aims to answer questions 'how' or 'why' in addition to 'what'. According to Gray (2021, p. 287), it is characteristics for case studies that they do not only aim to describe a situation but rather the causal relationships. Hence, case study is beneficial especially when aim is to examine "*a relationship between a phenomenon and the context in which it is occurring*" (Gray, 2021, p. 287).

A case study can be conducted either as a single case study or multiple case study (Saunders, 2007, p. 140). This research is conducted as a multiple case study meaning that there is more than one case company. Unlike single case study, the results of multiple case study enable also some level of generalization of the results (Saunders, 2007, p. 140). When it comes to the data collection, multiple sources of evidence are required when utilizing case study as method (Gray, 2021, p. 287). Data collection methods of this study are presented in the next section.

### **3.3 Data collection**

As stated, qualitative data can be acquired in various ways, for example, through interviews, observations or digital, textual or visual materials (Eriksson & Kovalainen, 2015, p. 83). According to Hirsjärvi et al. (2009, p. 205) interviews are the most common data collection method for qualitative research. Compared to other data collection methods, an advantage of interviews is its flexibility. Interviews allow the interviewer to adapt to the flow of interview, and, depending on the interview method, for example change the order of the selected themes or questions during the interview. Another benefit of the interview as a data collection method is the possibility to deepen the information provided by the interviewee by asking additional questions if needed. (Hirsjärvi et al., 2009, p. 205)

In this study, semi-structured interviews were conducted for the data collection. Semi-structured interview is an interview method which combines unstructured, also known as open interview, and structured interview (Hirsjärvi et al., 2009, pp. 208-209). In structured interviews the questions and their order are decided in advance and same for all interviewees, and also the answer options are decided beforehand (Puusa & Juuti, 2020). Therefore, semi-structured interviews can be considered more flexible and can provide information and insights the interviewer would not have been taken into account while preparing for the interview. The advantage of semi-structured interviews is also that it enables for interviewer the insight of the interviewees on the central and pre-defined topics in their research, but as expressed by each interviewee themselves. (Puusa & Juuti, 2020)

The interview questions were formulated based on the research questions. The interview guide is presented in Appendix 1. The interview guide included 9 main questions, yet many of the questions included clarifying questions depending on the answer to the main question. The questions combined both open-ended and closed questions. Questions were divided into 3 sections. Questions 1-2 were background questions, questions 3-6 focus on company's current sustainability reporting practices, and questions 7-9 addressed CSRD. The last question was an additional question for interviewee to add any additional information that other questions did not cover.

Moreover, as stated, case studies require data from multiple sources. Therefore, secondary data was also used for this study, which means that the data already exists (Eriksson & Kovalainen, 2015, p. 82). In this study, the secondary data used includes the information that the case companies have published on their websites, for example general information about the company and their sustainability, and published sustainability reports.

### 3.4 Case companies

This study focuses on four case companies. The criteria for the case companies were the following. The thesis focuses on those listed companies that have not been required by NFRD to report their sustainability. Therefore, companies should not employ more than 500 employees (Directive 2014/95). However, two of the following criteria should fulfill in order the company to be required to start report according to CSRD in its second phase (Deloitte, 2022; Niskala & Palmuaro, 2023, p. 33):

- Balance sheet total more than 20 MEUR
- Net revenue more than 40 MEUR
- More than 250 employees as an average

Additionally, the companies should be based in Finland. This limitation is made as countries can apply and implement EU directives differently to their legislations. Secondly, companies should have been internationalized and have operations or sales outside of Finland.

In Table 1 the case companies and the details regarding the interviews are presented. The interviewees were found either from the companies' website or via LinkedIn and they were contacted directly via email and/or phone. Interviewees work in different sustainability positions as directors, advisors or similar, and work closely with sustainability reporting in their roles. The interviews were held between 27<sup>th</sup> September and 16<sup>th</sup> October 2024. All interviews were held via Microsoft Teams, and the lengths of the interviews varied between 35 and 56 minutes. The case companies are presented in more detail in Chapter 4, yet in general level as the companies are treated anonymously in this study.

**Table 1.** Details of the interviews

<b>Company</b>	<b>Reference used for the interviewee</b>	<b>Date of the interview</b>	<b>Channel</b>	<b>Length of the interview</b>	<b>Transcribed pages</b>
Case company A	Interviewee 1	27.9.2024	Microsoft Teams	56 min	31 pages
Case company B	Interviewee 2	30.9.2024	Microsoft Teams	37 min	26 pages
Case company C	Interviewee 3	3.10.2024	Microsoft Teams	35 min	22 pages
Case company D	Interviewee 4	16.10.2024	Microsoft Teams	50 min	38 pages

### 3.5 Data analysis

Content analysis is generally known method for data analysis in qualitative research. In content analysis, that research data is analyzed, for example, by categorizing or coding by themes (Tuomi & Sarajärvi, 2018). In this study, notes were made during the interviews and moreover, all interviews were recorded and transcribed by using Microsoft Teams transcription tool to aid in analysis. After this, the transcribed interview data was categorized by themes by using colour codes and notes, which helped in analyzing the data, as well as identifying similarities.

First, transcribed interview data was divided into main themes which were 1) current sustainability reporting and 2) preparation for CSRD. After this, transcripts were colour coded and categorized sub-themes. *Current sustainability reporting* was divided into driver for sustainability reporting, current reporting practices, stakeholders' expectations, and benefits of the possible reporting. *Preparation for CSRD* was divided into actions taken, anticipated challenges, and foreseen benefits. Additionally, all other interesting information was highlighted. Moreover, secondary data, such as companies' current sustainability reports and other information on their websites, was combined with the interview data when the analysis was made.

### **3.6 Trustworthiness of the study**

Evaluating the trustworthiness of the study is a central aspect when discussing the quality of the research. Trustworthiness of the study can be assessed by credibility, transferability, dependability, and confirmability which are the criteria set by Lincoln & Guba (1985). According to Lincoln & Guba (1985, p. 301), credibility of the search is ensured by prolonged engagement, triangulation and persistent observation. In this study, multiple data sources are utilized; the research data consists of interviews and secondary data. Transferability, instead, describes to what extent the findings can be applied to other times or contexts (Lincoln & Guba, 1985, p. 316; Drisko, 2024). The transferability of this study is limited to the similar companies as the case companies; Finnish based, listed international companies which employs less than 500 employees. Dependability stands for replicability and consistency of the research and can be achieved through documentation to ensure the quality (Lincoln & Guba, 1985, pp. 316-317; Kakar et al., 2023, p. 157). In this study, the process for the data collection and analysis are explained and the interviews were transcribed to contribute to the dependability. Finally, confirmability describes the level of neutrality, and it can be ensured by confirmability audit, triangulation and with reflexive journal (Lincoln & Guba, 1985, pp. 318-319; Kakar et al., 2023, pp. 159-160). The author and interviewees of this study did not know each other in advance,

and the interviews were performed according to the pre-formed interview guide which aids confirmability.

Furthermore, Tuomi & Sarajärvi (2018) suggest considering the following list to help to evaluate the trustworthiness of a qualitative research: object and purpose of the study, commitment of the author of the study, data collection, informants of the study and the relation between author and informants, data analysis, and trustworthiness and ethicalness of the research report. (Tuomi & Sarajärvi, 2018)

In this study, the object of the research was to study the current sustainability reporting practices of the companies that are not required to report about their sustainability, and gain understanding of the perceptions of CSRD. The data collection was conducted as semi-structured interviews. It must be noted that as Hirsjärvi et al. (2009, pp. 205-206) states, that when utilizing interviews as a data collection method, the reliability of the interviews might be impaired if there are error sources which can be caused either the interviewer or interviewee. Interviewees might also understand the questions differently, which may have an impact on the results. To mitigate this, the interview questions were sent to interviewees in advance in order for the interviewees to be able to prepare for the interview. In the data analysis, also secondary was utilized. In this research report it has been endeavored to provide sufficient information of the execution of the research in order the report to be clear, understandable and coherent.

## 4 Findings

In this chapter, the findings of the study are presented. The section is structured as follows. First, each case company and the findings from the interviews combined with the secondary data are presented company by company. Each case company's findings are divided into two sections: current sustainability reporting and preparation for CSRD. After this, the cross-company analysis is presented and discussed in relation with the theoretical background.

### 4.1 Case Company A

Case company A is a Finnish based company which operates in forest industry. At the moment company's main market area is the Nordic countries, yet it is selling across the world through its re-seller network. In 2023, Case company A employed approximately 400 employees and had revenue less than 100 million euros. (Case Company A, 2024a; Case Company A, n.d.)

#### 4.1.1 Current sustainability reporting

As Case company A employs less than 500 employees, it has not been subject to NFRD, and therefore it has not been required to report about its sustainability. Nevertheless, company has published sustainability reports as a separate publication over ten years. The reports are published on the company's web pages. (Interviewee 1, 2024; Case company A, n.d.).

At the beginning, the idea and motivation for the sustainability reporting raised internally in the company from the observations that they are telling only a little about sustainability on their website, as Interviewee 1 (2024) described: *"We have had quality and environmental system certificates on the wall already since the 90s, so we started to think*

*that we disclose very little about our environmental actions, and what we do from the perspective of the environmental system.”* Also, the interest from the customers contributed to the decision to start the sustainability reporting. Case company A also involved their stakeholders when preparing for the sustainability reporting, but at least among customers it was shown that the interest was rather towards the social part of the sustainability: *“Then we started to ask from our customers that which environmental matters they would be interested, and what we should tell on our webpages. The answer was, however, that it is good that you have environmental system, but at least back then customers were not that interested about it. At the time customers seemed to be more interested in the social aspect of the sustainability.* (Interviewee 1, 2024) It must, however, be noted that at the time sustainability was not generally in similar focus as it is today.

The work towards sustainability reporting started with an external consultant to aid in social responsibility and generally sustainability related matters and questions. Moreover, code of conduct was created and overall consideration regarding approach to sustainability reporting was made. In the very beginning, Case company A became also a part of Global Compact. As a result of being part UN Global compact, the company has followed Global Reporting Initiative (GRI) already from the start, and also as at the time there was not many models for sustainability reporting. Moreover, due to being part of UN Global Compact Case company A is also committed Agenda 2030 Sustainable Development Goals. (Interviewee 1, 2024; Case company A, 2024b)

Case company A has experienced some demands and pressures for the sustainability and reporting about it from its stakeholders, such as customers, which was also stood out in the beginning when the reporting was about to start. Different customers might also ask very detailed reports about specific matters, and also when negotiating about the frame agreements, sustainability related expectations have also an important role as the interviewee noted: *“For example, discussion rounds of the frame agreements are currently ongoing, and there are a lot of expectations and requirements for sustainability and environmental issues and missions, and these also comes from the fact that European*

*directives set requirements for the development of tendering legislation.”* (Interviewee 1, 2024)

However, when it comes to demands from the stakeholders, Interviewee 1 (2024) have not identified major differences between different countries even though the company have sales outside of Finland too. Interviewee 1 (2024) expressed, that there has been more variation between customers than between countries: *“I would say that there is a wide range of requirement level, and I would rather say so that there is already a greater dispersion per customer than there is per country.”* (Interviewee 1, 2024)

In its sustainability report, Case company A (2024b) has listed fairly broadly different stakeholders and their expectations for the sustainability. Company lists expectations, for example, from customers, suppliers, personnel, and investors, as well as actions taken in the company to respond these expectations. For example, customers expect information related to the quality and materials of the products, compliance with European standards and carbon footprint, and third-party verification of the products' environmental impact as well as sustainability and compliance, to mention some of the expectations. Personnel expects career development opportunities and stability of employment. Suppliers, instead, values trust and stable development, clarification of changing market expectations and clear communication of the sustainable procurement principles. For investors, stable development and risk management are expected in addition to the business being profitable and able to pay dividends. (Case Company A, 2024b)

Case company A has also perceived remarkable benefits of the sustainability reporting. The company has received feedback that its stakeholders appreciate sustainability reporting. Moreover, the reporting or some specific sustainability certificate might have been even the prerequisite for some customers to choose Case company A. Interviewee 1 (2024) stated *“We see that the customers value it [sustainability report] and we have received the feedback many times that that is why they ended up with us, as we have a specific sustainability certificate, or we have sustainability reports or some*

*environmental certificate*". Thus, sustainability reporting can be also considered as a competitive advantage at least in some level.

#### **4.1.2 Preparation for CSRD**

In the company, the preparation for CSRD has started during 2024. The company has started the work to make the double materiality assessment. There is, however, no decision made what will be included in the next year's reporting, as Interviewee 1 (2024) expressed:

*We are in the DMA [double materiality assessment] stage to prepare the materiality assessment, and it is an interesting report. Then the actual work started with the competitor analysis, but where does it lead, that is a good question. So the decision is really not made yet what we will include in the management report in this year or do we continue with previous sustainability reporting. (Interviewee 1, 2024)*

Moreover, as the company will soon be subject to CSRD, they are in certain transitional state when it comes to the sustainability report which will be published next year; where it will be published and what it will look like, as Interviewee described: *"We are at the moment in some kind of transitional state. What do we do regarding this year's reporting? My guess is that we will still make a sustainability report at some level, so the similar type as before, because it is a cross-section of what has been done during the year and then there are those environmental measures. (Interviewee 1, 2024)*

When assessing the readiness for the CSRD, Interviewee 1 (2024) notes that metrics of CSRD do not change largely, but on the other, CSRD requires also more narrative description and documentation. The Case company A will also most likely benefit of the previous reporting when preparing to comply with CSRD. As a benefit of CSRD the Interviewee 1 (2024) mentions the statutory of CSRD: *"The good side of the CSRD is that it is statutory.*

*You cannot decide whether you do it. Also competitors cannot decide not to do it, so that is a good element".* However, Interviewee 1 (2024) also refers to the general discussions if this will take resources out of the work what could be targeted for example for sustainable development: *"It is generally discussed that will this in the end take away resources from the actual work with sustainable development. That it is such a good question. As all this takes a lot of time and energy, so is it taken away from something else?"*. It was also highlighted that it is not only the workforce required, but all kind of reporting requires also financial resources. Moreover, Interviewee 1 (2024) notes that CSRD is regulated by European Union, and is therefore not globally binding, and states that *"We should get to the global view, and we should reach the point that all companies and whole supply chain and value chain would follow the same objectives"*.

## **4.2 Case Company B**

Case company B is a Finnish based company operating in plastics industry, and its main market area is Europe. In 2023, its net sales were over 80 million euros, and it employed approximately 300 employees. (Case Company B, 2024)

### **4.2.1 Current sustainability reporting**

Case company B have published sustainability reports for approximately five years as a part of the annual report (Interviewee 2, 2024). Additionally, as a listed company, Case company B publishes financial interim and half-year reports quarterly, and those reports includes also part for sustainability updates. However, Interviewee 2 (2024) notes that quarter year is relatively short time span for reporting sustainability related information, and therefore, it is more valuable to report and compare the annual data.

The key drivers to start the reporting have been the demand from the stakeholders, such as customers and investors, and the internal motivation. The company felt that there is

something to disclose about the sustainability. Interviewee 2 (2024) described the decision to start the sustainability reporting followingly: *“Probably first of all, as there is something to tell, and certainly also the demand. In a way, when there has been a demand for those different types of information, it has been decided that it will also be reported.”*

Different stakeholders might have different interests when it comes to the sustainability reporting. Interviewee 2 (2024) notes that investors have been particularly interested in the emissions. When it comes to consumers, Interviewee 2 (2024) also evaluates that it is not that common that consumers would read the annual and sustainability reports, and to reach also consumers, Case company B has included sustainability related communication in some level as part of their products: *“We have a note with our products that it is made from renewable raw materials and we have made a calculation which shows that it has a smaller carbon footprint versus if it would have been made from traditional fossil materials.”* Interviewee 2 (2024) also states that the demands from stakeholders are fairly similar between different countries.

In their current reporting, Case company B do not have any specific framework or standards in use. The reason for this has been that as CSRD is entering into force, the company has decided to wait that to happen. Instead, the company has been benchmarking other companies' sustainability reporting to recognize the best practices. Interviewee expressed:

*We thought about whether we should have started reporting according to GRI, but it was concluded that no, since the CSRD is coming, so let's go straight to it. So there has not really been any specific framework according to which it has been reported. It has been rather reported what has been recognized as important to report, and of course a lot of benchmarking has been made to see how the others report and tell about. But any official framework has not been in use. (Interviewee 2, 2024)*

However, the sustainability report of the Case company B seems to follow largely ESG structure (Case company B, 2024). Case company B also indicates in their sustainability

report the support for United Nation's Social Development Goals (SDGs), and they have also determined the four most relevant SDGs for the company. (Case Company B, 2024)

#### **4.2.2 Preparation for CSRD**

Case company B has started to prepare for CSRD already in 2023 when they set up an ESG working group. The group consists of experts from finance, production and communication departments. In this group, the upcoming requirements have been identified and the open questions regarding the directive are solved. Moreover, Case company B made materiality assessment two years ago, and it will be made again to be compliant with the CSRD requirements. (Case Company B, 2024; Interviewee 2, 2024).

When Interviewee 2 (2024) evaluates the readiness of the company to comply with CSRD, they consider the readiness on rather good level. As the company has reported about its sustainability previously, quite a lot of information already exists, but the gaps between the current report and the requirements of CSRD needs to be identified.

*I think that the readiness is fairly good, but the standard has to be gone through, and the language of the standard translated into our language, and see what the gaps are there, what is possibly missing. Quite a lot of things already exist, but those just need to be packaged, so to speak, to meet the requirements of the standard. But there will definitely a lot to do. (Interviewee 2, 2024)*

Even though it is identified that it requires a lot of work to respond to the requirements of CSRD, any specific challenges with the directive are not recognized. However, in general level, Interviewee 2 (2024) mentioned that some companies might have challenges with the recourses as the adopting CSRD into use is a large entity. Interviewee 2 (2024) is not worried about the resources in the Case company B, but in discussions with other companies it has come to the fore, that it might be a challenge – especially, if the company have not reported about their sustainability previously.

Interviewee 2 (2024) perceive various benefits of CSRD. As there will be a same framework for companies to use, it will create more continuity and comparability to reporting. The reports will also be more data-based which brings more structure to the reports. Moreover, as an important factor, aforementioned will lead most likely to higher level of comparability between sustainability reports published by different companies, as Interviewee 2 (2024) described:

*I find that is a good thing that everyone has the same framework in use for reporting. GRI was good in its own way, but again as it was not mandatory, only some reported according to it, and some did not, but now everyone will have the same procedures, and it kind of brings the certain level of continuity and hopefully also comparability which is positive. The other thing is that practically the importance of the report rises to the same level as financial reporting. -- It kind of brings a certain structure to the sustainability related data in general, and the fact that it is data-based, and less descriptive. (Interviewee 2, 2024)*

### **4.3 Case Company C**

The third case company, Case company C, is a Finnish food company. In addition to its main market area, Finland, the company also exports, for example, to other Nordic countries and Southern Europe. The company employed approximately 300 employees in 2023, and the sales of the company were approximately 180 million euros in 2023. (Case company C, 2024; Case company C, n.d.; Interviewee 3, 2024).

#### **4.3.1 Current sustainability reporting**

Case company C has published sustainability reports since 2017. Unlike other case companies, driver for the sustainability reporting was legal. At the time, due to the company size it was subject to NFRD and thus, required to report about their sustainability. However, already before 2017, the company published voluntary environment and personnel reports (Interviewee 3, 2024).

However, the company has subsequently sold some of its business areas, and consequently it has not been affected by NFRD since 2022. Nevertheless, Case company C has voluntarily continued to report about its sustainability, and published the report included in the annual report. Even though the legal requirement was released after the business transactions, it was clear for the company to continue to report about its sustainability (Interviewee 3, 2024). Moreover, it has rather developed its reporting voluntary, as the interviewee stated:

*We are no longer subject to this NFI [Non-Financial Information] regulation, but we have still published the reports, and the sustainability reporting has been developed, for example, more additional content has been rather brought into the management report than anything had been cut from it. (Interviewee 3, 2024)*

In the reporting, the company has followed GRI standards which is also globally the most commonly used framework for sustainability reporting (Interviewee 2, 2024; Ecobio Manager, n.d. -b). Case company B has also integrated SDGs in their reporting (Case company C, 2024).

Interviewee 3 (2024) identified several benefits of the sustainability reporting. Internally, reporting might contribute positively to the company's operations, as the interviewee expressed: *"The reporting also has a power, which pushes operations forward."* When it comes to the stakeholders, it is known that they are interested in sustainability performance, and sustainability reporting also helps the organization to be more prepared to respond to the expectations and questions that stakeholders have.

*It really does have an effect - we know that our stakeholders read these reports to some extent and observes our [sustainability] development, and it is important for certain customers that these things are in order. -- As an organization, we also are more prepared to respond to expectations other than legal regulations. When it comes to sustainability. (Interviewee 3, 2024)*

The company have involved its stakeholders to sustainability reporting especially when making materiality assessments. Interviewee 3 (2024) describes: *"We have involved*

*stakeholders in the materiality assessments, such as customers, investor and analysts, to get a view of how we should report and what are the essential things for us to tell from their point of view.*" Moreover, the expectations from the customers are often related to the sustainability and expectations in practice, for example reducing the climate impacts or some public commitments. Case company C takes also concrete actions based on the expectations. For example, Carbon Disclosure Project (CDP) reporting was started as a result of the wishes from the customers. Case company C have not, however, identified variation in expectations from the stakeholders for sustainability or sustainability reporting between countries. (Interviewee 3, 2024; CDP, n.d.)

#### **4.3.2 Preparation for CSRD**

Case company C has started to prepare for the CSRD already last year by starting to make the double materiality assessment with an external partner. It has used also earlier external partner when making materiality assessment, as they want to involve their most important stakeholders, and therefore, can see the value that external actor is the one discussing with the stakeholders.

*We have done the double materiality assessment. That was already started last year, and it was completed at the beginning of this year. -- So, through that we have now identified the metrics and data points that we have to report. That is how we started to prepare for it [CSRD], and we have made gap analysis to see how much we need to change the current reporting and bring in more and develop that to be able to respond to these new requirements. (Interviewee 3, 2024)*

Moreover, Case company C has started to develop the way they manage and process the sustainability related data and therefore, developing the systems around the reporting to be able to enable more information directly from the systems instead of manual work. Interviewee 3 (2024) described:

*When we have not previously been auditing our sustainability reports, and now as it comes as part of the regulation, and also for that reason we are also developing the data management processes quite a lot here, so that we can get information*

*directly from our other systems. We are moving towards that, as most likely all the companies that are currently preparing for CSRD, are moving towards that sustainability reporting is closer to financial reporting activity than it has been earlier. And of course, companies are often in very different stages, but we are also moving from the Excel world, so to speak, towards integrated systems. (Interviewee 3, 2024)*

When considering the readiness of Case company C to report according to CSRD, Interviewee 3 (2024) considers the readiness on a fairly good level. The company has largely the information ready that must be reported, both the data points as well as narrative information. Interviewee 3 (2024) rather considers the work with CSRD as something that would have been good to make regardless of the new directive to make the reporting more efficient.

*I would say that we have fairly good capabilities, that all the work that is being done here is more of the same as it would have been good to do anyway, so improving these processes. A lot of work is of course required in structuring all these qualitative or narrative points to be able to respond to CSRD. (Interviewee 3, 2024)*

As challenges in responding to the CSRD requirements, Interviewee 3 (2024) mentions reporting about biodiversity and value chain that will most likely challenge many companies. There is not a well-established model to report about biodiversity, and, in turn, it will be more challenging to report about the whole value chain than reporting about own operations.

When considering the benefits of CSRD for the company itself, Interviewee 3 (2024) hopes that it reduces the over-lapping reporting. At the moment companies have to conduct and answer to various sustainability related surveys for example from the suppliers. CSRD could possibly mitigate this work as well, and as a result create a common model which could decrease the workload of all companies.

*I at least hope that this will reduce over-lapping reporting. Of course, it will not work in a way, that when we respond to the CSRD requirements, we get answers directly from there, for example to CDP and sustainability surveys from all our suppliers. But I hope that this will take this in that direction, because in this ESRS, in*

*these standards, the old GRI and TCFD [Task Force on Climate-related Financial Disclosures] have been well taken into account -- and in that way, this [CSRD] also benefits other reports that we do. That this is my hope that when there are also, for example, those value chain issues, then the companies will start to use this model in their own sustainability surveys, so that we get to the point that when we as companies anyway report and we are asked about something and we ask about something, so we cross-report to each other so that this becomes more of a common model, and thus, it could actually decrease everyone's workload. (Interviewee 3, 2024)*

From the stakeholders' perspective, Interviewee 3 (2024) anticipates that CSRD will increase the comparability and reliability of the reports due to the requirement of auditing: *"Probably there will be some kind of improvement of transparency, and maybe reliability will improve, for example, through auditing. And comparability is certainly easier."* Additionally, Interviewee 3 (2024) made a note that it is also a significant change that due to CSRD, the report will be a part of management report. This is a remarkable matter also from the juridical perspective.

*What is also probably a big change from the previous is that that report will be moved to Board of Directors' Report. If we think about the NFI [Non-Financial Information] section that used to be there, the level of requirements was nowhere near like this, so the part that the board must sign, which of course is also a big part of the core of this directive is that it is transferred there. (Interviewee 3, 2024)*

#### **4.4 Case Company D**

Case company D is a Finnish company providing logistics services. Its main operating areas are Europe and Asia. In 2023, it employed less than 200 employees. (Case company D, 2024; Interviewee 4, 2024). However, as the balance sheet total and revenue over the limits that are set for to companies to be subject in the second phase of CSRD, the company will become subject to CSRD in financial year 2025.

#### 4.4.1 Current sustainability reporting

Case company D does not perform sustainability reporting at the moment. Nevertheless, the company has a separate section for sustainability in their websites where they, for example, disclose information about financial, social and environmental responsibility. Sustainability reporting has, however, been under consideration in the company already for some years, and some actions have also been taken. For example, current sustainability communication practices have been analyzed and development actions discussed, but due to the changes in operating environment, starting the sustainability reporting has been postponed. (Interviewee 4, 2024)

However, due to CSRD, the company will be obliged to start the reporting in the financial year 2025 and publish the first report in 2026. Interviewee 4 (2024) also added that sustainability has been in the company's strategy for a long time, and the main solutions that the company offers can be considered naturally environmentally friendly. The company has also made, for example, carbon footprint calculations. In relation to the upcoming reporting and pressures from the stakeholders, Interviewee 4 (2024) states the following:

*It [sustainability] has been in our strategy for a long time, but now of course we want to do it more systematically and more purposefully, since this reporting [CSRD] also brings more requirements and of course also the pressures from stakeholders grows all the time, and more transparent information is asked as well as different documents and policies. (interviewee 4, 2024)*

Interviewee 4 (2024) also describes that stakeholders' interest towards sustainability reporting has clearly increased. The company has received various inquiries regarding sustainability from their stakeholders. It also seems that especially environmental aspect is highlighted in the different inquiries that the company receives, but also the social aspect of sustainability is something that stakeholders ask about.

*“Maybe not pressures directly, but of course inquiries, for example from customers. Inquiries that ‘we have this kind of form, and we want to work with responsible*

*partners'. -- And of course, these codes of conducts have been received that are for the subcontractors. -- And then the customers have also started to ask about emissions.” (Interviewee 4, 2024)*

However, there seems to be differences between stakeholders. When it comes to customers, the interest seems to be the strongest from the large, global companies. It has been also noted that there is a difference in the level of the information that is asked. Some of the stakeholders ask and expect more detailed and in-depth information than others. Moreover, there can be sustainability related requirements in some tenders, and if the company does not fulfill some of the requirements, it cannot participate in the tender. However, even though Case company D have not reported about its sustainability, it is not in awareness of Interviewee 4 (2024) that there would have been situation where this had happened to the company.

#### **4.4.2 Preparation for CSRD**

Case company D has started to prepare for the CSRD during autumn 2024. The first step has been double materiality assessment, which is made in collaboration with external partner. Also a working group has been established, and there are representatives from each business unit and from human resources, HSQE (Health, Safety, Quality, Environment), finance and sustainability and communications. After the double materiality assessment, the next step is planning the data collection. Data collection will require a model, and it is under discussion how it will be conducted, and if external help will be used. It needs also to be decided if some system will be taken into use for processing the data, as Interviewee 4 (2024) described: *“What is perhaps mostly under consideration is the data management and how to do it. How it will be collected and managed, and how and where and with what instruments, that it will be correct and remains up to date.”* (Interviewee 4, 2024)

When assessing the readiness of Case company D for the CSRD, Interviewee 4 (2024) recognizes that a lot of work is required, especially as there is not any model for

sustainability reporting at the moment. As a small organization, and with a limited number of administrative employees, external help is needed, but with that they can manage. However, Interviewee 4 (2024) mentioned that possible industry specific support for reporting could be beneficial, and not only for Case company D, but also others in the field, as there are a lot of small companies in logistics industry. Interviewee 4 (2024) expressed:

*What could be beneficial if thinking this entire industry, the logistics industry, there are a lot of small companies, small truck companies and other small private entrepreneurs that I often think that what are their capabilities. What I miss are the common, industry specific rules, definitions, guidelines, so maybe more such support and help, as indeed, by reducing logistics emissions, major impacts can be achieved -- It is new for everyone and especially in terms of reporting. Everyone is practicing.” (Interviewee 4, 2024)*

Interviewee 4 (2024) also noted several benefits of CSRD. From the stakeholders’ perspective, Interviewee 4 (2024) finds that one of the key benefits will be the increasing comparability of the sustainability reports as a result of more regulation. Previously companies could have been reporting what they decide to, and therefore Interviewee 4 (2024) see that also the risk for so-called greenwashing can decrease as the reporting becomes more transparent.

*It kind of forces organizations to make it more systematically, because next year it must be done again, and it would be nice to show a little better numbers than the previous year. And of course, as this is now part of the financial reporting, and it is also on the Board of Director’s agenda, it has made this issue such that it is taken more seriously. (Interviewee 4, 2024)*

When it comes to company itself, Interviewee 4 (2024) finds that as the directive pushes them towards sustainability reporting, the knowledge and expertise within the company will also increase: *“The benefit is, of course, also that our own expertise increases, and thus, we are able to communicate to our stakeholders, and we are better in showing that this is how it is [sustainability related matters] and we develop, and thereby can develop our business.” (Interviewee 4, 2024)*

Interviewee 4 (2024) made a note also about the social dimension of the benefits that CSRD has. Due to CSRD, there already is, and will be new jobs and roles in companies related to sustainability reporting, as an increasing number of companies will be obliged to publish sustainability reports and it will be more regulated, and therefore require more work. Moreover, as sustainability is topical, even universities and other educational institutes have started to offer more teaching regarding the topic.

## **4.5 Cross-company analysis**

In this section, cross-company analysis is presented. Previously presented case company interview insights are discussed in relation to the theoretical background. The section will follow the same structure as previously; it is divided into current sustainability reporting in case companies and preparation for the new directive and companies' perceptions to CSRD.

### **4.5.1 Current sustainability reporting**

In Table 2, the current state of the sustainability reporting among the case companies is presented, including key drivers to start the reporting, possible standards in use and frequency for publishing the reports, as well as description where the reports are published.

**Table 2.** Summary of the current state of sustainability reporting in the case companies

	<b>Case company A</b>	<b>Case company B</b>	<b>Case company C</b>	<b>Case company D</b>
<b>Reports about sustainability</b>	Yes, it has been reported over 10 years	Yes, started approximately 5 years ago	Yes, it has been reported approximately 7 years	No, will start in 2025, the first report will be published in 2026
<b>Driver for starting the sustainability reporting</b>	Internal motivation and stakeholders	Internal motivation and stakeholders	Legally started (was subject to NFRD at the time), voluntarily continued	Will be legal due to CSRD
<b>Standards in use</b>	GRI	No specific standards or framework in use	GRI	No reports published
<b>Frequency of publishing sustainability reports</b>	Annually	Annual report, quarterly updates	Annually	No reports published
<b>Place where the report is published</b>	As a separate report in company website	As part of the annual report	As part of the annual report	No report published

When it comes to the current reporting practices, even though none of the companies was at the moment legally required to report about their sustainability, three out of four case companies perform some level of sustainability reporting. This insight is in line with previous studies. For example, KPMG (2023) conducted a study of the current state of

sustainability reporting in Finland, and showed that in 2023, 81% of the respondents of its study (54 companies) conducted sustainability reporting in some level. In this study, those case companies that have been reporting about their sustainability had started sustainability reporting approximately 5-10 years ago. The company which does not report about its sustainability at the moment, will start the reporting in financial year 2025 and publish the first sustainability report in 2026 as a consequence of CSRD.

As also previous study suggests (Qian et al., 2020), pressures from the stakeholders can drive companies to start the sustainability reporting, which also this research showed. Those companies which have started voluntary sustainability reporting had considered stakeholder perspective, which also Freeman's (1984) stakeholder theory suggests: to consider stakeholders' concerns.

However, many of the companies also felt that as they already contribute and take responsibility on the sustainability matters, they find it valuable to share that information. Nevertheless, only two of the case companies had actually started the reporting voluntarily. One of the case companies, that also reported about its sustainability, was legally required to start the sustainability reporting once they started it, but later on when the company size decreased, the requirement changed but it has still continued the reporting voluntarily. However, already before the requirement to report about sustainability, the company had already published voluntary environment and personnel reports. Due to the CSRD, it will become again obliged to report about its sustainability. This is an important note that the requirements for the reporting can change, and not only increase while company grows, but company size can also decrease due to business transactions, and thus, the requirement for sustainability reporting may be released. The fourth case company, in turn, has not yet started sustainability reporting, and as it will be subject to CSRD, therefore it can be considered that the driver for sustainability reporting will be also legal.

GRI is the most commonly used framework for sustainability reporting globally (Ecobio Manager, n.d. -b), and also, based on the research, GRI standards were the most commonly used standards if company had specific framework for the reporting. Two out of four case companies reported according to GRI, one company did not have any specific framework in use, and one case company did not report about their sustainability. Every company that reported about their sustainability, had integrated SDGs into their report. SDGs are also integrated to ESRS, the standards which companies subject to CSRD need to use (EFRAG, 2022).

Moreover, the companies that perform sustainability reporting publish the reports annually. There is, however, variation of where the reports are published. One of the companies published the report as a separate publication, and two others as part of the annual report. Additionally, one of the companies also published quarter updates as part of quarter financial report, which can, however, be seen as even unnecessary frequent in order to bring extra value to sustainability reporting. The new directive, CSRD, requires companies to publish sustainability reports annually as part of management report (Directive 2022/2464).

All companies mentioned that they have received demands for sustainability from their stakeholders, such as customers and investors. Companies had experienced especially demands from customers which usually in this study referred to B2B customers. Customers have been mostly interested in environmental aspects, such as emissions which also investors have been interested in, and the social aspect of sustainability. In addition to different questions from the stakeholders, many companies receive different sustainability related surveys and inquiries from their stakeholders.

Even though all case companies operated internationally, either had operations or sales also outside Finland, interviewees have not recognized significant differences on the stakeholder's demands to sustainability between different countries. It was rather seen

that demands vary more considerably between customer to customer, or other stakeholders.

#### **4.5.2 Preparation and perceptions of CSRD**

All of the case companies are subject to CSRD starting from 2025, and the first reports where CSRD must be applied, need to be published in 2026. Nevertheless, all of the companies had already taken actions in preparing for the directive.

Companies had started the preparation different ways. However, most of the companies had already completed or at least started the double materiality assessment, which is one of the core principles of CSRD (Niskala & Palmuaro, 2023, p. 46). Moreover, Niskala & Palmuaro (2023, p. 74) presents the process for CSRD compliant sustainability reporting in five stage process in which the first step is the double materiality assessment. Many of the companies who had started the work with double materiality assessment had utilized external partners when making it. Some of the companies have also established CSRD working groups which consist of experts in different fields, such as sustainability, communications, finance and production to prepare for the upcoming requirements and reporting. Moreover, companies are familiarizing themselves with the actual content of CSRD and gaining overall understanding of the directive and its requirements.

Each company assessed their readiness to report according to CSRD to be at a fairly good level even though all of them see that it requires a lot of work. However, especially if no previous reporting has been made, more external help might be needed to be able to respond to the requirements of the directive. As the directive requires reporting on various data points, companies are also preparing the data collection and data management. It has been under consideration in many companies whether they should for example implement a system in order to have an effective model for collecting, processing and managing sustainability related data in order for it to remain up-to-dated.

The case companies identified several benefits of the new directive, and also some challenges. The anticipated challenges as well as the benefits of CSRD are presented in Table 3.

**Table 3.** Anticipated challenges and benefits of CSRD

<b>Anticipated challenges</b>	<ul style="list-style-type: none"> <li>• Resources: both financial and human work force – especially in smaller companies</li> <li>• Reporting about biodiversity and value chain</li> <li>• Lack of industry specific guidance/support</li> </ul>
<b>Anticipated benefits</b>	<p>For stakeholders</p> <ul style="list-style-type: none"> <li>• Increased transparency</li> <li>• Increased comparability</li> <li>• Increased reliability</li> </ul> <p>For the companies</p> <ul style="list-style-type: none"> <li>• Effectivity: decreasing of the overlapping reporting</li> <li>• Increased expertise in sustainability reporting</li> <li>• Same standards in use for everyone</li> </ul> <p>General/other</p> <ul style="list-style-type: none"> <li>• Value of the reporting will increase to the same level with financial reporting</li> <li>• Social benefits: new jobs and roles related sustainability reporting</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Do the large reporting requirements take resources away from sustainable development?</li> </ul>

The anticipated challenges when applying CSRD into practice, were mostly connected to the resources. It was noted that all kinds of reporting require both financial resources and also the workforce. Additionally, it was mentioned that it is recognized that especially the first time reporting according to CSRD will require a lot of work, even though the company had been reporting previously. Also, if there is no previous reporting experience the work required can be extensive. Thus, the utilization of external resources in reporting was under consideration in some of the case companies.

In addition to resources, reporting about the biodiversity and value chain was also mentioned as a more challenging matters in the upcoming reporting which will require more work. Additionally, it was mentioned that industry specific support could be beneficial, especially in the field in which there are many small companies.

When considering the benefits of the upcoming directive for the stakeholders, an increase of transparency, comparability and reliability was mentioned. Due to the common standards and framework, reporting is more regulated which increases the transparency and comparability of the report. Moreover, in addition to the already mentioned factors, as CSRD requires that the reports must be audited by an external partner, it will increase the reliability of the reports. Increasing transparency and comparability have also been one of the original objectives for CSRD (European Commission 2023; Ramboll, 2023). Moreover, CSRD will increase the value of the sustainability reports to the same level as financial reporting.

Furthermore, also the social benefits of CSRD were discussed, as it has been noted that due to the increased reporting requirements, also new jobs and positions are created in different companies. It was also mentioned that that as the discussion and importance around sustainability is rising, the topic emerging also in universities and other educational institutes, and thus, providing new areas for individuals to specialize in.

On the other hand, companies identified several benefits also for the companies themselves. More regulated reporting can make also the company's operations more effective, and it can also decrease overlapping in the reporting. It was also mentioned that as CSRD forces companies to put more focus on sustainability reporting, also the company's own expertise and understanding around the topic increases which can positively affect business development. Reporting will also become more transparent for the companies themselves and in relation to others as the reporting requirements are the same for everyone affected by CSRD.

However, it was also noted that reporting work should not take the focus away from the actual sustainability performance. The focus should remain in operating in sustainable manner and in sustainable development, not merely in the reporting even if its importance will increase, as one of the interviewees also described *"the reporting is just the icing on the cake"*.

## 5 Conclusions

In this chapter, the key findings of the study are discussed and summarized. Moreover, theoretical contribution and managerial implications that this study offers are presented. Finally, the limitations of the study are discussed as well as suggestions for future research are made.

### 5.1 Summary of the findings

The aim of this research was to study the current state of sustainability reporting in the companies which have not been required to report about their sustainability, as well as their perceptions of CSRD. The main research question of this study was *How do listed international companies currently conduct sustainability reporting and what are their perceptions of Corporate Sustainability Reporting Directive (CSRD)?*. Furthermore, there were also three sub-questions of this study:

4. What are the current sustainability reporting practices of the listed international companies which have not been required to report about their sustainability previously?
5. Do listed international companies experience pressures from the stakeholders for sustainability reporting?
6. What kind of anticipated benefits and challenges do listed international companies experience or foresee in complying sustainability reporting with CSRD?

In order to answer the research question, the literature around sustainability, CSR and sustainability reporting was first reviewed, and especially the understanding of the requirements of the CSRD was gained by familiarizing to the new directive.

The objective of the first research question was to study the current sustainability reporting practices within the case companies. The results of this study show that even though the case companies are not at the moment required to report about their sustainability, many companies have yet started voluntary reporting. Reporting practices, however, vary. Two of the companies that reported about their sustainability have been following GRI standards which are also the most commonly used standards in sustainability reporting (Ecobio Manager, n.d. -b). The third one did not report to any specific standards. One of the case companies did not yet perform sustainability reporting. The companies that have been reporting about their sustainability performance, publish the reports annually.

When it comes to the pressures for the sustainability reporting from the stakeholders, all of the companies have experienced expectations to sustainability or sustainability reporting from their stakeholder, whether it was a pressure for sustainability reporting, different inquiries or questions. Companies had also involved stakeholders somehow in sustainability reporting, for example, in double materiality assessment. Even though the case companies have internationalized and have operations and/or sales in foreign markets as well, companies had not identified differences in stakeholders' demands between countries. It was rather seen that differences can be considerable between different stakeholders, for example between different customers.

The study also provides a new insight of how the companies that will become subject to CSRD in its second phase have started to prepare for it. Based on the results, companies have started the preparations and the usually the first step for the case companies have been making the double materiality assessment and familiarizing themselves to the content and requirements of the directive. Also, Niskala & Palmuaro (2023, p. 74) presents the double materiality assessment as a first step in the process towards CSRD compliant sustainability reporting. Some of the companies have also established different working groups consisting of experts of different fields to prepare for CSRD. Moreover, different possibilities for sustainability related data management are also under consideration in

many companies. As this study indicates, there are no established sustainability reporting practices within the case companies, and therefore, the baseline for conducting sustainability reporting according to CSRD may vary. Nevertheless, all companies assessed that they can manage to respond to the requirements of CSRD, but depending on the previous practices and company size, the need for external help might also vary.

This research also gained understanding and provided new insights into the companies' perceptions of CSRD and its benefits and possible challenges. The challenges anticipated were mostly related to the resources, as the reporting requires both human and financial resources. Moreover, reporting about the biodiversity and value chain were topics that were seen that might challenge companies in their reporting. It was also seen that some level of industry specific instructions and support would be beneficial especially if a company does not have previous experience of sustainability reporting.

Companies also foresee several benefits of CSRD for both for companies themselves as well as for stakeholders. For stakeholders, companies foresee that more regulated reporting will create more comparability, reliability and transparency to reporting. Especially due to requirement of third-party auditing and the same reporting standards for the companies, it is anticipated to increase the comparability and reliability of the sustainability reporting which has also been one of the original drivers for CSRD (European Commission, 2023). As a result, it was foreseen that the reporting will become more transparent. Transparency due to common standards can also be considered a benefit for companies themselves as the reporting framework will be the same for all companies subject to CSRD. Furthermore, as a benefit for the companies themselves it was indicated that the new reporting standards and practices can make the reporting more effective and reduce possible over-lapping reporting. Moreover, as the regulation forces companies to invest in reporting, the expertise within the company also increases, which was also seen as a benefit.

## **5.2 Theoretical contributions and managerial implications**

The study has theoretical contributions. The results of this study support the previous studies of the current state of sustainability reporting. In its study, KPMG (2023) showed that 81 percent of the companies reported their sustainability at some level in 2023. Even though the sample of this study is significantly smaller, the result is in line as 75 percent of case companies published sustainability reports. Furthermore, previous studies have indicated that the pressures from stakeholders can drive companies to start the sustainability reporting (Qian et al., 2020), which was shown also in this research. However, based on this study, the sense of the company's own contributions to sustainability can also raise internal motivation to start to disclose this information to stakeholders. The study highlights also the stakeholders' expectations and involvement in sustainability reporting, which supports Freeman's (1984) stakeholder theory which highlights considering stakeholders' perspective.

From the managerial perspective, this study suggests companies to start the preparation for Corporate Sustainability Reporting Standard (CSRD) early enough. It was indicated in this study that to be compliant with CSRD is a notable project for companies, especially if a company has not performed sustainability reporting previously. Furthermore, even though a company would not be required to report about its sustainability, it is shown that sustainability reporting has also benefits to the company itself and it can be considered also as a competitive advantage on some level, and therefore, voluntary sustainability reporting can be considered.

## **5.3 Limitations and future research**

As all studies, also this study has limitations. This thesis focuses on sustainability reporting from the CSRD point of view. The study also approaches the topic from the Finnish companies' perspective to sustainability reporting and focuses on only a few case companies. Hence, the results can be generalized to some extent to similar companies but

cannot be generalized largely. As a matter of fact, during this research process, one of the challenges was finding the case companies and interviewees. Therefore, finding the interviewees also took more time during the research process than was planned. Nonetheless, four interviewees from four case companies were interviewed, and thus, interview data combined to the secondary data enabled the study. It must be also noted that one of the case companies had been previously obliged to report about its sustainability, yet it is not at the moment. However, this seemed not to have a remarkable effect on the results, as the insights from the case companies were similar.

Also, interviews, which were used for the data collection in this study, are context and situational bound which can also have an impact on the generalization of result (Hirsjärvi et al., 2009, p. 207). Moreover, interviews were conducted in Finnish, yet the findings were presented English. Thus, there is a possibility that translations might affect the original message of the interviewee and can therefore have an impact on the trustworthiness of this study.

The topic of this study offers also multiple other points of views for future research. First, once the first sustainability reports according to CSRD are published, comparative analysis can be made between the previously published reports and the reports published according to CSRD to study the impact on the reporting practices and implementation in companies. Moreover, the differences in adopting CSRD between companies based in different countries could be studied to gain understanding of the difference in the reporting between countries. It would be also beneficial to study more stakeholders' perceptions of the reporting and explore the achieved benefits of CSRD from stakeholder's perspective.

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## Appendices

### Appendix 1. Interview guide in English

#### Background questions:

1. What is your role in the company?
2. In what countries does your company currently have sales or other operations?  
When did you start to internationalize your firm? What is the share of sales from international markets out of total sales in percents?

#### Current reporting practices:

3. Has the company reported about sustainability previously?
  - a. Why? / Why not?

If reported previously:

- b. Please describe the current sustainability reporting practices of the company?
  - c. What standards do you follow in your reporting at the moment?
  - d. How often do you publish sustainability reports? How/where do you publish them, as a separate document or as part of some other publication?
  - e. What has been the key driver to start to report about sustainability?
  - f. Who is responsible for the sustainability reports in your company? What is his/her role in the company?
4. Have you received sustainability (reporting) related pressures from your stakeholders? From whom? Give examples.
5. Have you received sustainability related pressures for reporting from your international customers or other stakeholders abroad? From what countries? Give examples.
6. Do you see differences in the pressures for sustainability reporting between your international customers/countries? What could cause such differences?

#### CSRD:

7. Have you started to prepare for CSRD?
  - a. How? Please describe the actions you have taken.
  - b. How would you evaluate the readiness of the company to report according to CSRD?
8. Have you faced / do you foresee any challenges when complying the sustainability reporting with CSRD? What kind of?
  - a. What kind of help or support would you see beneficial in order to follow the CSRD?
9. What kind of anticipated benefits do you see that CSRD brings?
  - a. For the company?
  - b. For stakeholders?
10. Do you have anything you would like to add?

## Appendix 2. Interview guide in Finnish

### Taustakysymykset:

1. Mikä on roolisi yrityksessä?
2. Missä maissa yrityksellä on tällä hetkellä myyntiä tai muuta toimintaa? Milloin yritys on aloittanut kansainvälistymisen? Mikä on kansainvälisten markkinoiden myynnin osuus kokonaisymyynnistä prosentteina?

### Nykyiset raportointikäytännöt:

3. Onko yritys raportoinut vastuullisuudesta aiemmin?
  - a. Miksi? / Miksi ei?

Jos raportoitu aiemmin:

- b. Voisitko kuvailla nykyisiä vastuullisuusraportointikäytäntöjanne?
  - c. Mitä standardeja noudatatte raportoinnissanne tällä hetkellä?
  - d. Kuinka usein julkaisette vastuullisuusraportteja? Miten/missä julkaisette ne, erillisenä julkaisuna vai osana muuta julkaisua?
  - e. Mikä on ollut tärkein syy aloittaa vastuullisuusraportointi?
  - f. Kuka vastaa vastuullisuusraportoinnista yrityksessänne? Mikä on hänen roolinsa yrityksessä?
4. Oletteko saaneet vastuullisuuteen (raportointiin) liittyviä paineita sidosryhmiltänne? Millaisia ja miltä tahoilta?
5. Oletteko saaneet vastuullisuuteen liittyviä raportointipaineita kansainvälisiltä asiakkailtanne tai muilta sidosryhmiltä ulkomailla? Mistä maista? Antaisitko esimerkkejä.
6. Oletteko huomanneet eroja vastuullisuusraportointiin liittyvissä paineissa kansainvälisissä asiakkaissa/maiden välillä? Mikä voisi aiheuttaa tällaisia eroja?

### CSRD:

7. Oletteko alkaneet valmistautua CSRD:hen?
  - a. Miten?

- b. Miten arvioisit yrityksen valmiutta raportoida CSRD:n mukaisesti?
- 8. Oletteko kohdanneet tai uskotteko kohtaavanne joitakin haasteita CSRD:n mukaisessa vastuullisuusraportoinnissa? Millaisia?
  - a. Minkälaisesta avusta tai tuesta olisi mielestäsi hyötyä CSRD:n mukaisen raportointiin siirtymisessä?
- 9. Mitä odotettavissa olevia hyötyjä näet CSRD:ssä?
  - a. Yrityksellenne?
  - b. Sidosryhmille?
- 10. Onko sinulla jotain, mitä haluaisit lisätä?