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A C-Suite Sustainability Guide:

Understanding the 2024 EU Directives

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Contents

The climate clock is ticking, and nature loss is accelerating. Companies are at the front lines of change. .

The science is undeniable—with the 2023 Intergovernmental Panel on Climate Change (IPCC) report confirming that humans have caused significant global warming. This has led to rising sea levels, extreme weather, biodiversity loss and adverse impacts on human health and societies. In fact, the World Economic Forum's 2024 Global Risks Report identified extreme weather events, critical change to Earth systems and biodiversity loss as the top long-term risks by severity.

On top of all of that, weather events driven by climate change resulted in a direct economic cost of $360 billion globally last year. It's time for change.

Physical Risks to Businesses

Acute physical risks

- Wildfires
- Hurricanes
- Storms
- Flooding
- Heatwaves
- Drought

Chronic physical risks

- Rising sea levels
- Desertification
- Altered weather systems
- Ecosystem disruptions
- Civil unrest and political instability
- Increased disease and pandemics
- Migration and demographic shifts

Transition Risks to Businesses

- Carbon taxes and emissions trading systems
- Higher costs for raw materials
- Increased compliance costs
- Technological changes
- Stigmatisation of carbon-reliant businesses
- Changing consumer preferences
- Demand for low-carbon operations and offices
- The expectation of more CSR
- The expectation of transparent ESG reporting

Legal Liability Risks to Businesses

- Civil litigation for climate impact
- Legal actions for significant contribution to climate change
- Legal actions for non-compliance with sustainability regulations and laws
- Director's duty of care
- Disclosure failure risks
- The issue of insurance and indemnification coverage should legal action arise

Leaders must now turn ESG principles—environmental stewardship, social responsibility, and strong governance—into action. The new EU rules like the Taxonomy, CSRD, and SFDR are not just red tape; they're a roadmap to sustainability.

With the right leadership and a clear understanding of new sustainability regulations, your business can innovate and adapt, safeguarding our planet for future generations.

Part I: What C-Suite Leaders Need to Know About the EU's Sustainability Legislation

The European Union (EU) has formulated several sustainability regulatory initiatives under the umbrella of the EU Green Deal. These include the EU Taxonomy, Corporate Sustainability Reporting Directive (CSRD), and Sustainable Finance Disclosure Regulation (SFDR).

The EU Green Deal aims to make Europe climate-neutral by 2050. It places significant importance on environmental, social, and governance (ESG) reporting. Its purpose is to incentivize organizations worldwide to adapt to the tide of change.

All these legislative instruments are designed to facilitate transparency, standardize sustainability disclosure programs, and pave the way for a more comprehensive and sustainable approach to business and finance within the EU and beyond.

Several of the directives have already come into force, and companies have begun to close the gaps, strategize, and transform to achieve compliance.

The EU Sustainability Legislation Landscape

	The EU Green Deal	Sustainable Finance Disclosure	EU Taxonomy - classification of economic activities	Corporate Sustainability Reporting	Corporate Sustainability Due Diligence	Green Claims
FOCUS	EU's comprehensive sustainable development strategy	Sustainable finance	Sustainable business activities	Corporate sustainability	Sustainable supply chains	Environmental marketing claims
DESCRIPTION	The EU Green Deal is a comprehensive policy initiative aimed at making the European Union climate-neutral by 2050. It encompasses a wide range of measures and regulations to drive environmental sustainability and create a more resilient and greener European economy.	Entity- and product-level disclosures of sustainability-related risk in investment decision-making.	Classification of sustainable activity disclosures are required under the CSRD and SFDR regulations.	Double materiality assessments determine the information to be reported through the ESRS reporting network.	Establishment of a framework for responsible supply chains requiring companies to report on environmental and social impacts of their own operations and those of their suppliers.	Aims to reduce greenwashing amongst companies by establishing a framework and requirements which companies should follow when making environmental claims about their products.
STATUS	Partially. ☑	In force as of January 2022. ☑	In force as of July 2020. ☑	In force as of January 2023. ☑	The Council of the European Union approved the Corporate Sustainability Due Diligence Directive on March 15, 2024. ☑	Proposed in March 2023. Still in the process of being enacted and operationalized. ☐

The EU Taxonomy

The EU Taxonomy is a classification system that defines activities deemed to be environmentally sustainable. It aids companies and investors in making more informed, sustainable investment decisions, and it is designed to help achieve the objectives of the EU Green Deal.

The following companies are impacted by the EU taxonomy:

- Large, listed companies that are subject to non-financial reporting requirements
- Financial market participants (including asset managers and institutional investors)
- Companies covered by the Corporate Sustainability Reporting Directive (CSRD)

To qualify as sustainable under the taxonomy, an economic activity must positively contribute to at least one of six environmental objectives, not significantly undermine other objectives, comply with minimal safeguards, and meet technical screening criteria.

The Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD), which replaced the Non-Financial Reporting Directive (NFRD), is vital in preventing unregulated corporate behaviors that could lead to further environmental harm, social harm, or unethical practices.

Its main purpose is to promote responsible and sustainable business practices. It applies to the following companies:

1. Large companies that meet at least two of the following three criteria
    a. A balance sheet total of €25 million
    b. A net turnover of €50 million
    c. An average number of 250 employees during the financial year
2. All companies listed on EU regulated markets, except for listed micro-enterprises
3. Public-interest entities like listed companies, banks, and insurance companies previously covered by the NFRD, which have more than 500 employees
4. Non-EU companies that generate a net turnover of €150 million in the EU and meet certain other qualifying criteria
5. Listed small and medium-sized enterprises (option to opt-out until 2028)

Under the directives of the CSRD, companies must include certain data and claims in their Annual Reports. This allows stakeholders to understand the company's position in the sustainability landscape. In particular, this information must be integrated into the Management Report section of the Annual Report.

Companies will be required to provide detailed reports on their environmental and social impacts, adhering to the "double materiality principle." This means they must disclose both the impact of their activities on sustainability and the influence of sustainability issues on their business.

All of this reporting will need to be consistent with the European Sustainability Reporting Standards (ESRS), and all companies in the scope of the CSRD will be required to obtain at least limited assurance from a third-party verifier to substantiate their reported sustainability information.

For ease of access and detailed analysis, all information disclosed in the Annual Report should be digitally tagged. This enables efficient data scraping and collection, helping investors and other stakeholders to quickly gather, compare, and evaluate the company's sustainability data.

The CSRD also contains provisions for penalties in case of infringements. These penalties, which will be decided by each Member State, must be "effective, proportionate, and dissuasive" as per the EU Commission's draft proposal. They will possibly include:

- Issuing a cease-and-desist order against the responsible party.
- Publishing a public declaration describing the offence and identifying the accountable individual or entity.
- Imposing an administrative financial penalty against the culpable individual or entity.

> "Boards of directors that do not comply can be fined or face sanctions."

The European Sustainability Reporting Standards and How They Relate to the CSRD

The European Sustainability Reporting Standards (ESRS) comprises of ESRS 1 and ESRS 2. It provides a framework for businesses to report their sustainability efforts under the CSRD.

ESRS 1 details the general principles for sustainability reporting and provides guidelines on conducting a double materiality assessment. This assessment helps businesses identify which sustainability matters are most relevant or 'material' to their operations and thus should be included in their reports.

On the other hand, ESRS 2 prescribes the specific information that all companies covered by the CSRD must disclose, irrespective of the specific sustainability matter under consideration. This standard sets out structured reporting areas encompassing governance, strategy, impact, risk and opportunity management, and metrics and targets.

Facts

The European Sustainability Reporting Standards (ESRS)...

- set out detailed **reporting requirements** in 12 different standards
- is mandatory for **companies in the scope of the CSRD** and other large companies, including non-EU listed companies
- will first have to be used for the **financial year 2024** with the first sustainability statements published in 2025 (for companies in the scope of the CSRD)
- will be subject to **limited assurance** in the beginning
- introduces **relief measures** for the first year(s)

General

ESRS 1 - General requirements
ESRS 2 - General Disclosures

Environmental

ESRS E1 - Climate change
ESRS E2 - Pollution
ESRS E3 - Water and marine resources
ESRS E4 - Biodiversity and ecosystems
ESRS E5 - Resource use and circular economy

Social

ESRS S1 - Own workforce
ESRS S2 - Workers in the value chain
ESRS S3 - Affected communities
ESRS S4 - Consumers and end-users

Governance

ESRS G1 - Business conduct

The Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) plays an important role in bringing about increased transparency in the financial market. The SFDR requires financial market participants and advisors to disclose sustainability information at both entity and product levels, based on product sustainability classification. The following companies will be impacted:

- EU financial market participants, including investment firms, asset managers, pension funds, and other entities that manage portfolios or offer financial products within the EU
- EU financial advisers who provide investment advice or insurance advice within the EU financial markets
- Large financial companies with 500 or more employees
- Banks and insurers

The regulation aims to funnel capital flows toward eco-friendly investments by reducing potential "green washing" and enabling investors to make more informed decisions. It also promotes the integration of ESG factors into risk management, advisory services, remuneration policies, and investment decision-making processes.

The Green Claims Directive

The Green Claims Directive is a proposed legislative framework from the EU designed to reduce greenwashing. It is not in force yet, but in March 2023, the European Commission put forward a proposal for the directive.

The directive will, once in force, provide a set of requirements for companies making voluntary environmental claims about their products and services to ensure their claims are clear, credible, and verifiable.

Key provisions of the proposed directive include:

- Companies will need to be transparent about the environmental impacts, aspects, or performance of their products or services.
- Before being used in commercial communications, claims will have to be verified by independent third-party entities recognized by Member States.
- Although the directive mainly targets business-to-consumer companies, it will also impact business-to-business entities as suppliers will need to ensure compliance when providing products and services.

The directive will apply to most companies operating in the EU, including non-EU companies trading within the EU. However, sectors with their specific environmental claims rules, like financial services, are exempt from the directive's purview.

How Are the EU Taxonomy, CSRD, and SFDR Impacting Global Sustainability Legislation Development?

In Asia, taxonomy development is advancing at a rapid pace. However, the regulatory landscape is fragmented due to the absence of a centralized body. This has prompted individual countries to create their own taxonomies.

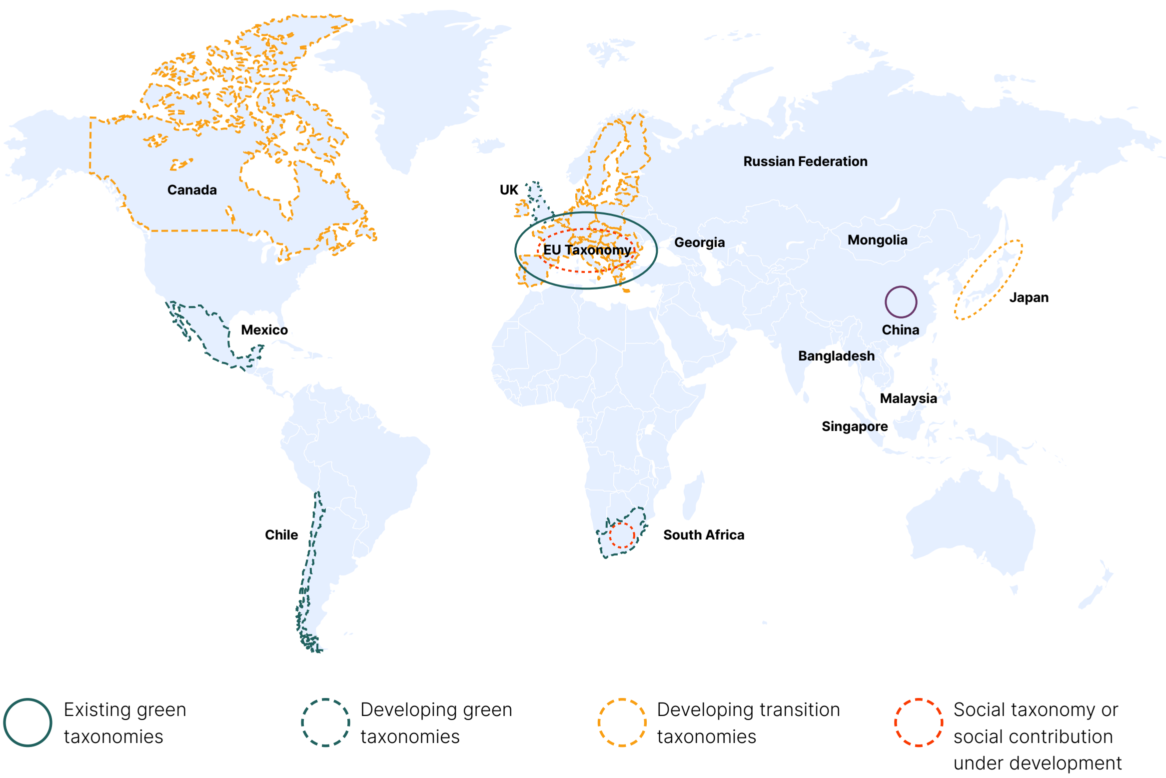
Singapore, Malaysia, China, and India have either developed or are in the process of shaping their unique taxonomies to standardize ESG reporting and disclosures in their respective countries.

The Association of Southeast Asian Nations (ASEAN) has also instituted the ASEAN Taxonomy for Sustainable Finance to steer sustainable investment practices within its member countries.

Simultaneously, across the Atlantic, North American entities are studying the EU Taxonomy closely to design region-specific frameworks.

The U.S. Environmental Protection Agency (EPA) is contemplating the EU Taxonomy, deliberating the possibilities of creating a specific American model. Meanwhile, Canada's Technical Expert Group (TTEG) has defined a recommended architecture to guide the development of a nationally apt green and transition finance taxonomy.

Sustainable Taxonomy Development



*Based on data from July 2021.

Part II: C-Suite Leadership Skills in the Age of Sustainability

"30% of companies are planning to hire a Chief ESG Officer. This is a step in the right direction, but the real game changer is a CEO who turns sustainability from a buzzword into the backbone of a business."

Sustainability Leadership Skills All C-Suite Leaders Need

Ninety percent of CEOs believe sustainability is important for business success. As such, C-suite leaders need to develop new skills to drive sustainable practices within their organizations. This is especially true given the increasing number of sustainability laws that companies are faced with.

Here are the top four skills all C-suite leaders will need:

Inspirational Leadership

Good leaders have a knack for motivating and inspiring their teams. This holds true for sustainability leadership as well. Executives should both inspire and steer their teams toward common goals, setting clear objectives in sustainability and outlining prioritized actions.

Transparency

The foundation of all sustainability initiatives and regulations is transparency. Ninety-two percent of millennials believe that business success should be measured beyond financial performance. Leaders who openly share sustainability-related information, from supply chain practices to environmental footprints, build trust and foster sustainable business relationships across the value chain.

Change Management

More than two thirds of all change programs fail due to employee resistance and lack of support from management. Sustainability as an organizational change can face resistance too, but leaders skilled in change management foster resilience and agility.

Effective Communication

Leaders play a vital role in communicating the importance of sustainability. They must effectively share sustainability goals and principles, unite their teams under a shared vision for sustainability, and nurture a culture that constantly seeks new ways for lasting sustainable growth.

Leaders must also keep up with new technologies that help with sustainability, form partnerships that enhance and support their sustainability initiatives, and ensure that their operations embody both compliance and efficiency. This way, sustainability becomes a natural part of their everyday business activities.

All C-Suite Roles Will Be Impacted by EU Sustainability Legislation in 2024

C-suite impacted roles	EU Taxonomy	CSRD	SFDR	CSDDD	Green Claims
Board of Directors	●	●	●	●	●
CEO	●	●	●	●	●
CFO	●	●	●		
EVP/Business Head	All areas depending on business and sector				
Chief Operations Officer		●	●	●	●
Chief Strategy Officer		●	●	●	
Chief Marketing Officer	●	●	●	●	●
Chief People Officer	●	●	●	●	●
Chief Product Development		●	●	●	●
Chief Procurement	●		●	●	●
Chief Compliance Officer	●	●	●	●	●
Chief Risk Officer	●	●		●	●
Chief Innovation/R&D	●	●	●	●	●
Chief Sustainability Officer	●	●	●	●	●

Sustainability Skills All Chief Strategy Officers (CSOs) Should Have

Strategic Planning

Companies with a CSO who has a strong, clear vision often perform better in sustainability efforts. This role demands understanding the potential risks and benefits of sustainability across different business approaches, and the skill to blend sustainable practices into the overall business strategy.

Risk Mitigation

Sustainability issues pose big risks for businesses and their reputation. Climate change is already raising red flags, impacting about 43% of businesses in the UK. For nearly half of these businesses, it's increasing day-to-day operating expenses. For about 39%, it's causing issues with their supply chains. And for another 35%, it's causing physical damage to their business assets. The situation across Europe paints a similar picture. That's why the role of a CSO is so important. They need to spot these risks in advance and manage them proactively.

Passion

A passionate CSO, arguably the biggest driver of sustainability in an organization, leaves no stone unturned in promoting green practices that offer social, environmental, and economic advantages.

Measurability, Avoiding Greenwashing

In a world where roughly 66% of customers will pay more for sustainable products, greenwashing can be deceptive and damaging for a brand. CSOs should be transparent, communicate honestly, and report accurately to show the real effects of sustainability projects and build trust with those involved.

Analytical and Critical Thinking

Smart business strategy and sustainability go hand in hand. In fact, critical thinking applied to sustainability can unchain USD 26 trillion in global economic benefits by 2030. A good CSO needs to analyze data, prioritize initiatives based on impact and cost efficiency, and direct strategic decisions accordingly.

Awareness of Compliance and Legislation

Keeping abreast of the latest compliance standards and legislation is a mandate for every CSO. Understanding these factors ensures sustainability strategies are well-informed, feasible, and that the business steers clear of damaging compliance setbacks.

Sustainability Skills All Chief Marketing Officers (CMOs) Should Have

Crafting Sustainability Strategies

Specificity is key when it comes to sustainability strategies. They're far from one-size-fits-all and should be developed to reflect the brand and product offerings' unique nature. CMOs need to articulate how sustainability aligns with, differentiates, or complements their brand amongst competitors.

Targeting a Diverse Customer Base

Modern consumers are increasingly diverse, informed, and interested in sustainable offerings. That's why CMOs must be capable of creating targeted sustainability strategies that reach beyond traditional markets and connect with these diverse consumer layers on sustainability issues that resonate with their values.

Keeping Abreast with Tech Innovations

The promise of sustainability is increasingly intertwined with cutting-edge technology. New digital innovations offer cost-effective, sustainable alternatives to traditional models, making it crucial for CMOs to stay updated on these advancements.

Avoid Greenwashing

In today's environmentally conscious market, CMOs must steer clear of greenwashing to maintain brand credibility. This involves ensuring transparency, verifying claims, staying updated on sustainability trends, and fostering internal collaboration.

Focusing on Future Customers

Achieving long-term sustainability goals involves appealing to future generations including millennials and Gen Z. Two years ago, only 58% of all generations were willing to pay more for sustainable options, but today, nearly 90% of Gen X consumers are. Therefore, understanding the issues important to these demographics and tailoring sustainability campaigns accordingly is key.

Mastering Strategic Collaboration

Implementing sustainability strategies requires a cross-functional collaboration environment. CMOs need to partner with R&D, procurement, supply chain, and other departments to create campaigns that resonate with customers and generate the most sustainable gains.

Communicating Clearly About Changes

As storytellers, CMOs should clearly communicate to customers, clients, and various other stakeholders why changes toward sustainability are necessary.

Sustainability Skills All Chief People Officers (CPOs) Should Have

Data Analysis and Cultural Awareness

A CPO needs to be good at analyzing data to figure out how their company's focus on sustainability is impacting both their employees and the environment. This knowledge helps in expanding the company's culture to embrace sustainability and to bring about important changes. According to the Society for Human Resource Management, sustainability initiatives make the most progress when supported by executives and valued by employees at all levels.

Driving Change and Preparing for the Future

A CPO needs to be good at making changes and planning for the future. They should be able to share a clear vision for sustainability that excites their employees and encourage activities that increase employee involvement. Taking a broad view of how the company treats its employees—including promoting diversity, making everyone feel included, and looking after employee wellbeing—is key to driving sustainability in the future.

Developing a Sustainability Culture through People Analytics

By leveraging data on employee behavior and feedback, CPOs can gain insights that can help them tailor sustainability policies to better resonate with staff. This alignment of people analytics with sustainability efforts ensures employees are more engaged and in tune with the company's sustainability objectives. Creating a work culture focused on sustainability helps employees fully understand and support sustainable practices. Companies that have a strong sustainability culture usually find that their sustainability initiatives are better accepted and more successful.

Compliance and Regulatory Management

A recent study indicates that sustainable HR management can be one of the most complex challenges in the HR field. That's why the CPO is central in ensuring that an organization consistently adheres to sustainability regulations and HR compliance.

Sustainability Skills All Chief Procurement Officers (CPOs) Should Have

Ecosystem Orchestration

A CPO must be at the helm of building sustainable ecosystems integral to business growth and sustainability. This includes engaging with stakeholders such as suppliers, customers, and industry partners for the development of initiatives beneficial to everyone in the ecosystem.

Sustainability/ESG Impact

It is critical for a CPO to understand the company's sustainability goals and key ESG issues. Sustainable procurement practices increase brand value by 15-30%.

Purposeful and Inclusive Leadership

Strong leadership hallmarked by inclusivity and purpose enables open conversations about achieving corporate sustainability goals. An engaged and sustainability-committed workforce is a testament to effective leadership.

Digital Innovation

Emerging digital technologies play an important role in sustainable development, driving efficiency, and enhancing supply chain visibility within organizations. With around 80% of a buying organization's impact hinging on procurement choices, understanding and adapting such digital innovations to procure sustainably is crucial.

Business Collaborations

Business collaborations have become increasingly important in sustainability-oriented procurement. Developing partnerships oriented toward common sustainability goals can enhance business prospects.

Process Efficiency and Compliance

Ensuring process efficiency and compliance with sustainability standards reinforces the sustainability goals of businesses. In fact, research suggests that public procurement activities, when conducted responsibly, could significantly mitigate environmental impacts, such as reducing greenhouse gas emissions.

Part III: How to Prepare Your Business for Sustainability Success in 2024

To help your company succeed sustainably in 2024, concentrate on two things: following the ESG rules that apply to you, and choosing leaders who can take your ESG goals to the next level.

How Can Stanton Chase Help?

Stanton Chase is a leading global executive search and leadership consulting firm with a sector specialization in management consulting for sustainability and functional specialization in Sustainability and ESG. It excels in finding and developing leadership that can effectively drive the ESG agenda

- Dedicated ESG executive recruitment to ensure your company is equipped with leaders who not only understand the complexities of ESG mandates but are also capable of inspiring and orchestrating organizational change.
- Leadership assessment and development to develop leaders who will steer your company toward a sustainable future.
- Succession planning to fill your talent pipeline with future leaders who are abreast of evolving ESG expectations and can drive sustainable business management and development.
- Board services to design board compositions that incorporate diverse perspectives, including expertise in sustainability. This ensures that ESG principles are deeply embedded in board discussions and decisions.

How Can AFRY Help?

AFRY is a European leader in engineering, design, and advisory services. It is dedicated to driving the transition toward a sustainable society on a global scale. Its Sustainability Engineering and Consulting Service supports businesses by offering strategic advisory on transforming the business and creating new business models, helping companies reduce their environmental footprint, optimize productivity, and embrace sustainable practices. This is how AFRY can help:

- AFRY provides expertise on how to integrate sustainability into your business strategy, recognizing the threats posed by climate change, rising sea levels, biodiversity loss, and increasing water stress.
- Leveraging their sustainability governance and strategies, AFRY covers all dimensions of sustainability—environmental, social, and economic—ensuring that their governance and strategic services align with your company's goals while addressing global sustainability challenges.
- AFRY guides organizations in climate-related governance, strategy, and risk management, equipping them with the metrics and targets required to navigate the transition to a low-carbon economy.

AFRY's offerings in sustainability strategies and governance provide your company with strategic foundations to embed sustainability deeply and efficiently into your organizational framework, while positioning you to tackle today's global sustainability challenges head-on.

About the Authors

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Hendrik Geissler is a Partner at Stanton Chase Düsseldorf and the Global Sector Leader for Retail, Wholesale, and Food Services. Before his career in executive search and leadership consulting, he served in various executive roles within IT and telecommunications, holding key positions at HP, Dell, Gemini Consulting, and Siemens Telecommunications. His expertise spans management consulting for sustainability, sales and marketing, and digital transformation. Hendrik also founded two professional services firms prior to his executive search tenure.

Tiina Kähö

Tiina Kähö is a Senior Principal and Co-Head of the Global Sustainability Consulting business at AFRY Management Consulting. Tiina has over 25 years of professional experience in sustainability, environmental business, and innovation. She has supported clients on their sustainability journey within the energy, bio-industry, mining and metals, chemicals, and biorefining, as well as transportation, water, and infrastructure sectors. Additionally, Tiina has led national programs on industrial transformation towards a carbon-neutral society and orchestrated large public-private ecosystems with start-ups, growth companies, corporations, R&D institutions, cities, and public organizations to accelerate impactful climate solutions.

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