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Exploring European Union Corporate Sustainability Reporting Directive's (CSRD) integration process implications on business strategy.

The Case of the Baltics.

By

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Abstract

Following the introduction of the Corporate Sustainability Reporting Directive (CSRD) by the European Commission, the complexity of sustainability reporting increased significantly concerning a vast number of companies. The lack of consideration in the literature on the implications it will have on the business strategy can create negative perceptions of the directive's integration process for the companies and make the transition process more challenging than anticipated. Specifically, a knowledge gap exists across nations with limited expertise in sustainability reporting. Therefore, this study focuses on exploring how companies in the Baltic region navigate the complex landscape of compliance. This study conceptualized five key aspects that contribute to understanding the CSRD integration process's strategic implications. Namely, the CSRD integration process stage, challenges and second-order consequences, motivations, and double materiality assessment approach. To investigate this, qualitative research employing a collective case study design was utilized, involving eight semi-structured interviews conducted with representatives from the Big Four Consulting firms operating in Latvia, Lithuania, and Estonia. Moreover, secondary data from 55 sustainability reports published by listed companies in the Baltics region were analyzed.

The empirical findings demonstrate that Lithuanian companies are ahead of Latvian and Estonian when assessing the stage of the integration process. Additionally, the CSRD implementation stages vary based on the company's type. Moreover, the results indicate that the double materiality concept is challenging for the majority of companies, impeding their compliance progress. The main obstacle when considering the way forward is the lack of knowledge in collecting and interpreting quantitative data. While the main motivation for companies to integrate CSRD is regulatory compliance, the second-order consequences of the companies' actions relate to the high cost of compliance which can result in a positive or negative reputation. This was examined through Transaction-Cost Economics theory to support companies in their journey. These findings add to prior research by providing deeper insights into the key aspects of the CSRD integration process. Finally, an empirical framework is proposed as a summary of all CSRD integration process findings on strategic implications, and future research is proposed to repeat the research as the directive progresses by adding direct insights from the companies.

Keywords: Sustainability reporting, CSRD, NFRD, integration process, business strategy, double materiality, challenges, second-order consequences, motivation, Transaction-Cost Theory, Porter’s Diamond model, Baltics, Latvia, Lithuania, Estonia.

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Best regards,
Wiktoria Bartkowiak & Migle Škensbergaitė

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List of Abbreviations and Definitions

Agenda 2030 - a worldwide commitment signed in September 2015 together with the UN's 17 Sustainable Development Goals to shape a better and safer world for all, to which the EU is highly committed.

EU CSRD - European Union Corporate Sustainability Reporting Directive

EFRAG- European Financial Reporting Advisory Group

EU NFRD- European Union Non-Financial Reporting Directive

EU Taxonomy- a classification system created by the European Union, enacting a catalog of environmentally sustainable economic activities.

GRI- Global Reporting Initiative

KPIs- Key Performance Indicators

Paris Agreement - the United Nations Framework Convention on Climate Change

SFDR- Sustainable Finance Disclose Regulation

TCFD- Task Force on Climate-Related Financial Disclosures

WBCSD- World Business Council for Sustainable Development

1. Introduction

1.1. Background

As the world confronts climate change, social irresponsibility and lack of transparency in corporate sustainability practices, global authorities have taken action toward pressing global challenges (Horowitz, 2016). This has resulted in the introduction of a comprehensive legislative framework, the Corporate Sustainability Reporting Directive (CSRD). By replacing the previous "comply or explain" principle, the CSRD mandates companies across the European Union (EU) to disclose extensive quantitative and qualitative data on environmental, social, and governance (ESG) aspects (European Commission, 2019a). This change intends to promote a more transparent and accountable business landscape and foster sustainable development (European Commission, 2019b). However, the implementation process may lead to significant strategy adjustments for a large number of companies (European Commission, 2023). Porter & Kramer (2011) argue that for the company to be successful it needs to produce a unique value proposition that satisfies customers' needs. Moreover, environmental, social, and economic aspects should be the base for the strategy creation. However, the authors emphasize that companies often fail to understand their business impact in the wider scope of the environment they operate. Thus, Porter and Kramer (2011) suggest that businesses must rethink their strategies.

The EU has been at the forefront in addressing climate change and promoting sustainable development through its active participation in the Paris Agreement and commitment to Agenda 2030 (Carrillo, 2022). Acknowledging corporate engagement's significance in transitioning towards a sustainable economy, the EU recognizes the increasing demand for reliable sustainability information from stakeholders, resulting in ongoing debates surrounding sustainability reporting (Bosi et al., 2022). According to Pasko et al. (2021), sustainability reporting is a complex process that requires collaboration between management, employees, and adherence to internal communication and reporting protocols to effectively set goals, collect data, and present sustainability performance information. Thus, it requires to decide on the strategic approach.

In 2014, the European Union (EU) introduced the Non-Financial Reporting Directive (NFRD) to address the need for enhanced accountability and transparency in corporate sustainability practices (Tylec, 2022). This directive made sustainability reporting a legal requirement (La Torre et al., 2018; European Commission, 2014).

However, the adoption of the European Green Deal in 2020 marked a significant step towards sustainable development, leading to the approval of the CSRD by the European Commission on January 5th, 2023 (European Commission, 2023; Baumüller & Grbenic, 2021). The CSRD expands reporting requirements beyond the existing NFRD and aligns with new reporting standards. Compliance with the CSRD will require substantial investments, and process adjustments, posing challenges for 50,000 companies across the EU. Several authors highlighted the concept of double materiality as one of its biggest changes for companies as they prepare to evaluate it (Villiers, 2022; Latham & Watkins, 2023; Baumüller and Sopp, 2021). According to Villiers (2022), the preparation and implementation of the CSRD are anticipated to require professional training for the companies to understand the requirements and how to integrate them into the business strategy.

De Villiers, La Torre & Molinari (2022) claim that while to some extent similar to voluntary and commonly used in Europe, Global Reporting Initiative (GRI) standards, the scope of CSRD is much broader. The GRI is a highly regarded sustainability reporting social and environmental standard-setting organization that has created reporting standards focused on stakeholders (de Villiers, La Torre & Molinari, 2022). Therefore, some of the reporting requirements of the CSRD align with the GRI framework, such as the reporting on environmental policies and risks (See Figure 1).

№	Indicators	GRI Standards 2016-2022	New EU Standards for reporting sustainability (after 2023)
1.	Scope and Obligation of Reporting	Recommendable	Mandatory for the large-scale companies; SME, registered at a regulated market, excluding microenterprises
2.	Type of Information	Non-Financial Information	Sustainable Information
3.	Topical Fields for Disclosure of Sustainability-related Information	Economic, environmental and social	Environmental, social and managerial
4.	Materiality Concept	Impact caused by the company – economic, environmental and social	Double materiality perspective – environmental, social and managerial impact of the company, impact of the sustainability policies on the value of the company.
5.	Type of Capital Concept	None	Intellectual, human, social, natural capital
6.	Types/Groups of Standards	Universal, sector, topical standards (economic, environmental and social)	Universal and sector standards; system of indicators for classification and accounting of ecologically sustainable economic activities
7.	Reporting Format	Electronic format or on paper	Electronically readable in digital format: XHTML

Figure 1. *Comparison between GRI and CSRD*

Source: Karalic & Dzakula (2020)

Based on the current research and evidence, it appears that companies in Central and Eastern European (CEE) countries that have complied with Global Reporting Initiative (GRI) standards still have a long way to go to prepare for the upcoming CSRD requirements (Balogh, Srivastava & Tyll, 2022; Pasko, Balla, Levytska, & Semenyshena, 2021; Brzeszczyński, Gajdka & Schabek, 2021). Many CEE companies may lack the necessary reporting systems and ESG expertise to comply with these requirements in a strategic way (Balogh, Srivastava & Tyll, 2022).

Hahn and Kühnen (2013) demonstrated in their study on sustainability reporting that variances across nations could influence sustainability reporting due to differences in economic conditions, as well as variations in education and labor systems. The proposal of CSRD raised a large number of organizational concerns, especially in the Baltic countries (i.e. Latvia, Lithuania, and Estonia) which have yet to find a way of incorporating ESG factors into their reporting systems (KPMG, 2022). The research of Arraiano and Hategan (2019) shows that ESG awareness and adaptation increased but at a slower pace than in Western European countries. Similarly, Zumente, Lāce and Bistrova (2020) found that ESG reporting is less common among Baltic companies compared to those in Western Europe, with environmental disclosures being the least frequently reported. Therefore, the integration of CSRD into the reporting practices of companies in the Baltics is expected to result in a range of strategic implications (Balogh, Srivastava and Tyll, 2022) which potentially differ across countries and company types. This research aims to offer valuable insights into the varying implementation of the new regulatory framework across different states within the Baltic region, despite their perceived similarities.

1.2. The theoretical and practical problem

The need for researching mandatory sustainability reporting integration process was drawn to attention by Aldowaish et al. (2022) research study. It systematically reviewed 29 studies on ESG integration to the business model and recognized that the particular area of the integration process was researched only by two studies, therefore, it needs to be studied more in order to motivate organizations to improve their business models, support sustainability and reinforce financial performance. As CSRD is so far the most ambitious in its scope and content sustainability directive, the companies already need to start preparing for it (O'Dochartaigh, 2022), therefore, it is important to document at which stage the companies currently are in the CSRD integration process to fully comprehend the situation and draw comprehensive conclusions on its implications towards companies' strategies.

Furthermore, the new sustainability directive's integration process will have to be approached from the double materiality perspective which increases the complexity of sustainability reporting which has its own challenges (Baumuller & Sopp, 2021) and benefits such as increased and more direct engagement of stakeholders, support in the investments decision-making process, a wider understanding of sustainable development that can impact the companies approach to sustainability (Adams et al., 2021). Therefore, due to the concept's importance and complexity in sustainability reporting it is essential to explore what it means for the Baltics market specifically. Additionally, we have observed that research does exist that covers companies' challenges when integrating sustainability reporting, however, most of the recent studies are case specific e.g. Opferkuch et al., 2023; Suphasomboon & Vassanadumrongdee, 2023; Makhetha & Kele, 2023; Mahajan, 2023; Juusola & Srouji, 2022; Indyk, 2022; De Micco 2021; etc. leaving the need to cover particularly Baltics markets and its integration process challenges' implications on strategy.

Moreover, the lack of research performed on the consequences of the sustainability reporting integration process was witnessed as well. Several authors recognized the consequences when the first companies were required to provide reports in line with NFRD in 2017 (Grewal et al., 2018; Ioannou & Serafeim, 2017). However, at that time research studies regarding the consequences of mandatory CSR reporting were considered for countries that already had a longer history of such reporting, for example, Denmark, France, China (Gulenko, 2018). Additionally, he recognized that most of the studies (29 of 32 synthesized research studies) focus on first-order consequences which stand for consequences directly related to the adjustment of reporting directives, for example, on a number of companies reporting, reporting quantity or quality. Thus, literature focusing on second-order consequences which are the consequences of adjustments in the reporting practices, for instance, the modification of firm profitability, decrease in levels of emissions, are immensely scarce, limiting the possibility of creating implications on the regulation effects on the companies' strategies (Gulenko, 2018). The Otteinstein et al. (2021) study follows up previously mentioned study on NFRD after its introduction by exploring multiple EU countries' firms and seeks to record first-order consequences of mandatory sustainability reporting regulation (See Figure 2), however, second-order consequences were not analyzed.

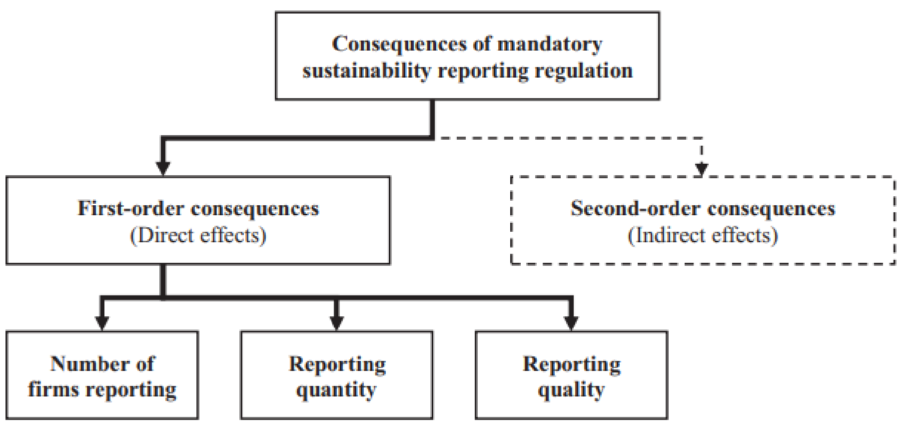

Figure 2. *Direct and indirect consequences of mandatory sustainability reporting regulation.*
Source: Ottenstein et al. (2021)

Lastly, after the first try to synthesize the literature, it was noticed that there are numerous coverages on motivation to integrate into their existing processes sustainability reporting. Many studies focus on indicating that internal motivation is one of the key driving forces, however, they do not specify in detail what those motivations are e.g., Herremans & Nazari (2016); Lozano, Nummert & Ceulemans (2016) or other studies covering particular case studies e.g., Qian et al. (2020). There are a few research studies that define motivations in a detailed manner (Herzig & Schaltegger, 2011; Juusola & Srouji, 2022; Carmo & Miguéis, 2022), however, it still leaves the need to check how it corresponds to the Baltics market particularly and whether it has significant implications on strategy.

Considering available information in the previously performed research studies there is a clear need to fill the gap in the literature by addressing mandatory sustainability reporting integration process implications on companies' strategies. Thus, the double materiality assessment, challenges, second-order consequences, and motivations to comply will have to be addressed with this research study, as this, to the best of our knowledge, is not covered sufficiently with published studies, however, has significant implications on the business strategy. Lastly, this study aims to address another research gap by focusing specifically on the CSRD framework implementation in the Baltics market which does not have a long-term history of mandatory sustainability reporting as for example, Finland or Denmark (Sustainable Development Report, 2021).

1.3. Purpose of the study and research questions

This study seeks to enhance understanding of the implications of the CSRD integration process on companies' strategies in Baltic countries. Drawing on background and problematization it aims to achieve this by examining the implementation stage, double materiality approach, challenges, second-order consequences, and motivations associated with the directive. The research aims to fill the research gap that currently exists by providing relevant contributions from the literature review and empirical study's findings for both fellow researchers and practitioners including businesses and policy regulators. Researchers in the corresponding field will be presented with new insights from the theoretical framework developed on how the big-scope regulation integration process impacts business strategy. Moreover, considering calls for urgent actions, they will be shown at which integration process stage the companies currently are. Therefore, this study will provide a starting point for future theoretical research from the conclusions drawn from synthesizing available literature and the empirical findings which currently are scarce in this research area. Practitioners will benefit from this study as it aims to contribute by demonstrating CSRDs integration process challenges and second-order consequences to the companies, the approaches towards double materiality assessment, and how the integration process depends on companies' motivations as this may lead to the business strategy implications. Subsequently, practical implications could be advantageous with future regulations development to ensure a smooth implementation process, positive attitude from the stakeholders, and effective policy creation, as well as set the right expectations for the businesses management teams and staff on how their business will be affected by high importance and scope of the new regulation.

In response to the existing research limitations, this thesis addresses the following research question:

What are the European Union Corporate Sustainability Reporting Directive's (CSRD) integration process implications on companies' strategies in Baltics?

Creswell & Creswell (2018) state that supplemental research questions are designed to assist in answering the main research question. These questions serve to break down the overarching topic into more manageable components, which can then be examined in greater depth. By addressing these supporting questions, the study can gain a more thorough understanding of the implications of the CSRD integration process on a companies' strategies and produce more comprehensive insights. Thus, this central research question is supported by the following questions to be answered with the literature review, and empirical research study:

1. At what stage of the CSRD integration process companies in Baltics currently are?
2. How do companies approach double materiality assessment?
3. What are the challenges and second-order consequences of the CSRD integration process for companies in the Baltics?
4. What is the companies' motivation behind the CSRD integration process?

To address these questions, qualitative interviews with the Big Four consultancy companies' representatives will be conducted, and supporting secondary data will be analyzed. Further explanation of the research approach will be presented in the methodology chapter below.

2. Literature review

According to Snyder (2019) different perspectives of the literature integration on various themes can focus on the research question as no individual research can. The motivation behind this literature review is to build exploratory conceptualizations and a new theoretical framework for the above-described limited-studied research problem. Therefore, an integrative literature review approach is applied. It synthesizes various aspects and insights of the different literature areas to critically evaluate and inspect them (Torraco, 2005). Needed literature is identified according to its role of building links between analogous themes to create a new framework that encompasses the complex system of sustainability reporting integration process implications on business strategy.

After the first synthesis which allowed us to identify existing gaps in the literature and determine the research problem mentioned in the introduction. The following focus of the literature review will be on establishing areas in which possible elements can be found. These elements will be used to assemble the preliminary framework which will serve as a template to our data collection and analysis, and a literature review summary of the main themes. In order to critically analyze and provide a better understanding of the topic, the literature review begins with the regulatory context. Then, it is broken down into three key areas of sustainability reporting as advised by Torraco (2005) when using the integrated review method i.e., integration process, double materiality assessment, challenges, second-order consequences, and motivations. Every area has its elements that are broken down to smaller sections to develop the themes in a more narrow and deeper perspective. Every paragraph synthesizes and reports the literature's strengths, main inputs, and shortcomings to determine the knowledge that needs to be created with the empirical research study. This chapter could be already seen as an initial step in trying to address the research purpose.

2.1. Sustainability reporting and its regulatory context

The section's purpose is to provide a basis for understanding the specific obstacles and implications that businesses may confront when incorporating sustainability reporting under CSRD requirements. Additionally, it presents a comprehensive understanding of the key concepts and regulatory framework within which the research is conducted and sets the stage for the empirical findings and analysis.

2.1.1 Sustainability reporting

In line with Lambrechts (2019), sustainability reporting includes ESG risks, global reporting initiatives (GRI), and community initiatives. ESG awareness in the same field has grown as the analysis of sustainability data has advanced environmental, social, and governance (ESG) factors that are deemed to have an impact on how corporations behave when making investment decisions (Armstrong, 2020). Gao et al. (2021) argue that ESG is a key indicator of performance in non-financial areas. Furthermore, research conducted by IFAC (2012) found that when referring to the term "environment" in the context of sustainability reporting, it typically encompasses the recognition of climate change and population growth and their negative impacts on the natural environment. According to Mobius von Hardenberg & Konieczny (2019), “Social” focuses on corporate social responsibility (CSR) and therefore, on issues related to working conditions, human rights, health and safety, employee engagement and diversity. “Governance” consists of the controls for regulating the evolution of this non-financial information (Armstrong, 2020). Past empirical research has demonstrated that many businesses have committed to utilizing ESG for sustainability, primarily because it enables them to develop the skills and competencies necessary to secure long-term competitive advantages and protect their image (Fatemi, Glaum & Kaiser, 2018; Armstrong, 2020; Alareeni & Hamdan, 2020). Nevertheless, ESG reporting legal requirements vary by country.

2.1.2. Country-specific sustainability reporting regulations

Out of the Baltic states, Lithuania has the most regulations in place when looking from a sustainability reporting perspective (Dagilienė, 2017; UNPRI, 2023). In Lithuania, the provisions of the NFRD were incorporated into Lithuanian law in 2016, through amendments made to the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania (Anderson & Hurley, 2021a). Additionally, there is a national legislation that enacted the NFRD, i.e., companies are required to include a non-financial statement, which states that a company must have a capital that exceeds 20,000,000 euros or an annual net income of 40,000,000 euros. Moreover, in Lithuania, national legislation mandates firms to disclose the environmental and sustainability impact of their activities, as well as the impact of companies in which they invest, specifically firms within the hard-to-abate sector have been required to disclose such data since 2000 (Bank of Lithuania, 2021).

Nevertheless, in the cases of Estonia and Latvia, no regulation at the national level exists besides NFRD that mandates the disclosure of non-financial or ESG data (Zumente & Lace, 2022; Riigi Teataja, n.d; Anderson & Hurley, 2021b). Until 2018, sustainability reporting in Estonia was entirely voluntary (Magli & Martinelli, 2022). The obligation for mandatory sustainability reporting in Estonia originated from the NFRD, which was incorporated into the Estonian Accounting Act (Riigi Teataja, nd). This requirement applies to Estonian businesses and came into effect in June 2021. The Accounting Act mandates that Estonian firms publish their ESG data in management reports, which is in line with CSRD requirements (Riigi Teataja, nd). Similarly, in Latvia, until the NFRD came into force in 2018, one investment disclosure policy was in place. Namely, an Engagement Policy that outlines its activities related to environmental and sustainability impact. If the investment policy of the management company involves investing the funds of pension plans established by a trust fund, state-funded pension scheme, or private pension funds in shares of a public limited company registered in a Member State and listed on a regulated market in a Member State, it will consider matters related to environmental and sustainability impact. Nevertheless, there is currently no national legislation mandating companies to disclose information regarding workplace diversity, employee or any other diversity pay gaps (Anderson & Hurley, 2021b).

2.1.3. CSRD aims and timeline

The main goal of the CSRD is to augment the quality and significance of sustainability-related information disclosed by companies. It aims to achieve this by collecting more accurate data on ESG risks and the impacts of their operations (European Commission, 2019a). Furthermore, the CSRD intends to enhance the reliability, comparability, and relevance of the information provided by companies on their sustainability risks, opportunities, and impacts (European Commission, 2019b).

Its proposal from the European Commission was made public in April 2021. Since then, member states have had 18 months to adopt the directive into national law (European Commission, 2021).

The proposed directive will be applied in three phases beginning with the fiscal year 2024 (see Appendix B).

Firstly, companies already reporting under the current NFRD will need to comply with the new requirements starting from the fiscal year 2024. For this reason, section 2.1.5. will present the gap companies will have to cover in their transition from NFRD to CSRD. Secondly, larger companies that are not currently required to report under the NFRD will be required to report starting from the fiscal year 2025. Finally, small, listed companies, small and non-complex credit institutions, and captive insurance undertakings will have to comply with the new directive from the fiscal year 2026 onwards. The reporting obligations include subsidiary-level reporting for reporting companies (European Commission, 2023).

2.1.4. CSRD preliminary standards for sustainability reporting

As previously mentioned, one of the biggest changes within the legal framework of CRSD is the concept of materiality which will have to be considered and assessed when preparing reports, as in CSRD the principle of "double materiality" is introduced. This principle forces the companies to address sustainability matters not only from the perspective of how they influence their business but also from how their business impacts those matters (Baumuller & Grbenic, 2021). Furthermore, even if a particular case has a one-sided impact, the company still must report on it, for instance, if a particular company's activity negatively affects the environment, but has zero direct effect on its financial performance, it anyways has to report on it (European Commission, 2023). Therefore, companies have to already start preparing for sustainability reporting in order to be ready to report for the 2024 year (Baumuller & Grbenic, 2021).

The proposed European Sustainability Reporting Standards (ESRS) will be presented to the European Commission, and it is anticipated that they will be approved by June 2023. However, currently, the companies may get acquainted with preliminary CSRD reporting areas and topics which are shared on the official website together with educational videos (EFRAG, 2021). The initial series of ESRS, which encompasses 12 standards, aligns with the CSRD recommendation, and encompasses various environmental, social, and governance topics (See Figure 3). The set comprises both universal and theme-specific standards (EFRAG, nd).

Figure 3. *ESRS draft proposal.*

Source: EY (2022)

In line with EFRAG (2021) ESRS 2 standards' category outlines that topical ESRS's Disclosure Requirements (DRs) should encompass reporting in the following four areas:

- Governance: referring to the processes, controls, and procedures utilized to oversee and manage impacts, risks, and opportunities.
- Strategy: describing the relationship between the company's strategy, business model(s), and its significant impacts, risks, and opportunities, including strategies for addressing them.
- Impact, risk, and opportunities: discussing the policies and actions implemented to identify, evaluate, and manage impacts, risks, and opportunities.
- Metrics and targets: providing information on how the company measures its performance, including progress towards achieving the targets it has set.

ESRS 1 and ESRS 2 are cross-cutting standards that are relevant to all sustainability matters (EFRAG, nd). ESRS 1 provides the fundamental principles and concepts that companies must follow when preparing sustainability statements in accordance with the CSRD, including the mandatory disclosure of certain sustainability information, regardless of its materiality. ESRS 2 establishes the overarching requirements for sustainability reporting, encompassing the disclosure of general company characteristics, compliance-related information, and details on strategy, governance, and materiality assessments related to sustainability impacts, risks, and opportunities (EFRAG, nd).

The topical standards in the ESRS cover environmental, social, and governance issues with disclosure requirements that are not specific to any industry. The goal is to provide users with a comprehensive understanding of a company's impact on these issues, as well as its associated risks and opportunities, and their effect on the company's ability to generate value. The scope of information has drawn significant attention since many companies and stakeholders are skeptical that a European approach to sustainability reporting will be effective given the international scope of European companies' activities (Baumüller & Grbenic, 2021). Lanfermann, Schwedler and Schmotz (2021) argue that the EU Commission's initiative and the IFRS Foundation's project seem to have different directions concerning the structure and priorities of the developed standards. This difference could lead to considerable complexity and costs for companies that have to consider both developments in their sustainability reports.

2.1.5. The gap between CSRD and NFRD

In order to highlight the complexity of the CSRD integration it is important to notice the differences between the previous EU mandatory ESG reporting directive (NFRD) and CSRD. The CSRD supersedes the provisions of the NFRD and fundamentally transforms the European sustainability reporting framework (Baumüller & Grbenic, 2021). As noted by Villiers (2022), it is important to highlight that the European Commission has changed the terminology used for the reporting requirements for CSRD, from "non-financial" to "sustainable". This reflects the financial relevance of the reporting framework. Moreover, it increases focus on sustainability issues and the expectation for companies to report on a wider range of sustainability-related topics beyond just environmental and social matters (European Commission, 2023). In addition, it suggests that a new perspective is required on both the goals and objectives of carrying out corporate reporting on sustainability issues. Baumuller and Sopp (2021) argue that more than just terminology is impacted by the proposed switch in the EU from non-financial to sustainability reporting. They notice that the decision to revise the NFRD was partly due to mounting criticisms surrounding the vague and uninformative nature of the term "non-financial". They further argued that the term lacked defined, positive content and merely represented a negation. Moreover, the CSRD proposals strive to harmonize the European provisions for corporate sustainability reporting with the additional requirements set by other sustainability-focused regulations (European Commission, 2023). Firstly, the SFDR mandates certain sustainability-related disclosures for companies operating in the financial services industry. Secondly, the Taxonomy Regulation includes essential definitions of environmental sustainability in the EU and modifies the reporting obligations of the SFDR (Baumüller & Grbenic, 2021).

While the European Commission set disclosure requirements, Velte (2021) notices a possible risk of this developing EU reporting legislation. Namely, it could lead to an excess of standards, ultimately resulting in no improvement in comparison to NFRD due to a lack of consistency in disclosures between companies (European Commission, 2023; Velte, 2021). Additionally, Latham & Watkins (2023) claim that the main difference for companies in transition from NFRD into CSRD is the concept of double materiality, value chain reporting obligation as well as third-party assurance. Similarly, a study by Baumuller and Sopp (2021) found that the double materiality assessment is their main challenge. The double materiality concept aims to broaden the definition of materiality beyond factors that will affect a company's financial performance, to also include the impacts that the company has on society and the environment. This poses a challenge for companies as they need to collect more data and information to comply with the new reporting requirements (Chiu, 2022). Appendix B presents the comparison between NFRD and CSRD.

2.2. Sustainability reporting integration process stages

While the previous section tried to define a common ground for understanding the main obstacles and implications of sustainability reporting and aligning on the regulatory context, this section aims to review existing literature to identify possible stages of the sustainability reporting integration process impacting business strategy. Since the reporting process evolved, it is important to review this theme.

Busco et al. (2013) argue that companies have had to reevaluate their reporting procedures, shifting from sophisticated financial information for accountants to a more inclusive strategy considering the interests of diverse stakeholders. This transition poses challenges in effectively communicating the broader range of information in sustainability reports. Similarly, Rossi & Luque-Vílchez (2020) claim that many companies will be obliged to re-assess their current sustainability reports or create reports from scratch under the CSRD, and as this process is of a big scope and high complexity sustainability reporting integration process should be explored more. Chofreh and Goni (2017) performed a study whose purpose was to review existing sustainability frameworks and emphasize the gaps in the literature. The authors found two paradigms which are needed to be considered in the sustainability framework: the sustainability paradigm, including triple bottom line areas, and the decisional paradigm which includes strategy, tactics, and operations. They evaluated existing frameworks on sustainability according to the paradigms and noted that the following authors' frameworks consider all those areas: Heemskerk, Pistorio & Scicluna (2002), Burke and Gaughran (2007), Loorbach et al. (2009), Ahmed and Sundaram (2012), Hahn et. al (2015), Panagiotakopoulos et al. (2016). Heemskerk, Pistorio & Scicluna (2002) framework will be discussed in more detail because it has the least inconsistencies found, aims to help companies implement sustainability reporting, and is the most generalizable (Chofreh & Goni, 2017).

2.2.1. Sustainability reporting step-by-step approach

The framework by Heemskerk, Pistorio and Scicluna (2002), who introduced sustainability reporting guidance to support companies, was developed by WBCSDs member companies' experiences. The authors explain that first companies have to evaluate their own strategic situation i.e., their stakeholders, strategic objectives, vision, and values to describe their business case which must be communicated internally and externally (See Figure 4). Moreover, the authors emphasize the need for integrated sustainability reporting and management processes to be able to create value: "Information in itself does not lead to action or a change of behavior unless it is relevant and connected to management systems" (Heemskerk Pistorio & Scicluna, 2002, p. 34). According to the Heemskerk, Pistorio and Scicluna (2002) framework, management processes consist of five stages. First, defining overall objectives, second, planning which activities should be fulfilled, dedicating resources to it and setting KPIs. Third, integrate the activities into the business plan. Fourth, follow up and appraisal, match earlier set objectives and set targets, and fifth, reflect on what happened, and evaluate for continuous organizational learning. The second paradigm indicated in Figure 4 consists of five steps as well, but connected to reporting specifically: setting reporting objectives, planning, constructing, distributing the report, and lastly gathering and analyzing feedback.

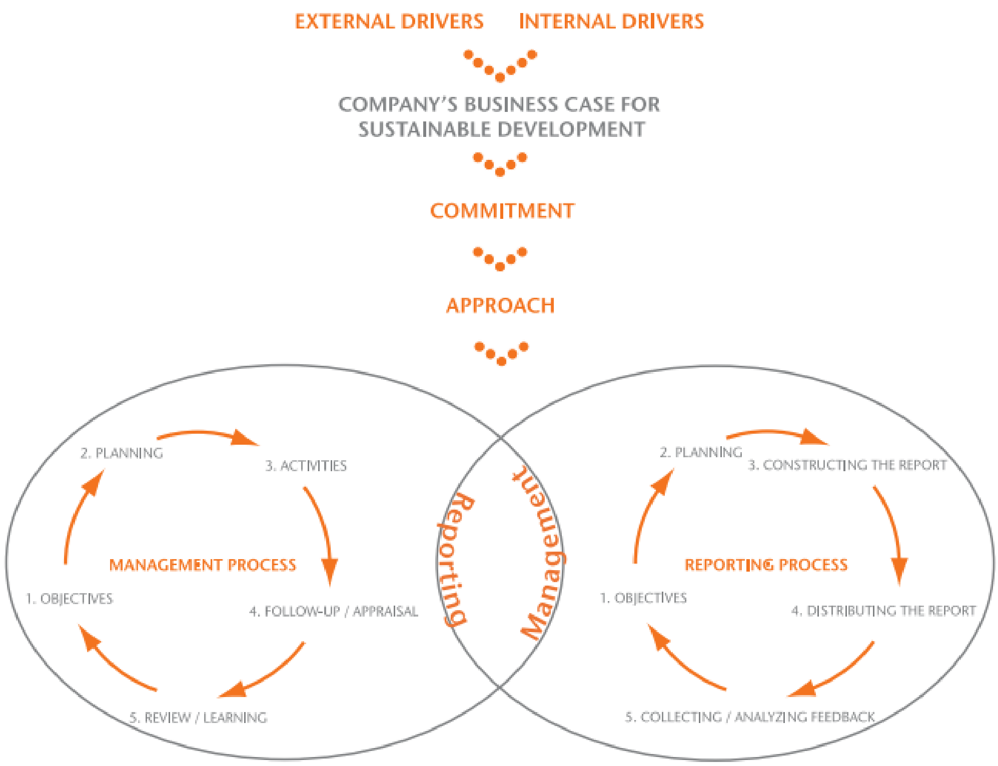

Figure 4. *Sustainability reporting implementation framework.*
Source: Heemskerk, Pistorio and Scicluna (2002)

Chofreh and Goni (2017) emphasized that Heemskerk, Pistorio & Scicluna (2002) framework was developed by case study method which allowed them to gather deep observations for the analysis, as well as to make this framework generally applicable they did a survey across several organizations in different countries that were dealing with sustainability reports. Moreover, as mentioned before it included both sustainability and decisional paradigms, which is considered as a quality indicator for the framework (Chofreh & Goni, 2017).

The second framework covered by literature is the Value-Driver Adjustment (VDA) approach which links traditional valuation ways because of ESG factors connected to the value drivers through the implications on business models and rival positions (Schramade, 2016). This approach provides insights into how organizations can incorporate sustainability to their investment decisions. And thus, assess the organization's performance on the issues compared to its competition and based on various indicators, policies, strategies, etc. to evaluate whether the company can acquire a competitive advantage or disadvantage from the material issues and how that impacts the value drivers. VDA approach consists of three steps to appraise ESG issues affecting organization valuations (Schramade, 2016):

- Starting with the step of focusing "on the most material issues, that is, those ESG issues that may substantially affect the company's business model and value drivers–either positively or negatively" (Schramade, 2016, p. 6).
- Secondly, analyzing how the material aspects affect the company.
- And third, convert identified competitive (dis) advantages into improvements of the value-driver assumptions in valuation models.

The VDA approach proposes a simplified framework consisting mainly of three steps which are closely connected with the return on investment and competitiveness of the company. However, if compared with Chofreh's and Goni's (2017) distinguished sustainability and decisional paradigms which indicate the quality of frameworks, Schramade's (2016) framework may lack on sustainability paradigm, as companies who would use the VDA approach could miss important material topics for their key stakeholders, as most attention would be towards investment payback. Moreover, Schramade (2016) indicates in his paper that this model is a work in motion i.e. mainly there is a need to answer the questions of how the analyst can connect material topics to the exact value drivers, what are the most effective ways to connect ESG issues with value drivers, and how this challenge of connecting material topics with value drivers be communicated and integrated across the organization, not only at the top management.

The last model for evaluating the process of ESG integration is the Regulation Ready model (See Figure 5) by O'Dochartaigh (2022) according to which companies need to consider five steps defined in the figure to become prepared for ESG regulation of any kind (See Figure 5). The steps provide simple guidelines for companies to follow. Firstly, to allocate both financial and human resources to invest in the company's processes and personnel. Secondly, to have smooth communication and coordination of the vision and set KPIs across the whole organization as ESG requires to involve all business functions from finance to marketing, and different levels of people hierarchy. Third, measuring the data points inside-out and outside-in to make sure to cover the "double materiality" principle. The following step is making sure to prioritize the performance of ESG rather than only ESG disclosure, and the last step is the collaboration for the innovation as it could not only fill the gaps of knowledge or allow to save costs but also solve challenges to support sustainability (O'Dochartaigh, 2022).

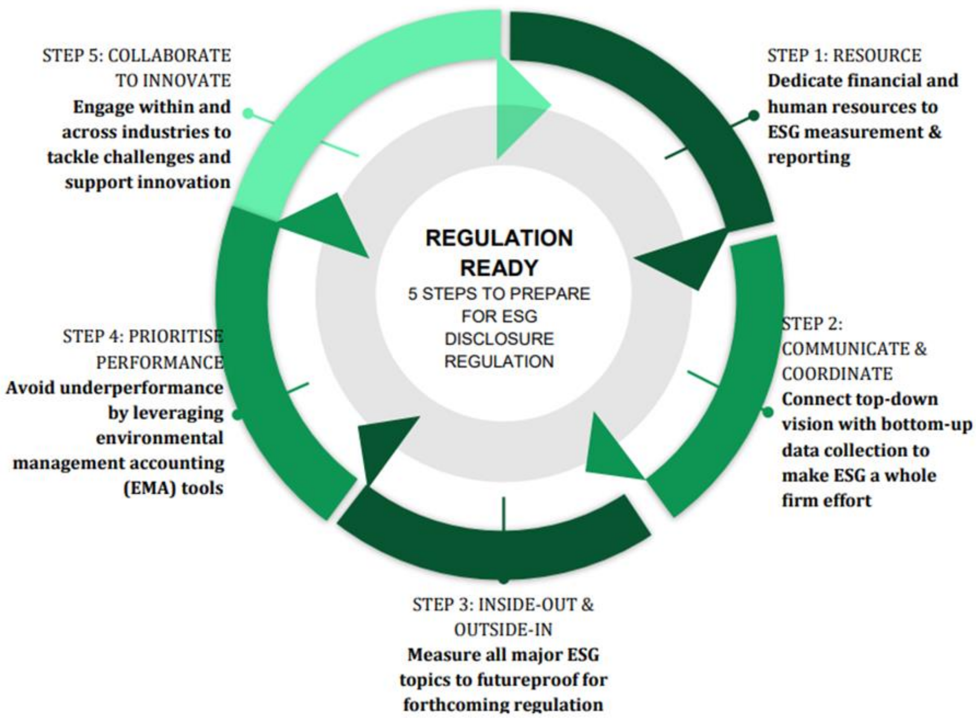

Figure 5. *Regulation ready: 5 steps to prepare for ESG disclosure regulation.*
Source: O'Dochartaigh (2022)

O'Dochartaigh (2022) provides valuable and basic steps on how companies can start their sustainability reporting journey and connects both sustainability and decisional paradigms defined by Chofreh's and Goni's (2017). Moreover, compared to the other two mentioned frameworks, O'Dochartaigh's (2022) Regulation Ready model goes beyond by suggesting integrating innovation by investing in partnerships across industries, therefore, expanding the scope of the model's applicability. The author provides justification on every step's importance, however, it would be valuable to also observe examples of this model adaptation in real-life cases.

2.3. Double materiality assessment approach

Double materiality as mentioned in the first section of the literature review is one of the key differences of CSRD from NFRD's "triple bottom line" which increases the complexity of reporting significantly. The companies will have to report not only on sustainability topics but also on how they connect their strategies to it, thus the CSRD will be a big change for the companies, especially when it becomes mandatory for a wide scope of organizations (Baumuller & Sopp, 2021). The following sections will cover the double materiality assessment and materiality assessment in general from various important aspects which reflect how it is approached in the literature and aspects which are important for empirical findings development.

2.3.1. Stakeholders' role in materiality assessment

In line with Puroila & Makela (2019), business operations lead to a wide array of consequences towards sustainable development, and it is the companies' responsibility to acknowledge and report on their environmental and social impact. Therefore, according to the authors, the companies should organize a broad materiality assessment, including stakeholder engagement when proceeding with it. This wide disclosure of the company's performance information can shape how stakeholders view the situation, thus, it is important to identify and prioritize the right information for sustainability reporting. As many sustainable development issues are deeply complex, sustainable reporting needs thorough exploration through different perspectives and including various stakeholders (Puroila & Makela, 2019). Stakeholder theory, which frequently serves as the theoretical foundation of ESG literature, considers how a company interacts with its stakeholders (Freeman et al., 2010). Stakeholders in a business are people or groups of people who can influence or be affected by the business's operations (Freeman et al., 2010). Furthermore, Chandler (2021) identifies various stakeholders including investors, employees, suppliers, customers, shareholders, non-governmental organizations, and other interest groups. According to the author, the theory claims that it is crucial for businesses to meet the needs of various stakeholder groups while satisfying shareholders' interests.

Stakeholder theory recognizes that a firm's impact is not only measured by its financial performance but also by its social and environmental practices and how they affect stakeholders (Chandler, 2021). As noted by Jones, Harrison and Felps (2018), this theory is commonly understood as one that asserts a positive relationship between a company's performance and its relationship with stakeholders. Thus, it suggests that by providing transparent and accurate information on their sustainability practices, companies can build trust and credibility with stakeholders, which can ultimately contribute to enhancing their reputation. In addition, Shabana, Buchholtz and Carroll (2016) have demonstrated that recognizing and adhering to the principles of stakeholder theory has a beneficial effect on a company's sustainability progress.

Furthermore, a study by Hess (2007), discovered that disclosing a company's non-financial data through reports results in lower costs for engaging stakeholders in the company. It can also increase the likelihood of stakeholders becoming more involved in the company's performance. This is because when stakeholders have access to additional information, they can hold the company accountable for its actions and demand changes in its business practices to achieve solutions that benefit both parties in the relationship.

The sustainability report has become increasingly important in modern society. According to Allen (2016), the concept of sustainable development is rooted in enterprises catering to the needs of stakeholders, and one effective way to attract stakeholders is through the disclosure of Sustainability Reports. Similarly, Hahn & Kühnen (2013), found that enterprises tend to demonstrate their governance transparency and effectiveness through sustainable disclosure, influenced by meeting the expectations of relevant stakeholders. Hence, the significant impact of stakeholders on sustainability reporting is undeniable. Stakeholder participation can positively influence sustainable development performance in the short term and drive companies towards more sustainable business practices in the long term (Allen, 2016).

2.3.2. Materiality matrix of ESG practices

Literature suggests that a materiality matrix is a techno-rational tool that is used to facilitate deep-rooted complexity of materiality assessment from perspectives of business development and stakeholders on material topics prioritization (Adams et al., 2021). This graphical tool was introduced in 2004-2005 as a visual reporting demonstrating on Cartesian axes the priorities to report on or have an influence on the strategy (De Cristofaro & Raucci, 2022). According to the authors, this matrix was included in the GRI guidelines and was actively in use up until 2020. The materiality matrix's Y and X axes define either importance, concerns, impact, significance, or influence (Puroila & Makela, 2019). They identify that the purpose of the materiality matrix is to limit the high scope of possible sustainability information for materiality assessment and to rank sustainability matters regarding established measures. According to the authors, the sustainability topics placement on the matrix shows its importance in different periods of time or other topics, for example, if a topic is placed more towards the top or on the right it will be assumed to have more materiality, and if it is towards the left or bottom, then it will have less. This implies that having a greater ranking will result in more density to affect sustainability plans and strategies (See Figure 6).

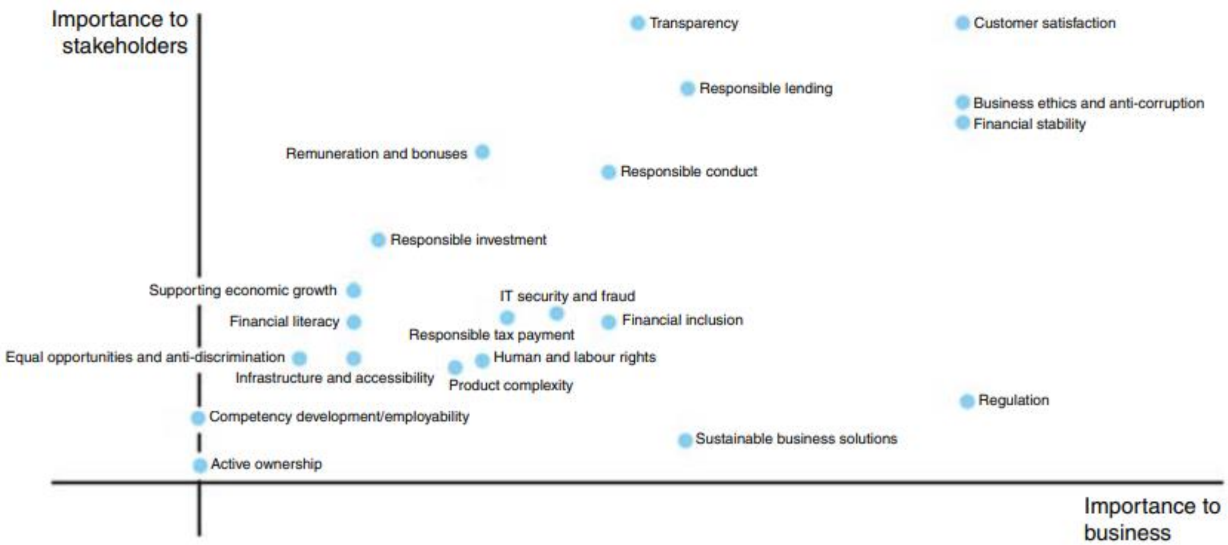

Figure 6. *Materiality matrix.*

Source: Puroila and Makela (2019)

However, as with every model the materiality matrix has shortcomings as well starting with a lack of information on how different matters were ranked in contrast to each other, what did not make the list and why (Puroila & Makela, 2019). Therefore, they emphasize that even if the tool seems accurate and objective, companies typically do not disclose justifications for how the matrix was created. Moreover, according to the authors, the matrix consolidates stakeholder voices to one which compromises their various approaches about which sustainability topics are material, therefore, it could represent a particular group of stakeholders or the majority. And the limited knowledge about the stakeholders' engagement process does not allow for consideration that there was a chance for smaller stakeholders to express their opposite opinion and allow some conflict of opinions to exist (Puroila & Makela 2019).

According to De Cristofaro & Raucci (2022), the Materiality Matrix was abandoned by GRI after more than ten years of applying it when assessing materiality for two reasons. Firstly, due to the fact that the material topic cannot be composed of two dimensions and two independent criteria. Secondly, the fears that organizations could develop improper interpretations when using this visual tool, considering its impact on them and not their impact on sustainable development. Therefore, even though currently visualization does not exist to help select material topics, GRI 3: Material Topics 2021 provides step-by-step guidance (See Figure 7). The first three steps serve as a step to decide on an organization's impacts by repeating this process regularly and including relevant stakeholders. And the 4th is needed for the prioritization of the organization's most relevant impacts which establishes material topics (GRI, 2022).

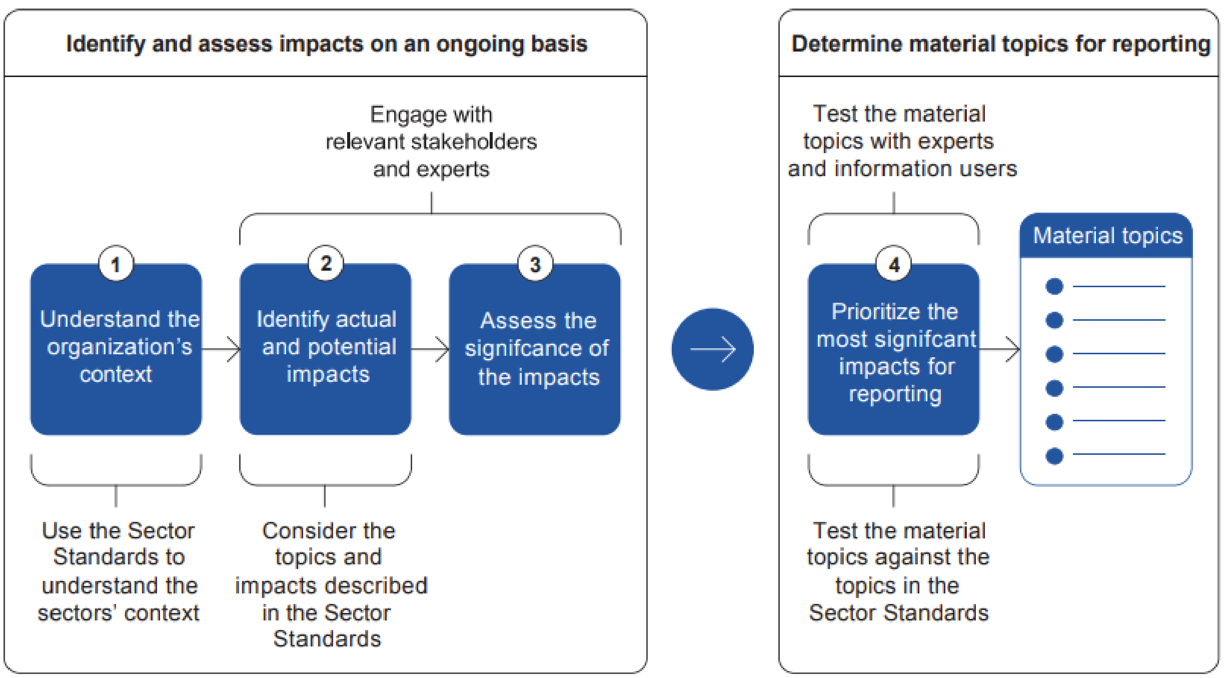

Figure 7. *Material topics determination process.*

Source: GRI (2022)

2.3.2.1. Materiality Matrix suggested improvements

The researchers Puroila and Makela (2019) proposed a critical dialogic approach versus the traditional technical-rational one to the materiality assessment to address its shortcomings. It is based on the understanding of the socio-political nature of materiality assessment and trying various assessment practices to create more inclusive materiality. The change in mindset is followed by the change in the "role of the reporting organization, stakeholder identity and interaction, the nature of sustainability information, the analytical approach, the criteria for assessment and the nature of the outcome" (Puroila & Makela, 2019, p. 1062)   Moreover, the authors state that in materiality assessment, stakeholders' engagement should explore different questions, for instance, "what are the understandings and dimensions of materiality assessment and who gets to decide them? Do we first define the stakeholders and then the materiality dimensions, or vice versa? Who is identified as a stakeholder?" (Puroila & Makela, 2019, p. 1063). Thus, this approach would create richer interest pools rather than having unified one stakeholder group perspectives. Figure 8 provides consolidated materiality assessment approaches: critical dialogic versus traditional technical-rational approach in order to highlight how the Materiality Matrix limitations could be fixed with a critical dialogic approach instead.

Approach	Technical-rational approach	Critical dialogic approach
	Materiality as a technical-rational approach	Materiality as a socio-political phenomenon
Reporting organisation	Organisation as a capable, neutral, and objective actor, capable of presenting the information in a reliable and objective manner	Organisation as a political actor with particular interests, motives and goals that effect the disclosure
Stakeholder identification	Simple (economic) identity	Multiple and changing identities
Stakeholder interaction	Compromise-driven, differences between stakeholders and their interests can be balanced to satisfy their informational needs	Political, agonistic, inequality of power-relations, divergent and often conflicting values, different informational needs
The nature of sustainability information	Objective, comparable, available, commensurable and measurable	Highly complex, involving multiplicity of disciplines and time frames, a socio-political construct and interconnected
Analytical approach	Rigorous, technical, often result-oriented exercise aiming for consensus or compromise	Judgements are value-based decisions influenced by ideological perspectives
Criteria of materiality	Predefined, closed criteria	Context-specific criteria, dependent on its framing, open to contestation
Outcome of the materiality assessment	"A legitimate closure", a true and fair view of corporate sustainability performance, claimed transparency	"A temporal compromise", contingent, and uncertain, an explicitly political and context-specific version of corporate sustainability

Figure 8. *Opening up materiality assessment through critical dialogic accounting.*
Source: Puroila and Makela (2019).

2.4. Sustainability reporting challenges

The changing views of businesses' responsibilities towards its impact on sustainability matters shift the priorities in corporate reporting (Baumuller & Sopp, 2021). According to the authors, the companies which will have to report on CSRD will have to operate in a complex environment: they will have to respond to both political pressures and stakeholders’ need for rich information on companies' impact. To address this increased interest companies will have to develop new processes, systems for reporting, and make changes to the way they run their organization (Baumuller & Sopp, 2021).

According to Herzig & Schaltegger (2011), sustainability reporting even if existed for several decades has inherent challenges due to the natural complexity of the topic. The authors notice that large and small medium sized companies face issues on different steps of the sustainability reporting integration process starting from the communication of the sustainability matters within and outside the organization, followed by establishing and analyzing sustainability concerns. Moreover, they highlight the challenge of following through with material topics which would not only be central to the business performance, but as well to the stakeholders of the overall organization. Lastly, they see the importance of creating precise and comparable sustainability reports that avoid greenwashing, as it enhances the company's legitimacy and reputation.

In line with Opferkuch et al. (2023), the complexity of sustainability reporting arises from a variety of topics to be covered, as well as different industries, companies' sizes, and maturity levels which can create unique challenges for the organization. For example, circular economy is one of the material topics the companies had to address which comes with challenges of missing standardization for reporting circular economy activities. Complex data sharing in a quantitative way makes it difficult to grasp for consumers or other report readers. Lastly, lack of awareness of circular economy products and their acceptance among consumers (Opferkuch et al., 2023). Similarly, research on the cosmetics industry in Thailand identified a large number of barriers. Namely, the professional knowledge and expertise regarding sustainability, technology and innovation, scarce performance metrics, followed by the need for standards, policies, and strategies from the top management, as well as lack of financial support and stakeholders' awareness on the matters (Suphasomboon & Vassanadumrongdee, 2023).

Many other recent research studies (Makhetha & Kele, 2023; Juusola & Srouji, 2022; Indyk, 2022; De Micco 2021; etc.) identified similar challenges in different business environments. Therefore, the generalized list of challenges can be made which is as follows: the need for standardization of different reporting formats and metrics for comparability among companies; reported information quantity and quality; inclusion of the stakeholders; need for expertise and knowledge in sustainability matters; lack of innovation and technology; etc. Nevertheless, the challenges particularly for Baltics will be explored in the empirical study.

2.5. Sustainability reporting second-order consequences

Another possible factor which can influence the company's strategy are first and second-order consequences as defined in the introduction paragraph. First-order consequences are the ones that arise directly from implementing the sustainability reporting regulations, for example, an increase in the quantity of published reports or improvements in the quality of published reports (Gulenko, 2018). Second-order consequences as defined by the author are indirect, arising from the first-order consequences, a change from a company's reporting practices, for instance, a change in a firm's profitability or decrease of emission levels, lower funding costs, improved relations with stakeholders, etc. The systematic literature review study by Gulenko (2018) found the following second-order consequences in the existing literature:

- firm's amount of costs when reporting on sustainability voluntary or mandatory does not seem to change significantly;
- firm's value is dependent on the type of information disclosed, for example, positive information is positively related to the firm's value, and negative information negatively, and its relevance increased after introducing sustainability regulation;
- firm's profitability decreased after the introduction of mandatory sustainability regulation; for companies with good corporate governance no additional information is added, however, it is not the case for poor corporate governance companies;

- no relationships found for actual carbon emissions and introduction of sustainability mandate;
- water and air pollution levels decreased in China's areas where more companies which are affected by the regulation are present;
- Tax avoidance is on a smaller level in regions with good institutional quality.

Overall, the research studies on second-order consequences are too limited, therefore, it is difficult to draw conclusions that could generalize consequences (Gulenko, 2018). Similarly, the research of Aldowaish et al. (2022) addressed the firm's sustainability matters and ESG reporting. It demonstrated that ESG reporting implications on a firm's financial performance have mixed views from the researchers, as empirical research exists which indicates both positive and negative effects. Furthermore, they indicate that the company's reputation is closely related to the sustainability topics tackled by the company which can influence customers' perception. Sustainability issues can be identified to be addressed in various management functions, for example, corporate strategy, human resources, innovation management, performance management, however, due to a lack of knowledge on the sustainability integration into the business's day-to-day processes and strategies, greenwashing occurs (Aldowaish et al., 2022).

2.6. Motivation for sustainability reporting integration

Through the relatively long history of companies' sustainability reporting there are numerous coverages in the literature regarding the motivations behind publishing their non-financial information for everyone to see. According to Herzig and Schaltegger (2011) who collected many published research studies on motivation, he observed that different theories such as stakeholders, legitimacy, accountability and political economic ones were employed to explain the phenomenon. Moreover, other by the author identified motivations range from market and stakeholder drivers to reputation and risk management, it can serve as a way for a company to legitimize its activities and decisions to its key stakeholders. Furthermore, more recent literature such as the authors Juusola and Srouji (2022) have developed four organizational discourses model while researching the MENA region which indicates two axes, the vertical based on profound-superficial and the horizontal being limited-broad. The first discourse describes the comprehensiveness and accuracy of sustainability reporting practices, and the other one of the limited-broad axes embodies the legitimacy level which motivated the organization to proceed with sustainability matters (See Figure 9).

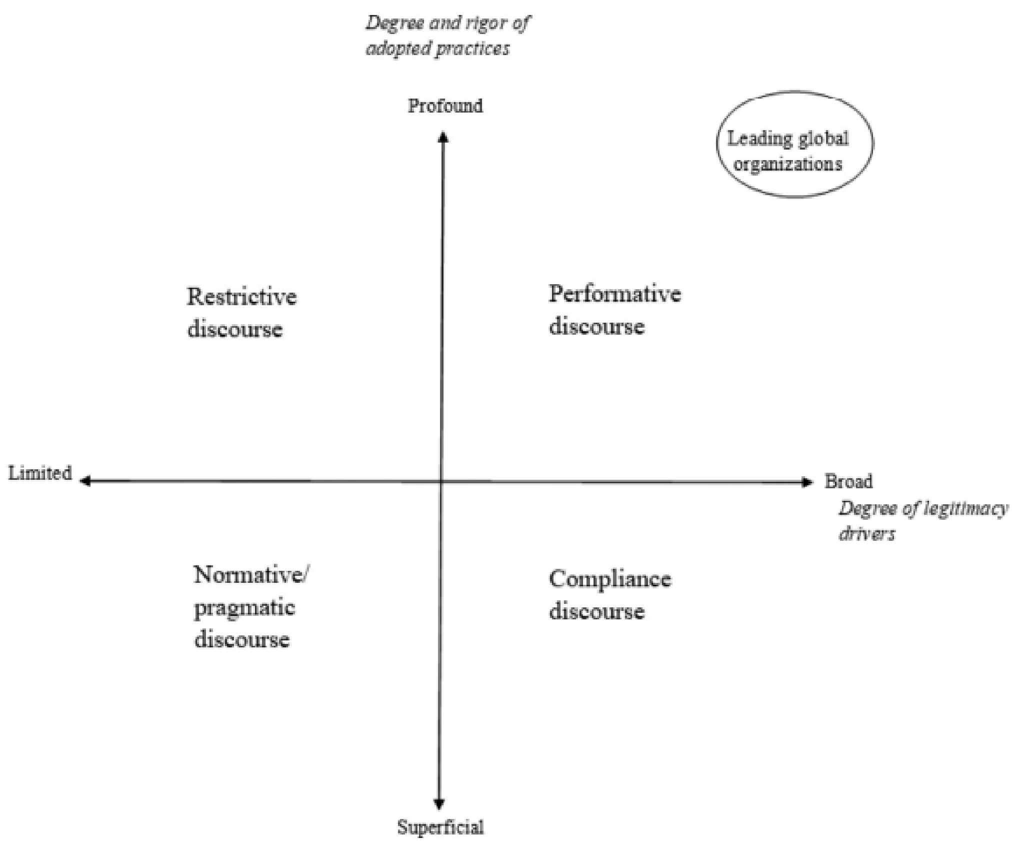

Figure 9. *Four organizational discourses on sustainability reporting and accounting practices.*
Source: Juusola & Srouji (2022)

Each of the four discourses are indicating the organization's motivation to report on sustainability, for instance, normative/pragmatic discourse relates to the organizations whose motivation to report is only to comply with the regulation or key clients' requests, which can result in "box-ticking" activities and superficially produced data. The authors explain that the following compliance discourse is about companies that are morally driven to employ sustainability reporting and be responsible businesses, however, even if they comply with particular standards, they are not actively interested in embracing new ways and trends, they are more followers than leaders. They continue claiming that motivation for these companies comes from the investors or headquarters pressure to comply with targets and their compliance does not go further than reporting mostly positive practices. In Figure 9, restrictive discourse is regarding organizations that see sustainability reporting as “taken-for-granted”, however, as well shows doubts about these sustainability metrics. This is explained that there are still many companies that are mainly driven by economic interest and not environmental or social, no matter whether they are in line with sustainability reporting standards. Moreover, the authors explain that due to the fact that companies do not fully believe in all benefits of disclosing and being transparent and see it as a possibility for a negative effect on the business, they are willing to limit the selection they would be reporting on. Lastly, the performance discourse, which is defined by the authors where the leading global organizations are, mainly listed companies that are leading the change. They are motivated to report on sustainability because they see it as how every modern organization should operate if it wants to succeed in the long term, thus, they synthesize their sustainability strategy and actions with the overall business strategy. They see the value and opportunities in being transparent, therefore, believe that it is mandatory (Juusola & Srouji, 2022).

Other authors such as Carmo and Miguéis (2022) were exploring organizations' motivations to report on sustainability voluntarily. They identified mainly repeating motivations as previous authors which are meeting key stakeholders' needs, maintaining image and reputation, and embracing the quality of the company or its products. However, they also mention additional motivations which are obtaining lower cost capital i.e., better financing opportunities, distracting the attention of the public or politics (especially for bigger companies which are more visible in the public) to avoid increasing political cost i.e. avoiding potential wealth transfer which could happen through increased taxes or reduced subsidies. Moreover, a very important point was mentioned by authors regarding voluntary disclosure, which is the institutional pressures, when the companies after observing the other companies, smaller or bigger, decide to disclose sustainability information publicly as well. And proprietary cost theory is worth mentioning because it considers that two costs exist when reporting voluntarily: the cost of preparing for reporting and the cost of disclosing information that could potentially harm your organization if used by for example your competitors (Carmo and Miguéis, 2022). Therefore, they anticipate that organizations will report voluntarily only when benefits exceed the costs, or that they will hide the information which could potentially have a negative impact on the company’s competitiveness.

The variety of potential motivations why companies report on sustainability is very broad, ranging from internal to external motivators, risks, costs, and benefits assessments. Thus, the particular case of the Baltics must be examined to determine what is the situation in this market and whether is it in line with the covered literature.

2.7. Preliminary framework

The literature review provided four main areas that can lead to the business strategy implications from the EU CSRD integration process: double materiality assessment approach, challenges, second-order consequences, and motivation. It is important to highlight that the strategy and its four areas are dependent on the company's stage of the integration process (See Figure 10). These areas have emerged by synthesizing literature in the previous chapter essentially from the sustainability reporting integration process concerning parts. Each theme is connected with two directional arrows demonstrating that relationships exist between each and every part of it. The preliminary framework is in line with the purpose of our study of filling the gaps in the research and provides a holistic view of sustainability reporting integration process implications on business strategy. It visualizes that the integration process includes several dimensions which have to be considered when trying to understand the implications on strategy. This preliminary framework will have to be confirmed, contradicted, or adapted according to the gathered empirical research findings.

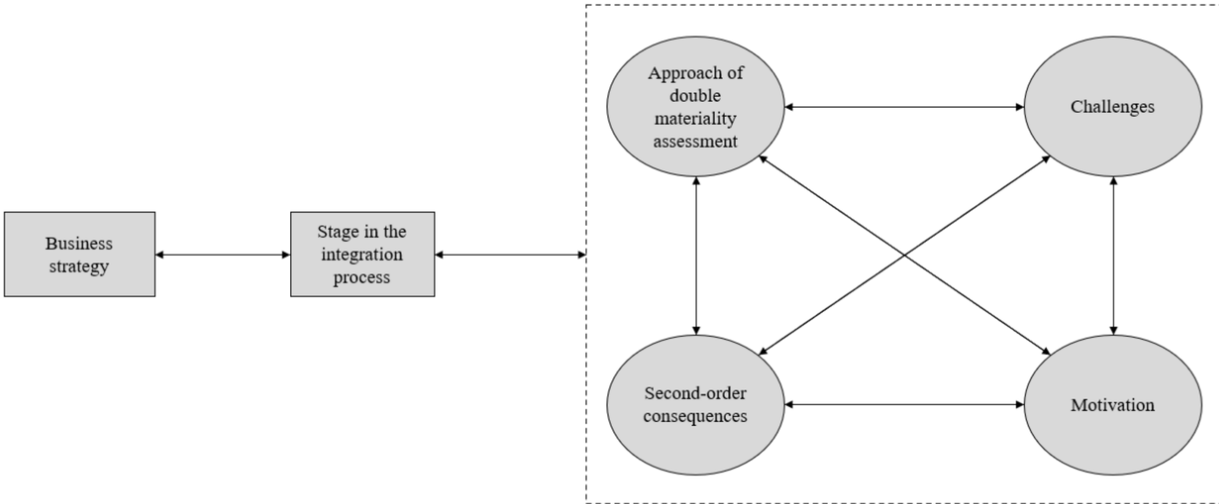

Figure 10. *Preliminary framework of sustainability reporting integration process implications on business strategy.*
Source: developed by authors.

3. Methodology

The purpose of this chapter is to explain the methodology used to answer the research question and achieve the objectives of the thesis. It begins by discussing the research approach and design considerations, followed by an elaboration data collection approach. Moving forward, the process for analyzing the collected data will be explained. Next, the validity and reliability reflection of the chosen methodology will be stated. This chapter will end with ethical considerations.

3.1. Research approach and design

The research design, according to Saunders et al. (2016), can be understood as the plan outlining how the research question will be addressed. The author argues that to create a research design fitting the purpose of the study, it is essential to reflect on the research question and its characteristics. In accordance with this approach, our central research question has been built on the sub-questions presented in section 1.3. It aims to investigate the implementation process of the CSRD in the Baltics by assessing the stage of its integration, challenges and second-order consequences, double materiality approach as well as the motivation behind its implementation:

What are the European Union Corporate Sustainability Reporting Directive's (CSRD) integration process implications on companies' strategies in Baltics?

The formulation of this research question has been motivated by the existing literature gap, which fails to address the broad scope sustainability reporting regulation integration process and its strategic implications. Given the focus on exploring and understanding a new phenomenon, namely, the viewpoints and actions of companies across Baltic states, this study will be qualitative in nature. Whilst Morse (1991) argues that there are research problems that may not be appropriately addressed using quantitative research methods, Creswell and Creswell (2018) claim that, for a topic that has yet to be explored or understood, qualitative design is the most appropriate choice. Additionally, Patton (2015) argues that this type of research design is often utilized to gain a more profound understanding of attitudes, and experiences. Accordingly, he adds that data is usually gathered through methods such as interviews and observations, which we deemed highly valuable within the context of our study. Namely, it is important to build an understanding of the phenomenon of the CSRD integration process and related factors via conversation in order to gather detailed answers and effectively address the research question and make valuable contributions. According to Morse (1991), it is essential to have a prior understanding of the variables or factors being studied. He claims that, although a qualitative research approach provides the opportunity to explore new aspects, it is important to note that this design does not involve quantitative testing of these factors. This study focuses on the implementation of a newly established directive, as such, there is no existing numerical data available for the subject matter. Therefore, the study cannot be quantitatively tested.

In order to gather a broader range of perspectives and factors that contribute to the overall understanding of this qualitative research design, a collective case study approach was selected. According to Bell, Bryman and Harley (2022) the strength of a collective case study lies in its ability to provide a more comprehensive understanding of a phenomenon by considering multiple cases. The authors claim that it allows researchers to capture diverse perspectives, and contextual factors enhancing the validity and generalizability of the findings. By taking into consideration Latvia, Lithuania, Estonia and not limiting the research to a specific type of company, this comparative analysis aims to generate comprehensive findings that go beyond the limitations of studying a single case study. Nevertheless, Saunders et al. (2016) note that the extensive nature of a collective case study may restrict the depth of analysis for each individual case, preventing a thorough exploration of country or company-specific aspects. Consequently, there is a possibility of overlooking valuable insights that could arise from a more focused examination (Saunders et al., 2016). Originally, our research intended to encompass Poland as part of the research scope. However, due to encountered challenges in reaching Polish consultants and aligning with them on interviews in line with the thesis timeline, we made the decision to exclude the Polish market. Therefore, we redirected our focus toward a more detailed analysis of the Baltic region.

Based on the chosen qualitative research design, it became evident that neither a deductive nor an abductive approach is applicable to this study. Considering the complexity of the research question, an inductive approach is considered appropriate for the above-mentioned qualitative research as it begins with data collection and seeks to derive theory from empirical data (Bryman and Bell, 2011). Although our framework for sustainability reporting integration process implications on business strategy was developed based on the theoretical review, it is crucial to acknowledge that we did not seek validation through hypothesis testing. It served us as a guide for exploring companies' responses to large-scale regulatory requirements. Given the objective of examining the strategic implications that result from the implementation process of the CSRD in the Baltics, the research demanded an open-minded approach to the generation of new ideas and concepts. While the inductive research approach offers flexibility it is also highly suitable for complex phenomena where limited research is available on the topic (Saunders et al., 2016; Timmermans & Tavory, 2012). This approach proved advantageous during the literature review and data analysis phases, enabling the exploration of existing themes and the incorporation of new ones.

3.2. Data collection methods

3.2.1. Qualitative sampling strategies

Prior to the data collection it is important to thoughtfully and rigorously consider the sampling strategy which will be taken for the qualitative research, especially when the claims made by the researchers are based on the small number of interviewed people (Rapley, 2014). The non-random and non-probability sampling methods for qualitative studies are used (Gill, 2020). Several strategies were taken into consideration to decide on the best sample which could provide explicit knowledge of the study phenomenon. Purposive sampling was chosen among four strategies due to its ability to provide highly informed insights, which aligns with the research objective of investigating the strategy implications of the CSRDs integration process on companies. Nevertheless, we had to be aware of the possible challenges of targeting this sample and accept the risk that it could be difficult to find suitable, ESG reporting-experienced candidates who we could contact and arrange interviews in a short time.

3.2.2. Case selection and interview design

After the sampling strategy was selected, the sample itself consisted of senior ESG or sustainability experts from the Big Four consulting firms (EY, Deloitte, KPMG, PwC) operating in the Baltic countries. These experts were identified and recruited through LinkedIn. There were several reasons behind gathering insights, particularly from the consultants and not individual companies' personnel:

- In limited time, reaching and evaluating the higher scope of experiences, as the Big Four consultancy firms are working with a substantial number of local companies in the markets;
- Gathering objective insights from participants free from personal attachment or evaluation of their own work;
- Gather deep insights of the researched phenomenon from knowledgeable individuals. Senior consultants have explicit knowledge of sustainability reporting and overall ESG topics as it is their day-to-day responsibilities which might not be the case in individual companies. Especially because at the beginning of the directive's implementation individual companies may not have knowledge of CSRD or even general ESG integration topics.

The sample size in qualitative research can vary significantly, as there is no number predefined which the research studies must have. Unlike a quantitative study, generalizability is not the goal, but the deep examination of the topic (Gill, 2020). Therefore, for our study, we decided to carry a total of 12 interviews. However, as data saturation was reached (when no new data was being discovered), the number was reduced to eight interviews, which, according to Gill (2020) is an acceptable way of choosing the sample size. This interview number consists of four interviews for the Lithuanian market, two interviews for Latvian, and two interviews consisting of insights for all Baltics, especially Latvia, and Estonia. The interviewees' names are coded and presented in Table 1 which also includes details on the market areas Participants work for, date and conducted interview times, as well as the interview durations.

Table 1. *Compilation of participants involved in semi-structured interviews*

Coded names	Market Area	Date and time (GMT +2)	Duration
Participant 0 (Pilot stage)	Poland	05/04/2023 5:30 PM	68 min
Participant 1	Lithuania	06/04/2023 10:00 AM	57 min
Participant 2	Baltics	06/04/2023 12:00 PM	42 min
Participant 3	Lithuania	11/04/2023 10:30 AM	45 min
Participant 4	Baltics	13/04/2023 10:00 AM	54min
Participant 5	Lithuania	14/04/2023 4:30 PM	39 min
Participant 6	Latvia	26/04/2023 3:00 PM	54 min
Participant 7	Latvia	28/04/2023 3:00 PM	45 min
Participant 8	Lithuania	05/05/2023 9:00 PM	52 min

Source: developed by authors

The research study collected data is from two main sources: primary and secondary. The reasoning behind gathering both primary and secondary data is to make sure to cover comprehensive insights into relatively scarce researched topics. The secondary data was collected from the desk research on listed companies' current sustainability reports, as well as official documents or reports shared from the big four consultancy firms. Additionally, other reliable secondary sources such as textbooks and law reviews were utilized to ensure maximum cross-country comparability analysis. Primary data was collected as an in-depth and semi-structured interview form (allowing flexibility to gather deep insights) conducted via digital meeting tools to cover the important areas determined by the literature review and preliminary framework. On average the interviews lasted 45-60 minutes and were recorded with the consent of the respondent. The interview guide was created and shared in advance with the respondents so that they could get acquainted with the questions which were asked during the interview as some of the questions could be difficult to answer on the spot (Appendix C). Before starting with the main primary data collection, a pilot interview was conducted with the consultant which allowed us to review the questions' applicability and to update them to fit better the research purpose.

3.2.2.1. Pilot stage

As the investigated issue is newly emerging with a lack of research performed, one pilot interview helped to gather insights on the main direction which our research should follow with the final data collection. One interview was done with the targeted sample, i.e., one of the Big Four's senior ESG consultant from Poland. The interview was conducted online, via *Zoom*, the online video conferences tool, and lasted one hour. Additionally, with the agreement of the interviewee, the conversation was recorded and automatically transcribed with Otter.ai software. A total of 32 questions were planned to be addressed during the interview, however, some of the questions were skipped as they were discussed with other questions' responses. The insights of the interview were the first valuable observation of the actual situation of how companies report on sustainability in Poland. They provided interesting insights on strategy implications that could not be foreseen with the literature reviewed in the previous chapter. Therefore, slight amendments were done to the questions, re-structuring, making them more precise, and easier to understand. The number of questions was cut to 21, as some of the questions appeared irrelevant or could be combined into one. Moreover, we understood that it is valuable to send questions in advance to the interviewees, as some of the questions require deeper thinking, therefore, to save time the consultants could review questions before the actual interview.

3.3. Data analysis

Following the data collection, the data analysis was made using analysis procedures to develop a theory that could be used for answering the research questions. In qualitative research, meanings are expressed in words, results collection is non-standard, must be classified into categories, and the analysis is made through conceptualization. In non-standardized interviews, it is important to record and transcribe the data as soon as possible in order not to lose it and plan time, as transcribing each interview can take several hours (Saunders, Lewis & Thornhill, 2016). Therefore, in our research, the interviews were recorded and automatically transcribed by otter.ai software to have data available for analysis right away.

In this research, the data is subject to thematic analysis which "is a method of identifying, analyzing, and reporting patterns (themes) within data" (Castleberry & Nolen, 2018, p. 2). The authors identify that thematic analysis is a descriptive method that can scale down information without rigid ways and connect easily with other data analysis methods (Castleberry & Nolen, 2018). Therefore, in order to make sense out of the data transcribed and prepared for analysis, the text was coded using Quirkos software, which entailed categorizing significant textual passages with succinct descriptive terms. Namely, the interviewees' responses were coded in line with the preliminary framework that emerged from the literature gap. Next, the codes were categorized into themes by determining broad patterns or groups that emerge from the codes using Quirkos software program for more efficient process (Creswell & Creswell, 2018).

The categories under which the responses were coded included: strategy, implementation stage, challenges, motivation, second-order consequences, and double materiality. Data within each of the categories were categorized according to the emerging themes. During this stage, it is imperative to reflect on the categories. Therefore, questions such as "Are the data too diverse and wide-ranging (does the theme lack coherence)?" (Castleberry & Nolen, 2018, p. 4) were asked. Then the themes were reviewed before being arranged into a coherent text responding to the research questions. Finally, interpreting data is a key step of the analysis, critically evaluating and making implications of the categorized codes and derived themes that were used throughout the thematic analysis method (Castleberry & Nolen, 2018). The following five qualities described by Castleberry & Nolen, (2018) represent that the interpretation step was done properly: interpretation completeness, fairness, accuracy, and representation, adding value to understand the research topic and credibility. The last step is concluding to respond to our research questions which are disclosed in the empirical finding Chapter.

3.4. Validity and reliability

As per Saunders et al. (2016), ensuring validity and reliability is essential in any research study. Therefore, this section will reflect on those aspects. As recommended by the authors, validity was enhanced through member checking. As he explains, this technique entails sharing the research results with the participants to enable them to assess and confirm the correctness and authenticity of the data. By doing so, any discrepancies or misunderstandings may be detected and rectified, thereby improving the credibility of the research findings (Creswell & Creswell, 2018).

To ensure reliability, this study adopted various measures. Firstly, a peer debriefing was implemented where a peer who has expertise in the field of the study evaluated the research to enhance the reliability of the findings (Saunders et al., 2016). Secondly, Saunders et al. (2016) highlight the significance of maintaining an audit trail. While it is recommended to keep comprehensive documentation, including interview recordings and transcriptions, the authors of this study are open to granting access to transcriptions upon request, thus promoting transparency and verification.

Given that this research is exploring the strategy implications of the CSRD integration process in the Baltics, the methodology involves the use of Big Four's consultants from Latvia, Lithuania, and Estonia as primary sources of data collection. Therefore, it is important to consider potential validity and reliability issues that consultants may bring to the research. These could include a potential bias towards the interests of their clients and limited access to certain data. Consultants have confidentiality agreements with their clients, which limits the information they can disclose. Moreover, consultants may have their own biases and interests that may affect the information they provide. While in the Baltic countries, professionals with over three years of experience within the ESG sector were found, they are still in the CRSD education process as it involves multiple departments including tax, legal, assurance, and consulting (KPMG, 2022). Thus, the consultants may have a limited understanding of the specific contexts and challenges companies face. Whilst it would have been beneficial for this study to undertake companies from different industries within the Baltics as a primary source of data collection, reasons supporting the choice of consultancy can be found in section 3.4.2. Case selection and interview design.

3.5. Ethical considerations

Bryman and Bell (2011) have identified four ethical considerations that are crucial to address in any research study. These considerations include potential harm to participants, lack of informed consent, deception, and invasion of privacy. Therefore, in this section, these ethical issues will be discussed, and the measures taken to mitigate them will be explained.

Firstly, the potential harm that research participation may cause to the participants. Such harm can manifest in various forms, such as exposure to stress or damage to the participants' professional reputations. To mitigate such risks, we ensure the anonymity of the participants. Secondly, to ensure that participants were well-informed and gave informed consent, an interview guide was provided to them via email, at least 24h before the interview. Additionally, the research information has been reiterated to participants at the start of each interview. This allowed participants another opportunity to decline their involvement if they wished to do so. As a result, the level of information provided to participants is considered sufficient in mitigating any ethical concerns regarding the lack of informed consent. Furthermore, measures have been taken to avoid any invasion of privacy. The authors made it clear that participation in the study was voluntary and that participants could choose not to answer any questions they did not feel comfortable with.

4. Empirical findings

This chapter begins by introducing the studied case, emphasizing the overall findings of eight organized semi-structured interviews and secondary data sources including documents shared by consultants or those publicly available, relevant to our case. Furthermore, it intends to answer the main research question which was stated at the beginning:

What are the European Union Corporate Sustainability Reporting Directive's (CSRD) integration process implications on companies' strategies in Baltics?

The collected data was analyzed according to the preliminary framework which was amended during the data analysis process i.e., adjusted to correspond to the respondents' answers and the finalized version is presented in Figure 13, chapter five. Every section contains selected quotes from the interview Participants that best capture the overall or proportionally significant range of answers provided.

4.1. Case description

This section presents an overview of the information provided by leading consulting firms (EY, Deloitte, PwC, KPMG), regarding their clients and the range of services they offer across the Baltics. The Big Four consulting firms serve a diverse clientele across multiple industries in Baltics. EY, Deloitte, PwC, KPMG have earned a reputation as reliable and trusted advisors in the field of sustainability reporting (EY, nd; KPMG 2023; Deloitte, nd. PwC, 2023). They provide an extensive range of services to assist their clients in advancing their sustainability goals and initiatives.

According to the Participants (1-4), the interest in consulting services has increased in the Baltics region since the announcement of CSRD. The demand is seen across various industries, especially among companies previously subjected to NFRD and those required to publish the CSRD report for the 2025 fiscal year. Approximately 250 companies across Baltics will be a subject to CSRD (Participant 4). These include large or large, listed companies, as well as those transitioning from GRI to CSRD, and ones with no prior experience in sustainability reporting. Interestingly, among those interested in consulting support to prepare sustainability reports there are several companies not obliged by the law to do so. Further, the Big Four firms are actively investing in educational workshops to enhance knowledge about CSRD, and its requirements, and to motivate companies towards prompt action. As per the statement of Participant 1, *"We are dedicated to educating those companies and we are giving them trainings, webinars, newsletters, and we educate those companies who do not have a lot of knowledge about CSRD and ESG".*

The authors aimed to gain insights into the ESG reporting integration process and strategic implications, including the roles and responsibilities of those involved and the communication and collaboration between professional consulting services and companies in the Baltics. In fact, all the participants expressed that companies in their respective countries are unprepared for the upcoming CDRD regulation. The most mentioned obstacle to the development of ESG reporting and the overall knowledge gap was the allocation of responsibilities for sustainability reporting within the organization. The participants confirmed that, in some cases, the CFOs are responsible for sustainability reporting due to existing contact for annual financial reporting. However, in other cases, companies have a dedicated communication function or are seeking to hire sustainability managers to oversee these matters. Consequently, the responsibility for sustainability reporting is divided among various functions within organizations in Baltics. Lastly, Participants confirmed that their clients are mainly interested in seeking help regarding upcoming regulations and how to prepare for them, with a particular focus on carbon emissions calculations. Additionally, Participants' clients are interested in receiving assistance with the double materiality assessment approach to determine which sustainability topics are material to them in line with the CSRD's requirements. While some clients have done materiality assessment before, the new double materiality requirement under CSRD is a novel aspect that they seek guidance on.

4.2. Strategy and CSRD integration process

During the interviews with the Participants, we gathered insights for the companies' strategies and sustainability reporting. In all interviews, strategy was touched upon from different perspectives. Additionally, the views of Participants on strategy depended closely on the clients they are working with, for example, how mature they are, whether they are from sensitive industries, what is their business model, and whether they are subject to NFRD and upcoming CSRD already in 2025, etc. Therefore, the following is the summary of the main ideas that were expressed by at least two Participants, starting from the companies which approach sustainability reporting from a strategic point of view. More mature companies view sustainability and reporting as a strategic direction, therefore, they have sustainability questions discussed as high as at the board level and they approach it from top to bottom as they see various benefits of integrating sustainability into their strategy. Additionally, there are other companies that even if they are less mature and smaller, have their business model positioned as nature-friendly, green businesses. Thus, for them to be legitimate business it is a must to be transparent and disclose information on sustainability matters as well.

"Certainly, we believe that the organizations and I will repeat myself, the organizations which start with the strategy or strategic approach on the management level, the higher up it is, the better is the picture or the status of their maturity." (Participant 8)

Moreover, having a strategic approach can lead to the concept of "value add", meaning that organizations can find win-win situations for both them and their stakeholders. Adjusting their business operations to become more sustainable and cut costs is one of them according to Participants, for example, having shared platforms for oil in terms of shared economy, or in the logistics industry stopping home deliveries and instead delivering to the parcel machines. These situations were mentioned by Participants as business cases they witnessed while working.

However, Participants expressed numerous times that most of the companies are only at the starting point, they still need to integrate their strategies, and they might be making small adjustments in their daily operations, however, the business models still stay the same, they are behaving cautiously and not taking bold decisions yet, as they might be waiting for the local adaptation of regulation or see how the first movers respond and then follow.

"Majority of companies are less mature, and they see it as an administrative burden. And they are actually waiting for local legislation, and they can see that directive is here and they will have to comply with it, but somehow, we see that those companies are waiting for something. Still waiting for that big male with the stick that says that you have to report." (Participant 1)

"[...] Pressure from shareholders that if someone else is doing we want to do it as well, or some competitors are following ESG. Some don't want to be the leaders of the change, but also don't want to be the followers, they want to be somewhere in the middle." (Participant 3)

4.3. Evaluating stages of the CSRD integration process

Following the set of general questions, the interview Participants were specifically queried about the present stage of the CSRD implementation process. However, as the responses of the majority indicate, a substantial number of companies in the investigated countries are in the early stages of CSRD implementation.

"I would say that regardless of their previous experience [with sustainability reporting] most of them are at the starting point." (Participant 2)

Nevertheless, we persisted in our efforts to identify the underlying factors that influence the dependencies. Additionally, we tried to determine the exact stage of the starting point in order to be able to classify the companies. Participants' answers underscored significant country variations based on company type (see Table 2).

Table 2. *Country variations based on company type*

Estonia	Lithuania	Latvia
● Past GRI/ NFRD reporting experience	● Mature & Hard to abate companies ● SMEs ● Companies' part of an international group, mother company abroad	● State-owned companies ● Private sector

Source: developed by authors

While the summary of the country variations of each country's companies is shown in Table 2, more explicit information regarding CSRD integration process stages are provided below in sections separated by country. Furthermore, one of the participants provided a detailed roadmap with recommended steps for their clients to follow as a CSRD implementation guideline (See Figure 11). The combination of both the Sustainability Reporting Implementation framework (See Figure 4) and the CSRD Readiness Roadmap proved to be beneficial in addressing the first sub question of this research.

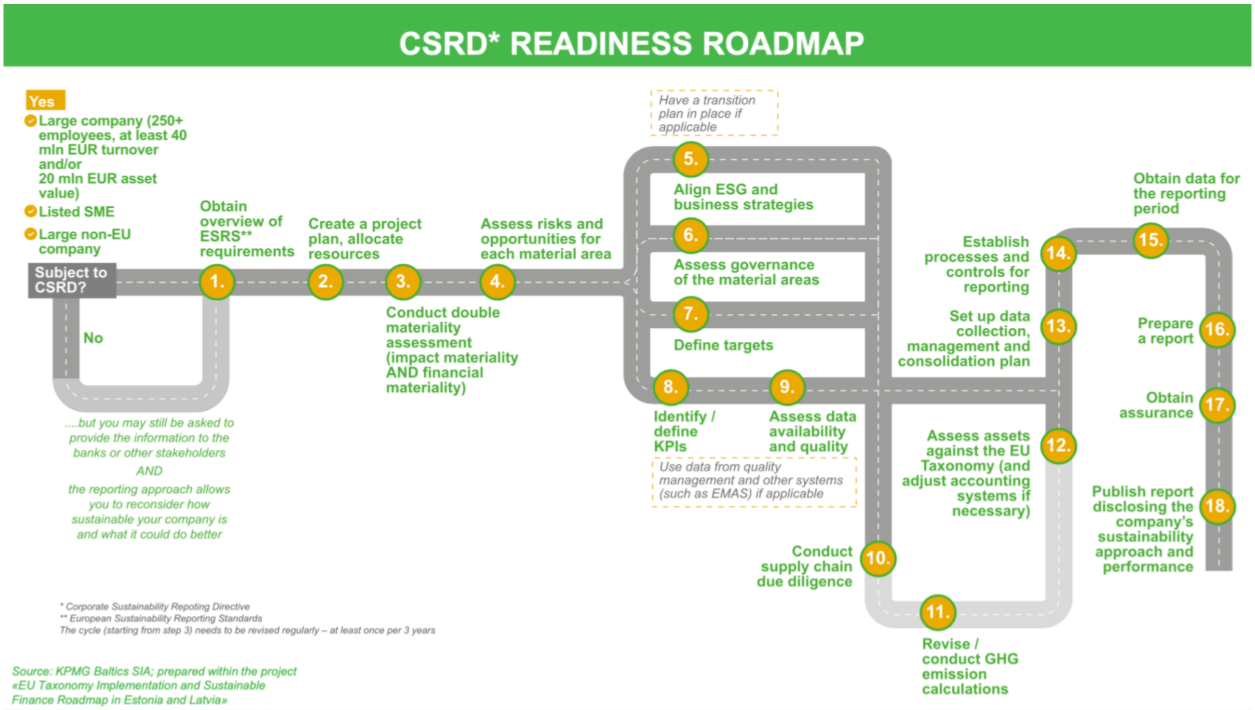

Figure 11. *The CSRD readiness roadmap.*

Source: KPMG Baltics SIA; prepared within the project «EU Taxonomy Implementation and Sustainable Finance Roadmap in Estonia and Latvia»

4.3.1. Estonian companies' CSRD integration stage

Companies that already have some working experience with sustainability reporting are considered to be past the initial phase of understanding CSRD and its requirements. These companies are already preparing sustainability reports and disclosing information, indicating a more advanced stage of implementation.

> *"Preparation. Some of them have done materiality assessment and are now trying to map it with CSRD requirements. Some are planning to launch "test" reports one year earlier to understand what it takes and prepare for the first real report." (Participant 2)*

4.3.2. Lithuanian companies' CSRD integration stage

According to the three representatives of Lithuania, when assessing the stage of CSRD integration, it is important to distinguish between the maturity level of the companies and emphasize hard-to-abate industries.

“There is a distinction between mature companies that are already subjected to existing regulations like the NFRD and those that are starting to report under the CSRD. Mature companies have strategies in place, gather data from supply chains, and are already prepared for upcoming reporting requirements. Smaller companies, on the other hand, are in the early stages and need to assess their readiness and understand the gaps in their reporting practices.” (Participant 1)

“I would say that those [within hard-to-abate sectors] are in a much better position than the rest because of the regulatory environment and because of general market pressure.” (Participant 8)

The implementation of the CSRD in Lithuania shows a diverse landscape. Matured companies and companies from hard-to-abate sectors have made significant progress in sustainability reporting, adhering to established new CSRD standards to fill the gap and obtaining needed assurance from auditors. However, the majority of companies, especially smaller entities, are in the early stages of familiarizing themselves with and preparing for the CSRD requirements.

“So, let's leave aside mature companies, let's speak about the majority companies. The majority of companies are less mature, and they see it [CSRD] as an administrative burden. And they are actually waiting for local legislation, and they can see that directive is here and they will have to comply with it, but. Still waiting for the big male with the stick that says that you have to report.” (Participant 1)

4.3.3. Latvian companies’ CSRD integration stage

Four Participants from the Latvian market emphasized the important distinction between state-owned and private companies when assessing the CSRD integration stage. State-owned and large companies required by law to do sustainability reporting have been exchanging experiences and encouraging each other. These companies are already preparing sustainability reports and disclosing information, indicating a more advanced stage of implementation.

"What is also, I think, interesting is that in Latvia, and that might be a bit different from many other countries. Initially, the interest in sustainability reporting has come from state-owned and municipality-owned large companies, not from private sector companies. And that is partly due to the fact that for state-owned companies, we had a very strong movement to improve their governance and non-financial reporting has also been one of the points which are actually included in state-owned company governance, law and in large state-owned companies also, already now they need to publish their non-financial reports."

Nevertheless, when asked about the stage of the implementation process, it has been noted that many organizations are becoming aware of the new directive and are in the process of acquainting themselves with the related standards and guidelines.

> *"So basically, if we would talk about what is currently, at which stage these companies are in the CSRD integration process, so they're just learning about, even that it exists." (Participant 4*)

4.3.4. Advice for companies' CSRD integration process

The interview participants were specifically queried about their recommendations to assist these companies in advancing their progress. Similar responses were given in the context of recommended actions in order to achieve the next steps. Regardless of the country, three main generalizable guidelines were found. Namely, Start Early, Place Sustainability Strategically, and Strengthen Competencies and Data Quality.

Start Early - Based on their experience the Participants suggest that companies should address sustainability reporting requirements *"right now"*. Participants 4,5 and 8 specifically named determining reporting scope, evaluating reporting maturity, conducting current state assessment and utilizing available draft standards. Therefore, highlighting the importance of being proactive and starting early.

Place Sustainability Strategically - The participants noticed that hiring sustainability managers or sustainability reporting responsible is advantageous. However, Participant 8 specifically pointed out that *"the higher up in the organization's hierarchy sustainability sits the better the chance is that an organization will make sustainable progress on the journey"*.

Strengthen Competences and Data Quality - While five Participants highlight the data quality, Participants 5 and 6 added that "*competencies need to be strengthened"*. Data quality, particularly in calculating emissions and preparing reports, is identified as the area where companies commonly struggle. They advise understanding the reporting process, conducting thorough data gathering, and recognizing the need for internal process adjustments to align with future reporting requirements. They claim that even companies currently adhering to existing frameworks like GRI will face considerable challenges in adapting and improving data quality to meet the standards of CSRD.

4.4. Double materiality assessment

Double materiality principle was one of the main five sections discussed in the interviews due to its newness in sustainability reporting and complexity. The received answers were coded into five groups: generally about double materiality assessment, readiness level to cover double materiality, the approach of double materiality assessment, identified material topics, and advice from participants on how to improve double materiality assessment for companies. Each of these sections will be covered in the paragraphs below.

Most of the thoughts from Participants expressed that the double materiality assessment is a new concept that is more sophisticated than previous materiality assessment, as the companies will have to report on their impact from two sides instead of one. And together with the wide scope of the CSRD standards the reporting becomes way more complicated compared to the past.

> *"So, materiality is a new concept. It's very standard. We actually have to have some different double materiality assessment services provided so we can understand why companies struggle with this. It's very new, it's a very large process, the double materiality assessment." (Participant 1)*

At the same time, Participant 8 says that double materiality is not a new concept, it is more that it was not communicated widely, and companies were not asked to cover it in much detail:

> *"It cannot be called new because it existed before, it was not expressed so explicitly." (Participant 8)*

Therefore, it can be assumed from the gathered responses that the understanding of the double materiality concept depends on consultants' experience and the clients they are working with. Because from the interviews we were able to observe that many consultants work with clients who are at the starting point of the CSRD integration process and who did not have to report previously according to NFRD, thus for them, double materiality is a completely new concept. However, as Participant 8 works as well with companies that are more advanced in the process, and they were reporting on NFRD previously, for them double materiality is not such a novel concept that they need to learn.

4.4.1. Readiness level of double materiality assessment

When Participants were asked how ready the Baltics' companies are for double materiality assessment, from seven out of eight respondents we received answers that it is still the next step for companies. Currently, most companies are trying to understand what double materiality assessment is and how they should approach it for their organizations. Answers were justified by saying that in Baltics there are not that many listed companies that will have to report from 2025 (especially in Latvia) or that the clients with whom the consultancy firm works are not as mature to already have had this topic covered in the past.

> *"I would say that in terms of double materiality this is something still emerging, because the companies well, yes, try to understand what double materiality means, how it feeds in the integral picture. So basically, how their business is impacted, [and] how they impact the environment." (Participant 4)*

Participant 8 said that currently listed and hard-to-abate companies are at the stage of double materiality step:

> *“I am able to comment on those [companies] that we work with, and we believe that these organizations find themselves in a much better position. Because of the level of scrutiny, they are subjected to from the employees, from their regulators, from their customers and investors, etc. So I think that they are progressing steadily.” (Participant 8)*

Participant 2 supports the opinion of Participant 8 in a way that the companies who already have experience in materiality assessment are at better place, but they still ask for help on how to assess materiality with the new concept of double materiality:

> *“They definitely asked for help to assess the materiality of specific sustainability topics to understand which of those topics are included in EU CSRD and are material to them, and which ones are not. Again, those who have reported before have done this materiality assessment previously, but it's a bit different from what they have to do now. [...] So that is something new to them, and they also want to understand how to deal with that and what could be the approaches.” (Participant 2)*

Lastly, Participant 3 mentioned that the companies which are further in the process (starting to address double materiality) are in the short list, they are as exceptions in the market:

> *“In general, if you tell them about double materiality now, they don't know, don't understand. Very little [who] knows. The leaders of such exceptional companies know it, appreciate it, and perhaps take it into account further.” (Participant 3)*

Therefore, it seems that the readiness level depends on the company’s maturity level, motivations, and experience with reporting, whether they reported on sustainability matters before or it is a new experience. And because Participants are working with different clients in the market, their opinions can slightly differ, however, they all emphasize the company’s maturity, internal motivations or previously being subject to NFRD regulation is a key to explaining why they are where they are.

4.4.2. The approach of double materiality assessment

Interview participants were asked the question about the companies' approach towards double materiality assessment. However, due to the fact that the topic of double materiality assessment is mostly emerging in the Baltics, only one answer was collected regarding the approach:

> *"Those who have [done materiality assessment] – are either ordering new assessments (also in many cases with external support) or trying to map their existing one with the CSRD / ESRS requirements. I haven't yet seen a full double materiality assessment in our countries." (Participant 2)*

However, two interviewees indicated the materiality assessment approach in the past for these companies, before the double materiality concept:

> *"But quite a few are planning to update their strategies according to that double materiality principle, stakeholder involvement and so on. Because maybe a lot of companies have done those strategies in the past, perhaps they did it from the simplest principle. In the past, materiality was constantly reflected in the Materiality Matrix graphic which was very popular and had on one axis internal stakeholders, and on the other axis external stakeholders. This is now changing and is moving more towards joint stakeholders and even more moving towards creating that impact assessment." (Participant 3)*

> *"I think that till now this impact materiality was the main driving force." (Participant 6)*

4.4.3. Identified material topics

As most of the companies are in the beginning of the double materiality assessment process, they do require help from consultancy firms, even if they did report before on sustainability, and did materiality assessment. However, because now the materiality assessment is from the new perspective of evaluating materials from two sides, many companies ask for support.

"They definitely asked for help to assess the materiality of specific sustainability topics to understand which of those topics are included in EU CSRD and are material to them, and which ones are not." (Participant 2)

However, the companies which are already in this stage, particularly hard-to-abate, listed companies are concerned with the following and similar key material topics:

"Energy consumption (and potentially – related emissions); Resources used; Generated waste; Employee protection, satisfaction, work safety; Impact on surrounding communities; Anti-corruption and anti-bribery measures; Ethical work environment; Ethical procurement." (Participant 2)

These material topics are very much in line with the industries concerned because they are defined as sensitive industries which have the biggest impact on the environment compared to other industries, therefore, their material topics are related mostly to climate change and other environmental impacts to make sure to include a wide scope of analysis.

4.4.4. Advice for double materiality assessment

Five interview participants were generous to share various recommendations and explicit recommendations on how to do or strengthen double materiality assessment. Most of the companies in the Baltics are at the starting point according to the interviewees, therefore, consultants are actively educating and helping the organizations with the upcoming CSRD integration step of assessing double materiality. The main approach suggested was to assess the material topics by engaging stakeholders, and then prioritize the topics which could have the biggest financial loss if not followed through. And the other approach was to perform a double materiality assessment from the risk perspective i.e., assessing all possible risks they could encounter and layer it with a double materiality lens to expand the view.

"Take the ESRS topics and screen them from two perspectives – (a) do my actions have any impact on this area and, if yes, what type of impact, and (b) would any future changes in this area affect my operations. After the initial screening, do a more thorough

assessment internally and, later, externally – with external stakeholders. Do not be afraid to ask as many stakeholders as it takes, use their input for your benefit – even if they provide some critical remarks. In the end, when you have internal and external opinions, assess in which areas would your company suffer financial losses if it wouldn't do anything significant to minimize effects, or where it could gain the most financial benefit if it used the opportunities in this area." (Participant 2)

"So, we advise to approach that double materiality from the risk assessment point of view. So, any organization is applying the risk review on a regular basis. Whichever framework they use is not so important as long as they assess all of the risks that they can encounter. And nowadays the risk, as we know, is understood in a much wider or broader scope than we used to understand even 10 years ago. So, this risk assessment map can help organizations to identify the areas which may be not that advanced and not yet explored in so many details. When you layer double materiality lenses onto the risk assessment, it sort of helps you to even see more clearly which risks are not addressed in the full stand. So that's how we suggest approaching it and within every risk you obviously have qualitative or quantitative KPIs that you apply and this lens helps you to see you know what is what is in a better way." (Participant 8)

4.5. Challenges of CSRD integration process

All eight participants were queried regarding the obstacles encountered by companies in their respective countries regarding the integration of CSRD. The responses revealed a total of 13 challenges, with the most common being a lack of knowledge. The aspects where the companies lack understanding have been divided into quantitative data understanding, quantitative data collection, ESG integration within corporate strategy and double materiality.

4.5.1. Quantitative data understanding

Knowledge emerged as a prominent theme in all eight interviews, underscoring its important role in addressing challenges related to CSRD integration in the Baltic countries. Participants 2 and 3 highlighted the challenge of limited knowledge and familiarity with data comprehension. This indicates that companies may struggle to gather relevant data if they don't have a clear understanding of what data to collect and how to interpret it.

> *"[...] the second biggest challenge is, as I said, to be able to collect it [quantitative data]. Well first, identify then collect it. Make sense of non-financial reporting. It is a very big challenge." (Participant 2)*

> *"You as a company will need to interpret the quantitative data and understand the data to actually start reporting and while doing that, you as a company should be benefiting from that. Meaning, understanding better your position, your opportunities. Understanding business opportunities and then it's a question of whether there is enough knowledge on the company side- within the board, especially today. It really seems like one of the challenges is knowledge." (Participant 3)*

4.5.2. Quantitative data collection

Quantitative data gathering challenge was mentioned a total of 11 times. Every participant mentioned this challenge at least once, some in different contexts.

Participant 1 emphasized that gathering a wide range of information is a significant knowledge challenge for companies. This suggests that the large volume of data required for CSRD reporting can overwhelm companies and make the data-gathering process more complex.

> *"One of the main challenges is the wide range of information because you have to put not only your information, but information from your supply chain, map, and value chain partners. That's one of the biggest challenges now.*"

4.5.3. ESG integration within corporate strategy

Last, but not least, four Participants emphasized that companies have recognized substantial problems in producing sustainability reporting due to difficulties in building effective goal and target-setting processes. It underlines the importance of strategically aligning firm goals with EU goals and tracking progress toward those goals over time.

“[...] the fourth challenge would be ESG strategy and its implementation into existing strategy and competence. So, they do not know how to do that.”
(Participant 1)

4.5.4. Double materiality

The majority of consultants identified the double materiality assessment as a major obstacle for companies in the Baltics. This assessment involves conducting a comprehensive evaluation of sustainability topics from both financial and sustainability perspectives. It presents a challenge for companies as they need to adopt new approaches and seek assistance to accurately assess the materiality of specific sustainability topics.

“Not many companies are ready to assess materiality and the main challenge here is the new concept of double materiality.” (Participant 1)

“They definitely asked for help to assess the materiality of specific sustainability topics to understand which of those topics are included and CSRD in European standards are material to them, and which ones are not. Again, those who have reported before they had done this materiality assessment previously, but it's a bit different from what they have to do now. They also now have to address the financial materiality of those topics.” (Participant 2)

4.6. Second-order consequences

One of the last questions asked during the interviews was regarding second-order consequences (defined and explained in the literature review) as it was needed to explore whether Baltics consultants noticed any impacts to the companies, and if yes, then what exactly it was. It is worth mentioning that due to the newness of the sustainability reporting topic in the Baltics, the answers to sustainability reporting impact on businesses are limited as well. However, mainly they focus on the implications of the increased costs, and risk to reputation, as well as increased collaboration with stakeholders, and a better understanding of the business risks and opportunities.

"I believe that the main challenge that organizations will have in addressing the new directive is the cost of compliance with the new directive is big." (Participant 8)

"It is very much dependent on the industry. for example, the energy sector, well it's a big red flag if they are just caught using coal. It will probably work for maybe 10 years. But companies using coal will not be successful in the long term. Their reputation will be damaged, and investments will be impossible to secure." (Participant 7)

"Positive: increased collaboration with stakeholders, better opportunities to review and react timely to risks and opportunities, a clear structure for the content of the report, better comparability with previous years and competitors, increased transparency and accountability for processes and decisions. Negative: administrative burden (resources are needed), additional costs to implement the change (systems, human resources, trainings etc.), for more polluting companies - risk to disclose information that is not "attractive". (Participant 1)

4.7. Motivation

When examining the motivations for sustainability reporting and compliance with the new CSRD, we identified more than 5 different motivations which were highlighted by interviewees: compliance, competitive advantage, financing opportunities, reputation, and others. The answers were consistent throughout all markets and were not country dependent. The motivations will be discussed in detail in the following sections.

4.7.1. Compliance

Mostly mentioned motivation was the so-called compliance, i.e., reporting on sustainability because it is mandatory, and required by the law. Every participant had some thoughts to share on this motivation, here are a few quotes synthesizing the situation the best:

"Motivation is compliance. You obey the law, or you don't. If a company wants to be a good corporate citizen, wants to be competitive, developed, see the future for their

business, and really grow, they can't do it without sustainability. Nobody will work with you." (Participant 6)

"And here is another distinction that we also observed. There are organizations which approach sustainability agenda from mainly a regulatory point of view, essentially it is a compliance exercise. So, whatever is written in the law and if I report according to the law, then I'm good. I don't have to do more. I don't have to do less; you just have to pass. So, it's called a compliance approach." (Participant 8)

Other interesting points not directly connected to compliance, however, still referring to it are that companies see the directive as an additional burden to them, thus they wait while it will be implemented on a country's level before taking any action. Or another opinion that all obligated companies are reporting because it is mandatory, and in the future this number will only increase, as the scope of directive's coverage will expand to include more companies.

"I would say they see this as an additional burden and challenge, not a benefit (at least, yet). Waiting for the CSRD to be implemented in national legislation – "and then let's see"." (Participant 2)

"I think that now there are companies that are obliged to start reporting and then there are companies which are not. I don't know the percentages, maybe 65-35 percent if we take all of the reports. About 35 percent are the ones who don't need it yet, but they already do. I think that this percentage will decrease in the future, because the number of companies who must provide will be greatly expanded in upcoming years. Now, if you can still partially say that many companies do things because they want to, they see the point in it. So, because the directive will expand the company's scope which will be required to report then the main motivation will also be to comply with the regulation." (Participant 3)

4.7.2. Competitive advantage

The competitive advantage is definitely seen by the companies, especially if they are mature in sustainability matters, however, some of the companies are worried that disclosing sustainability strategy and topics might hurt their competitiveness because what has been confidential before now will have to be disclosed publicly.

> *"Depends on the company, and mature ones definitely see it as an advantage. And disclose or prepare to disclose all their sustainability information, whether it's good for them or bad for them, they are very transparent. And they definitely see an advantage to disclose the information to publish." (Participant 1)*

> *"They are afraid, maybe afraid to lose and tap away from trends, of course, there are those few maybe leaders as I mentioned, to some extent they are leading and then there are those who are more companies, who either want to or don't want to fall behind or see that they may already be falling behind." (Participant 3)*

And one of the highlights was that competitive advantage is being seen not in the reporting itself, but in the actual sustainable actions that are performed and disclosed by the companies:

> *"The benefits are a little bit… While they see that it can give them a competitive advantage, not particularly sustainability reporting, but in general taking some action on sustainability." (Participant 5)*

4.7.3. Financing opportunities

Several interviewees mentioned explicitly the motivation to comply due to the opportunity to receive more investments in better conditions. Banks and other financial institutions are required nowadays to pay attention to the business sustainability strategy and can require companies to provide information on their sustainability agenda and prioritize organizations according to how sustainable they are.

> *"The main motivation for them is actually investments, because it's still business, while they become more sustainable, that's a win-win situation for them (Participant 1)*

4.7.4. Reputation

Moreover, reputation was mentioned as one of the main motivations for companies that want to survive and be successful in the long term. They have to be ready to comply with sustainability reporting guidelines and adjust their business for more sustainable operations.

> *"All in all, it boils down to reputation and obviously the strategy that the organization has if they want to, if they want to thrive if they want to achieve all of these goals that they set for themselves and continue being market leaders, then that's the only way." (Participant 8)*

4.7.5. Other motivations

It was interesting to hear from three interviewees additional thoughts on what motivation would be which expands the overall motivation scope and adds valuable insights to understand the business world better in the Baltics. The first two are regarding communication, that a sustainability tool is very much a communication tool which as well could impose doubts into the credibility and legitimacy of the company's actual actions and whether they are truly sustainable.

> *"Just the principle of communication. As these days still a lot of times sustainability is somewhere in the communications department. Well, that's how it is, and some companies are even looking for such positions, for example, [...] [companies] were looking for a sustainability communication position. So, maybe they see the opportunity to communicate it across. But I believe that it doesn't matter that much about the particular drivers, more important is that they would actually do something about sustainability." (Participant 3)*

The other motivation provided was about the ecosystems in which companies operate and that sustainability can build bridges between different suppliers and partners to set common strategic goals and objectives.

> *"Of course, it actually depends on the industry, on the size, on the strategy, on many different aspects. But when it comes to the ecosystem of every organization, and nobody works in isolation these days. [...] So all of it means additional risks, but also it presents opportunities. [...] How do you find common goals? Common KPI for all of these*

companies and organizations? So, sustainability can in fact be a very valuable tool that helps all of these organizations within the different, within one holding, working in different industries to help each other." (Participant 8)

4.8. Sustainability reports of listed companies

After the interviews were conducted with the Participants from the consulting firms it was important to study publicly available information on listed companies in the Baltics (Lithuania, Latvia, Estonia) in order to confirm or complement the primary data gathered. Therefore, all listed firms' current sustainability reports were reviewed together with other available information on sustainability, for example, their sustainability strategy and commitments. Gathered secondary data of the companies helps to better understand the overall situation of Baltics regarding sustainability reporting and get a more holistic view to make generalizations and answer the research questions.

4.8.1. Sustainability reports in Lithuania

Currently in Lithuania there are 24 listed companies on the NASDAQ Baltics stock exchange (Nasdaq, n.d.). In Appendix D detailed information about whether a company is subject to NFRD, and its quality of sustainability reporting is defined. Companies are from different industries including the energy sector, dairy products producers, financial and insurance sectors, telecommunications, agriculture, food producers, paper and wood producer, furniture producer, etc. One of the market leaders in sustainability reporting is Ignitis Group as their latest reports are covering sustainability standards including Taxonomy regulation in a very explicit and credible way, additionally, it is already assured by the independent auditor assurance. Therefore, Ignitis Group voluntarily expands its responsibilities to report, including SMART goals and transparent information on their impact (See Figure 12). Moreover, their sustainability strategy is at the core of the overall business strategy and the targets together with materiality topics are set with respect to their stakeholders (Ignitis Group, 2021).

5.4 Climate action

Main indicators

Indicator	Unit	2021	2020	2019	Change (2020/2021)	Comments
GHG emissions						
Direct (Scope 1) emissions	Thousand t CO_2-eq	736	767	233	(4.0%)	[1]In order to ensure complete disclosure of emissions, we present biogenic emissions from renewable energy sources separately (CO_2 emissions from combustion of biofuels and the biodegradable fraction of waste).
Indirect (Scope 2) emissions		529	579	510	(8.6%)	
Other indirect (Scope 3) emissions		3,546	3,899	3,083	(9.1%)	Numbers for 2021 are based on preliminary data. At the time of writing, Bureau Veritas was in the process of verifying the GHG data. The data for 2020 has been recalculated following a revision of the grid loss emissions calculation methodology (using a market-based approach instead of location-based).
Total		4,811	5,245	3,659	(8.3%)	
Emissions outside the specified scopes (biogenic origin)[1]		230	122	59	88.5%	
GHG emissions intensity						
Emissions (all scopes) per full-time equivalent (FTE)	t CO_2-eq/FTE	1,244	1,375	1,035	(9.5%)	
Emissions (all scopes) per unit of revenue	t CO_2-eq/EURm	2,545	4,289	3,507	(40.7%)	
Emissions from electricity and heat production per kWh produced	g CO_2-eq/kWh	158	185	17	(14.6%)	
Amount of energy produced and sold						
Electricity	GWh	2,299	2,452	1,056	(6.2%)	
From renewable energy sources		1,475	1,251	1,033	18.0%	
Heat		853	325	86	162.5%	

Figure 12. *An example from Ignitis Group sustainability report of climate action main indicators disclosure.*

Source: Ignitis Group annual report, 2021.

The same can be told about Telia Lietuva which is one of the first companies reporting on sustainability in Lithuania, from 2006. The same as Ignitis Group, Telia is reporting in a detailed manner on different sustainability topics using a double materiality approach and the report is assured by Deloitte, one of the big four auditors' companies (Telia Lietuva, 2022). The situation repeats in other listed companies as well, such as Apranga Group (n.d.), Auga Group (n.d.), Grigeo (n.d.), Linas Agro Group (2022), Klaipėdos Nafta (n.d.), etc. Some of them still lack an independent auditor's report, however, currently, this is not mandatory, therefore, it will probably be the next step for the companies. There are several companies that could be considered behind, for example, Šiaulių bankas, Snaigė, Utenos Trikotažas, Vilniaus Baldai which are also subject to NFRD, however, they might improve their reports to comply with CSRD. Overall, 50% of listed companies provide very good reports of which 25% is subject to NFRD, 13% provide average quality reports (all of them are subject to NFRD). Seven companies (30%) out of 24 do not provide sustainability reports, out of which one is subject to NFRD. And two provide the least quality reports, out of which one is subject to NFRD.

Lithuanian listed and leading companies in sustainability reporting seem to have, according to the search on the Linkedin platform, dedicated positions for sustainability or environmental matters, which could be an implication that having a dedicated sustainability person or full team could result in better quality sustainability reports that are being published. For example, Ignitis Group has the head of sustainability, Auga Group has a director of marketing and sustainability, Grigeo sustainability manager, Vilkyškių pieninė has also head of sustainability, etc.

4.8.2. Sustainability reports in Latvia

Currently in Latvia there are 11 listed companies on NASDAQ Baltics stock exchange, from which only two are subject to NFRD (See Appendix E). According to NFRD regulation, these companies should report their activities in regard to sustainability topics or explain why they cannot do it. Currently, these companies provide some information on sustainability, however, it is very short and general, it does not include a proper materiality assessment and it is difficult to understand whether the information is credible. The best example out of all Latvian listed companies is DelfinGroup which is a fintech, launched in 2009 offering simple and customer-focused financial services (DelfinGroup, n.d.). The company has shared ESG reports for 2021/2022 year disclosing their impact on the environment, society, and governance together with goals for the future (DelfinGroup, 2023). Similarly, wider scope information is shared by other fintech company VEF in their first sustainability report in 2021 according to the GRI Indexes (VEF, 2022).

However, if we consider companies that are in hard-to-abate sectors as HansaMatrix manufacturer of electronic systems, Rigas Kugu Buvetava which builds and repairs ships, or SAF Teknika a manufacturer of wireless data transmission equipment, they either do not have sustainability reports or extremely limited ones. For instance, SAF Teknika corporate social responsibility report consists of four pages and provides limited information on its employees, remuneration and other benefits, social and environmental responsibility, however, it does not consist of any data to increase validity and reliability of the information presented (SAF Teknika, 2021). Furthermore, a similar case is with HansaMatrix company whose sustainability report consists of 12 pages which is structured according to the “triple bottom line” and generally describes its goals and actions without detailed information nor quantitative data (HansaMatrix 2021). Finally, Rigas Kugu Buvetava does not provide a sustainability report. Only Latvijas Gaze company, a supplier of natural gas, published their corporate social responsibility report in 2021 which provides relatively detailed information on social and environmental risks and takes measures of the company on how they tackle those issues which looks as the most sophisticated sustainability report from hard to abate, listed Latvian companies (Latvijas Gaze, 2021).

4.8.3. Sustainability reports in Estonia

The NASDAQ Baltic stock exchange comprises a total of 20 companies, each identified by Estonian ISINs (Nasdaq, n.d.). Building on the NFRD-CSRD gap identified (Appendix B), Appendix F provides detailed information about firms and the quality of their sustainability reporting in line with the CSRD's new requirements. The listed companies encompass a diverse range of sectors, including Consumer Goods, Financial, Industrial, Real Estate, and Utilities. Additionally, sizes and some of them are currently subject to NFRD. Nevertheless, as per Participant 2, variance in the CSRD integration process depends on previous GRI experience, regardless of the sector. The analysis categorizes the evaluated companies into three groups based on their maturity level in sustainability reporting.

Among the 20 companies evaluated, Enefit Green (not subject to NFRD) and Tallink Grupp (subject to NFRD, consumer services) stand out as the top performers, delivering the best sustainability report (Enefit, 2023; Tallink Grupp, 2023). The latter report is audited, and both align with GRI guidelines. Harju-Elekter (subject to NFRD, industrials) also demonstrates a high level of maturity, presenting a comprehensive ESG report based on GRI standards (Harju Elekter, 2023). LHV Group (subject to NFRD), impresses with its high-quality GRI-based ESG report (LHV Group, 2023). All reports cover scope 1-3 emissions and material topics and EU Taxonomy.

Next, moderate progress companies include Nordecon-AS which is subject to NFRD and Tallinna Sadam, and Tallinna Vesi which are not subject to NFRD provide comprehensive reports, including audited disclosures on Environmental, Social and Governance aspects but lack quantitative support for qualitative information (Nordecon-AS, 2023; Tallinna Sadam, 2023; Tallinna Vesi, 2023).

Furthermore, there are companies showing little progress and commitment, Coop Pank, which acknowledges the existence of CSRD but provides limited data on it (CoopPank, 2022). Baltika mentions sustainability in its report but lacks specific details on its sustainability practices (Baltika, 2023). Eften Real Estate Fund has a third-party assured sustainability report but with limited data, focusing only on scope 2 emissions and waste (Eften Real Estate Fund, 2023). The report includes qualitative information and sets goals and targets, indicating initial efforts in sustainability reporting, to some extent based on GRI.

Lastly, the remaining nine listed firms either do not provide sustainability reports or disclose minimal information related to sustainability aspects. Interestingly, Silvano Fashion Group which is subject to NFRD chose to disclose information that meets minimal NRFD requirements. (Hepsor, 2023; Ekspress Grupp, 2023; Merko Ehitus, 2023; Pro Kapital Grupp, 2023; ArcoVara, 2023; PRFood, 2023; Nordic Fibreboard, 2023; Trigon Property Development, 2023)

5. Discussion

To continue developing the research study to answer the initial research questions, the following two goals of this chapter will be met. First, it will discuss the empirical findings and its implications on the topic, and second, the findings will be discussed in accordance with the literature. The discussion will be separated among four main categories which includes the main topics in a more intuitive way.

5.1. Stages of CSRD integration process

The combination of primary and secondary empirical findings, as shown in Chapter 4, sheds light on the stage of the CSRD integration process among the analyzed companies in the Baltic region. The findings reveal that the stage is influenced by various factors, including past expertise with NFRD and GRI reporting in Estonia, the level of maturity of companies in Lithuania, the type of company in Lithuania, and the ownership structure in Latvia. Moreover, these factors exhibit a country-dependent nature, highlighting the unique dynamics within each Baltic state. The literature from Chapter 2 does not fully allow to answer the research question and has to be complemented by the empirical findings. The Regulation Ready model, CSRD readiness roadmap and Sustainability reporting implementation framework will be combined in order to answer the first supporting research question. Additionally, it is necessary to identify the reason for country variations. For this reason, Porter's Diamond model will be utilized. The framework proved advantageous for analyzing national competitiveness, utilizing established indicators including factor conditions; firms' structure, rivalry, demand conditions, related and supporting industries; government (Porter, 1998; Chung, 2016). Therefore, using the model, country competitiveness analysis in relation to sustainability reporting will be conducted and presented in sections 5.1.1-5.1.3 to explain the variances between the countries.

5.1.1. Stages of CSRD integration process - Estonia

In our analysis, it was observed that among the analyzed companies in Estonia, only 15% have reached the 18th stage (but missed double materiality assessment) of the CSRD readiness roadmap (Figure 11). This confirms that companies with GRI reporting experience are more advanced. This finding suggests that there is a considerable need for companies to accelerate their efforts in aligning their reporting practices with the CSRD guidelines. Considering the Sustainability Reporting Implementation (Heemskerk, Pistorio & Scicluna, 2002) framework, 45% (red coded in Appendix F) companies are between stages 1-4 of the reporting process (between setting the objectives and distributing the report). However, while often their sustainability information can be found in management reports, it can be assumed that they are publishing test reports (in line with Participant 2 statement), because they lack numerous data points. Looking at the Regulation Ready Model, it can be assumed that the remaining 40%, which did not publish any sustainability information, are at the very beginning of their journey. Considering the Regulation Ready model by O'Dochartaigh (2022) they can be considered stage 1- allocate both financial and human resources.

Porter's Diamond Model

According to Patt et al. (2021) factor conditions in Estonia, lie within the limited availability of qualified professionals with expertise in sustainability reporting. Firm's strategy, structure, and rivalry can be characterized by SMEs proactively embracing sustainability helpful in gaining a competitive advantage by differentiating themselves in the market, attracting responsible investors, and building a positive reputation (Participant 4). As per demand conditions, the country can be characterized by the presence of environmentally conscious consumers, and investors who prioritize sustainability which can drive the demand for sustainability reporting (Magli & Martinelli, 2022). Related and supporting industries indicate that the country has a developed financial sector, including accounting firms, auditors, and consultancy services (Participant 7). When it comes to government factors, this aspect has been lagging in recent years. There were no policies regarding sustainability reporting and NFRD only was transferred into national law in 2021 (Magli & Martinelli, 2022).

5.1.2. Stages of CSRD integration process - Latvia

The findings reveal that Latvian companies are far behind Estonian and Lithuanian. The full evaluation of Latvian listed companies can be found in Appendix E. Out of the 11 listed companies analyzed, only three have reached the initial stage of preparation. By having a long-term ESG strategy that can be classified as stage 2 of the Sustainability Reporting Implementation framework (planning upon setting objectives). Two companies (red coded in Appendix E) can be classified at stage 0 of the CSRD Readiness Roadmap because they published certain sustainability information. The remaining 6 companies have not published any sustainability reports, therefore can be classified as currently approaching stage 1 of the Regulation Ready model by O'Dochartaigh (2022). This indicates that the majority of companies in Latvia are in the early stages of their CSRD integration process and have yet to fully address the reporting requirements which is in line with Latvian representatives' statements during the interviews. The low readiness level suggests that there is a significant gap that needs to be bridged to ensure timely compliance with the CSRD. Nevertheless, the reasons for the very early stages of the integration process are explained below.

Porter's Diamond model

Latvia's factor conditions include a skilled, educated workforce and recent growth of green technologies (LIAA, 2022). However, similar to Estonia professionals with expertise in sustainability reporting including auditors are a scarce resource (LIAA, 2022). Within the rivalry aspects, focus on short-term financial goals and lack of companies promoting sustainability reporting and showing good examples to other companies has been identified (Participant 7). Additionally, increasing global and domestic demand for sustainable practices and environmentally conscious consumers characterize demand conditions. However, still, a large portion of the market is unwilling to pay a higher price for sustainable products. Related industries include a growing network of organizations and institutions working on sustainability issues (Anderson & Hurley, 2021b). When considering government factors, no policies exist that force companies to disclose sustainability data. Recently the government introduced an environmental disclosure policy, but no social sustainability aspects are raised (Anderson & Hurley, 2021b). In addition, Participant 7 stated that the lack of financial support from the government poses challenges for the companies. Due to high inflation, it is challenging for them to dedicate a portion of their budget toward sustainability reporting.

5.1.3. Stages of CSRD integration process - Lithuania

Half of the listed companies analyzed in Lithuania are at the advanced stage, specifically stage 17 of the CSRD Readiness Roadmap. This indicates a higher level of progress in terms of CSRD integration compared to Latvia and Estonia. These companies have made significant strides in aligning their reporting practices with the new requirements. As those are companies with the highest employee number and turnover, it can be assumed that stakeholder pressure supports strengthening the reporting. The advanced stage reached by Lithuanian companies reflects their level of maturity. However, it is important to note that they are still working towards full compliance. Therefore, looking at the O'Dochartaigh (2022) model, they are at stage 5. Furthermore, three companies (orange coded in Appendix D) are at stage 3 of the Regulation Ready model. Additionally, the remaining nine companies do not provide sustainability reports. Those can be classified as stage 0 of the CSRD regulation Ready Roadmap. Appendix D shows a detailed evaluation of all 24 companies. The reasons for Lithuania outperforming Latvia and Estonia in terms of sustainability reporting practices are highlighted below.

Porter's Diamond model

The country factor conditions include skilled, educated workforce (International Trade Administration, 2022) and a relatively large volume of training that helps in addressing the ESG metrics knowledge gap (Participant 5). Lithuania is a relatively small market, leading to intense competition among companies. Additionally, international companies give examples of good practices to others. Moreover, it implemented policies and regulations encouraging sustainability practices and reporting (Anderson & Hurley, 2021b). These policies can provide incentives and support for companies to adopt sustainable strategies (Chung, 2016). Additionally, NFRD has been in the national law since 2016 i.e., years before Latvia and Estonia (Anderson & Hurley, 2021b). Therefore, companies have been preparing the reports and familiarizing themselves with the reporting requirements for longer.

5.1.4. ESG factors integration to strategy

One of the key implications is the need to align ESG (Environmental, Social, and Governance) factors with the company's business strategy. This requires companies to assess their current sustainability practices and identify areas where ESG considerations can be integrated more effectively. By aligning sustainability goals with the overall business strategy, companies can create a more cohesive and holistic approach that contributes to long-term value creation and resilience. Furthermore, the implication is the need to define targets and Key Performance Indicators (KPIs) related to sustainability. Companies must set clear and measurable objectives that align with their sustainability strategy. This allows them to track progress, monitor performance, and demonstrate accountability to stakeholders. “Past empirical research has demonstrated that many businesses have committed to utilizing ESG for sustainability, primarily because it enables them to develop the skills and competencies necessary to secure long-term competitive advantages and protect their image (Fatemi, Glaum & Kaiser, 2018; Armstrong, 2020; Alareeni & Hamdan, 2020)” The empirical study confirms that by defining targets and KPIs, companies can drive continuous improvement, identify areas for innovation, and enhance their competitive advantage.

5.2. Double materiality assessment approach

Our empirical data suggests different answers regarding the double materiality assessment approach depending on the company's maturity level, internal motivations, and previous experience with sustainability reporting. This is important to emphasize because depending on these mentioned characteristics the companies will either be at the forefront of double materiality assessment or will be lagging. Therefore, it is necessary to separate the companies into three groups and discuss double materiality approaches accordingly.

The first group are small-medium size companies that are only at the starting point of the sustainability reporting integration process i.e. they have not reached the materiality assessment step, for example, according to our research these are small-medium size companies, not from sensitive industries or companies which are not matured for the sustainability agenda yet because they have other priorities or are on the survival mode, therefore, their motivations are more short-term rather than long-term. The second group is listed companies which already had to report according to NFRD, however, they have not performed a materiality assessment or only did it in an artificial way which would not surpass the credibility and legitimacy score because the organization is not mature enough to prioritize sustainability matters and reporting against other business issues, has lack of knowledge in sustainability topics, or as well is being run on survival mode which is focused on short-term goals reaching. The third group consists of listed companies that understand sustainability importance and sees it as a strategic approach towards long-term business development. The latter group is the one which already has developed a double materiality assessment approach and thus it will be discussed further.

5.2.1. Stakeholders approach

As covered in Chapter Two- literature review regarding double materiality assessment, stakeholder theory plays a key role according to Freeman et al., (2010) when considering business operations impact on different stakeholders, e.g., customers, local communities, partners, employees, investors and other interest groups. Therefore, stakeholders should be included and engaged in the process of materiality assessment to ensure that the sustainability report has identified and covered information in line with various stakeholders' opinions (Puroila & Makela, 2019). This information that we found in the literature is supported by interviews Participants’ responses, as they also advised the companies to engage internal and external stakeholders to identify and select material topics, to not be afraid of asking as many stakeholders as there is a need and use their suggestions to prioritize the material topics as organization’s opportunities and risks.

Thus, when reviewing secondary data i.e., listed companies' sustainability reports it was noticed that companies that have integrated sustainability into their business strategy and see sustainability as a necessity engaged their stakeholders to evaluate their organization’s impact and develop relevant material topics list. For example, Lithuanian listed companies such as Ignitis Group, Telia Lietuva, Auga Group, Grigeo Group, Linas Agro Group, etc. Unfortunately, most listed companies in Latvia provide only limited information towards stakeholders, for example, identifying who their stakeholders are, but not disclosing whether they engage with them when setting sustainability targets and assessing the company’s impacts. Only VEF fintech provided information on stakeholders and the plan for the upcoming years to broaden stakeholder groups involved in materiality assessment. Last but not least, listed companies in Estonia, most of them as Harju-Elekter, LHV Group, Tallinna Vesi are providing at least minimal information on stakeholders’ engagement regarding sustainability aspects. Therefore, after reviewing Baltics, Lithuania’s listed companies have the best approach towards engaging their stakeholders.

5.2.2. Materiality assessment

To comply with the CSRD, companies will have to report on their impacts towards ESG from the double materiality concept as mentioned before in the regulatory context chapter. And according to official EFRAG information their reports will have to be done from two perspectives: impact and financial materiality (EFRAG, 2021, p8). This leads that when performing materiality assessment companies will have an increased scope of possible material topics, thus, the prioritization of the material topics becomes even more relevant than before. Thus, engaging stakeholders and using theoretical models can help companies to stay relevant and not lose focus.

In the literature review, we covered two models for materiality topics development: GRI step-by-step guidance and critical dialogic approach of materiality matrix which were mainly developed to change the initial Materiality Matrix model. According to the gathered primary empirical data four respondents provided advice on how to approach double materiality assessment. Their indicated steps are the most closely related to the guidance provided by the GRI (See Figure 7). They suggest making a long list of material topics while thinking about their impacts from the double materiality perspective and narrowing them down together with stakeholders, afterward to evaluate their risks and opportunities and lastly choose the ones which are the most material to the company.

When analyzing listed companies' reports in Baltics it stood out that many companies in Lithuania use Materiality Matrix to summarize all gathered material topics on the axes in regard to relevance to stakeholders or business strategy after surveying their stakeholders on what sustainability aspects are the most important to them. In Estonia, the situation is similar, however, companies more simply identify material topics with minimal stakeholder engagement, and they do not place it on the axes of the materiality matrix. Moreover, some of the companies indicate that in the upcoming year, they will improve the reports to include double materiality and have broader engagement of stakeholders. The situation in Latvia is the least compelling as their sustainability reports are lacking information on both stakeholders and materiality assessment.

5.3. Challenges of CSRD reporting

The challenges identified in the empirical study complement the ones discovered in the existing literature and provide valuable insights into the specific difficulties faced by companies in the region. The identified challenges lie within the lack of knowledge in the areas of quantitative data understanding, quantitative data gathering, ESG integration into the firms' strategies, and double materiality. This confirms the research of Suphasomboon & Vassanadumrongdee (2023) who identified limited knowledge regarding sustainability reporting but complements it with specific knowledge gap areas particularly for the case of CSRD.

Additionally, the empirical study did not identify any significant differences in the challenges faced by companies in the Baltics based on company type. Therefore, challenging the view of Opferkuch et al., (2023). The identified challenges were found to be common in the region and applicable to companies across various sectors. This can be attributed to the recent introduction of CSRD, resulting in a novel terminology and methodological approach that may pose difficulties for companies in understanding and implementing the reporting requirements. However, companies have the opportunity to strengthen their reporting capabilities, enhance strategic decision-making, and successfully comply with the demands of the CSRD integration process once the challenges are acknowledged. The challenge of knowledge is big and therefore should be approached as soon as possible in order for the firms to be ready to comply with regulations on time. It is worth noting that certain companies may perceive these requirements as an unnecessary burden and may opt to take advantage of the transition period, potentially leading to incomplete data disclosure in 2025.

5.4. Second-order consequences of CSRD reporting

Limited research studies on second-order consequences of the CSRD integration process present challenges in drawing generalized conclusions (Gulenko, 2018). Nevertheless, the available findings shed light on certain key implications, particularly in terms of costs, reputation, collaboration with stakeholders, and improved understanding of business risks and opportunities. These findings can be further examined through the lens of Transaction-Cost Economics (TCE) theory to gain insights into the underlying mechanisms and dynamics. TCE theory developed by Williamson (1991) is based on the notion that a firm will always try to minimize its transaction costs, and thus, either internalize or outsource activities in the market depending on their costs. Therefore, in sustainability reporting, according to TCE, firms will try to avoid the costs which could emerge from searching which material topics to prioritize, what and how ESG issues can be tackled, and looking for partners. Moreover, it can encounter bargaining costs when prioritizing material topics together with its stakeholders. Lastly, the enforcement costs can be added by mandatory third-party assurance or hiring internal staff which would make sure that firms are complying with the regulation. The high risk of overpaying exists due to the bounded rationality concept which is described as making incorrect contracts due to information overflow (Grüne-Yanoff, 2007). This is especially relevant in the case of compliance with CSRD when this topic is novel, the scope of regulations is large, and the overall market has limited knowledge on possible best practices. Thus, the second-order consequences can be more severe than anticipated i.e. companies risk paying higher searching, bargaining, or enforcement costs than they should, moreover, they might underestimate the power of reputation while trying to save costs. Lastly, companies might experience opportunity costs by choosing other alternatives which can result in various consequences (Buchanan, 1991) beyond the ones mentioned in this research. Therefore, additional research on the second-order consequences of the CSRD integration process should be studied in the upcoming few years.

5.5. Motivation for CSRD reporting

After the empirical data on motivation was collected, organized, and analyzed it is visible that the primary data correlates vastly with the motivations covered in the literature review. The interview participants disclosed that Baltic companies are reporting for the reasons of compliance to regulation, gaining competitive advantage, securing financial opportunities, building, and maintaining reputation, using sustainability for communication needs, and building a strong ecosystem with its suppliers, partners, etc. However, due to the fact that many Participants are working with smaller companies that are yet not obliged to report on sustainability, we observed that there is still a lack of strong stakeholders and institutional pressures to increase the number of companies that report voluntarily. And as mentioned in the literature review by Carmo and Miguéis (2022) the companies would calculate proprietary costs to evaluate the benefits versus the costs to report on sustainability.

Nevertheless, after reviewing Baltic-listed companies' published sustainability reports the results surprised as they were slightly different from the collected primary data. Many companies, even though they are not subject to the NFRD regulation and probably will have to report on CSRD only from the year 2026, produced extensive and top-quality sustainability reports while also engaging with their stakeholders in the process. For example, this relates to the Lithuanian companies Ignitis Group, Linas Agro Group, Grigeo, Klaipėdos Nafta, etc., Latvian company VEF and Estonian company Enefit Green. These companies see the need to integrate sustainability in their business strategy and could be described as operating in the performance discourse where all the leading global organizations are according to Juusola and Srouji (2022) four discourses model for accountability practices and sustainability reporting. Moreover, it could be assumed that in Lithuania institutional and stakeholder pressures are higher as the country has more voluntary sustainability reports published that are sophisticated and extensive and could be due to the national regulations which are in force from 2016 as mentioned in section 5.1.3.

Other companies which are subject to NFRD, for example, Telia Lietuva, Auga Group, Žemaitijos Pienas, Latvijas Gaze, Harju-Elekter, and LHV Group have as well leading sustainability reports in the market, however, their motivation could be stimulated by the fact that for them it is mandatory to report. At the same time, there are companies that also are subject to the NFRD, but their sustainability reporting is not as extensive and of good quality as previously mentioned companies. These are Lithuanian companies Utenos trikotažas, Snaige, and Estonian companies Ekspress Grupp, Tallink Grupp, and Nordecon-AS which mostly probably are driven by the motivation of compliance with the regulation. Moreover, there are companies that even if subject to NFRD are not producing sustainability reports, for example, Vilkyškių pieninė, Amber Latvijas Balzams, Tallink Group, etc. Therefore, after observing these examples of the companies mentioned in this paragraph (Telia lietuva, Auga Group, Latvijas Gaze, etc.) could be motivated by more than complying with regulations which would need to be further explored by contacting companies' representatives. In addition, deeper analysis with companies' representatives could be beneficial as well for companies that do not produce any sustainability reports even if they should as currently their motivations are not clear.

Overall the situation in Baltics seems to be responding to the available literature synthesized in Chapter two, companies are subject to a variety of motivations when reporting on sustainability, however, the results are limited to representing a particular part of the market i.e. consultants of the big four and published sustainability reports of listed companies, therefore, more extensive research should be performed to include wider scope market and performing interviews with companies' representatives for deeper insights.

5.6. Revised empirical framework

Based on collected and analyzed empirical data, the initial framework was revised to include the exact factors of each area examined. Figure 13 defines and summarizes the answer to the main research questions of what CSRDs integration process implications on strategy in the Baltics market are. The revised framework is accompanied by answers to the supporting research questions on what the double materiality approach is, what are the challenges, second-order consequences, and motivations when in the process of CSRD integration. Finally, company's stage in the integration process which is highly dependent on market competitiveness and company's internal factors. All the discussed parts are closely interrelated and the change in one can result in the change in another factor. Therefore, when considering integrating CSRD it is important to systematically review and align on all factors mentioned in the empirical framework.

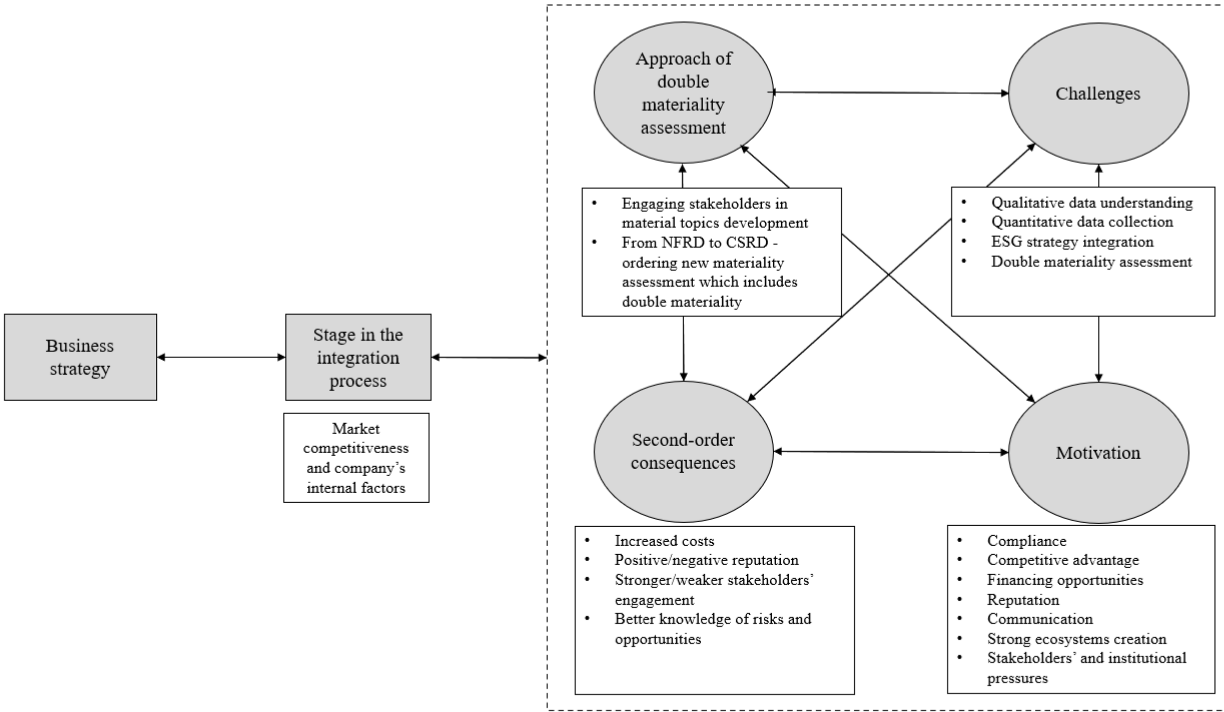

Figure 13. *Revised empirical framework of sustainability reporting integration process implications on business strategy.*

Source: developed by authors

6. Conclusion

The purpose of this thesis is to investigate the implications of the CSRD integration process on the companies' strategies and gather insights specifically from Baltics. We addressed the research question by analyzing and identifying the main areas which can result in implications on strategy. Namely, the stage of the integration process, compliance motivations, double materiality assessment, challenges, and second-order consequences. Based on the qualitative case study, empirical findings confirm that five areas considered are important when analyzing the CSRD integration process. Additionally, gathering secondary data deepens the observations regarding the Baltics market.

It became apparent that Baltics companies are in different stages in the CSRD integration process. Listed companies that already had to comply with NFRD are at the stage of re-assessing their materiality assessment and improving it to meet double materiality standards as soon as the final

CSRD standards are published. A similar situation applies to other mature companies which relate sustainability closely to their strategy, or companies that have their business model based on sustainability. Other less matured, small, or medium size companies are mostly at the stage of learning about CSRD and double materiality assessment, they need help from consulting companies to understand what it is, to find out how to integrate their strategy with ESG matters, and overall education on what should be their approach and how they need to comply. Moreover, the differences between Baltic countries' listed companies' current sustainability reports were observed. Lithuanian listed companies are the most advanced in sustainability reporting. Followed by Estonia, and Latvian listed companies still have space to improve significantly. The good quality reports were distinguished by having a sustainability strategy, engaging stakeholders in the process of materiality assessment, and being able to provide quantitative data.

Another question examined was the double materiality approach. The companies which already had well-prepared sustainability reports now will approach materiality assessment from the double materiality perspective and will engage wider scope of stakeholders in the process of finding and prioritizing material topics that carry the biggest risk or opportunities to their business. Furthermore, challenges of the CSRD integration process were identified, including those lying with a lack of knowledge. Specifically, understanding and interpreting qualitative data, collecting quantitative data for identified material topics, integrating ESG matters into the overall business strategy, and understanding how to approach double materiality. There were no implications of these challenges being dependent on different countries or company types, they seem to be generalizable for everyone.

Moreover, the research on second-order consequences was expanded as previously it was barely mentioned in the literature, therefore, with our research, we were able to define that sustainability reporting leads towards increased costs, building of positive or negative reputation, increasing the quality of stakeholder's engagement, and better-acknowledging risks and opportunities. It was further addressed by Transaction-Cost Economics theory that by trying to minimize the costs the companies might underestimate the consequences, especially due to the bounded rationality of decision-makers. Lastly, from the primary data motivational factors to report on sustainability are compliance with mandatory regulation, gaining competitive advantage, obtaining better financial capital conditions and opportunities, strengthening reputation, a way to communicate and create strong ecosystems with different business partners, suppliers, etc. The secondary data analysis supported the motivation as an answer to the institutional and stakeholder pressures, as well for Lithuanian market compliance to the regulation could be a strong indication.

6.2. Theoretical implications

This thesis contributes to the existing body of knowledge by synthesizing the available literature on the topic of sustainable reporting and by investigating several key aspects of the CSRD integration process for companies' strategies in the Baltics. Thus, addressing the existing research gap as initially defined in a threefold way. First, our theoretical contribution is the theoretical framework which initially was created by synthesizing the literature and later revised with empirical findings' data to confirm its importance and add particular factors.

Next, literature on sustainability reporting and especially CSRD is scarce due to its novelty. However, as expressed at the start of the thesis, this topic carries increasing importance as in upcoming years a tremendous number of companies will fall under its scope. Therefore, we attempt to add complementary insights to the literature by providing a case study on exploring deeply Estonian, Latvian, and Lithuanian country-specific factors. It begins by examining the current stage of implementation, providing valuable insights into the progress made by companies in adopting and implementing the CSRD requirements. This study also investigates the motivations that drive companies to engage in the CSRD integration process, as well as the challenges they face, and possible second-order consequences which until now were neglected by researchers. Furthermore, our research contributes with new insights into the emerging double materiality concept, which is an integral part of CSRD.

Finally, due to the growing importance and emerging discussions evolving around mandatory, this study aims to become a starting point for fellow researchers' future exploration. We have studied the main areas of the CSRD integration process which can impact companies' strategy, adding new insights on double materiality assessment approaches and how it is viewed in the Baltics market. Additionally, adding to rarely studied insights of second-order consequences. As well as integrating Porter's Diamond model to explore whether a country's competitiveness advantage can be the reason for being more advanced in sustainability reporting. Furthermore, we explored interesting dynamics of Transaction-Cost Theory which is a new addition to the literature on how the companies need to minimize transaction costs can lead to second-order consequences.

6.3. Practical implications

Likewise the theoretical contributions, this study aims to deliver practical contributions. Namely, this research can provide valuable insights into three key players in the CSRD integration process: corporate management teams, regulators, and consultancy services. Firstly, for the companies' management teams, this research provided general and Baltics-specific challenges, motivations, and second-order consequences, which they could expect when planning and starting the CSRD integration process. Additionally, CSRD progression pieces of advice from the leading consultancy service providers have been integrated and intend to serve companies with underdeveloped sustainability reporting practices. Moreover, the insights highlight the importance of the double materiality concept and provide suggestions on how to approach it from the market-leading consultancy firms. In addition, the companies can compare themselves against other peers in the market at which implementation stage they are and set their expectations right of what is to come.

Secondly, the regulators can have a clearer picture of the situation in the Baltics market and gain a deeper understanding of the drivers behind sustainability reporting. Thus, this study's findings can help policymakers to ensure a smoother transition process to the new reporting requirements and more positive reactions from different stakeholders by anticipating and addressing the barriers to successful implementation.

Thirdly, as the findings suggest, currently consultants serve a highly educational role. This research can enhance their knowledge and give additional reasons to approach companies with evidence of a highly complicated CSRD integration process. The aim is to encourage companies to proactively prepare in advance, avoiding negative second-order consequences and minimizing transaction costs through expert advice when making decisions, thus reducing opportunity costs.

6.4. Methodology implications

The methodological implications of this research highlight potential areas for improvement and alternative approaches that could enhance future studies on the CSRD integration process. Firstly, while the adopted qualitative research design in this study provided valuable insights there is a potential for further enhancement by incorporating direct interviews with company representatives. Conducting interviews would allow for a more in-depth exploration of their perspectives, experiences, and strategies related to the CSRD integration process. As well, by engaging directly with their key stakeholders, a richer understanding of the processes and the specific challenges, motivations, and second-order consequences they could face could be obtained to expand the overall picture explored.

6.5 Research limitations and implications for future research

It is crucial to recognize the study limitations and future research implications in order to fully understand the scope and applicability of the research. Firstly, this study specifically examines the impact of the CSRD integration process on companies' strategies in the Baltics. While the insights gained from this research are valuable for the region, it is important to note that the findings may not be directly transferable to different geographical contexts or industries beyond the Baltics. To gain a more comprehensive understanding, future research could explore the integration process in other regions, allowing for a broader perspective and insights applicable to different contexts.

Another limitation is related to the data sources utilized in this thesis. The research heavily relies on professional service consultants which are the primary source of data, not on the companies themselves. Evaluation of the companies is supported by secondary data, such as existing sustainability reports of listed companies in the Baltics. This introduces certain limitations in terms of data representativeness. Therefore, the analysis primarily focuses on listed companies and does not fully capture the experiences and perspectives of other types of companies, such as SMEs or private firms. The professional service consultants' discussions were general as they were not always able to indicate differences due to the small number of listed companies in the Baltic region and the fact that they have non-disclosure agreements with the clients they represent.

Finally, it is recommended to conduct comprehensive research on the exploration of the CSRD once the first companies start to report in 2025. Specifically, future research on quantitative data gathering and understanding is crucial, especially as the first CSRD reports are expected to be in place by 2025. This significant milestone presents an opportune moment to evaluate the challenges and gaps that emerge from the initial implementation of the CSRD framework, as well as second-order consequences which are scarce in the existing literature.

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Appendix A

A table showing reporting deadlines under CSRD depending on the firm type-Implementation Timeline

Adapted from: European Commission (2021)

Firm type	Beginning of reporting period	Reports issue date
Firms under current NFRD reporting requirement	01.01.2024	2025
Large EU firms that are not subject to NFRD + parent companies of large, non-EU firms that are not subject to NFRD	01.01.2025	2026
Small and Medium size Enterprises (SMEs)	01.01.2026	2027

Appendix B

A Table showing NFRD and CSRD main differences

Adapted from: European Commission (2023); KPMG (2022); Baumüller & Grbenic (2021).

	NFRD (Non-Financial Reporting Directive; 2014/95/EU)	**CSRD** (Corporate Sustainability Reporting Directive; 2022/2464/EU)
Applicable since	Fiscal year 2018	Fiscal year 2024
Scope	Applicable for **large, public EU interest entities** - With more than **500** employees - Public interest entities, listed companies, banks, insurance companies - Applies to approximately **11 000** companies	1. Reporting from **2025:** - companies that currently are **subject to NFRD** (currently approx. 150 companies in PL; Baltics-number) 2. Reporting from **2026** all large companies meeting at least two of following three criteria: - More than **250** employees - Turnover of 40 million euros - Assets above 20 million euros - Will apply to approximately **50 000** companies 3. Reporting from **2027:** - Listed SMEs, **excluding micro-enterprises** *Companies not mandated with CSRD from 2024 are subject to NFRD until their transition into CSRD
Main pillars	**Non- financial** information	**Sustainability** information in respect to:

	in respect to **Environment, Social responsibility, Employees Human rights.**	Environment, Social policy (Corporate Social Responsibility), Corporate governance.
Mandatory reporting requirements	- **Materiality assessment** (non-financial impacts of firms' activities i.e., internal risks and opportunities) - Environmental protection - Social responsibility and treatment of employees - Respect for human rights - Anti-corruption and bribery - Diversity on company boards (in terms of age, gender, educational and professional background)	**- Double materiality assessment:** Sustainability risk affecting the company + Companies' impact on society and environment - Process to select material topics for **stakeholders** - Reporting based on Sustainable **SFDR** and **EU Taxonomy Regulation**. - Environmental reporting in line with the six goals of the **EU Taxonomy**. - More forward-looking information, including **targets**, **KPIs and progress.** - Disclose information relating to intangibles (social, human, and intellectual capital).
Comply-or-explainain principle	Yes	No
Third-party assurance	Non-mandatory	Mandatory independent third-party assurance
Disclosure	Incorporated into the company's **Annual report**.	Incorporated into the company's **Management report.** Compliance in line with the European Single

		Electronic Format (ESEF) Regulation by preparing their financial statements and management reports in XHTML format.

Appendix C

The final interview guide (developed by authors)

INTERVIEW GUIDE

Date: xxx
Interviewee: xxx
Interviewers: Wiktoria Bartkowiak, Migle Skensbergaite
Topic: Exploring European Union Corporate Sustainability Reporting Directive's (CSRD) integration process implications on companies' strategies in Baltics.
Duration: Approx. 60 min

INTERVIEW SCOPE:
The aim of the interview is to gain insights into the EU CSRD from the Big Four's experience with local companies. After a short introduction of the interview participants, the following focus areas will be discussed: your experience with sustainability reporting, the current companies' stages in the integration process, material topics, and double materiality approach. Further, we would like to gain insights concerning motivation, challenges as well as consequences of CSRD compliance.

- All questions are asked regarding Baltics market to consider the local companies'* perspectives. Further, minor changes in the questions and scope should be expected. We kindly request that you **refrain from mentioning any company names**.

INTRODUCTION

1. Few words about us and our research.
2. Could you provide some information about your experience within the position you hold at **XX**?

GENERAL (your experience with sustainability reporting GRI/NFRD/ CSRD)

3. What industries do you serve?
4. Can you tell us what **you** specifically as well as **XX** (your company as a whole) do for the companies?
5. How do companies understand the **meaning and implications of ESG and ESG reporting**? Are they **fully aware of the potential benefits** of implementing ESG

practices in their operations?
6. Could you please provide a detailed example of the company and its sustainability reporting integration process when it had to comply with NFRD/ GRI? What were the stages of the process, identified material topics, challenges, and impact (e.g. impact on the firm's value)?
7. On a scale of one to four, how good do you feel the current situation of sustainability reporting is in Lithuania/Latvia/Estonia?

INTEGRATION PROCESS STAGE

8. At which **stage of the CSRD integration process** companies currently are?
9. What do you believe needs to be strengthened to support achieving the next steps? Is there anything the companies or their employees are doing that may be getting in the way of achieving the next steps?

MOTIVATION

10. What's the **main motivation** of the companies to comply with the EU CSRD?
11. What is their **current** level of commitment?

DOUBLE MATERIALITY ASSESSMENT

12. How do companies approach **double materiality assessment**, how do they identify **material topics**, **opportunities,** and **barriers** (specific KPIs, tools, frameworks, and personalized approaches they use to ensure a multi-stakeholder approach)? How **ready** are they to do material assessment and what are the **key challenges**?
13. How do **you advise companies** to approach double materiality assessment and what are the **key steps** that they should take?
14. What is the motivation of the companies behind examining and executing double materiality? What is their level of commitment?
15. If applicable, can you provide an example?

CHALLENGES

16. What challenges do the companies face in the transition from NFRD to CSRD? What are the main concerns of those companies?
17. What are the main challenges companies face when integrating ESG into their strategy and reporting? How should they tackle these challenges?
18. Can you share examples of companies that have successfully integrated sustainability reporting? OR are on the right track with the implementation? What are their key success factors?
19. What's the **main motivation** of the companies to tackle the challenges? What is their level of commitment?

CONSEQUENCES (POSITIVE/NEGATIVE)

20. Based on your experience, what are some potential impacts of the CSRD integration process on the business?
21. If applicable can you provide an example?

Appendix D

Lithuanian listed companies table on NASDAQ Baltic with information on sustainability reporting

Adapted from: NASDAQ (n.d.); Sustainability Reports (published by the companies in the table); Rekvizitai (n.d.)

Name	Sector	Subject to NFRD (if >500 employees)	Quality of reports	Quality of reports (color coded)
Apranga	Consumer Services	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
AUGA group	Consumer Goods	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** Yes	
Grigeo	Basic Materials	No (279 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** No **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Ignitis Grupe	Utilities	No (355 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** Yes	
Klaipedos Nafta	Industrials	No (339 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes	

			Double materiality: No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**No	
Linas Agro Group	Consumer Goods	No (216 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Not required **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Novaturas	Consumer Services	No (167 employees)	**No sustainability report**	
Panevezio Statybos Trestas	Industrials	No (164 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**No	
Pieno Zvaigzdes	Consumer Goods	No (225 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report: Not eligible** **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
Rokiskio Suris	Consumer Goods	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Siauliu Bankas	Financials	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**No	
Telia Lietuva	Telecommunications	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes	

			Taxonomy report: Yes **Double materiality:** Yes **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**Yes	
Vilkyskiu Pienine	Consumer Goods	Yes	**No sustainability report**	
Amber Grid	Energy	No (347 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** No **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**No	
INVL Technology	Financials	n.d.	**No sustainability report**	
INVL Baltic Farmland	Real Estate	n.d.	**No sustainability report**	
INVL Baltic Real Estate	Real Estate	n.d.	**No sustainability report**	
Invalda INVL	Financials	n.d.	**No sustainability report**	
Kauno Energija	Utilities	No (341 employees)	**No sustainability report**	
LITGRID	Utilities	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:**Yes	
Snaige	Consumer Services	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** No **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	

Utenos Trikotazas	Consumer Services	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Vilniaus Baldai	Consumer Services	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** No **Quantifiable data:** Yes **Assured by 3rd party:**No	
Zemaitijos Pienas	Consumer Goods	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	

Appendix E

Latvian listed companies table on NASDAQ Baltic with information on sustainability reporting

Adapted from: NASDAQ (n.d.); Sustainability Reports (published by the companies in the table); Market Scanner (n.d.)

Name	Sector	Subject to NFRD (if >500 employees)	Quality of reports	Quality of reports (color coding)
DelfinGroup	Financials	No (283 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** No **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
HansaMatrix	Technology	No (240 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
INDEXO	Financials	No (53 employees)	**No sustainability report, promise to include sustainability risks from 2023**	
SAF Tehnika	Telecommunications	No (238 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
Amber Latvijas balzams	Consumer Goods	Yes	**No sustainability report**	
Ditton pievadkezu rupnica	Basic Materials	No (118 employees)	**No sustainability report**	
Latvijas Gaze	Utilities	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No	

			Quantifiable data: Yes **Assured by 3rd party:** No	
Latvijas Juras medicinas centr	Health Care	No (347 employees)	**No sustainability report**	
Rigas kugu buvetava	Industrials	No (66 employees)	**No sustainability report**	
Siguldas CMAS	Consumer Goods	No (around 60 employees)	**No sustainability report**	
VEF	Real Estate	No (10 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No, will be in 2022 **Quantifiable data:** No **Assured by 3rd party:** No	

Appendix F

Estonian listed companies table on NASDAQ Baltic with information on sustainability reporting

Adapted from: NASDAQ (n.d.); Sustainability Reports (published by the companies); Info Register (n.d.)

Name	Sector	Subject to NFRD (Yes if >500 employees)	Quality of reports	Quality of reports (color coded)
Arco Vara	Real Estate	No, (88 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
Baltika	Consumer Services	No, (155 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
Coop Pank	Financials	No, (200 employees)	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:** No	
Ekspress Grupp	Consumer Services	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** No **Quantifiable data:** Yes **Assured by 3rd party:** No	
EfTEN Real Estate Fund sh.	Financials	No (30 employees)	**No sustainability report**	

Enefit Green	Utilities	No (165 employees)	**Long-term sustainability strategy:**Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Harju Elekter Group	Industrials	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Hepsor	Real Estate	No (<25 employees)	**No sustainability report**	
LHV Group	Financials	Yes	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Merko Ehitus	Industrials	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** No **Quantifiable data:** No **Assured by 3rd party:**No	
Nordecon	Industrials	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** No	
Pro Kapital Grupp	Real Estate	No (165 employees)	**No sustainability report**	

PRFoods	Consumer Goods	No (25 employees)	**No sustainability report**	
Silvano Fashion Group	Consumer Services	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** No **Quantifiable data:** Yes **Assured by 3rd party:**No	
Tallink Grupp	Consumer Services	Yes	**Long-term sustainability strategy:**Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** Yes **Assured by 3rd party:** Yes	
Tallinna Kaubamaja Grupp	Consumer Services	Yes	**Long-term sustainability strategy:** No **Stakeholder involvement:** No **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** No **Quantifiable data:** Yes **Assured by 3rd party:**No	
Tallinna Sadam	Industrials	No (<25 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** No **Taxonomy report:** No **Double materiality:** No **Material Topics:** No **Quantifiable data:** Yes **Assured by 3rd party:** No	
Tallinna Vesi	Utilities	No (324 employees)	**Long-term sustainability strategy:** Yes **Stakeholder involvement:** Yes **Taxonomy report:** Yes **Double materiality:** No **Material Topics:** Yes **Quantifiable data:** No **Assured by 3rd party:** No	
Nordic Fibreboard	Consumer Services	No (73 employees)	**No sustainability report**	

Trigon Property Development	Real Estate	No (<25 employees)	**No sustainability report**	