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Sustainable Service Management

Integrating Double Materiality: The Role of Corporate Sustainability Due Diligence Directive in Reshaping Corporate Governance in the EU

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Abstract

This master thesis explores the Corporate Sustainability Due Diligence Directive (CSDDD) within the European Union, focusing on how it integrates the concept of double materiality into corporate governance. The directive mandates that companies not only account for the financial impact of sustainability on their operations but also consider their broader environmental and societal effect. This study delves into the complexities of implementing this legal framework, examining the dual dimensions of financial and impact materiality and their implications for corporate strategy and reporting.

The analysis reveals that CSDDD aims to extend corporate accountability beyond traditional financial metrics to encompass environmental integrity and social responsibility. This aligns with the EU's broader objectives of sustainable economic development and protection of human rights within corporate operations and global value chains. This research employed a qualitative methodology, focusing on document analysis to assess the directive's requirements, its integration with corporate governance, and the challenges and opportunities it presents.

The findings underscore the necessity for enhanced transparency, due diligence, and stakeholder engagement in corporate practices. The thesis highlights how the CSDDD could reshape corporate governance by embedding sustainability at the core of business operations and strategy. It concludes by recommending further research to evaluate the directive's effectiveness and to explore its implementation across different corporate sectors and geographical contexts.

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List of Abbreviations

CSDDD	Corporate Sustainability Due Diligence Directive
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directives
ESRS	European Sustainability Report Standards
ESG	Environmental Social Governance
EU	European Union
EFRAG	European Financial Reporting Advisory Group
NGOs	Non-Governmental Organisations
SDG	Sustainable Development Goals
SME	Small Medium Enterprises
SSCA	Shareholding System for Collective Assets
UNFCCC	United Nations Framework Convention on Climate Change
OECD	Organisation for Economic Co-operation and Development

1.0 Introduction

The introduction chapter will begin with a detailed overview and background of the subject, providing a thorough understanding of the topic under discussion. It will then progressively narrow its focus, transitioning from a broader context to the specific issues addressed by the paper, as well as detailing its aim and research question. Finally, the introduction will outline the thesis's acknowledgement and the organisational structure, serving as a guide for the chapters that follow.

1.1 Research Background

The contemporary regulatory landscape for multinational corporations is transforming, underscored by the introduction of the European Sustainability Reporting Standards (ESRS) (European Commission, 2023). This legislative framework marks a paradigm shift towards embedding human rights and environmental sustainability at the core of corporate value chains, demanding a re-evaluation and restructuring of existing practices to meet new legal standards. Sustainability regulations define how organisations affect people, the planet, and society while still generating profits. Operating within complex and expansive global value chains, particularly prominent among larger firms, European Union (EU) companies face considerable challenges. These include managing a wide network of suppliers both within and outside the Union, which complicates efforts to identify and address potential human rights and environmental risks. Enhanced due diligence and increased data availability regarding these risks can improve the ability to detect and mitigate adverse impacts along these value chains (European Commission, 2022a).

EU corporations have expressed their desire for the EU economy to more actively address various negative impacts (European Commission, 2022a). These companies sought more comprehensive regulations than those provided by the ESRS, leading to the proposal of the Corporate Sustainability Due Diligence Directive (CSDDD). This directive was introduced to establish specific rules and obligations for businesses, reflecting a strong motivation for its determination. This call for enhanced regulatory measures resonates with the ongoing national legislation on human rights and environmental due diligence, it echoes in current national debates and aligns with proactive calls to action from both the European Parliament and the Council. These institutions have urged the Commission to draft Union-wide rules for cross-sector corporate due diligence (European Commission, 2022a). Consequently, the European Commission proposed the “Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and Amending

Directive (EU) 2019/1937". This directive aims to support human rights protection and standardise due diligence legislation across the EU (European Commission, 2022a).

The regulatory framework of CSDDD aims to infuse sustainability into corporate operations, extending beyond mere financial considerations (European Commission, 2022a). Actions of companies across all sectors play a pivotal role in achieving success in the EU's shift towards a climate-neutral and environmentally sustainable economy, aligned with the European Green Deal and in line with meeting the United Nations Sustainable Development Goals. This encompasses fulfilling objectives related to human rights and environmental conservation. To effectively navigate this, companies are required to develop mitigation strategies to address adverse human rights and environmental impacts within their value chains. This involves embedding sustainability into their corporate governance and management frameworks, ensuring that business decisions account for human rights, and environmental repercussions as well as the company's long-term resilience (European Commission, 2022a).

When companies undertake detailed assessments and disclosures, evaluating not just the financial implications of sustainability issues but also the broader environmental and societal impacts of sustainability issues, this process is known as double materiality. The implementation of double materiality in sustainability reporting compels businesses to disclose sustainability-related data in two essential dimensions: impact materiality, which focuses on the enterprise's effects on society and the environment, and financial materiality, which centres on how sustainability issues impact the enterprise financially (European Commission, 2023). These dimensions encompass a broad array of issues within the Environmental Social Governance (ESG) domains. Understanding that impact materiality and financial materiality are intertwined, corporations must consider the interdependencies between these dimensions to achieve a comprehensive sustainability strategy (European Commission, 2023).

1.2 Research Problem

In today's interconnected global economy, companies are not isolated entities but part of complex networks that influence and are influenced by their partners. This interconnectivity underscores the necessity of examining how sustainability values emerge within these value chains (Nielsen, 2023). For genuine sustainability accountability, it is crucial for businesses to thoroughly detail both their environmental impacts and financial impacts. Chiu (2022) points out the need for EU policymakers to offer greater clarity on how governance characteristics relate to double materiality. The introduction of the CSDDD marks a shift in academic research, mainly due to the directive's novelty and its comprehensive demands on corporate value chain management. This regulation provides an opportunity to investigate the importance of enterprises ́ implementation of the directive and the scope therein (Giner & Luque - Vílchez, 2022).

As sustainability accounting regulation evolves, it becomes crucial to navigate the challenges that accompany these developments (Pizzi, Caputo & de Nuccio, 2024). De Cristofaro and Gulluscio (2023) note that while double materiality has captured the scientific community's attention, leading to a proliferation of discussions on initial challenges, empirical research on its practical application and disclosure remains sparse. This absence underscores a research gap in the literature, as the complexity of double materiality is not fully explored (Dragomir, Dumitru, Chersan, Gorgan & Păunescu, 2024). On the same note, Nielsen (2023) emphasises the need for further research into double materiality reporting practices, particularly to understand the variability in early assessments. Exploring more aspects of how double materiality is adopted, will enhance the understanding of the concept's practises (De Cristofaro and Gulluscio, 2023). Furthermore, there is a research gap in substantiating the concept of double materiality in relation to global sustainability as a higher-order risk to humanity and the role of governance accountability beyond a mere reporting exercise (Ng, Yorke & Nathwani, 2022). This gap is particularly pronounced in the practical implementation of corporate sustainability, which must not only meet the stringent regulatory demands but also adapt to the dynamic nature of global supply chains. Additionally, there is a pressing need to consolidate and expand the academic literature in this field to provide a clearer approach and practical guidance for businesses navigating these complexities (Farooq, Azantouti & Zaman, 2024).

1.3 Research Aim and Question

The aim of this research is to explore how the recent proposal of CSDDD incorporates considerations of financial materiality alongside the impact materiality, within the framework of double materiality. The objective is to elucidate the concept of double materiality within the CSDDD, through the lens of corporate governance, with the intention of gaining insights into the directive's implications in the realm of ESG considerations. Specifically, this study seeks to analyse the directive's guidelines and provisions to determine how it integrates these dual aspects of materiality, assessing the potential implications for corporate reporting and accountability in the EU. Through this examination, the research will provide insights into the directive's capacity to enforce a holistic approach to sustainability that balances economic performance with ethical and environmental responsibilities. To address these research objectives, the following research question is stated: *In what ways does the new Corporate Sustainability Due Diligence Directive consider financial materiality and impact materiality, as defined by the concept of double materiality?*

1.4 Research Acknowledges

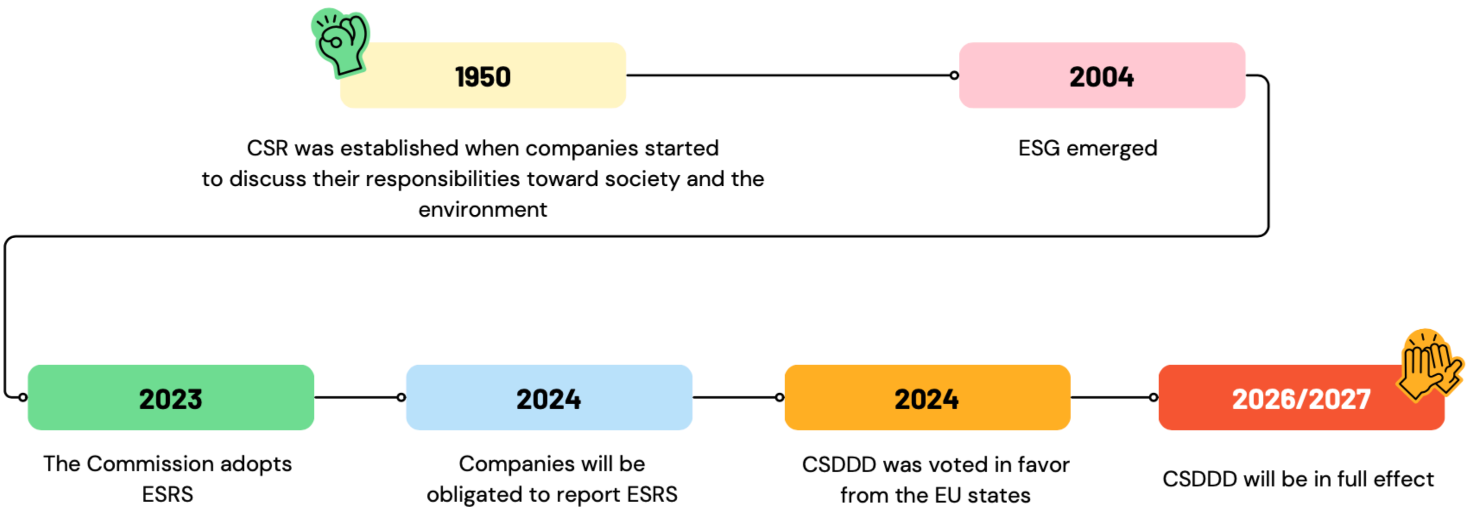
This study bases its analysis on the Proposal for a Directive of the European Parliament and of the European Council, which outlines their approach to the CSDDD. This proposal represents the most current document at the beginning of this research. It is important to acknowledge, however, that the directive is subject to modifications, as negotiations on its final form are ongoing among EU institutions, with a resolution expected in spring 2024 (Loyens & Loeff, 2024).

1.5 Research Structure

The following research structure will give the reader a perception of the thesis. After this introductory section, a literature and policy review will be presented, expounding upon concepts like Corporate Social Responsibility (CSR), ESG and directives upon ESRS and CSDDD, that will be integral into this thesis. Hereupon the theoretical framework of corporate governance will be presented, where the concept of double materiality also will be examined, serving as an analytical framework. This will be succeeded by a method chapter elucidating the research question's approach, by adopting a document analysis. Included herein, delimitations in the method and ethical considerations will be discussed. Subsequently, an analysis section will illustrate how the double materiality is incorporated into the CSDDD. This chapter has four different sections that will elucidate different perspectives on the double materiality and corporate governance practices. Additionally, the discussion chapter will be presented, where implications from the analysis will be discussed. The culmination of this thesis will be the conclusion, where the research question will be answered and suggestions for further research presented.

2.0 Literature and Policy Review

This chapter aims to discuss different concepts and regulations related to corporate sustainability and governance, to provide the reader with an understanding of its development. The chapter opens with an exploration of CSR, setting the foundational stage. Subsequently, ESG standards will be discussed to illustrate the progression and divergence of these two concepts in corporate ethics and accountability. Following this, ESRS are detailed, receiving deeper insights into reporting practices that build upon previous ESG considerations. The chapter culminates by delving into the CSDDD, highlighting a broad consensus on the directive to enhance corporate accountability and sustainability measures. Herin, important definitions that are crucial to understanding are also illustrated, to give the reader an explanation of the most important definitions from the CSDDD.



Illustrating Timeline of Corporate Sustainability - Figure created by the authors

2.1 Corporate Social Responsibility

In an era where globalisation intertwines economies and supply chains stretch across continents, the ethical implications of corporate operations have come under intense scrutiny (Teichmann & Wittmann, 2023). Amidst the growing demand for corporate transparency and the increasing focus on CSR, particularly fueled by a prosperous trend in sustainable investing, there has been a consistent rise in the development and implementation of standards and instruments (Christensen, Hail & Leuz, 2021). Corporations must recognize that the role of sustainability is shaping supply chain operations and distribution logistics. Companies are increasingly expected to ensure that their supply chains are devoid of human rights abuses, thereby setting benchmarks for regulatory frameworks globally (Beckman & Schaltegger, 2021). Originating in the 1950s, the concept of CSR has evolved since Bowen's seminal work, S*ocial Responsibilities of the Businessman* in 1953, which catalysed the integration of ethical considerations into business strategy and academic discourse (Bowen, 2013). The implementation of CSR practices has been shown to enhance organisational management and employee satisfaction (Ali, 2021).

While it is crucial to acknowledge the benefits of CSR, one must not overlook its potential drawbacks, particularly the adverse impacts on employees. The pressure to adhere to excessively high work ethics under CSR initiatives can lead to consequential stress and burnout among coworkers. This phenomenon, observed across various organisations, can detrimentally affect employees' performance and, consequently, the overall organisational effectiveness over time (Ali, 2021). Moreover, Christensen, Hail, and Leuz (2021) highlight the need for further research into how CSR reporting is enforced by public authorities. This need is driven by numerous reports of human rights violations within global value chains, including forced labour, child labour, and other forms of exploitation. This imperative stems from growing pressure from investors, regulators, employees, and other stakeholders, urging companies to integrate sustainability not just at the board level but also within their operational practices (Waas, 2023).

2.2 Environmental, Social and Governance

Emerging from the principles of CSR, ESG standards represent a new governance model that addresses social and environmental concerns. Until 2004, the complexities involved meant that there was a limited understanding of how to effectively integrate ESG factors into corporate governance (UNEP Finance Initiative, 2004). Over the past two decades, there has been a marked increase in the demand for non-financial information about ESG activities, driven largely by the growing interest in sustainable investment opportunities (Tsang, Frost & Chao, 2023). At the organisational level, ESG disclosure is a multifaceted phenomenon that profoundly impacts business management, encompassing employment practices, environmental initiatives, and community development efforts. Businesses are required to comply with numerous standards, guidelines, and conventions to build trust with their primary stakeholders, with these disclosures often prominently featured in sustainability reporting (Sarannya, 2018). Furthermore, Narula, Rao and Rao (2023) suggest that enterprises adhering to ESG standards can unlock potential benefits, including opportunities for committed leadership and strategic capital allocation. While ESG shares similarities with CSR, ESG practices help to sustain the workforce, which can lead to benefits in customer relationships and value creation (Narula, Rao & Rao, 2023). In relation, Sarannya (2018) emphasises that CSR and ESG are distinct concepts, where ESG is increasingly recognized as a business philosophy with a strong emphasis on financial performance, yet it also embodies a profound commitment to social and environmental responsibility.

As the significance of ESG activities for corporate sustainability has grown over recent decades, stakeholders and global investors have increasingly focused on the non-financial ESG information disclosed by firms, such as sustainability reporting. While the data for issuing firms holds significance, it is equally crucial to scrutinise the potential credibility-enhancing mechanisms of such disclosures. This entails exploring both internal and external mechanisms due to the absence of reporting guidelines and the limited comparability across ESG information provided by firms (Tsang, Frost & Chao, 2023). Additionally, Sarannya (2018) notes that many companies are aware of the development of ESG disclosure and strive to provide investors with non-financial information. However, most companies have different ways of reporting since there is no specific disclosure regulation for ESG information (Sarannya 2018).

2.3 European Sustainability Reporting Standards

Recently, prominent groups, such as governments, Non-Governmental Organisations (NGOs) and financial institutions have voiced concerns about the deficiencies in sustainability reporting regulations, focusing on issues like the accountability gap and comparability challenges (Afolabi, Ram & Rimmel, 2023). The debates primarily revolve around key areas such as materiality, target audience, main objectives, the purpose of reporting, and its relevance to sustainable development goals (SDG). These concerns have emerged as principal factors causing uncertainty and raising questions about the future path of standardising sustainability reporting practices (Afolabi, Ram & Rimmel, 2023). Consequently, there has been significant development and an influx of new influential standard setters in the sustainability reporting terrain, positioned alongside the pioneer institutions. Recognizing the crucial need for enhanced transparency and accountability in corporate activities, the European Commission's initiative to empower the European Financial Reporting Advisory Group (EFRAG) to establish new sustainability standards, signifies a pivotal step (Afolabi, Ram & Rimmel, 2023). This move is foundational to the ESRS's objective, ensuring that companies adopt a holistic reporting approach that encapsulates financial, environmental, and social impacts, thereby aligning with broader sustainability goals (European Commission, 2023).

These new ESRS standards aim to provide stakeholders, including investors, customers, and the public, with a clearer, more comprehensive view of a company's performance and its impact on society and the environment, facilitating better-informed decision-making and promoting sustainable business practices (European Commission, 2023). ESRS standards, integral to the Corporate Sustainability Reporting Directive (CSRD), apply to large companies surpassing thresholds of 50 million EUR in net turnover, 25 million EUR in assets, or 250 employees. Notably, from 2026, small and medium enterprises (SMEs) meeting specific criteria under CSRD must also adhere to these standards (European Commission, 2023). The ESRS endures the disclosure a company has about its risks, opportunities and impact in correlation to the ESG concerns. The material impact concerns the consequences that will occur to the environment or personal health from the perspective of the organisation's achievements and improvements of the standards (European Commission, 2023).

However, there are concerns about the legitimacy of ESRS due to the authority given to third parties, like independent auditors or consulting firms, without substantial democratic oversight (Waas, 2023). There is a risk that the ESRS standards may not fully address broader sustainability impacts or the interests of various stakeholders beyond financial investors. The commitment to broader sustainable development objectives stands in contrast, suggesting a potential dilution of sustainability reporting's effectiveness if its wide approach is sidelined (Afolabi, Ram & Rimmel, 2023). While the European Commission consults with the European Parliament and expert groups annually for transparency and control, scepticism remains about expert dominance. Additionally, the directive incorporates various international norms without detailing their specific applications, lacking clarity on how these global standards directly influence reporting requirements, which has been a point of contention among experts (Waas, 2023). Within larger corporations, implementing further directives is crucial, as the enforcement of corporate sustainability governance through due diligence becomes imperative (De Kluiver, 2023)

2.4 Corporate Sustainability Due Diligence Directive

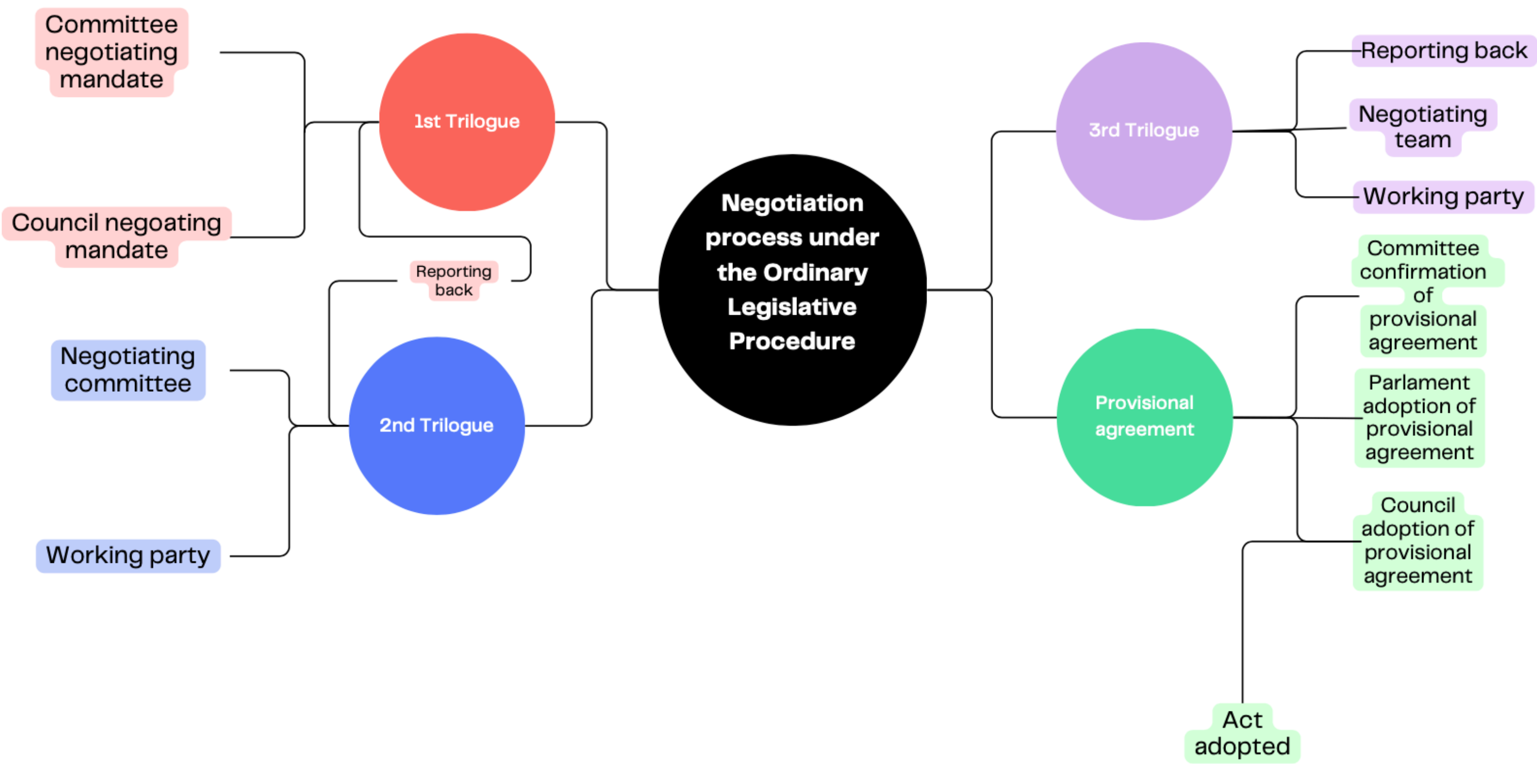
2.4.1 Definitions of Terms in the CSDDD

Prior to examining the implications of the CSDDD, it is essential to clarify core concepts to gain a broader understanding. Comprehending these definitions is central as they define the importance and implications of the directive. First of all, according to CSDDD, the definition of a *company* is stated as a legal person as one of the legal forms listed in Annex 1 in the directive 2013/34/EU of the European Parliament and of the Council (European Commission, 2022a). The definition of a legal person is derived from the Member States. Secondly, the term *due diligence* represents a set of measures that companies employ to identify and address environmental and human rights impacts, this is stated in the CSDDD through the following six progressions. 1) Embedding due diligence within policies and management frameworks, 2) Recognizing and evaluating negative human rights effects, 3) Preventing, halting, or reducing both current and potential negative human rights impacts, 4) Evaluating the efficacy of implemented actions, 5) Transmitting information effectively, and 6) Offering and implementing remedies as necessary (European Commission, 2022a).

Furthermore, the definition of the *value chain* is explained accordingly through CSDDD, as activities related to production and services provision, from product development to disposal. This includes upstream activities related to design, manufacturing, transportation and supply of raw materials. It also includes downstream relationships involving product distribution, storage, recycling and landfilling (European Commission, 2022a). The last definition that needs to be explained is *director,* which is utilised in the directive in multiplied circumstances. The term refers to any individual serving on the administrative, management, or supervisory bodies of a company. If not part of these bodies, the CEO and, if applicable, the deputy CEO or other individuals undertaking similar functions to those specified above. The company's directors should bear responsibility for due diligence, aligning with international frameworks. They are tasked with implementing and supervising due diligence actions outlined in this directive, as well as establishing the company's due diligence policy (European Commission, 2022a).

2.4.2 Policy Review of CSDDD

A demand from European corporations urges the EU economy to address adverse effects on workers by enacting legislative measures emphasising human rights and environmental due diligence (European Commission, 2022a). In response to the companies within the EU seeking more specific regulations than those offered by the ESRS, the CSDDD was introduced to establish comprehensive rules and obligations for enterprises (European Commission, 2022a). De Kluiver (2023) states that sustainability governance became an important discussion in 2023, both for the public sector and the companies. The European Parliament and Council have urged the Commission to draft rules for a detailed due diligence requirement across sectors, aligning with the EU's legislative priorities to enhance corporate accountability in these areas (European Commission, 2022a). Before enactment of new EU legislation, the Commission, Council, and European Parliament will conduct a pre-legislative negotiation called a trilogue (European Parliament, 2024). This process involves both the Council and Parliament formulating their positions on the Commission's proposal, which are then deliberated during the trilogue to finalise the legislation. The Council and the European Parliament reached in December 2023 a provisional deal on the CSDDD, which aims to enhance the protection of the environment and human rights in the EU and globally (European Council, 2023).



Negotiation process under the Ordinary Legislative Procedure - Figure created by the authors

CSDDD serves as a valuable addition to the existing EU regulatory landscape, addressing the current absence of a comprehensive, Union-wide framework (European Commission, 2022a). This directive aims to provide transparency and predictability, assisting companies across various sectors in evaluating and mitigating sustainability risks and impacts. The Due Diligence Directive will impose responsibilities on large corporations to address and mitigate both existing and potential negative effects on human rights and the environment within their operations, subsidiaries and business partnerships. De Kluiver (2023) asserts that CSDDD covers the due diligence in the value chain, with the most focus on the supply chain regarding environmental aspects and human rights. The due diligence should be operated concerning the corporation, its stakeholders and other partners that may be affected (European Council, 2023).

The directive encompasses approximately 13000 companies within the EU, subject to varying regulations at the Member State level (European Commission, 2022a). The companies in Group 1 are defined by a minimum net turnover of EUR 150 million or a workforce exceeding 500 employees. In contrast, Group 2 includes companies with a net turnover exceeding EUR 40 million or more than 250 employees (European Commission, 2022a). For third-party companies located outside the EU, a regulatory link is established through the EU turnover rule, which ties their EU-generated revenue directly to the EU's regulatory framework, highlighting the implications of their operations within the EU market. This ensures that their operations within the Union are consistent with EU standards. Accordingly, Group 3 covers non-EU companies with a net turnover of EUR 150 million in the EU, and Group 4 covers non-EU companies with a net turnover of EUR 40 million in the EU (EBU, 2023; European Commission, 2022a). Companies in Groups 1 and 3 must develop strategies to align their operations with the goal of limiting global warming to 1.5 degrees Celsius. While SMEs are excluded from these requirements, they receive support measures if they are indirectly impacted by their position in the value chain (EBU, 2023; European Commission, 2022a). The implementation of the CSDDD mandates a transitional period of two years post-enactment to allow companies adequate time to integrate the directive's terms. This phase ensures that corporations, particularly those in high-impact industries, focus on specific due diligence practices to mitigate adverse impacts effectively (European Commission, 2022a).

The directive specifies penalties and provisions for civil accountability to enforce adherence to its obligations. To ensure compliance, the European Commission has introduced a tripartite approach; administrative support and sanctions, civil liability, and financial incentives (EBU, 2023). Additionally, it requires companies to develop and implement strategies that align their business models and operational practices with the goals of the Paris Agreement on climate change (European Council, 2023). The CSDDD also imposes penalties on EU companies that fail to meet established ESG standards within their supply chains, compelling them to verify compliance by upstream entities (Horn, 2024). This directive establishes regulations for large corporations to proactively identify, address, and mitigate both current and potential adverse impacts on the environment and human rights throughout their business activities. This includes oversight of upstream activities, such as their suppliers, and certain downstream processes, such as distribution and recycling (European Council, 2023). Rooted in the EU Green Deal, this regulatory framework integrated sustainability across corporate functions, extending beyond mere financial considerations (De Kluiver, 2023). However, the legal requirements are intricate, with due diligence obligations varying significantly from conventional regulations, they are broad and require ongoing scrutiny to ensure they are effectively met (De Kluiver, 2023).

3.0 Theoretical Framework

This chapter will give an overview of the theoretical framework in this thesis. It begins with an exploration of corporate governance theory, detailing its significance and the role it plays in ensuring accountability. Within the scope of double materiality and the CSDDD, corporate governance theory serves as a theoretical lens and it introduces new perspectives into this thesis. Additionally, the chapter delves into the concept of double materiality, employing it as an analytical concept to enhance our comprehension of contemporary corporate strategy. This section aims to underscore the influence of double materiality on key corporate imperatives such as transparency, liability and sustainability.

3.1 Corporate Governance Theory

3.1.1 The Evolution of Corporate Governance Theory

The conventional understanding of corporate governance is often traced back to the year 1932 following the publication of *The Modern Corporation and Private Property* by Adolf A. Berle and Gardiner Means (Wells, 2010). This publication represented the culmination of extensive analysis by economists, lawyers, and journalists over several decades. Aiming to unravel the governance challenges encountered by emerging modern corporations and to assess the implications of these challenges for national public interests. The work of Berle and Means is considered a critical point in the development of corporate governance, providing a foundational framework that has informed subsequent research and discussion in the field (Wells, 2010). However, these early works lack the modern attitude that organisational structures and decision-making processes inside the corporation significantly influence economic outcomes. Consequently, corporate governance received minimal attention for approximately three to four decades (Tingle, 2018).

The development of corporate governance has progressed alongside with the rise of a specialised industry dedicated to its advancement. During the 1970s and 1980s, a substantial shift occurred, transforming the landscape into a complex network involving public institutions, private enterprises, and academic centres. This network has played a pivotal role in refining and advancing corporate governance practices (Tingle, 2018). Initially, the primary aim of corporate governance theory was to separate the roles of managers and shareholders, thereby securing the interest of the shareholders (Sun, Zhang & Tang, 2024). This perspective emphasises that managerial actions should align with the best interest of the company and its owners. By the early 2000s, the approach to corporate governance underwent a considerable transformation, with firms being systematically evaluated, rated and ranked. This development served multiple purposes, including tapping into the growing public and investor interest in corporate ethics and responsibility. It was a strategy to incentivize companies towards better practices through public exposure, by effectively using reputational stakes to drive change (Tingle, 2018).

3.1.2 The Role of Stakeholders in Shaping Corporate Governance

Sun, Zhang and Tang (2024) assert that corporate governance theory provides unified beneficial management systems, which is elaborated as a transformation of shareholding system for collective assets (SSCA). This can promote valuable improvements in the community, particularly in social and ethical contexts. According to Wells (2010), corporate governance aims to utilise the most effective legal, economic and social strategies to ensure optimal management efficiency. Kaur (2021) further emphasises the necessity of stakeholder involvement in corporate governance, where laws and regulations may mandate stakeholder participation to secure corporate integrity. This involvement is crucial for ensuring long-term sustainability and aligning business operations with broader social and environmental goals (Kaur, 2021).

Building on these insights, Singh (2021) highlights that strong corporate governance not only ensures the incorporation of equitable and responsible capital into business operations but also inserts a sense of integrity and determination within the company. This commitment enhances financial performance and fosters a culture of continuous improvement and innovation within the corporate governance sector. Similar to other industries, the corporate governance sector thrives on continual marginal innovation. As companies integrate and refine established practices into their operations, these practices are subsequently refined, and innovative ones are devised. This dynamic process ensures the ongoing evolution and relevance of corporate governance standards, adapting to changing business environments and stakeholder expectations (Tingle, 2018). However, this dynamic can also give rise to complex procedures that, while designed to protect, can sometimes shield unethical behaviour, underscoring the need for keen and transparent governance practices (Singh, 2021). This underscores that integrating equitable and responsible capital management is essential but only one part of a broader commitment to evaluate and enhance the overall impact of business practices strategically.

3.2 Double Materiality

3.2.1 Development of an Inside-out and Outside-in Perspective

Transitioning from the theme of dynamic corporate governance, the discourse around double materiality across academic and business spheres can be attributed to the European Commission's mandate under Directive 2022/2464 (European Commission, 2022b). This directive requires companies to adopt the double materiality perspective in their sustainability reporting, a condition set to become compulsory in 2025 for the 2024 reporting year (European Commission, 2022b). Ahead of this regulatory change, numerous companies have proactively begun to integrate double materiality into their sustainability reports. This approach demonstrates a growing commitment within the corporate sector to enhance transparency and accountability in sustainability practices, as highlighted by Correa-Mejia, Correa-Garcia and Garcia-Benau (2024). The introduction of the double materiality perspective represents a significant advancement toward mitigating risks by incorporating both social and environmental considerations into materiality analysis (La Torre, Sabelfeld, Blomkvist & Dumay, 2020).

The double materiality framework builds upon the concept of externalities (Niculescu & Burlaud, 2023). This concept asserts that an externality, whether positive or negative, represents an impact that an economic entity, an individual or a company, imposes on another outside standard market transactions, without any compensatory mechanism involved. In essence, externalities apply to the idea of influence or consequence (Niculescu & Burlaud, 2023). The concept of double materiality advocates for a complete materiality assessment through a dual-lensed approach, distinguishing between two interconnected perspectives. Firstly, financial materiality, an outside-in perspective, focuses on meeting the information needs of investors and considers how external ESG factors may impact the organisation. Secondly, impact materiality, an inside-out perspective, addresses broader stakeholder concerns, integrating environmental and social dimensions into assessments (Subhash, 2022). This dual approach ensures that the assessments are not isolated but interlinked, weaving together broader societal and environmental imperatives. Proponents of double materiality emphasise the necessity of balancing the long-term interest of investors with broader societal needs, which requires a thorough confederation of sustainability factors including intergenerational equity and social justice. These elements are deemed essential for making informed and sustainable decisions, underscoring a holistic approach to corporate responsibility and investment (Subhash, 2022).

Building on the foundational principles of double materiality, Chiu (2022) highlights its crucial role in shaping sustainability disclosure regulations, which in turn define sustainable objectives related to circular economies, effective energy use and the enhancement of human living conditions. Double materiality encompasses the organisation's footprint on the environment and society, meanwhile focusing on how environmental and societal impacts affect the organisation (Nielsen, 2023). This acknowledgement of materiality as a complex, multifaceted issue reflects the need for a full approach that balances the interests of investors with broader societal concerns. The new guidelines highlight the inherent challenges and tensions involved in aligning corporate profitability with societal values. Additionally, it illustrates the complexities and sometimes competing priorities that define the landscape of materiality in corporate governance (La Torre, Sabelfeld, Blomkvist & Dumay, 2020). Thus, a deep dive into both the impact and financial materiality is essential, guiding businesses towards a model of sustainability that balances financial success with societal and environmental responsibility.

3.2.2 The Scope of Impact and Financial Materiality

The perspective of impact materiality highlights the ways in which an organisation influences sustainability issues. An issue becomes significantly material from this perspective when it concerns the potential or actual impacts, both positive and negative, that the organisation exerts on society and the environment over both short and long-term periods (Nielsen, 2023). These impacts arise from the organisation's direct operations as well as its broader wider value chain effects. This includes the lifecycle of its products and services and its diverse business relationship, which extend beyond direct contractual ties to encompass the full upstream and downstream value chain (European Commission, 2023). Impact materiality focuses on how a company affects its principal stakeholders, a topic that should be comprehensively addressed in its sustainability report (Nielsen, 2023).

In contrast to impact materiality, financial materiality examines how environmental and social issues manifest within an organisation, particularly in terms of their economic implication. The assessment of financial materiality involves identifying information that is crucial for the primary users of general-purpose financial reports. This information helps these users make informed decisions about resource allocation related to the entity (European Commission, 2023). Information is considered significant if its absence, misrepresentation or concealment could reasonably affect the decisions made by these users, based on the entity's sustainability reports (European Commission, 2023). Financial materiality thus introduces risks or opportunities that influence material impacts, considering the financial cash flows or achievements over both immediate and long-term periods (Nielsen, 2023). These risks and opportunities can arise from both past and future expectations. Importantly, the scope of financial materiality extends beyond matters under the entity's direct control, encompassing material risks and opportunities linked to business relationships outside the entity's financial consolidation boundary (European Commission, 2023).

Nevertheless, the implementation of double materiality necessitates new perspectives and additional resources for its development and assessment. Without these enhancements, there is a risk of reverting to the constraints of single materiality, potentially leading to challenges that may prove difficult to overcome, as noted by Chiu (2022). Beyond these conceptual challenges, there is also a lack of clarity around double materiality that complicates the development of metrics and impacts policy decisions. EU policymakers, therefore, need to expand their oversight to ensure that market participants are effectively implementing these policies (Chiu, 2022). Likewise, Niculescu and Burlaud (2023) point out the absence of a detailed method for applying the principle of double materiality. Fundamentally, the implementation of double materiality is essential within the CSDDD. This discussion has established a foundational understanding of the interaction between financial and impact materiality, highlighting the complexities of integrating these considerations into corporate governance. Moving forward, double materiality will be employed as an analytical concept to scrutinise and interpret transparency and sustainability within the CSDDD framework.

4.0 Methodology

This chapter outlines the methodology used in this thesis to analyse the CSDDD. It starts with a detailed account of the structured approach taken to examine, select and interpret relevant materials. It then offers an overview of the research design, justifies the choice of document analysis, and outlines the design process, including the identification and collection of pertinent documents. The chapter also details the specific procedures implemented in the analysis of the CSDDD, describing the steps and the tools employed to facilitate this process. Further, it discusses measures to ensure the reliability, validity and replication of the analysis. The chapter concludes by addressing the ethical considerations essential to the research process, underscoring the ethical commitments maintained throughout the study.

4.1 Research Approach

In this thesis, the CSDDD is the sole document analysed, serving as the focal point for an examination of its potential to redefine corporate engagement with human rights and environmental protection. CSDDD's primary goal is to improve corporate governance by integrating risk management and mitigation strategies for human rights and environmental risks, extending these considerations throughout value chains and into corporate strategies (European Commission, 2022a). Additionally, the directive aims to prevent the disintegration of due diligence requirements within the single market, providing legal certainty for businesses and stakeholders regarding performances (European Commission, 2022a). While serving as a mechanism focusing on corporate processes, the CSDDD complements other measures addressing specific sustainability challenges or sectors within the EU, into the entire value chain (European Commission, 2022a).

Given the emergent nature of the topic under investigation, a qualitative research approach was deemed most appropriate, since it can uncover new insights and deepen the understanding of the subject matter (Creswell & Creswell, 2018, chapter 9). This approach allows for a nuanced exploration of the unfolding themes related to the CSDDD, offering new perspectives and contributing to the academic discourse. Flick (2014, chapter 2) asserts that qualitative methods indicate that the researcher´s reflection and interpretation are distinctions of the analysis, serving as a constitution into documentation. Within this qualitative perspective, the research question: *In what ways does the new Corporate Sustainability Due Diligence Directive consider financial materiality and impact materiality, as defined by the concept of double materiality,* is tailored to analyse the directive's scope and impact. Creswell and Creswell (2018, chapter 9) note that qualitative research often relies on the analysis of published documents to collect reliable data. In this study, the CSDDD is analysed as a primary and authoritative document issued by the European Commission. This examination aims to illuminate the directive's nuances and its implications for corporate practices concerning sustainability and due diligence.

4.2 Research Method and Design

Within the scope of this research, it is imperative to differentiate between methodology and method. As delineated by Bryman (2016, chapter 1), method refers to the particular strategies or tools used for data collection, whereas methodology involves a broader evaluation of the strategies underlying the research process. This study is founded on a subjectivist epistemological approach and adopts an inductive methodology, which Bryman (2016, chapter 26) states is aimed at generating theoretical insights. Furthermore, to effectively analyse the impact and compliance of CSDDD, the method of document analysis was employed, facilitating an in-depth review of the pivotal official document. This strategy is instrumental in gaining an extensive understanding of the directive's practical application and impact. However, it is essential to acknowledge that documents encapsulate particular versions of reality, constructed for a specific purpose (Flick 2018, chapter 26; Bryman 2016, chapter 23). Therefore, in this study, the document is interpreted as a methodically constructed objective that shapes perceptions of events or phenomena, essentially serving as a means of contextualising information. Thus, in analysing this document, the emphasis is placed on interpreting content within its broader context, ensuring a nuanced appreciation of the embedded intentions and perspectives.

This thesis examined the content of the directive to understand its requirements and intended outcomes for corporations while focusing on aspects such as corporate governance practices and due diligence to gain a thorough view of the directive's scope. Within the broader design of qualitative document analysis, thematic analysis was employed, where the focus is to construct an indicator of central themes and subthemes (Bryman, 2016, chapter 23). This technique was used to identify, analyse and report themes within the data as a way of organising and detailing the findings from the document analysis, providing structure and insights. The empirical material for this study encompasses the CSDDD document, interpreted through the frameworks of corporate governance theory and double materiality. The data sampling was sourced from an official document to ensure the study's scholarly rigour, relying on sources that provided authoritative and focused insights into the directive.

Additional EU legislative texts, guidelines, and communications were reviewed to provide context for the directive within the broader legal and regulatory framework. Although these texts were only reviewed prior to commencing the analysis to gain a wider understanding of the directive, they were not utilised during the analysis itself. The necessity to recognize the potential for changes in the directive is acknowledged, especially considering that the European Council may revise its position, and final negotiations are underway with a definitive decision expected from the European Parliament in April 2024 (Loyens & Loeff, 2024).

4.3 Integrating Corporate Governance Theory and Double Materiality

In the realm of qualitative research, theoretical frameworks provide a vital lens through which to comprehend and interpret the subject matter, facilitating an understanding that encompasses a broad range of actions and perspectives (Creswell & Creswell, 2018, chapter 3). In this study, the theory of corporate governance was adopted as the primary theoretical lens, guiding the analytical examination. Corporate governance primarily concerns the structures and processes governing the direction and control of companies. Utilising this theory was pivotal in examining how the CSDDD influences and redefines these governance structures and processes, particularly in terms of sustainability and due diligence practices. This framework proved instrumental in exploring how such elements are being integrated into the broader schema of corporate governance. Furthermore, it enabled an analysis of accountability mechanisms within corporations, specifically examining how the CSDDD impact these structures. This assessment includes how companies report and are held accountable for their sustainability practices and due diligence measures.

In parallel, the concept of double materiality served as a crucial analytical tool, enabling a deeper examination of the CSDDD to address both the financial materiality of sustainability issues and the company’s impact on society and the environment. This dual perspective allowed for a more nuanced analysis, reflecting the directive’s broader goals of enhancing and promoting sustainable business practices. The analysis began with a detailed review of the entire 70-page directive, undertaken with meticulous attention to ensure a comprehensive understanding of the CSDDD. Furthermore, employing double materiality facilitates the exploration of how these financial and impact dimensions are considered and reported. As part of the analysis, thematic analysis was employed efficiently, guided by Bryman’s (2016, chapter 23) assertion that themes can emerge through inductive reasoning, forming the structure of the analysis. This involved delving into themes and concepts closely associated with double materiality, including financial and impact materiality, with a focus on social and environmental issues. The themes encompassed within the analysis included aspects related to, for instance, the circular economy or the enhancement in human conditions, which Chiu (2022) identifies as integral to the framework of double materiality, underscoring their significance and interconnection within this context.

After a thorough review of the directive, various quotations were colour-coded to represent different themes, aligning with the concepts of double materiality, corporate governance and other relevant information related to due diligence. This initial step led to the process of data reduction, essential for managing the volume of data gathered. According to Flick (2018, chapter 23), this reduction step is critical in handling extensive data sets from the sampling process. In this case, there were initially 28 quotations gathered, where further thematic sorting was necessary. As the sorting progressed, it became evident that the collected quotations were extensive, prompting a decision to narrow them down to the ones with the most relevance, which resulted in ten quotations. Flick (2018, chapter 23) emphasises the importance of categorising themes into subgroups, especially when multiple themes are involved, as this helps in pinpointing the most significant subthemes. Following this reduction, the authors created a structured thematic document to better delineate various aspects of double materiality, such as quotations related to financial and impact materiality. This document served as a systematic framework for the analysis, supported by the strategic use of thematic coding to enhance clarity and focus in interpreting the data.

4.4 Reliability, Validity and Replication

Ensuring the accuracy and consistency of the analysis is central to upholding the study's credibility. In the context of qualitative research, reliability signifies the researcher's adherence to a systematic method throughout the investigations, maintaining methodological adversity despite potential external distractions (Creswell & Creswell, 2018, chapter 9). A reliability criterion is to ensure that the results also are repeatable, which is achieved by applying consistent measures and concepts throughout the research (Bryman, 2016, chapter 3) To enhance reliability, this study implemented various measures. It primarily focused on collecting primary sources from trustworthy entities such as the European Commission and the European Parliament, which provided foundational information about the CSDDD. Secondary sources were also employed but were meticulously selected from peer-reviewed journals or reputable institutions to ensure their credibility. Additionally, the commitment to reliability was reinforced through the transparent application of document analysis. This methodological choice allowed for a clear presentation of the data, facilitating easy access and review by readers. This accessibility is crucial for any needed clarifications or re-examinations. These thorough measures were designed to ensure the study's reliability, offering a foundation for validation of the findings.

Given the focus of this research on document analysis of the CSDDD, it is essential to carefully consider the study's validity. The integrity of the research influences its outcome, necessitating a thorough examination of the relevance of the engaged concepts and theories (Bryman, 2016, chapter 3). In qualitative research, validity is concerned with the trustworthiness of the results, emphasising the importance of credibility and authenticity (Creswell & Creswell, 2018, chapter 9). In this context, the applicability of the theoretical framework and the chosen concept was closely evaluated, affirming their capacity to effectively address the research question. The utilisation of a corporate governance perspective and the application of double materiality as an analytic concept provided strong support for the analysis of the CSDDD.

The systematic development of themes during the thematic analysis contributed to the study's coherence. As Creswell and Creswell (2018, chapter 9) emphasise, maintaining consistency in the sorting is crucial for validating the research. The study also conscientiously considered potential biases, critically assessing the implications of focusing exclusively on CSDDD. This focus was a thoughtful and deliberate decision, made in recognition of the directive's authoritative and extensive nature. Understanding its relevance and sufficiency in addressing the research aim, the CSDDD was deemed an appropriate and uniquely significant resource for this study, thereby reinforcing its validity.

Although replication is not typically emphasised in qualitative research, it remains a noteworthy criterion. Bryman (2016, p.41) points out that in social research, the replication principle highlights the necessity for studies to be conducted in a way that allows other researchers to replicate the findings using the same methodology. To facilitate this, transparency and a clear, detailed outline of the process are essential. Replication is a challenging endeavour in social sciences due to its inherent complexities (Bryman 2016, chapter 3). This study acknowledges these challenges and strives to integrate the replication principle by detailing the methodology used. This approach aims to provide a framework that allows for replication to a reasonable extent. However, it is important to note that the use of thematic analysis introduces an element of subjectivity, as it depends on the researchers' interpretations of the data. Consequently, this subjectivity may affect the replicability of the study, as different researchers will interpret the nuances of the CSDDD in varied ways.

4.5 Delimitations in Method

This thesis aims to conduct a detailed analysis of the CSDDD within a carefully defined scope, acknowledging the necessity of delimitations to focus on the research, ensure its feasibility and coherence. The primary focus is on examining the CSDDD's provisions related to environmental due diligence and human rights obligations, embodying a targeted approach reflective of double materiality. This focused analysis allows for a deeper exploration of these crucial areas while recognizing that the CSDDD covers a broader array of terms. Moreover, this research was temporally bounded, concentrating on the CSDDD as it stood at the time of writing. Future developments of the directive's implementation fell outside the scope of this thesis, recognizing the evolving nature of legislative frameworks.

Furthermore, this thesis utilises corporate governance theory and double materiality as analytical lenses, while also recognizing the potential contributions of other theoretical perspectives. While these frameworks provide a solid structure for analysis, they may also constrain the study by not incorporating other potentially relevant theories or perspectives. For instance, organisational change theories or behavioural economics could offer further insights into the effectiveness of regulatory frameworks. However, the focus was deliberately kept on corporate governance and double materiality to ensure a coherent and consistent theoretical foundation throughout the research. This decision was strategic and aimed at maintaining a clear and consistent theoretical framework that aligns closely with the study's objectives. Corporate governance theory effectively captures the dynamics of responsibility and accountability within corporations. Double materiality offers a nuanced understanding of how corporate actions impact both financial performance and broader environmental and societal issues. Together, these frameworks are intricately aligned with the objectives of this thesis, effectively addressing its central aim and responding to the research question with precision and depth.

4.6 Ethical Considerations

When conducting a document analysis of the CSDDD, prioritising the ethical dimensions of research is essential. In this context, the focus shifts towards ensuring the integrity and transparency of the investigative process, rather than the privacy concerns typically linked with other types of studies. Conducting research that utilises the internet for data collection can present distinct ethical challenges. However, if the information is publicly archived, easily accessible without requiring a password, not sensitive in nature, and no explicit site policy prohibits its usage, the need for informed consent may be considered unnecessary (Bryman, 2016, chapter 6). This guideline underscores the importance of respecting public domain materials while adhering to ethical research standards. To respect intellectual property rights, it was crucial to accurately quote all documents used in the analysis. Furthermore, transparency about the sources and methods of obtaining documents was ensured through detailed citations and providing contextual information, enabling others to verify the research process.

From the preceding discussion on ethical considerations in document analysis, it is crucial to address biases and interpretations to maintain the integrity of the research. Researchers, as subjective beings, are influenced by their perceptions, experiences and knowledge in how they interpret data (Bryman 2016 chapter 6). Consequently, it was vital for the authors to recognize and mitigate personal biases that could affect the analysis. This is particularly important in qualitative document analysis, where subjective interpretations can significantly influence the conclusions. The researchers were diligent in distinguishing between the content of the document and their interpretation or inferences. This distinction has been clearly articulated throughout the analysis to ensure that readers can understand the basis for any conclusion drawn.

5.0 Analysis

This chapter delves into the nuances of CSDDD, scrutinising to understand how it integrates the dual aspects of materiality. The analysis aims to clarify the directive expectations for corporate behaviour in the context of sustainable development, providing insights into its practical implications for stakeholders navigating the complexities of environmental and human rights considerations. The first section will examine the directive's objectives and its broader impact on corporate governance. This outlines how the CSDDD shifts the focus towards accommodating a wider range of stakeholders, reflecting a more inclusive and sustainable approach to business practices. The second section explores the directive's role in facilitating collaborative efforts and capacity building, particularly in developing countries and high-risk sectors. It highlights how the directive enhances accountability in global value chains and underscores the necessity of international cooperation to achieve sustainable development goals. The third section considers how financial materiality influences corporate strategies that balance immediate economic interests with long-term sustainability goals. It also analyses the implications of financial sanctions and the role of sustainable investment in creating a resilient and ethical business landscape. The final section addresses the operationalization of impact materiality through broad due diligence processes that span the lifecycle of a company's products and services. It emphasises the need for a thorough sustainability reporting and the integration of sustainability practices into corporate governance.

5.1 Integrating Perspectives: The Role of Double Materiality in Advancing Corporate Responsibility through the CSDDD

To effectively assess how the CSDDD incorporates the concept of double materiality, which requires companies to evaluate and disclose both how sustainability issues affect them and how their operations impact society and the environment (Subhash, 2022), it is essential to analyse the aim of the directive:

> This Directive aims to ensure that companies active in the internal market contribute to sustainable development and the sustainability transition of economies and societies through the identification, prevention and mitigation, bringing to an end and minimisation of potential or actual adverse human rights and environmental impacts connected with companies' own operations, subsidiaries and value chains.
>
> (European Commission, 2022a, p.31)

This illustrates how the directive addresses all the companies that are active in the internal market. It represents a broader view of corporate governance, reflecting a shifted focus from traditional shareholder-centric models to a more inclusive approach that emphasises sustainability, human rights and environmental impacts. This shift aligns with the historical development and transformation of corporate governance theory, moving from the foundational concepts, which primarily focused on the separation of ownership and control within corporations (Tingle, 2018), towards a more integrated and stakeholder-oriented perspective. Additionally, this shift is reflective of the growing recognition that corporate actions have extensive implications beyond financial performances, touching on social and environmental issues that are critical to sustainable development.

The directive's emphasis on companies contributing to sustainable development through identifying, preventing and mitigating adverse impacts directly ties into the modern understanding of corporate governance. It mirrors the contemporary view that companies must operate in a manner that is not only efficient and profitable but also ethically responsible and environmentally sustainable. This approach is consistent with the transformation of the SSCA, aiming at valuable improvements in community social and ethical considerations (Wells, 2010; Sun, Zhang & Tang, 2024). The directive's focus on both adverse human rights and environmental impacts also resonates with the double materiality perspective. The dual-focused approach to a holistic assessment of companies' operations, subsidiaries, and value chains reflects the comprehensive nature of double materiality, where the effects of and on business regarding social and environmental factors are accounted for (Subhash, 2022). This approach underscores the directive's intent to ensure the companies focus on the impacts their operations have on the society and environment, an inside-out perspective, and also address how environmental changes and societal shifts might impact the company, an outside-in perspective.

The double materiality perspective emerges as an analytical tool, enabling an extensive assessment and mitigation of the adverse impacts of corporate activities. The involvement of stakeholders in shaping corporate governance, as discussed by Sun, Zhang, and Tang (2024), and Kaur (2021), underlines the importance of engaging a broader array of interests in corporate activities. The CSDDD highlights a crucial aspect of environmental governance at the EU level. It demonstrates the complex interplay between individual state action and collective European aspirations, especially in meeting international environmental commitments and mitigating cross-border impacts of corporate activities.

> First, Member States' legislation alone in the area is unlikely to be sufficient and efficient. As regards specific transboundary problems, such as pollution, climate change, biodiversity etc. individual action is hampered in case of inaction by other Member States. The achievement of international commitments such as the goals of the UNFCCC[52]'s Paris Agreement on climate change, the Convention on Biological Diversity, as well as other multilateral environmental agreements by individual Member State action alone is unlikely. Furthermore, risks resulting from adverse human rights and environment impacts present in companies' value chains have often cross-border effects (e.g. pollution, transnational supply and value chains).
>
> (European Commission, 2022a, p.13)

The described challenges resonate with the double materiality concept, which necessitates companies to report on how environmental and societal issues affect their financial performance and their impact on society and the environment. This dual approach is pivotal in understanding and addressing the transboundary problems such as pollution, climate change, and biodiversity loss mentioned in the quotation. The acknowledgement of the cross-border effects of adverse human rights and environmental impacts, alongside the challenges in achieving international commitments by individual Member States, underscores the need for a unified approach encapsulated within the double materiality. This approach aligns with the European Commission's directive (2022b), mandating the incorporation of double materiality into sustainability reporting. Such reporting is essential for addressing the transboundary nature of environmental degradation and human rights abuses, as it requires companies to consider and disclose the broader implications of their value chains (La Torre, Sabelfeld, Blomkvist & Dumay, 2020), which could span multiple countries and legal jurisdictions.

Additionally, the directive also illustrates the need to overcome the limitations of individual actions by Member States, especially in a context where environmental and human rights issues do not respect national borders. By integrating double materiality into corporate governance and reporting, it is possible to foster a more cohesive and effective response to these transboundary challenges, ensuring that companies mitigate their impacts (Subhash, 2022). This is particularly relevant in the context of achieving the goals of international agreements such as the United Nations Framework Convention on Climate Change (UNFCCC's) Paris Agreement and the Convention on Biological Diversity. The challenges articulated underscore the necessity of adopting a holistic, EU-wide approach to corporate governance and sustainability reporting. The double materiality perspective serves as a tool, facilitating a comprehensive assessment and mitigation of the adverse impacts of corporate activities (La Torre, Sabelfeld, Blomkvist & Dumay, 2020). Furthermore, elements of double materiality could be presented from CSDDD from other viewpoints as well, where emission reduction and net zero goals are crucial aspects.

> In the European Climate Law[86], the Union also legally committed to becoming climate neutral by 2050 and to reducing emissions by at least 55% by 2030. Both these commitments require changing the way in which companies produce and procure. […] The Plan also underlines that "changes in corporate governance rules and practices, including on sustainable finance, will make company owners and managers prioritise sustainability objectives in their actions and strategies.
>
> (European Commission, 2022a, p.29)

The reduction of emissions from company operation and procurement exemplifies impact materiality, highlighting the commitment required from companies to achieve climate goals by 2030 and 2050. This involves integrating strategic plans to ensure emission reduction. Correa-Mejia, Correa-Garcia and Garcia-Benau (2024) emphasise that double materiality reflects a major dedication within companies to enhance accountability in sustainability practices. By focusing on emission reduction, companies are actively mitigating adverse environmental impacts and, consequently, reducing their overall environmental footprint. In this context, Nielsen (2023) notes that double materiality not only covers the company's environmental and societal impacts but also examines how these impacts, in turn, affect the company itself.

It becomes clear that corporate governance plays a crucial role in attaining these environmental goals, examining the most efficient economic and social strategies to ensure effective corporate management (Wells, 2010). Integrating a plan that supports climate neutrality with corporate governance also reinforces the application of double materiality, particularly in terms of financial materiality. Integrating sustainable finance in company business strategies and corporate policies is essential and aligns with the directives of the CSDDD. Furthermore, identifying the impact materiality of emission reduction not only improves environmental conditions but also enhances the quality of life for people in areas heavily affected by air pollution. This contributes to creating a more sustainable atmosphere and improving human conditions overall.

If not properly managed, the emissions from a single company can result in externalities that affect both the environment and the well-being of people in distant regions. Chiu (2022) suggests that the concept of double materiality influences sustainability disclosure regulations and helps outline sustainability goals, which include enhancing the quality of life for individuals. Rooted in the concept of externalities, double materiality indicates that economic entities, whether individuals or corporations, can have positive or negative impacts beyond standard market transactions, often without any form of compensation. These externalities are, in essence, the unintended effects or consequences of their actions (Niculescu & Burlaud, 2023). Notably, reducing emissions can mitigate these negative impacts, ideally without requiring compensation from the countries most adversely affected.

5.2 Governance and Sustainability: Enforcing Responsibility Through Double Materiality

Given the potential global consequences of corporate emissions, the challenges of ensuring sustainable corporate practices extend far beyond national borders. Recognising the transboundary nature of these challenges, the European Commission has initiated collaborative efforts with third countries and Member States. This initiative, as outlined in the CSDDD, aims to enhance the capacity of upstream economic operators and focuses on preventing and mitigating adverse human rights and environmental impacts associated with operations and business relationships in third countries.

> The Commission and Member States should continue to work in partnership with third countries to support upstream economic operators build the capacity to effectively prevent and mitigate adverse human rights and environmental impacts of their operations and business relationships, paying specific attention to the challenges faced by smallholders. They should use their neighbourhood, development and international cooperation instruments to support third country governments and upstream economic operators in third countries addressing adverse human rights and environmental impacts of their operations and upstream business relationships. This could include working with partner country governments, the local private sector and stakeholders on addressing the root causes of adverse human rights and environmental impacts.
>
> (European Commission, 2022a, p.41)

The focus on enhancing the work in third countries, especially in sectors involving smallholders, represents a practical application of the inside-out perspective of impact materiality. By centring on broader stakeholder concerns (Subhash, 2022), the emphasis is placed on the responsibility of mitigating adverse impacts, which extends beyond the direct operations of European companies to encompass their entire value chains. This approach aims to mitigate the potential detrimental effects these operations might have on local communities and environments, thus addressing the broader implications of corporate activities. The use of neighbourhood, development and international cooperation instruments to support third-country governments and economic operators highlights the practical steps being taken to address externalities as part of double materiality. By focusing on the causes of adverse impacts, the EU is taking a stance to ensure that sustainability is embedded throughout the global value chains, not just within the EU borders. Therefore, if the value chains are sustainable, the companies can ensure stakeholders' confidence, thereby resulting in positive outcomes for the company. This effort aligns with the outside-in perspective, where external environmental and social circumstances influence corporate strategies and operations (Subhash, 2022).

This strategic approach is linked to both elements of double materiality evident in the subsequent discussion. Financial materiality is indirectly addressed through the emphasis on creating sustainable trade and business practices, thereby minimising the financial consequences linked to non-compliance with international standards for human rights and environmental protection. Such improvements are expected to lead to better financial results by reducing the risk of sanctions, broadening market access, and enhancing brand reputation. Conversely, impact materiality is mirrored by aiming to diminish the actual environmental and social impacts of corporate activities. Subhash (2022) details how the double materiality perspective is built upon by integrating environmental and social dimensions and considering how external ESG factors might influence the organisation. As outlined in the CSDDD, the integration involves cooperation with partner governments, the local private sector, and various stakeholders along the value chain, ensuring that the company's direct operations include and extend beyond explicit stakeholders in the upstream and downstream segments of the value chain (European Commission, 2023).

Building on this foundation, the directive exemplifies a practical application of corporate governance within an international regulatory framework. It underscores the need for continued collaboration with stakeholders from third countries, with an efficient, social and environmental approach to prevent and mitigate human rights and environmental impacts. Wells (2010) highlights the importance of legal, economic, and social mechanisms in enhancing corporate efficiency. The CSDDD utilises these mechanisms globally to assist governments and businesses in third countries, aiming to thoroughly integrate corporate governance throughout global value chains. This integration prioritises human rights and environmental concerns in accordance with European standards. Singh (2021) discusses how strong corporate governance incorporates equitable and responsible capital into business, fostering a culture of integrity and enhancing financial performance. The CSDDD promotes a flow of responsible capital that aligns with sustainable and ethical business practices. This not only improves the local economic conditions but also enhances responsible capital management, aiming for long-term sustainability and ethical business operations across global markets.

This emphasis on ethical operations and management adheres closely with corporate governance theories, which often highlight the determining role of effective management systems and the responsibilities of directors in ensuring the ethical operation of a company (Sun, Zhang & Tang, 2024). These responsibilities reflect a corporate governance approach driven by the necessity to weave comprehensive sustainability considerations into the core business practices of a company. This vital integration for directors in embedding sustainability practices within corporate governance is illustrated in the directive as follows.

> This encompasses directors' duties relating to the setting up and overseeing the implementation of corporate due diligence processes and measures, establishing code of conduct for this purpose as well as integrating due diligence into the corporate strategy. In order to fully reflect the role of directors in light of the corporate due diligence obligations, the directors' general duty of care for the company, which is present in the company law of all Member States, is also being clarified providing that when fulfilling their duty to act in the best interest of the company, directors should take into account the sustainability matters of the proposal for a corporate sustainability reporting Directive, including, where applicable, human rights, climate change and environmental consequences, including in the short, medium and long term horizons.

(European Commission, 2022a, p.22)

This shift towards more ethically oriented governance does not merely seek to enhance financial performance but also to fulfil corporate responsibilities towards society and the environment, embodying the principles of double materiality. This approach fosters a corporate culture that is responsive and aligned with global sustainability objectives. It clarifies that due diligence is a mandatory aspect of company law across all Member States, mandating directors to undertake actions that promote corporate sustainability. Tingle (2018) states that corporate governance serves multiple purposes, where inviting the public and investors' interests in the company's sustainable business is growing rapidly. The emphasis on directors considering sustainability matters in their decision-making process resonates with the view that effective corporate governance requires active stakeholder engagement (Kaur, 2021). By incorporating considerations such as human rights, climate change and environmental consequences into their strategic responsibilities, directors are expected to engage with and address the concerns of a wider array of stakeholders, not just shareholders. This reflects a border view of corporate governance, consistent with the principles of double materiality.

This reflective and broader view of corporate governance corresponds with the directive's requirement for directors to integrate considerations of both impact and financial materiality into their corporate strategies, exemplifying the application of double materiality. Nielsen (2023) notes that impact materiality becomes evident when addressing the actual or potential adverse effects a company may have on its environment, whether in the near term or over a prolonged period. For example, natural events might influence the availability and pricing of raw materials, consequently impacting the company's operations. This linkage underpins the concept of double materiality, where environmental impacts and financial imperatives are intricately linked. Accordingly, financial materiality focuses on identifying risks that could notably affect cash flows, underscoring how environmental changes directly translate into financial repercussions (Nielsen, 2023). This dual approach of assessing materiality is crucial for guiding strategic decisions and shaping sustainability reporting practices. The directive requires a proactive approach to sustainability, demanding the directors not only to respond to current regulations but also anticipate future sustainability challenges. This approach aligns with Subhash's (2022) advocacy for a dual-lensed materiality assessment that addresses immediate financial realities as well as broader, long-term societal impacts.

5.3 Financial Materiality: Bridging Economic Decisions and Sustainable Outcomes

With the necessity to assess both environmental and financial materiality now integral to corporate strategy, understanding the scope of financial materiality becomes crucial for a sustainable corporation. It shapes strategic decisions, balancing financial considerations with the broader implications that affect the company's operation. These efforts include complying with mandated actions, making strategic investments, providing targeted support and engaging in collaborations to effectively manage and reduce adverse impacts within their value chains.

> In deciding whether to impose sanctions and, if so, in determining their nature and appropriate level, due account shall be taken of the company's efforts to comply with any remedial action required of them by a supervisory authority, any investments made and any targeted support provided pursuant to Articles 7 and 8, as well as collaboration with other entities to address adverse impacts in its value chains, as the case may be. […] When pecuniary sanctions are imposed, they shall be based on the company's turnover.

(European Commission, 2022a, p.63).

It is clear that Member States are obligated to establish rules on financial sanctions for violations of national provisions adopted under the CSDDD, and they must ensure that these sanctions are effectively enforced. Sanctions are determined by the company's effort to address adverse impacts within its value chain, and notably, they are proportional to the company's turnover. In the future, this could have implications for a company's financial materiality. Nielsen (2023) suggests that risks related to financial materiality may arise from both past occurrences and future anticipations. In particular, the financial materiality of a company could be influenced by proceedings related to its actions within the value chain, potentially leading to economic consequences. Companies may face sanctions related to their investments if they fail to mitigate potential adverse impacts or to resolve actual adverse impacts. Moreover, financial materiality extends beyond issues directly managed by the company, including risks and opportunities that arise from business relationships beyond the entity's financial consolidation boundary (European Commission, 2023).

The implications of financial sanctions and their correlation with a company's activities within the value chain underscores a broader perspective of financial materiality that also intersects with corporate governance. As a result, if companies fail to comply with the obligations set forth in the directive, through their various operational and management strategies, they face significant repercussions. These consequences not only affect the economic outcomes but also influence the company's broader market position. La Torre, Sabelfeld, Blomkvist and Dumay (2020) argue that the complexities and competing priorities within a company define the materiality of corporate governance. It follows that operations must be managed by the company both efficiently and economically. However, while some operations extend beyond the company's immediate business scope, other influences, particularly in terms of business relationships, are defined in terms of financial materiality.

The complex interplay of financial materiality and corporate governance, influenced by internal operations and external business relationships, sets the stage for broader applications. Furthermore, financial materiality can be observed in other instances as well. Sustainable investments, for instance, illustrate how companies address adverse impact and minimise greenwashing.

> Similarly, this Directive will complement the recent Taxonomy Regulation, a transparency tool that facilitates decisions on investment and helps tackle greenwashing by providing a categorisation of environmentally sustainable investments in economic activities that also meet a minimum social safeguard.
>
> (European Commission, 2022a, p. 5)

The CSDDD will serve as a complement to the Taxonomy Regulation, acting as a strategic tool to facilitate investment decisions by identifying environmental investments that also incorporate social protection measures. These economic activities support sustainability and help companies tackle greenwashing. The financial materiality is embedded here, linking how external ESG factors can affect a company based on its financial investment. Subhash (2022) emphasises that companies must meet investors' demand for information to clearly define financial materiality. With a thorough financial assessment, stakeholders' concerns regarding environmental and social impacts can be more effectively addressed, thus embracing the concept of double materiality. This suggests that recognizing financial materiality in sustainable investments, which protect environmental and social well-being, will reduce greenwashing and enhance sustainability.

Building on the foundations set by the CSDDD, the visible impact of financial materiality in shaping investment decisions becomes a cornerstone of effective corporate governance. The correlation to corporate governance is apparent, since the company will adopt sustainable economic activities to foster a sustainable corporation. The financial materiality strives to account for the interest of investments and investors, whereas the new directive highlights the tension between creating value for investors and providing value for society. La Torre, Sabelfeld, Blomkvist and Dumay (2020) assert that this approach acknowledges the occasionally conflicting processes that characterise the materiality aspect of corporate governance. Singh (2021) reinforces this idea, arguing that effective corporate governance should ensure that capital management is both responsible and equitable. The adaptation of these practices is anticipated to instil stakeholder confidence and enhance the company's financial performance, thereby illustrating the critical role of financial materiality in shaping corporate strategies.

5.4 Impact Materiality: The Lifecycle of Responsibility

Having established the critical role of financial materiality in enhancing corporate strategies and stakeholder confidence, the focus broadens to the evolving dynamics of corporate sustainability. Teichmann and Wittmann (2023) note the interplay between a company's actions and their societal and environmental impacts is under increasing scrutiny. This shift introduces the concept of impact materiality, which sharpens the focus on the tangible effects of corporate decisions. According to Nielsen (2023), impact materiality stresses the need for companies to adopt a comprehensive approach to sustainability, taking into account both immediate and long-term consequences on society and the environment. The specifics of what constitutes impact materiality are detailed below.

> Adverse impacts include, in particular, human rights issues such as forced labour, child labour, inadequate workplace health and safety, exploitation of workers, and environmental impacts such as greenhouse gas emissions, pollution, or biodiversity loss and ecosystem degradation.
>
> (European Commission, 2022a, p. 2)

According to the European Commission (2023) and Nielsen (2023), impact materiality encompasses both the immediate effects a company has on society, the environment and those included through its value chain. The adverse impacts listed directly correlate with this definition, illustrating the potential effects a company can have on stakeholders, including workers, local communities and ecosystems. These issues not only reflect direct operational impacts but also implicate broader value chain influences, acknowledging the lifecycle of products and services and business relationships extending beyond direct contractual connections.

The focus on both immediate and long-term timeframes in assessing impact materiality is crucial (Nielsen, 2023). Issues like biodiversity loss, ecosystem degradation, and greenhouse gas emissions underscore the long-term adverse effects that require immediate attention to prevent irreversible damage. The perspective of impact materiality, therefore, necessitates that companies adopt strategies not just for immediate mitigation but also for long-term sustainability planning. As mentioned earlier, impact materiality is rooted in the effects a company has on its stakeholders (La Torre, Sabelfeld, Blomkvist & Dumay, 2020). Consequently, this necessitates clear outlines in sustainability reports. The adverse impacts highlighted in the quotation above are directly relevant to this requirement. They affect a wide range of stakeholders, ranging from employees risking health and safety issues to communities and ecosystems bearing the brunt of environmental degradation. Reporting on these impacts transparently is essential for stakeholders to assess the sustainability and ethical considerations of a company's operations. Hence, impact materiality, being a part of the dual approach of double materiality, challenges companies to extend their sustainability efforts beyond the limitations of single materiality, fostering greater transparency and accountability in corporate governance (Chiu, 2022).

Continuing on this understanding, impact materiality not only underscores how immediate and long-term sustainability challenges need corporate responses but also emphasises the need for an all-encompassing approach to due diligence. As noted by Nielsen (2023), the broad view provided by impact materiality allows companies to grasp the effects their operation has on human rights and the environment. This perspective necessitates a due diligence process that spans all phases of the corporate lifecycle, ensuring that every phase is scrutinised for potential adverse impact. The need for comprehensive due diligence across all stages of a company's operations is further highlighted.

> Adverse human rights and environmental impact occur in companies' own operations, subsidiaries, products, and in their value chains, in particular at the level of raw material sourcing, manufacturing, or at the level of product or waste disposal. In order for the due diligence to have a meaningful impact, it should cover human rights and environmental adverse impacts generated throughout the life-cycle of production and use and disposal of product or provision of services, at the level of own operations, subsidiaries and in value chains.
>
> (European Commission, 2022a, p. 32)

The CSDDD delineates the necessity of due diligence to extend across the entire lifecycle of a product or service, from the sourcing of raw materials and manufacturing processes to the disposal of products or waste. By addressing each phase, the due diligence process ensures that adverse human rights and environmental impacts are considered and mitigated not just in direct operations but also in subsidiaries and throughout the value chain (European Council, 2023). Impact materiality is centrally concerned with both the potential and actual effects a company has on its environment and society. The directive aligns with this by calling for an understanding of how business activities impact human rights and the environment across the product lifecycle and value chain. This holistic approach is essential in identifying important areas where interventions are needed to mitigate negative impacts and enhance positive outcomes (La Torre, Sabelfeld, Blomkvist & Dumay, 2020; Niculescu & Burlaud, 2023).

Given the extensive due diligence outlined by the CSDDD, the focus now shifts to how these measures protect stakeholder interest and enforce corporate accountability. As outlined by Nielsen (2023), this aspect of impact materiality ensures that companies are responsible for their actions and underlines the importance of transparency. Clear reporting on the mitigation of adverse impacts provides insights into a company's dedication to ethical practices and sustainability. It also serves as a benchmark for measuring the effectiveness of the company's sustainability initiatives and compliance with regulatory requirements. The scope of impact materiality is necessary to reveal the depth and breadth of considerations that companies must address to achieve sustainable operations. This includes a diligent assessment of all phases of the product lifecycle and the comprehensive management of both immediate and long-term impacts on society and the environment, which are crucial for sustainable corporate governance and responsible business conduct (Kaur, 2021).

As the global community increasingly prioritises sustainable practices, legislative frameworks must evolve to adequately reflect the need for mitigating adverse impacts with sectors identified as high-risk. Notable examples of these sectors include the manufacturing of textiles, leather, and related products, alongside agriculture and associated trades, all of which are recognized for their significant impact on sustainability challenges. The EU's strategic approach to addressing human rights and environmental issues through the selection of high-impact sectors is demonstrated below.

> In order to reflect the priority areas of international action aimed at tackling human rights and environmental issues, the selection of high-impact sectors for the purposes of this Directive should be based on existing sectoral OECD due diligence guidance. The following sectors should be regarded as high-impact for the purposes of this Directive: the manufacture of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and footwear; agriculture, forestry, fisheries (including aquaculture), the manufacture of food products, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages.

(European Commission, 2022a, p. 33)

The directive's focus on specific sectors reflects a targeted approach, recognizing that some industries have larger environmental and social footprints. By basing sector selection on existing Organisation for Economic Co-operation and Development (OECD) due diligence guidelines, the directive aligns with internationally accepted standards and ensures that sectors with significant potential and actual impacts on society and the environment are prioritised. This corresponds with the concept of impact materiality, which emphasises the importance of addressing issues where the company has a substantial effect (Nielsen, 2023). Integrating sector-specific due diligence with broader legislative directives underscores a systems approach to enhancing sustainability practices across critical economic sectors. This approach is central for addressing complex global challenges such as climate change, biodiversity loss, and labour rights violations in a complete manner. From an impact materiality standpoint, this means not only addressing the direct impacts of a company's operations but also understanding and mitigating the indirect effects that occur through business relationships and market interactions (European Commission, 2023).

As the directive's emphasis on sectors with significant potential for environmental and social impact has been explored, it is important to consider how this focused approach enhances corporate governance. The CSDDD calls attention to the need for prioritised action in high-risk industries, reinforcing the importance of tailored governance strategies to address these challenges effectively (Singh, 2021). This focus is critical for advancing comprehensive sustainability practices that are both effective and transparent, fulfilling the broader objectives of double materiality by balancing stakeholder interests with financial considerations. Tingle (2018) suggests that such strategic emphasis on corporate governance can spur innovations and the refinement of best practices, essential for addressing evolving challenges and stakeholder expectations. By adhering to established OECD due diligence guidelines, sectors are encouraged to innovate within a structured framework, enabling continuous evolution and enhancement of governance standards that effectively respond to the dynamic landscape of corporate responsibility.

6.0 Discussion

This chapter covers the discussion section of this thesis, structured to enhance understanding and provide insights into the study's topics. It begins by discussing the concept of double materiality, highlighting its connections to corporate governance and reviewing the findings from the analysis. Thereafter, financial and impact materiality will be examined in greater detail to deepen the understanding of these concepts. The chapter also shares insights derived from the CSDDD. Lastly, the study's limitations are addressed to ensure transparency and allow the authors to discuss potential shortcomings of the research.

6.1 Overview of Double Materiality and Corporate Governance

This thesis has analysed the legislative CSDDD introduced by the European Commission, focusing on how it incorporates the concept of double materiality into the sustainability reporting and operations of companies within the EU and through their value chains. The findings reveal that the CSDDD extends the responsibilities of companies beyond traditional financial considerations to include environmental and social impacts, both of which are central to the directive. Financial materiality and impact materiality are not treated as isolated metrics but as interconnected dimensions that influence and are influenced by broader corporate governance. This underscores the directive's aim to ensure corporate operations do not merely comply with sustainability norms but actively advance border environmental and societal goals.

What has been presented is that the CSDDD requires large corporations to recognize, tackle and alleviate actual and potential adverse effects on the environment and human rights throughout their business operations. This encompasses upstream activities like supplier operations and downstream processes such as distribution and recycling. Furthermore, it compels companies to devise and execute strategies to ensure their business practices align with the goals of the Paris Agreement on climate change. These practices can be adopted with corporate governance, which this thesis has demonstrated as a theoretical framework. Corporate governance has been distinguished in several ways from the analysis, in processes like managing complex issues related to sustainability, how to comply with law and economic concerns and how to operate with efficient business strategies. This perspective underscores the importance of assessing the ambidextrous influence of corporate operations and how companies should integrate their politics into business practices.

This analysis delves deeper into the concept of double materiality as delineated in the CSDDD, covering several objectives. It examines how businesses account for social and environmental factors and assesses the impact of these sustainability shifts on company operations. Additionally, requirements for corporations to report on environmental and societal issues is crucial, as it can significantly influence their financial performance and sustainability outcome. This necessity underscores the importance of integrating a broad perspective into corporate practices. The discussion also evaluates how companies tackle challenges such as pollution and climate change, considering the potential financial implications of these strategies. Furthermore, the directive addresses double materiality in the context of essential emission reduction and net-zero goals. Focusing on these areas can mitigate adverse environmental impacts and reductions in the company's environmental footprint. In turn, this can affect the performance of stakeholders within the value chain and impact the company's financial health.

Based on the discussion of how double materiality influences both financial performance and environmental sustainability, the discussion now turns to how these are integrated into broader corporate governance. In the context of double materiality, the perspective of corporate governance was elucidated regarding international cooperations, where sustainable corporate practices were presented. This wider stakeholder approach, particularly including partners from third countries, emphasises the critical operations the companies are operating in their value chain. By focusing on mitigating environmental and social harm through collaboration with both local communities and international partners, there is a significant push toward fostering a more sustainable global landscape. In this scenario, companies are encouraged to work collaboratively to achieve shared objectives, with expected benefits for both the environment and human rights. Accordingly, this approach incorporates an outside-in perspective, recognizing that external environment and societal changes impact business operations. Throughout this context, both financial and impact materiality are consistently referenced and assimilated with the CSDDD across various instances.

6.2 The Dual Dimensions of Materiality in CSDDD

6.2.1 The Role of Financial Materiality

Financial materiality under the CSDDD does not solely concentrate on immediate financial impacts but also on how these impacts can shape long-term corporate strategy and sustainability. The directive enhances companies to evaluate and disclose financial risks and opportunities arising from environmental and social factors. Notably, this aspect aligns with growing investor demand for companies to demonstrate strong sustainability credentials, which can influence investment decisions and corporate valuation. Thus, financial materiality does not only manage financial risks but is also about navigating the balance to foster a sustainable business model that accounts for both financial returns and social and environmental impacts. Moreover, the importance of Member States laying down rules on financial sanctions applicable to violations of national provisions adopted in the CSDDD is emphasised. It highlights the necessity for companies to demonstrate compliance with operations aimed at mitigating adverse impacts in their value chains, with sanctions being proportionate to the company's turnover. This linkage between sanctions and turnover can have significant implications for a company's financial materiality.

Financial materiality extends beyond issues managed directly by the entity to encompass risks and opportunities associated with external business relationships. It includes aspects from the environment and social circumstances that will lead to financial consequences for the company. Financial materiality intersects with corporate governance, as failure to adhere to obligations outlined in the directive can have repercussions for the company's economic standing and influence. Additionally, financial materiality is evident in sustainable investments aimed at addressing adverse impacts and minimising greenwashing. By aligning with sustainable investment practices, companies can enhance their financial materiality while contributing to broader environmental and social objectives. The discussion on financial materiality underscores the integral role it plays in guiding economic decisions towards sustainable outcomes within corporations. The directive's emphasis on compliance, collaborations, and proportionate sanctions reflects a nuanced approach to balancing economic imperatives with environmental and social responsibilities. As companies navigate these complexities, understanding and integrating financial materiality into their decision-making processes will be crucial for long-term success and sustainability.

6.2.2 The Role of Impact Materiality

Transitioning from the concept of financial materiality, it is crucial to also consider the broader implications of impact materiality by the CSDDD. The directive compels companies to rigorously assess how their operations and entire value chains potentially contribute to or mitigate adverse societal and environmental outcomes. Thus, this approach encourages a more profound understanding of the intricacies within the value chain and underscores the need for thorough due diligence processes, ranging from raw material sourcing to final product disposal. By emphasising both direct and indirect impacts across the entire value chain, it accentuates the nuanced challenges inherent in corporate sustainability initiatives. Addressing long-term issues such as biodiversity loss and greenhouse gas emissions is essential to prevent irreversible environmental damage. This perspective extends the traditional scope of corporate responsibility beyond immediate operational impacts to include long-term environmental and social governance strategies.

Expanding upon the extended scope of corporate responsibility to include both environmental and social governance, this thesis further highlights the necessity of a detailed due diligence process throughout all stages of the corporate lifecycle. Such thoroughness ensures that adverse impacts are considered and mitigated right from the raw material sourcing to the final disposal of products. Embracing this holistic approach is essential in creating sustainability strategies that are not only effective but most importantly transparent and accountable to stakeholders. The discussion on sector-specific impacts, particularly in high-risk industries, ensures that the industries with the most significant potential impacts are prioritised. This targeted approach aligns with both international standards and also facilitates the integration of sustainability into corporate governance structures. Through the lens of this interconnected view of immediate and long-term impacts, the advocacy for comprehensive due diligence addresses immediate needs while setting the stage for sustainable development that accommodates both current and future generations.

6.2.3 Challenges in Integrating Financial and Impact Materiality:

After recognizing the importance of financial and impact materiality, there is a need to consider the practical challenges associated with integrating these into corporate strategies. Companies must continuously adapt their compliance strategies to meet new standards in the evolving regulatory landscape, which can be both intricate and costly. Additionally, implementing thorough due diligence processes that effectively identify and mitigate adverse impacts across the value chain presents its own set of complexities. Such processes could require substantial resources and coordination, particularly for companies with extensive global operations. Nevertheless, companies must enhance their due diligence process, to develop a more robust risk management, and foster greater transparency in their sustainability reporting. This imperative arises from the increasing prominence of environmental and social governance in corporate reporting, which heightens the risk of greenwashing. Balancing the demand for immediate financial returns with the investments necessary for long-term sustainability initiatives poses a persistent challenge for companies. Finding alignment between these sometimes competing priorities remains an ongoing endeavour.

6.3 Insights from the CSDDD

The study of the CSDDD and its integrations of financial and impact materiality into corporate governance offers several insights that could contribute to both academic discourse and practical implementation in the field of corporate sustainability. The analysis highlights how the CSDDD extends the scope of corporate responsibility beyond traditional financial considerations to include environmental and social impacts. Thus, it reflects a shift towards more integrated sustainable business practices that consider the long-term well-being of the planet and society alongside economic growth. Insights into the directive's implications emphasise the importance of international cooperation and uniform standards in tackling global sustainability challenges, such as climate change and human rights issues in value chains. It illustrates that compliance with these regulations requires change not just in operational practices but also at the governance level, including enhancing transparency, accountability, and stakeholder engagement. While acknowledging the inherent complexity of the directive, it has offered valuable insights into corporate governance and the necessity of due diligence. This complexity often necessitates deeper analysis and sometimes requires interpretation beyond explicit wording. This observation is not intended as a criticism but rather underscores the intricate nature of the directive.

6.4 Limitations of the Study

This thesis provides insights into the implementation and implications of the CSDDD, particularly through the lens of double materiality. However, several limitations inherent in the study may affect the breadth and depth of the findings and conclusions. Firstly, this thesis is conducted by two master students, which could lead to a potential lack of diversity in perspectives. The authors' expertise and background may shape the scope and thoroughness of the analysis, possibly missing specific aspects or nuances of the CSDDD that could be significant from different perspectives. Secondly, the ongoing negotiations and potential amendments to the CSDDD and related policies could render parts of the thesis less relevant or outdated by the time of its publication or soon after. This dynamic regulatory environment poses a challenge for providing a definitive assessment of the directive's impact. Thirdly, the study lacks a detailed economic impact analysis regarding the cost and benefits of implementing the CSDDD for companies across various sectors. This could prevent a full appreciation of the economic implications, including cost-benefit trade-offs.

Lastly, focusing only on the CSDDD might miss the broader spectrum or related legislative measures that could also influence corporate sustainability practices, for instance, sector-specific standards. This focus might limit the understanding of the interconnected nature of regulations. In relation, the document analysis is based on a single document. While this provides a thorough examination of the directive, it is important to acknowledge that additional documents could have informed a more updated version. For instance, in spring 2024, the EU Member States are scheduled to vote on a revised proposal. Documents containing these proposed adjustments could have enriched the analysis in several ways. For example, it could broaden the perspective by highlighting changes and developments that may not be apparent in the original document. Additionally, it would reflect the latest discussions and considerations among policymakers, ensuring that the conclusions are relevant to the current political and regulatory climate. New themes or shifted focus in response to changing societal, economic or environmental conditions could also have revealed emerging trends and priorities within the CSDDD. However, due to the constraints of the thesis timeline, these were not included, resulting in a narrower perspective of the directive.

7.0 Conclusions

In the concluding chapter of the thesis, the research culminates with a summary of the primary discoveries and insights drawn from analysing the CSDDD and its integration of double materiality. This chapter revisits the research question, providing a thorough and definitive answer based on the study's findings and insights. The final section of the conclusion will offer suggestions for future research, aiming to identify further implications to explore regarding the directive. In essence, three main highlights are presented on the integration of double materiality within the CSDDD:

- The directive represents an advancement in corporate governance, addressing activities both on financial and impact materiality.
- The directive enhances the due diligence throughout the value chain, emphasising human rights and environmental impact.
- The directive forces companies to assess and report on both short-term and long-term environmental and societal impacts of their operation into core business strategies.

7.1 Concluding Remarks on the CSDDD's Integration of Double Materiality

This thesis has examined the implementation of the Corporate Sustainability Due Diligence Directive and its integration of double materiality into corporate strategies with the European Union. The study delved into how the CSDDD compels companies to reassess their impact on both financial performance and broader societal and environmental outcomes. The overarching goal of this directive aligns with the EU's commitment to fostering sustainable economic growth that respects human rights and environmental integrity. The research question guiding this thesis was the following: *In what ways does the new Corporate Sustainability Due Diligence Directive consider financial materiality and impact materiality, as defined by the concept of double materiality?* The conclusion drawn is that the CSDDD comprehensively addresses the concept of double materiality. It mandates that companies disclose both the influence of sustainability issues on their financial performance and also detail the impacts of their operational activities on the environment and society.

In more detail, the CSDDD mandates that companies assess and report on both the immediate and long-term effects of their operations on the environment and society. Companies are also urged to integrate these assessments into their core business strategies and decision-making processes. In turn, this ensures that sustainability considerations are not peripheral but central to corporate governance and operational planning. The directive also emphasises the need for enhanced due diligence across the entire value chain, from raw material sourcing through to the end of product life cycles. This approach is essential for identifying, preventing and mitigating potential adverse impacts effectively. The CSDDD sets a regulatory framework that requires companies towards higher transparency and accountability. Thus, it aids in aligning business operations with global sustainability goals. Additionally, by focusing on sectors with significant environmental and social risks, the directive ensures that resources and efforts are directed towards areas where the potential for impact and improvement is greatest.

The main discoveries are that the CSDDD represents a significant step forward in the evolution of corporate governance, with the potential to redefine how companies engage with their broader impact on the world. Since it reinforces the importance of financial materiality in business considerations as well as elevates the role of impact materiality, the CSDDD is addressing both profit-oriented and ethical dimensions of corporate activity. This study has illustrated that while integrating double materiality poses challenges, particularly in terms of implementations and compliance, it also offers opportunities for companies to lead in sustainability. For policymakers and corporate leaders, the findings underscore the necessity of ongoing support, guidance and adaptation of regulatory frameworks to ensure that sustainability is integrated into corporate governance. By answering the research question, this thesis contributed to a nuanced understanding of the CSDDD's implications, supporting a more sustainable corporate framework with the EU. As the directive moves from policy to practice, continued research will be essential to monitor its effectiveness and to refine approaches for embedding sustainability deeply into corporate strategies.

7.2 Suggestion to Further Research

Given the impending enforcement of the CSDDD, it raises intriguing questions about how companies and their directors will adapt to and implement the directive's requirements. Investigating how these directives influence corporate behaviour and accountability in practices would provide further valuable insights into their effectiveness. Future research could also explore the impact of these legal and international practices on environmental protection and human rights through empirical studies, including case studies in sectors traditionally less engaged in sustainability practices. Moreover, conducting surveys or interviews with a broad range of stakeholders, including NGOs, government officials, and corporate executives could enrich the understanding of CSDDD's strengths, weaknesses and areas for improvement. Such studies would highlight more practical challenges and successes of implementing the directive, as well as enhance transparency and provide further knowledge for future regulatory adjustments and corporate compliance strategies.

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