5 STEPS TO GET ESG COMPLIANT

AT A GLANCE: your step-by-step guide on how to achieve ESG compliance

contents

Introduction

The worldwide ESG (environmental, social and governance) reporting trend is being driven by a number of factors, including increasing pressure from investors, regulators and the general public for companies to be more transparent about their ESG impacts.

ESG reporting is a way for companies to measure, disclose and manage their environmental, social and governance performance. ESG reporting can help companies identify and manage ESG risks, improve their ESG performance and make a positive impact on society.

There are a number of ways for companies to get started with ESG reporting. In this article, we will outline five steps that companies can take to get started with ESG reporting.

Step 1: Define your ESG reporting goals

The first step for companies is to define their ESG reporting goals. What do you want to achieve with ESG reporting? Do you want to improve your ESG performance, manage ESG risks or communicate your ESG impacts to stakeholders?

Defining your ESG reporting goals will help you to decide which ESG indicators to report on and how to report them. It will also help you to set targets for improvement and track your progress over time.

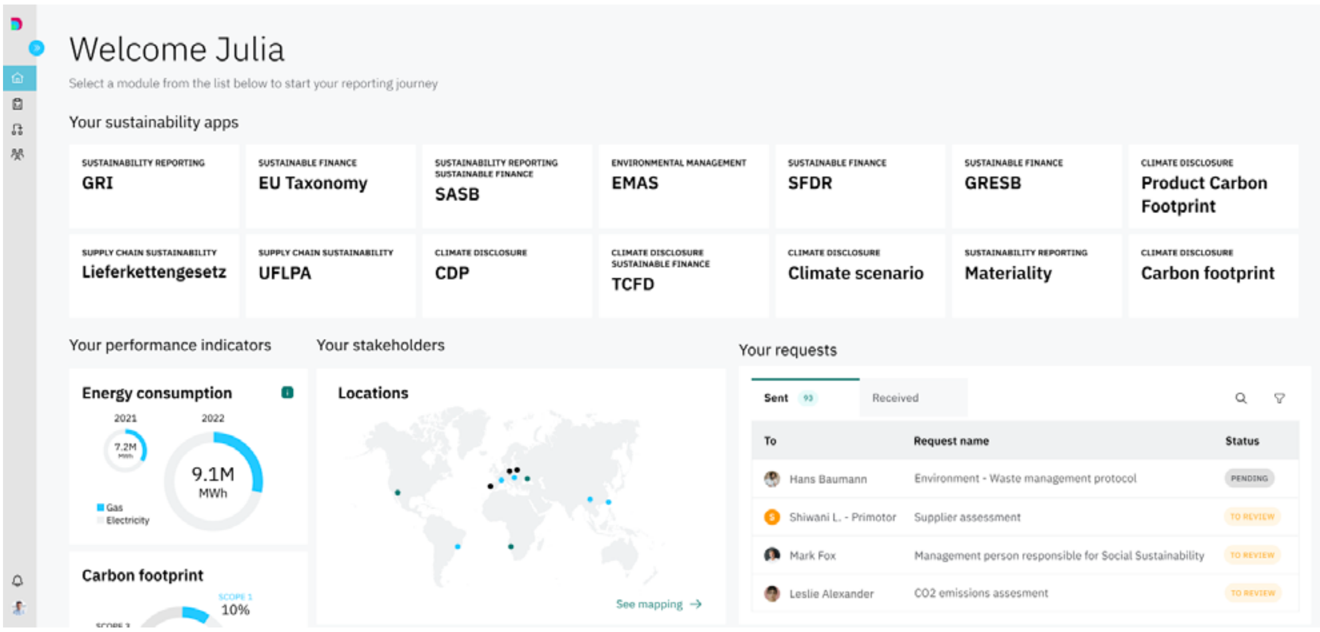
Common ESG reporting goals are the following:

- Improve ESG performance: ESG reporting can help companies to identify areas where they can improve their ESG performance.
- Manage ESG risks: common ESG risks are climate change, water scarcity, social inequality and human rights abuses.
- Communicate ESG impacts to stakeholders: investors, debtholders, customers, employees Use ESG as a strategic step
- Comply with regulatory requirements: EU Taxonomy, Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Requirements (ESRS)

Step 2: Choose the right ESG indicators

There are hundreds of ESG indicators and several reporting standards that companies can choose from when reporting their ESG performance. Choosing the right ESG reporting standard and related indicators will depend on your ESG reporting goals.

If you want to improve your ESG performance, you will need to choose indicators that measure your progress towards your ESG targets. If you want to manage ESG risks, you will need to choose indicators that identify and track those risks. And if you want to communicate your ESG impacts to stakeholders, you will need to choose indicators that best communicate your ESG story.



Different ESG reporting standards

Sustainability Reporting

Name	Description	Mandatory?
The Global Reporting Initiative (GRI)	The GRI is the most widely used ESG reporting standard. It provides guidance on how to report on a wide range of ESG indicators, including economic, environmental and social indicators.	no
The Sustainability Accounting Standards Board (SASB)	The SASB is a US-based organisation that provides guidance on how to report ESG impacts for investors. SASB's ESG indicators are industry-specific and focus on material impacts.	no
Corporate Sustainability Reporting Directive (CSRD)	The EU Corporate Sustainability Reporting Directive (CSRD) amends the current Non-Financial Reporting Directive (NFRD). It is an EU directive that requires large companies and groups to disclose information on their environmental, social and employee-related impacts, as well as diversity on their boards.The scope of the directive is considerably extended to apply to more European and non-European companies listed and operating in the EU-regulated markets. Companies have to report under the CSRD from 2024 onwards and in line with mandatory EU sustainability reporting standards as well as an external assurance of sustainability reporting. Every company that is either stock market listed or matches at least two out of the following three criteria will have to report under the CSRD as of 2024: - 250 employees and/or - €40M Net Turnover and/or - €20M Total Assets	yes
EFRAG's European Sustainability Reporting Standards (ESRS)	European Sustainability Reporting Standards (ESRS) is a set of ESG indicators developed by EFRAG, in collaboration with the European Commission, to help companies report on their ESG performance in a way that is consistent with international reporting standards. Companies affected by the CSRD have to report their sustainability efforts. The ESRS are harmonized with the EU Taxonomy for a holistic sustainability reporting approach within the EU.	yes, as of 2025 for financial year 2024
The UN Global Compact	The UN Global Compact is a voluntary initiative that encourages businesses to adopt sustainable and socially responsible practices. The UN Global Compact's ESG indicators focus on social and environmental impacts, specifically those related to human rights, labour standards, environment and anti-corruption.	no
Sustainability reporting materiality	Materiality is the concept that some ESG impacts are more important than others, and should therefore be given more consideration in sustainability reporting.	no

Supply Chain Sustainability Reporting

Name	Description	Mandatory?
Lieferkettengesetz / The German Supply Chain Act	The German Supply Chain Act requires companies to take action against the exploitation of human rights and the environment in their supply chain. This includes analyzing human rights-related risks, taking measures to prevent and mitigate human rights violations, establishing grievance mechanisms, and reporting on their activities.	yes, mandatory in Germany
Supply Chain Act (EU)	As of 2023, the EU Supply Chain Act will require large companies to disclose information on their policies and practices to address forced labor and environmental risks in their global supply chains. It will apply to companies with at least 500 employees or with a turnover of at least €150M. The law is far-reaching, much further than for instance the Supply Chain Act by Germany, one of the biggest economies in the EU. Germany launched their own Supply Chain Act, however, it only requires companies with 3,000 employees (and more than 1,000 employees from 2024) to report. Also, the EU Supply Chain Act requires companies to audit the entire supply chain and not only the direct suppliers as the German Act does. Since the EU has overruling power over its member states, the Supply Chain Act (EU) will replace the German Supply Chain Act.	yes
Uyghur Forced Labor Prevention Act (UFLPA)	The UFLPA prohibits the import of goods and services produced with forced labor from the Xinjiang Uyghur Autonomous Region (XUAR) in China. It requires companies to exercise due diligence to prevent the use of forced labor in their supply chains. It will apply to companies with annual worldwide revenue of more than $500 million.	yes
French duty of corporate vigilance law (Loi de Vigilance)	The French duty of corporate vigilance law (Loi de Vigilance) requires large companies in France to effectively manage their human rights and environmental risks - both within the company itself and with its subsidiaries, subcontractors and suppliers. The law requires the company to establish, implement and publish its own vigilance plan in line with the UN‘s human rights due diligence process, as outlined in the Principles on Business and Human Rights (UNGPs).	yes, mandatory in France

Sustainable Finance

Name	Description	Mandatory?
EU Taxonomy	The EU Taxonomy is a classification system for sustainable economic activities. It sets out common criteria for what constitutes a sustainable activity and will be used to support ESG reporting by companies. The EU Taxonomy is an element of the CSRD, and hence Taxonomy reporting will be mandatory as of 2024 for all companies within the scope of CSRD.	yes
The Integration of ESG into Investment Analysis and Decision Making, or the ESG100 reporting framework	The ESG100 is a set of ESG indicators developed by the Climate Disclosure Standards Board (CDSB) and the Global Reporting Initiative (GRI). It is designed to help companies integrate ESG into their investment decision making.	no
Sustainable Finance Disclosure Regulation (SFDR)	The Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation that requires financial market participants to disclose ESG-related information. The SFDR's ESG indicators focus on environmental and social impacts, specifically those related to climate change and human rights.	yes
Global Real Estate Sustainability Benchmark (GRESB)	The Global Real Estate Sustainability Benchmark (GRESB) is a global initiative that assesses ESG performance in the real estate sector. GRESB's ESG indicators focus on environmental and social impacts, specifically those related to energy use, water consumption, waste management and greenhouse gas emissions.	no

Climate Disclosure

Name	Description	Mandatory?
The Task Force on Climate-related Financial Disclosures (TCFD)	The TCFD is a task force convened by the Financial Stability Board (FSB). It provides guidance on how to report climate-related risks and opportunities for companies in all sectors.	no
Carbon Disclosure Project (CDP)	The Carbon Disclosure Project (CDP) is a global initiative that encourages companies to disclose their greenhouse gas emissions and climate change strategies. CDP's ESG indicators focus on environmental impacts, specifically emissions reductions.	no
Carbon disclosure rating (CDR)	The Carbon Disclosure Rating (CDR) is a measure of a company's disclosure of greenhouse gas emissions and climate change strategies. The CDR is based on the information disclosed by companies in the CDP Climate Change program.	no
Eco-Management and Audit Scheme (EMAS)	The Eco-Management and Audit Scheme (EMAS) is an environmental management system for companies in the European Union. EMAS' ESG indicators focus on environmental impacts, specifically emissions reductions and waste management.	no

Name	Description	Mandatory?
Climate scenario	Climate scenarios are different forecasted settings of how the climate could change in the future. They help companies to understand and prepare for the risks and opportunities of climate change.	no
Product carbon footprint	A product carbon footprint is a measure of the greenhouse gas emissions associated with the production, use and disposal of a product.	no
ISO 14001	ISO 14001 is an international standard that specifies requirements for an effective environmental management system. ISO 14001's ESG indicators focus on environmental impacts, specifically emissions reductions and waste management.	no

Recommendation on what ESG reporting standard to choose

The best ESG reporting standard for your company will depend on your ESG reporting goals. If you want to improve your ESG performance, we recommend using the GRI or SASB reporting standards. If you want to manage ESG risks, we recommend using the TCFD reporting standard. And if you want to communicate your ESG impacts to stakeholders, we recommend using the ESG100 reporting framework.

Step 3: Collect and track your data

Once you have chosen your ESG indicators, you will need to collect data on those indicators. This data can be collected internally or externally.

If you are collecting data internally, you will need to put systems and processes in place to track your ESG data. This might involve setting up new data collection and tracking systems, or training employees on how to collect and track ESG data.

If you are collecting data externally, you will need to engage with third-party ESG data providers. There are a number of ESG data providers that offer ESG data collection and tracking services.

Problems that may arise

Understanding and operationalizing the requirements set out in the different reporting standards such as the CSRD is incredibly complex. Deciding which ESG indicators to report on and how to measure them can be challenging. There is a lack of comparability across ESG reporting standards, making it difficult to compare companies' ESG performance. And finally, collecting ESG data can be time-consuming and expensive.

Further bottlenecks also exist in the quality of ESG data. There is a lack of transparency and disclosure around ESG data, making it difficult to verify the accuracy and completeness of ESG data. And ESG data is often reported on a voluntary basis, which can lead to selection bias.

Passing on data inside a big company can cause further issues. ESG data is often siloed within organizations, making it difficult to get a complete picture of a company's ESG performance. And ESG data is often scattered across different departments and functions, making it difficult to track and manage.

How technology and smart tools can enable the process

A readiness and gap assessment tool can help here. Using a modular approach that is flexible and customizable to help companies understand exactly what is required of them facilitates the process tremendously.

Software can also help to overcome the challenge of data transfer within the company. By integrating ESG data across different departments and functions, companies can get a complete picture of their ESG performance. And by automating the data collection and tracking process, companies can save time and money.

Input data should directly be linked to different reporting standards so all sustainability efforts and reportings are connected and can be leveraged hassle-free. Input data can, for example, be used to create high-level materiality assessments and roadmaps to make the process of designing strategic transformation pathways easier and ensure that the company remains compliant with current and proposed reporting requirements.

Technology and smart tools can play a key role in helping companies collect and track ESG data. There are a number of ESG data collection and tracking platforms that can help companies automate the data collection and tracking process. These platforms can help companies save time and resources, and improve the accuracy of their ESG data.

Step 4: Disclose your ESG data

Once you have collected your ESG data, you will need to disclose it in a way that is clear, concise and easy to understand. This might involve creating ESG reports, ESG dashboards or ESG infographics.

Your ESG disclosures should be tailored to your audience. If you are communicating with investors, you will need to disclose ESG data that is relevant to investors. If you are communicating with employees, you will need to disclose ESG data that is relevant to employees.

How technology and smart tools can enable the process

Technology and smart tools can play a key role in helping companies disclose ESG data. Daato's software can serve as an ESG disclosure platform that helps companies create ESG reports, ESG dashboards and ESG infographics. Daato can help companies save time and resources, and improve the clarity and quality of their ESG disclosures.

Step 5: Engage with your stake-holders, get feedback, and continuously improve your ESG performance

Once you have disclosed your ESG data, you will need to engage with your stakeholders. This might involve holding ESG town halls, sending ESG newsletters or hosting ESG webinars.

Engaging with your stakeholders is a great way to get feedback on your ESG reporting and to find out what more you can do to improve your ESG performance. It is also a great way to build trust and relationships with your stakeholders.

ESG reporting is a key part of being a responsible business. By following these five steps, companies can get started on their ESG reporting journey and make a positive impact on society.

Once you have disclosed your ESG data, you should use that data to continuously improve your ESG performance. This might involve setting ESG targets, implementing ESG initiatives or engaging with stakeholders on ESG issues.

Technology and smart tools can play a key role in helping companies continuously improve their ESG performance. Daato's software can help companies set ESG targets, track ESG progress and engage with stakeholders on ESG issues. Daato can help companies save time and resources, and improve the clarity and quality of their ESG reporting.

Conclusion

By following these five steps, companies can get started on their ESG reporting journey and make a positive impact on society. ESG reporting is a key part of being a responsible business, and technology and smart tools can play a key role in helping companies get ESG compliant in 5 steps.

image directory

Cover.......................AdobeStock ©Song_about_summer

imprint

Daato Technologies GmbH
Gartenstraße 102
c/o Satya Kamal Raparthi
10115 Berlin