Welcome to talking about Thinking the Unthinkable, our latest leadership, conversation, and podcast. I’m Nik Gowing, Founder and Director of the thinking the unthinkable project.

COP28 negotiations in Dubai have graphically highlighted the unthinkables that we’re all facing. We must confront with even greater commitment, the deepening climate emergency, the nature and biodiversity emergencies, the sustainability emergency, and so many more. To help achieve that we have all been bombarded with a torrent of acronyms. They label the urgent new cooperation and work needed across multiple sectors.

A new one that every business leader must rapidly come to terms with is CSRD. That’s the Corporate Sustainability Reporting Directive. Well it’s tempting to dismiss it as, “oh, yet another one!” but ignore this really at your peril. We thought we should help you by explaining why CSRD is something you must prepare for, and do it fast.

From 2024 CSRD requires companies to report on the impact of corporate activities on the environment and society. Responding to this and collecting the data is not optional. So joining me is Ray Nulty. Ray is Managing Partner for Ireland and the UK for the Nordic consulting firm Centigo, whose core mission is wellness and helping companies of all sizes tackle their sustainability mission. Helping all of us get CSRD is at the heart of this, Ray. So what really do people have to understand?

I think the first thing people have to understand is the scope of this. So it applies to all companies listed on regulated markets, except for micro firms, and all large public interested companies with at least two filing requirements: 250 or more employees, €40 million in net turnover, or €20 million in assets.

And it applies to EU companies, but also to non-EU-based companies that have a subsidiary in the European Union. And it’s estimated to cover approximately 50,000 companies in total.

I mean, the key thing here is it’s now mandatory, there are penalties for not doing it. And it comes into force on a gradual basis for literally those companies who are having to report under the non-financial reporting directive of NFRD, and then it expands in the following year. So a huge amount of companies will have to start reporting in 2026 for their 2025 performance.

Ray, how sweeping is this? How immediate is it?
Ray Nulty
Sweeping is some, it's substantial. You're asking organisations to look at areas they haven't looked at before. It requires huge visibility downstream and upstream within your value chain.

And therefore the scope of it is nothing which we've ever had to deal with before. So understanding the impact on your customers and your suppliers. And whilst you might know your customers, you know, what are the implications of what your customers are doing for society and the environment requires pretty in-depth knowledge.

And then having to understand the impacts of your suppliers, and their suppliers, and their suppliers' suppliers is just a huge ask. So that visibility, and that scope is really something which many organisations have difficulty with.

Nik Gowing
Were you saying that really, this is something of a shock, or will be something of a shock, which they've really got to grip and understand?

Ray Nulty
Indeed, and I think that's one of the challenges that many of our clients have is trying to sell this issue internally or prioritize it, because everybody's assumed that all we're talking about is reporting on our greenhouse gas emissions. Because that's obviously got the whole climate-related issues have gotten a lot of traction within, within companies but from an environmental point of view, it's even gone wider and you know, you're talking about biodiversity, water usage, water stewardship.

On the social side, you're looking at the impact on the employees and the suppliers and communities, such as suppliers and customers work in. That is pretty huge. And then from what we call an 'outside-in' perspective, you're being asked to effectively model and to find scenarios for the implications of all these interconnected risks, not just climate, but also the social and health risks associated with this on your strategy and your business model.

And, you know, originally I did my PhD was in scenario planning, and we're looking at issues in the Middle East, and all the complexities there, this is even more complex. And you're asking companies or midsize to do these things when they've ever had to do them before. And, you know, certainly many organisations are unfamiliar with the concepts, and having to set targets progressive targets and ensure that you're not greenwashing inadvertently, it's quite a challenge.

Nik Gowing
What kind of data then do companies have to get? Is it data they simply don't have at the moment? Are they going to have to generate new ways of collecting it, and auditing it as well?
Ray Nulty
So first of all, I'd say there's non-financial and financial data. And we've never had a situation before where non-financial data is as important as financial data. And as you say, this information has to be independently audited by your auditor, or a third party and verified.

And there are about 12,000 data points, and they're probably growing as the CSRD regulation becomes more specific to industries. And you're being asked to develop a narrative for certain data, you're being asked to say, what's material? And if it's not material, explain why it's material. So you're absolutely right, there's a lot of data that organizations don't have. You have a baseline year as well to measure against your performance against.

So there are very significant, not only data gaps, but also data processing gaps. And we can imagine that, you're gonna have to ask your suppliers to provide you with data, which they have independently - been independently - verified, as well. So you know, your understanding of that data, and the quality of that data is really quite important. So, and you've no control over it. So even though you might do a great job on getting your own data together, the quality of your CSRD disclosure is going to be impacted, in very many cases by external data that you've never gathered before.

Nik Gowing
You did say 12,000 [data points],

Ray Nulty
Sorry 1,200 [data points] Sorry.

Nik Gowing
I was gonna say, but that is still, an enormous number of data points. Is it something? Yes, Are they data points that people will have already?

Ray Nulty
No. I would say, what you have is a lot of information has been asked for, particularly on the social side, but a lot of our clients would have already. But they've never actually had performance targets against or that have reported it. So that's one gap they have.

And then there's a range of external data, which they're getting, which they're using proxies or calculations to develop, which may not be accurate enough. You know, for example, you know, what's the risk of flooding or wildfire on our subsidiary and wherever, you know, they wouldn't be pulling that type of data before, or the policies that your suppliers have in terms of some of the local communities, but the impact and whatever else. So there's a lot of new data there.

Nik Gowing
So what has got to be done? What have companies of all sizes got to do to start this process? Give me an idea of the sequencing that has to be done?
Ray Nulty
Well, I think the first thing I think they need to do is to really to understand the scope boundaries of CSRD. And really understand the impact from a value chain perspective.

I think the next thing they really need to understand is the stakeholders who they impact and what their roles and their expectations are. So I think you need to think about, you know, part of the reason you’re doing this is not because there’s regulatory reporting for yourself, but other organisations are having to get this information from you. So what’s their expectation of the information? What information to your customers require of you? What information do your suppliers have? What processes are they having with their suppliers and their customers which are relevant to you?

And then I think you really need to understand well, what are the opportunities and the risks associated with this? What are the governance processes that need to be in place? And you, there’s a very detailed definition but EFRAG, the body who put this information together on reporting standards, and you really need to get down to those reporting standards and say, yeah, this applies to us, it’s material or it’s not material. Does it, is it part of business as usual? Do I really report on this at the moment? Or is it new? And if it’s new, where I’m gonna get the information? What changes processes do I have? Do I need new policies? What are my targets going to be? et cetera, et cetera. And that’s quite a lot of work.

If you’re a small organisation, you’re not used to doing this, or even if you are a larger organisation who has got you know, subsidiaries around the world. And we, I was working with it with company this week, who are multibillion euro organisation, and they have to report in 2025. And they’re worried that two years wont do it. So there’s a lot of information to gather, there’s a lot of changes.

And when you begin to look at the implications of CSRD and sustainability in particular, it impacts every part of your business model. And what I say is that a lot of the information that’s been defined that you need to collect, and as guidance on this, it’s about the outside, or the Inside Out implications. So how are you impacting society? How are you impacting the planet, the environment? But we’ve never really done a sophistication, sophisticated piece of work, which basically says: here are all the environmental factors, here are all the social factors that are going to impact us. Then start to model those in scientific, or in a math methodical way to understand the implications of those on not only our business, but also the financial consequences of that, and that’s something that a lot organisations haven’t done. So that’s gonna be quite a big challenge.

So there’s a long, you need a long run into this. And you need to start talking with your key stakeholders up and down your value chain pretty soon and translate what their plans are. That’s not to say that you need to have everything perfect by the, you know, the January 2025, or the January 2026, deadline, depending on what type of company you are. But I think there will be some leeway. And this, this process will improve.
But I think for me, the issues are going to be not necessarily your own regulatory reports, but being able to keep your customers happy; retain your business; get new business; or be happy with your suppliers that are actually meeting what you require. So it's, it's quite a big process.

Nik Gowing
What about the, we've got about four minutes left, Ray. What about the process that companies now need to go through? Not just the companies, but of course, the people at the top of them, the managers, the executives, the boards and so on.

About what they've got to do to change their attitudes, to realise that there's something really positive here, once they've got over the shock of having to do it.

Ray Nulty
Well, what I'd say first of all, is there, there's very specific governance requirements around this. So for example, you do have to have a board member who's nominated responsible for this. You do have to have..

Nik Gowing
In other words, you can't escape. There's no way to escape.

Ray Nulty
No. No, there isn't. You need, you need to engage with your auditors about this. And in many cases, unfortunately, some of the auditors can't provide those companies with clarification because they're not ready them themselves.

So it does require a lot of governance and control. And indeed, there's obviously penalties as well, that you can conform with this. But penalties are one thing, but the reputational damage from not being able to provide this information.

So what we're normally seeing is that organisations and when we benchmark them, even when they're doing good, well, on the social side, there's a lot more they have to do in terms of rigor, and then a lot more reporting they have to do. And a lot of policies have to be put in place or changes to policies which they hadn't suspected. and your supplier policy or procurement policy.

So you'll need a sustainability policy, And then you need to update existing policies. So there's a lot to be done. And generally, what we're seeing is that boards are very much understanding of this. Certainly the organisations that we're working with and they appreciate the issues. But I don't think anybody's really developed a coherent and detailed plan to deal with this. And that's part of the priority that these organisations are facing at the moment.
Nik Gowing
What about the role that investors and financial institutions can have in driving this forward, as part of the whole business of investing?

Ray Nulty
Yeah, I mean, they certainly have a very important role and listened. I certainly note from COP that this is one of the biggest issues, is the divergence between what the investors require and even what the best companies are doing. Yes, they have a very important role in this.

But I think, you know, fundamentally there are some very big decisions organisations have to make. You know, we ourselves have basically said, we will not dealing with any organisation, which is damaging the planet or the environment, and is not permitted the same way as we are. We see clients who are now beginning to map their customer base, based on their exposure. So, for example: am I may expose to aircraft leasing, or am I exposed to the agricultural sector, particularly, you know, meat and things like that. If I am exposed, there is a risk, and should I be looking at other types of customers? So, it's not only the investor, it's also the, the market risk associated with this that organisations need to consider.

Nik Gowing
Finally, Ray. Give me a one minute profile of a company, large or small, that’s really reaped the benefits. Has done this, and really can be a great example to others to follow and be heartened by what can be achieved, what needs to be achieved and what will be achieved?

Ray Nulty
Yeah, like, you know, we all can talk about, you know, Patagonia is a great example. And they are a great example of an organisation which is, very much sustainability, sustainability orientated.

One of our clients, a very small Australian company, which was making beauty products. If they basically said, you know, we’re just totally sustainability orientated and committed to it, and, you know, some of the products that they were taking, which would be mind, for example, some of the derma rollers, you know, they have made sure they would have been taken from mines that were audited. You know, for example, for some of our silk products they were making sure that the silk worms weren’t killed as a result of this. Because very often, production of silk results in the death of the worms.

And they were saying that as beauty products that they were developing topical ones, you shouldn’t eat it, you shouldn’t put it on your skin unless it's good for you. And actually, you're capable of eating and digesting it as well. So we're taking a very extreme view to this, but it was backed up with a huge amount of research. And there are a lot of really wonderful companies out there who, I have to say, we're not investing enough in, and have very high commitments to achieving social and environmental wellbeing. They were doing a huge amount of R&D in this particular area, and they are doing wonderful things that we need. Their profile needs to be raised.
Nik Gowing
Ray. Thanks very much indeed. Let me just remind everyone watching what we've been talking about, CSRD, the Corporate Sustainability Reporting Directive, if they haven't got the message in the last 18 minutes.

Ray, thank you very much indeed. And I should underscore that there's a transcript available on your website, and our website saying, and highlighting exactly what you've been saying.

Do please join us again when we have a conversation about thinking the unthinkable, with me, Nik Gowing.

Until the next time, keep thinking unthinkables as Ray is and his organisation, Centigo. More than ever it's both possible and necessary, from both of us.

Bye, bye.