

Connecting the CSRD and the CSDDD

A practical approach to sustainable corporate behaviour

LRQA

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Introduction

The transition from soft to hard law in human rights and environmental due diligence (HREDD) is driving significant change for businesses across Europe and beyond.

The EU Corporate Sustainability Reporting Directive (CSRD) and the EU Corporate Sustainability Due Diligence Directive (CSDDD) are at the forefront of this transformation.

This report explores how companies can connect these two directives from a practical perspective and provides insights into how to leverage synergies while avoiding pitfalls.

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The importance of the CSRD and the CSDDD

The CSRD requires companies to publicly disclose their sustainability performance, focusing on material impacts, risks and opportunities along their entire value chain.

The CSDDD mandates companies to conduct human rights and environmental due diligence, identifying and addressing adverse impacts.

Obligations apply across your “chain of activities” and includes key human rights and environmental topics. In scope are your upstream supply chain, own operations and downstream transport and storage, where these are carried out for or on behalf of your company.

Both directives aim to foster sustainable corporate behaviour, but their approaches differ.




Who is impacted?

The implementation of the CSRD and CSDDD impacts a wide range of stakeholders, including:

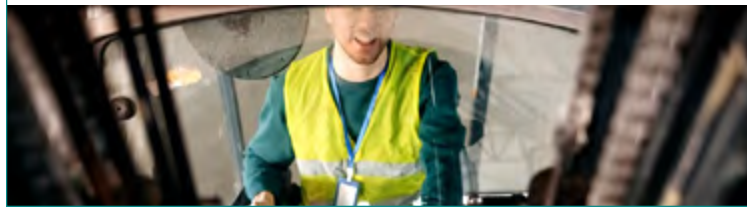
Companies

Businesses across various sectors must reassess and adapt their approaches to sustainability reporting and due diligence. This includes large corporations and SMEs that fall under the scope of these directives.




Employees

Workers within these companies are directly affected by the changes in corporate policies and practices. Enhanced due diligence processes aim to protect their rights and improve working conditions.




Regulators

Regulatory bodies are responsible for enforcing compliance with the directives, ensuring that companies adhere to the new requirements.




Communities

Local communities, particularly those in areas where companies operate, benefit from improved environmental and social practices. This can lead to better health, safety and environmental outcomes.




Suppliers

Companies' supply chains are scrutinised, requiring suppliers to comply with new standards and practices. This can lead to improved labour and environmental conditions across the supply chain.




Investors

Investors gain greater visibility into companies' sustainability performance, enabling more informed investment decisions. The CSRD aims to elevate the importance of sustainability information to the same level as financial information.




Consumers

Consumers are increasingly demanding transparency and sustainability from the companies they support. Enhanced reporting and due diligence can build consumer trust and loyalty.



Civil Society Organisations

NGOs and advocacy groups play a crucial role in monitoring and advocating for corporate accountability and transparency. The directives provide them with more robust data to support their efforts.



“The CSRD and CSDDD impact a wide range of stakeholders, from companies and employees to investors and local communities.”

Theresa Gigov | LRQA

Are there impacts for companies based outside the EU?

The CSRD and CSDDD have considerable implications for companies outside of the European Union.

For companies outside of the EU seeking to maintain access to European markets, it means adapting to stricter standards of reporting on topics not yet directly regulated by their local governments.

The CSDDD will also be very important to companies outside of the EU that supply to EU companies.

They will have to demonstrate that they take steps to avoid social and environmental impacts within their value chains.

Failure to meet such standards could lead to exclusion from European markets and therefore represents a strategic imperative for businesses which are in scope.

These regulations require non EU companies to strengthen their own sustainability and due diligence practices, not only to ensure that European regulations are met, but also to increase competitiveness and hold business relationships with EU-based companies.



Key challenges and opportunities

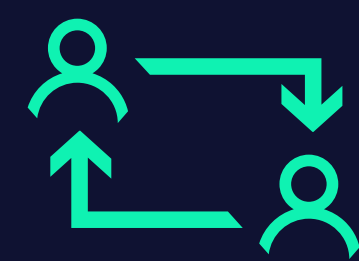
1. Timing

The CSRD is already in force, while the CSDDD will come into effect in 2027. Companies must start aligning their due diligence processes with CSRD requirements now to streamline implementation and reduce costs.



2. Departmental silos

Reporting and due diligence responsibilities often reside in different departments, leading to fragmented implementation. Companies should foster collaboration across departments to ensure consistent communication and efficient resource use.



3. Inconsistent communication

Different methodologies and approaches can result in inconsistent narratives. Aligning methodologies and data sources can help create a coherent story for both reporting and action.



Top considerations for connecting the CSRD and the CSDDD

1

Value chain definition

Ensure your due diligence covers the entire value chain, including downstream activities, to align with CSRD reporting requirements.

2

Impact assessment

Connect the human rights and environmental impact assessment under CSDDD with the double materiality assessment under the CSRD.

3

Methodology alignment

Use consistent scales, data sources, and definitions across double materiality and the CSDDD impact assessment to facilitate alignment.

4

Understanding differences

Be aware of potential differences in results and their regulatory and strategic consequences.

5

Stakeholder engagement

Engage meaningfully with stakeholders, leveraging existing touchpoints and ensuring alignment across departments.

Insights and recommendations

1

Value chain definition

The CSRD requires companies to report on their entire value chain, while the CSDDD mandates due diligence along the chain of activities, including upstream supply chain, own operations, and limited downstream activities.

To ensure consistent reporting, companies should:

- **Include downstream activities:** Extend due diligence to cover downstream activities such as transport, storage, and distribution.
- **Focus on greatest impacts:** Prioritise areas with the greatest potential and actual adverse impacts, rather than spending time delineating which activities fall under each directive.

“Align on your language and terminology: risks to the company vs. adverse impacts to people and the environment.”

Theresa Gigov | LRQA



2

Impact assessment

The adverse impact assessment is the key connection between the CSRD and the CSDDD. Connecting the human rights and environmental impact identification process with the double materiality assessment under the CSRD involves:

- **Developing a long list of topics:** Extend the list of potentially relevant sustainability-related impacts, risks, and opportunities by including potential adverse impacts based on the HREDD process.
- **Aligning methodologies:** Ensure the adverse impact assessment process and methodology are aligned with the double materiality assessment to facilitate integration.

“Focus where your potential and actual adverse impacts are greatest.”

Jasmin Widmer | LRQA



3

Methodology alignment

To align methodologies for both assessments:

- **Review topics and definitions:** Ensure common definitions for topics assessed under both directives.
- **Use consistent scales:** Apply the same scales for assessing severity and likelihood across both assessments.
- **Align data sources:** Use the same data sources and assumptions for both assessments to ensure consistency.

“Ensure alignment where you can so that the results can transfer more easily.”

Jasmin Widmer | LRQA



Insights and recommendations

4

Understanding differences

Potential differences in results between the CSRD and CSDDD assessments can arise due to varying topics, methodologies and data sources.

Companies should:

- **Identify and address differences:** Be clear on the consequences of different results, both regulatory and strategic.
- **Align strategies:** Ensure that the sustainability strategy reflects the results of both assessments to avoid missing important due diligence processes.

“Identify and address differences between CSRD and CSDDD assessments to align sustainability strategies and ensure comprehensive due diligence.”

Theresa Gigov | LRQA



5

Stakeholder engagement

Meaningful stakeholder engagement is crucial for both directives.

Companies should:

- **Map stakeholders:** Identify relevant stakeholders and existing touchpoints across the business.
- **Engage meaningfully:** Focus on listening to stakeholders, particularly those affected by the company's activities.
- **Streamline engagement:** Plan engagement activities to avoid overburdening stakeholders and ensure alignment across departments.

“Meaningful stakeholder engagement is essential. Companies should map stakeholders, engage by listening to those affected, and streamline activities to avoid overburdening and ensure departmental alignment.”

Laura Curtze | Ergon Associates an LRQA company



Bayer AG's approach

Bayer AG has integrated its human rights and environmental due diligence processes with its CSRD reporting.

By grounding their framework in the UN Guiding Principles on Business and Human Rights, Bayer has created a robust methodology that aims to align with both directives.

Key steps include:

- **Teaming up with Enterprise Risk Management:** Bayer collaborated with its Enterprise Risk Management team to combine the risk to people and the risk to business perspectives.
- **Continuous learning and improvement:** Bayer's reporting has evolved over time, reflecting continuous learning and feedback from stakeholders.

“I believe there is nothing like a one-size-fits-all setup for implementing CSRD and CSDDD across all companies.”



Janina Lukas | Head of Ethics & Social Impact | Bayer AG



Conclusion

The integration of the CSRD and the CSDDD presents both challenges and opportunities for businesses. By starting early, aligning methodologies and fostering meaningful collaboration, companies can create a coherent and efficient approach to sustainable corporate behaviour.

This proactive stance not only enables a company to strengthen its resilience by mitigating risks of reputational, operational, financial or legal nature, but can support businesses in delivering a competitive edge - meeting expectations from key stakeholders like investors, employees or consumers.





About LRQA:

The leading global assurance partner, bringing together decades of unrivalled expertise in assessment, advisory, inspection and cybersecurity services – underpinned by data-driven insights – to help its clients navigate a new era of risk.

Operating in more than 160 countries with a team of more than 6,000 people, LRQA’s award-winning compliance, supply chain, cybersecurity and ESG specialists help more than 61,000 clients across almost every sector to anticipate, mitigate and manage risk wherever they operate.

In everything we do, we are committed to shaping a better future for our people, our clients, our communities and our planet.

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