

Creating a sustainability business strategy

by Laurence D'Arcy

The new EU Corporate Sustainability Reporting Directive (CSRD) will require businesses to record and report on carbon data. The CSRD, which is still in proposal format, is set to replace the current Non-Financial Reporting Directive (NFRD) and is expected to be in place for the next fiscal year beginning 1st January 2023. From 2023 onwards an increasing number of businesses will be required to report more comprehensive and detailed information on their sustainability measures than heretofore.

The new Directive is viewed by many as being both stricter in guidance and broader in scope and will extend to many more companies than had previously been included in the NFRD requirements.¹

From 1st January 2023 the CSRD is expected to cover all business activities in Europe including subsidiaries of non-EU based companies - in essence, companies with more than 250 employees or balance sheet total of 20 million plus or Net Revenue in excess of Euro 40 million. SMEs have been given a transition period to allow for a managed phasing in of the measures and proposals. It is expected that SME reporting will commence three years after the effective date - i.e. January 2026.

However, in reality many business stakeholders (shareholders, employees, suppliers and customers) are already looking to SMEs to carefully control and monitor their carbon output, as well as to show leadership in developing clear carbon footprint policies. There is upward pressure from company stakeholders as well as downward pressure from National Government and EU Bodies. It is an important time for all SMEs to begin the planning process as there is still sufficient time to make any adjustments prior to the carbon reporting deadlines.

We believe that the first crucial starting point for businesses is to

actually 'COUNT' the carbon footprint of their business. In our view, idealistic statements are not a substitute for an actual 'on the ground' carbon footprint measurement exercise. It is then, from this starting point, that all practical sustainability measures will flow. It is only possible to understand a reduction programme or put critical initiatives in place once a measurement has been undertaken and the key areas have been identified. The measurement becomes a road map to where improvements can be made.

Carbon footprint measurement does not have to be a difficult process and there are many organisations (and online tools) available to assist. It becomes a relatively straightforward task to undertake once you know where and how to locate the key data points. This can be done 'in house' within your own company once the first audit has been carried out independently, staff trained up and the key data points identified. The audit should be an annual exercise for all companies with (ideally) the ability to monitor and track carbon emissions on a monthly basis. (In fact, not too different in structure to current financial accounting).

Many carbon footprint measurement tools base their calculations on the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (CHG)² which seek to categorize emissions** into Scope 1, Scope 2 and Scope

3. Scope 1 emissions includes all direct emissions generated by the company. Scope 2 includes emissions released through purchased energy such as electricity and heating, and finally Scope 3, encompasses indirect emissions such as employee commuting and purchased services etc.

The practicalities of collecting the key data points for carbon footprint measurement are all very closely aligned with the accountancy profession. The finance department of most organisations will generally have the key data points in its possession - all data gathering for measurement is retrospective and draws on invoices, purchases, mileage reports, travel expenses etc. All data can be gathered and verified as accurate by the financial department and generally one does not need to look much further.

The annual measurement usually refers to the past 12 months of company carbon emissions. This report is used to inform the board and management of the short-term or medium-term steps that could be taken to reduce this footprint in the future. Key strategic decision making, in a very practical sense, will build in the expected carbon footprint impact of decisions. As the adage goes - if it is counted, it will be considered. For SMEs the carbon footprint measurement will not only have an impact on the CSRD reporting requirements but also on

1 Climate Partners estimate this to be more than 4 times stating that the number of business in Europe that will be required to report will go up from 11,600 entities to almost 50,000 (CP - Jan 2022)

2 The Carbon Footprint measurement factors in all greenhouse gases covered by the Kyoto Protocol; Carbon dioxide (CO₂), Methane, Nitrous Oxide, Hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride.

the proposed company carbon tax that might be introduced by future governments.

The most time-consuming component of the Carbon footprint measurement audit relates to Scope 3 of the GHG Protocol. The data points are detailed and include such wide-ranging inputs as packaging materials, Print Products, Office paper, External Data Centre usage, electronic device purchase, inbound logistics, Business travel, Employee Commuting, as well as downstream transportation & distribution factors and should also include end of life treatment of sold products. It is in Scope 3 emissions that the majority of work will take place. It is often assumed that Scope 1 and Scope 2 are key drivers of carbon footprint, however, in our experience Scope 3 can generally be the largest contributor to the Carbon footprint. It is also the area where immediate reductions can be successfully implemented.

A carbon footprint measurement should not take long if all of the key data points are available. Depending on the company size it might take somewhere between 5 to 10 days to set up the structure and capture the data. Once a template has been created for capturing the key data points it becomes much easier a second and third time.

Whilst the measurement itself is only one part of the overall company sustainability plan - we argue it is the single most practical step that should be undertaken in the short term.

The carbon footprint measurement will allow companies to realistically set practical sustainability goals for the future. This might take the form of reduction programmes at levels of 10 or 15% annually, it could inform a carbon neutral discussion around combining reduction with short-term offset programmes, or it could inform meaningful discussions around a net-zero carbon policy and when that might be realistically achievable. It is important to note that any company who has undertaken a carbon footprint measurement in the past 24 months will most likely have recorded levels that may well be lower than would have been in the absence of Covid restrictions. It is very important therefore for organisations to be realistic about carbon goals based on this measurement. (It may well be a goal of organisations to hold this carbon footprint while adjusting to normality for the next 12 months and then look for reductions in the longer term).

In summary, one of the biggest challenges to future generations is climate action. There is growing pressure from all stakeholders

within businesses of all sizes to monitor and measure carbon emissions. The EU is at an advanced stage in their implementation of the CSRD proposal, which will mandate increased reporting and accountability standards within the area of sustainability. Well intentioned words in an annual report will not be enough. In our view, the most practical step a company can take is to carry out an initial carbon footprint measurement in 2022. This is a crucial starting point. The data gathering exercise and completed report will then be the driver for the setting of practical sustainability goals and measures. Goals and measures that will ultimately include the involvement of all stakeholders in a business from employees, shareholders, suppliers to customers.

The carbon footprint measurement might be best undertaken, in the first instance, as an independent audit. The finance department in most organisations is closest to the data points and it is just a matter of understanding what needs to be collected. Once a template has been established it is possible to set effective and meaningful reduction targets based on reduction programmes as well as carbon neutrality or net-zero ambitions.



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