



**EU TAXONOMY: THE ROLE OF FINNISH BUSINESS ACTORS IN CORPORATE
RESPONSIBILITY COMPLIANCE**

Lappeenranta–Lahti University of Technology LUT

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ABSTRACT

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EU Taxonomy: The role of Finnish business actors in corporate responsibility compliance

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Abstract

The EU Taxonomy and its application to reporting obligations is currently on the tables of companies and stakeholders in various industries in Finland, especially in large companies and increasingly also in listed SMEs, both of which are subject to the Corporate Sustainability Reporting Directive (CSRD) and its progressive reporting obligations.

This thesis examines the role of Finnish business actors in helping companies to comply with the EU Taxonomy in Finland as part of sustainability reporting now and in the future. The research is carried out as qualitative research using thematic interviews, literature, and official EU information to introduce the EU Taxonomy as an operating environment and to examine the history of the corporate sustainability field and its journey towards an increasingly regulated field. By examining the results, the research highlights useful information for Finnish business actors, helpful information for companies when working with external experts, and findings that the author of this research suggests for further research.

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Tiivistelmä

EU-taksonomia ja sen soveltaminen raportointivelvoitteisiin on tällä hetkellä eri toimialojen yritysten ja sidosryhmien pöydillä Suomessa, erityisesti suurissa yrityksissä ja enenemässä määrin myös listatuissa pk-yrityksissä, joihin molempiin sovelletaan yritysten kestävän kehityksen raportointidirektiiviä (Corporate Sustainability Reporting Directive (CSRD)) ja sen asteittaisia raportointivelvoitteita.

Tässä diplomityössä tarkastellaan suomalaisten yritystoimijoiden roolia yritysten auttamisessa noudattamaan EU-taksonomiaa Suomessa osana kestävän kehityksen raportointia nyt ja tulevaisuudessa. Tutkimus toteutetaan kvalitatiivisena tutkimuksena, jossa teemahaastatteluiden, kirjallisuuden sekä EU:n virallisen tiedon avulla esitellään EU-taksonomia toimintaympäristönä sekä tarkastellaan yritysvastuukentän historiaa ja sen matkaa kohti yhä säännellympää kenttää. Tuloksia tarkastelemalla tutkimus nostaa esiin hyödyllistä tietoa suomalaisille yritystoimijoille, käyttökelpoista tietoa yrityksille niiden tehdessä yhteistyötä ulkopuolisten asiantuntijoiden kanssa, sekä havaintoja, joita tämän tutkimuksen tekijä ehdottaa jatkotutkimuksien aiheiksi.

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LUT University will always remain close to my heart, and I would like to encourage all those who are thinking about studying alongside a full-time job, doing schoolwork in the evenings and on weekends. Nothing is impossible when it comes to studying, but everyone has to find the time and schedule that suits them best. My advice is that studying is always worth it, so give it a go. Curiosity will be rewarded!

23 May 2023, Helsinki

Taina Tervonen

Abbreviations

3P	People, Planet, Profit
CAPEX	Capital expenditure
CR	Corporate Responsibility
CS	Corporate Sustainability
CSDDD	Corporate Sustainability Due Diligence Directive
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DD	Due Diligence
DNSH	Do No Significant Harm
EDC	European Documentation Centres
EFRAG	European Financial Reporting Advisory Group
EGD	European Green Deal
ESG	Environmental, Social, Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
FY	Financial Year
GRI	Global Reporting Initiative
HLEG	High Level Expert Group on Sustainable Finance
ILO	International Labour Organisation
IPSF	International Platform on Sustainable Finance
JRC	Joint Research Centre
KPIs	Key Performance Indicators
NDC	Nationally Determined Contribution

NFRD	Non-Financial Reporting Directive
NGOs	Non-Governmental Organisations
OECD	Organisation for Economic Co-operation and Development
OPEX	Operating Expenses
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium sized Enterprises
TBL	Triple Bottom Line
TCFD	Task Force on Climate-related Financial Disclosures
TEG	Technical Expert Group on Sustainable Finance
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WCS	World Conservation Strategy

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Appendix 1. Themes and questions for the interview.

1 Introduction

This research focuses on presenting the evolution of the EU Taxonomy [hereafter Taxonomy] between 2017 and 2023 and the related regulation. The research also includes other key European Union (EU) directives and regulations related to sustainable finance that, together with the Taxonomy, play an important role in creating more transparent and measurable sustainability reporting in the EU.

EU has a number of general measures in place to help the EU meet the targets set out in the European Green Deal (EGD). One of the most important measures in the field of sustainable finance and sustainable development is the Taxonomy, which helps both companies and investors to make environmentally sustainable investment decisions. The Taxonomy has many objectives, in particular to help businesses plan for the transition, to provide certainty and risk management for investors, to reduce market fragmentation and to increase sustainable investments that can help achieve the objectives of the EGD. (European Commission, n.d., H)

From 1 January 2023, around 4,000 large companies will start reporting on their environmental performance based on the Taxonomy (European Commission, 2022f). Data for this group of companies, if publicly available, will only be available after the end of the first reporting period. Therefore, the focus of this research is on the range of business support services that Finnish business actors can provide to companies in different sectors when reporting on Corporate Sustainability (CS) issues according to the Taxonomy Regulation [hereafter Taxonomy Regulation] and not to the companies themselves.

The Do No Significant Harm (DNSH) -principle is an important part of the Taxonomy Regulation and plays an important role in the green transition. According to the DNSH -principle, one environmental objective cannot be harmed at the same time as another environmental objective is being promoted. Finnish national legislation makes use of this principle, and Finland was the first in Europe to launch the DNSH in Finland -project, funded by the European Commission [hereafter Commission]. The project aims to support the acceleration of the green transition by carrying out investment and regulatory analyses, providing guidance and training in cases and sectors where the DNSH -principle has already been introduced or where it could be useful. (Ministry of the Environment, 2023)

The DNSH -project in Finland is a good example of this research as it illustrates the scope, the research questions, and the role of the Ministry of the Environment as an actor in helping companies to understand and define Taxonomy-alignment. However, it should be noted that the Ministry of the Environment is not part of the thematic interviews but is included here as an illustrative example.

The most challenging aspect of structuring and writing the research section of the Taxonomy is that although information is available from official EU websites and other reliable sources, the data is very fragmented, and the overall picture and its various components are constructed from different pieces by using many references.

This research is concerned with legal regulation, and both regulation and research in this area are characterised by a precise use of legally based concepts. In order to avoid misunderstandings, this research attempts to be as precise as possible in its choice of words in relation to the Taxonomy and in its presentation of related issues.

The research is being carried out as part of the Master's Degree in Circular Economy at the Lappeenranta-Lahti University of Technology without a sponsor.

1.1 Objective of the research and research questions

The objective of this research is to get a clear picture of the Taxonomy and how Finnish business actors in Finland use their services to promote Taxonomy-alignment in companies in different industries as part of sustainable development and sustainability reporting.

The aim of this research is to answer the following research questions:

- 1) What is the role of Finnish business actors in helping companies to comply with the Taxonomy in Finland as part of sustainability reporting?
- 2) How are Finnish business actors already preparing for the fact that sustainability reporting obligations, including reporting based on the Taxonomy, will increase year by year and apply to a larger number of companies?

1.2 Structure of the research

The second part of this research describes the history, concept and dimensions of CS and the EU Regulation [hereafter EU Regulation] on sustainability reporting.

The third chapter analyses Taxonomy as a phenomenon, the factors that have contributed to its emergence, its status in the operating environment, and its direction of development.

The methodology in the fourth chapter presents the analysis of the operating environment (Taxonomy), the thematic interviews, the data analysis and limitations, and the validity and reliability of the research.

The results of the thematic interviews are discussed in chapter five in relation to CS and sustainability reporting, the EU Regulation on sustainability reporting, and the Taxonomy itself, which is the central phenomenon of this research.

The discussion and conclusions in chapters six and seven provide an overview of the role of Finnish business actors in helping their clients, partners, member companies or represented entities to determine and report on the Taxonomy-alignment of their business. The topics for further research are discussed in Chapter six (6).

2 Corporate sustainability and sustainability reporting

Companies are no longer valued solely on their performance, but sustainability has become an important factor in business, customer satisfaction and attractiveness as a place to work. As mandatory sustainability reporting requirements increase, companies need to integrate sustainability work throughout their organisation, including their supply chains. Sustainability has become a measure of a company's reputation, part of its core business strategy, a competitive factor and an important indicator for investments, growth, and internationalisation.

2.1 History of sustainability to date

A comprehensive definition of sustainability was established by the United Nations (UN) in 1987 (the Brundtland Report), which states on page 41 that any decision "*that meets the needs of the present without compromising the ability of future generations to meet their own needs*" is acting and deciding in a sustainable way (Nasreen, et al. 2023).

This was followed in 1992 by the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro (Earth Summit), which brought together world leaders for the first time to discuss environmental issues and promote cooperation in the creation and implementation of international environmental agreements. (Ding & Runeson, 2020, 7)

The Global Reporting Initiative (GRI) was founded in 1997 in Boston, USA. GRI's vision is a sustainable future based on transparency and direct debate about impact assessment. GRI promotes a future in which impact reporting is standard practice for all organisations around the world. As the producer of the world's most widely used sustainability reporting standards, GRI is a global catalyst for change. (Global Reporting Initiative, 2023)

KPMG, a global professional services firm providing audit, assurance and tax and legal services (KPMG International, 2023) has published its biennial survey of sustainability reporting since 1993 (KPMG International, 2022b, 3). Over the past 20 years, sustainability reporting has been largely voluntary, and KPMG's 2022 report explores how corporate

disclosure can be developed at different levels of management and among sustainability professionals. Beyond 2022, companies will be close to the point where sustainability reporting will be made mandatory by regulation. This development will significantly change the corporate reporting landscape. (KPMG International, 2022b, 3)

According to a KPMG study (2022b), sustainability reporting has become much more widespread and integrated into general financial reporting over the past 30 years. The shift towards more transparent reporting has increased CS for reducing carbon emissions, reversing biodiversity loss, and addressing social inequalities. (KPMG International, 2022b, 6)

Over the past two years, regulators and non-profit standard bodies around the world have made significant progress in non-financial disclosure, as shown in Figure 1 (KPMG International, 2022b, 6).



Figure 1. Actions taken by regulators and non-profit standard-setting bodies in the area of non-financial disclosure in 2021-2022 (KPMG International, 2022b, 6).

Lack of expertise, data collection and availability, and identifying the appropriate reporting standards for the company's most relevant reporting needs are challenges that companies face in their reporting. In the sustainability reporting environment, it is important to understand the global objectives, frameworks and regulations that will become more stringent in the coming years. Sustainability reporting is rapidly becoming mandatory, and

companies need to be able to cope with the regulatory obligations and other changes in reporting in the future. (Rabobank, 2022)

Reporting frameworks are based on global goals, and the combination of different frameworks has created frameworks by running the 'red thread' from the bottom of the pyramid upwards (Figure 2). An example of this development is the bottom-up movement in the pyramid; first the use of the Sustainable Development Goals (SDGs) in the development of the Taskforce of Climate-related Financial Disclosures (TCFD), which is then used as the regulatory basis for the Corporate Sustainability Reporting Directive (CSRD) at the top of the pyramid. (Rabobank, 2022)

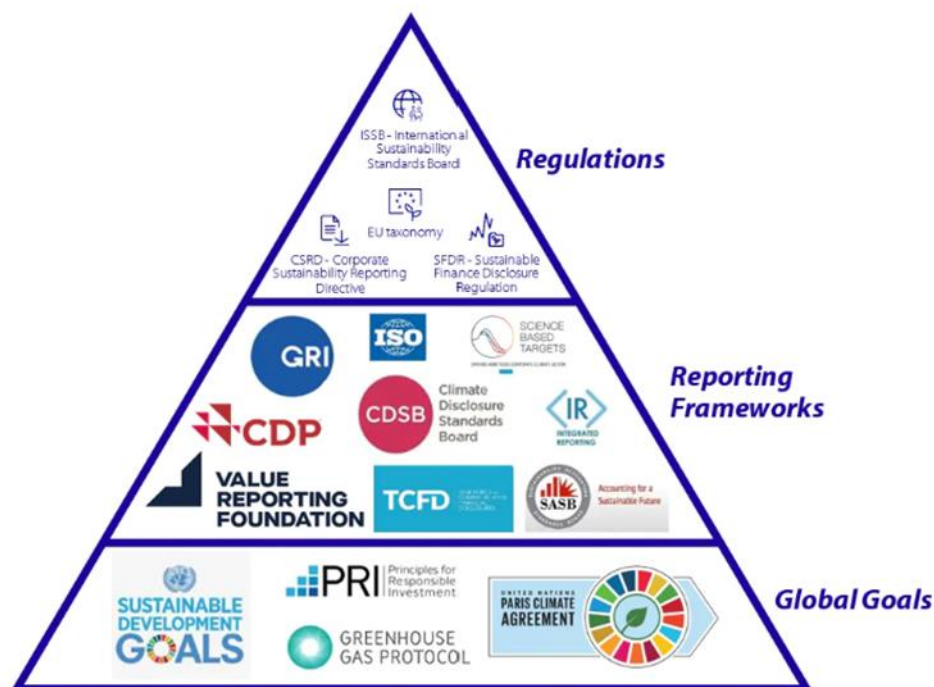


Figure 2. Goals, reporting and regulations pyramid (Rabobank, 2022).

2.2 A relationship between CS, CR, CSR, TBL and 3P

CS is understood as a business activity that anticipates and promotes the pursuit of a balanced sustainable development, considering the economic, environmental, and social factors of today, both in the short and long term. For a company, this view is influenced by its own activities, such as strategy, management, marketing, and communication issues, as well as activities related to the company's operations or production. (Lozano, 2011, 50)

Companies implement CS practices because of a sense of obligation, because it is imposed on them, or because it is their wish to do so (Marrewijk, 2003, 99).

CS is an end goal that encompasses Corporate Responsibility (CR) and its dimensions of CR (Figure 3) (Marrewijk, 2003, 103).



Figure 3. General model of CS/CR and its dimensions (Marrewijk, 2003, 101, quoted in Linnanen & Panapanaan, 2002).

The universal values and norms of social actors, such as governments and business representatives, are important factors in the transformation of value systems into corresponding institutional systems. As companies assume their role in society, they create new values, strategies, business practices and develop new institutional functions. In doing so, they redefine their role and their relationship with other actors (Figure 4). (Marrewijk, 2003, 100-101)

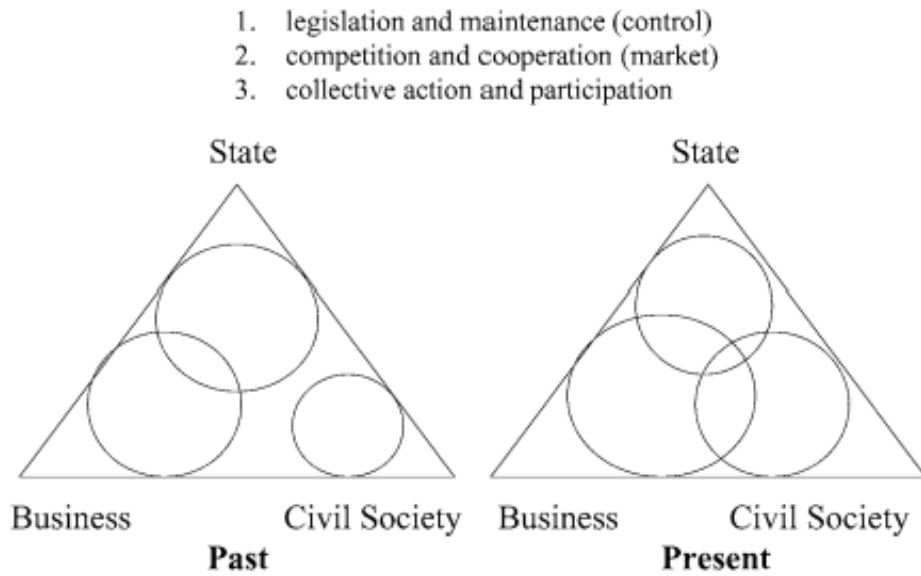


Figure 4. State, business, and civil society (Marrewijk, 2003, 100).

Corporate Social Responsibility (CSR) serves as a proxy tool to examine the performance and success of companies to achieve a balance within the Triple Bottom Line (TBL) sustainability framework (Figure 5) (Marrewijk, 2003, 101).

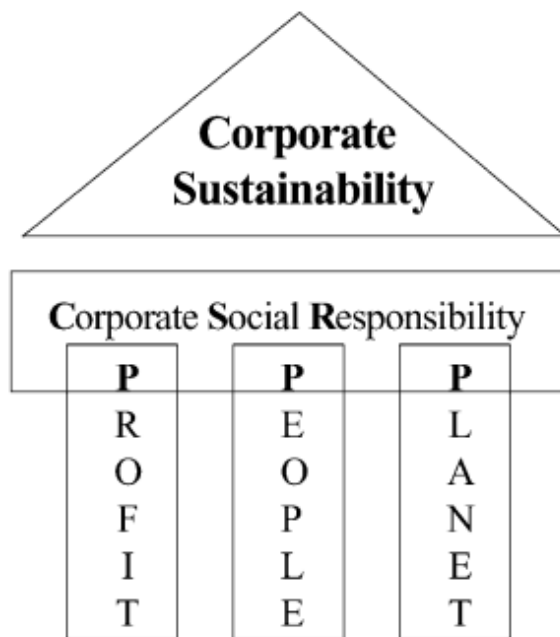


Figure 5. Relationship 3P, CS and CSR (Marrewijk, 2003, 101, quoted in Wempe & Kaptein, 2002).

Environmental, economic, and social performance are the three components of TBL. These three areas are directly linked to the concept and objectives of sustainable development and are equally important for the decision-making process. (Ding & Runeson, 2020, 152, quoted in Cooper, 2002; Mahoney & Potter, 2004; Pope et al. 2004) The main role of TBL is to guide organisations in implementing, reporting, and publishing on sustainable development. The 3P (People, Planet, Profit) -reporting framework is one of the consequences of TBL. TBL has been accepted as a reference model by the GRI, and this recognition supports the widespread acceptance of TBL in the field of sustainable reporting. The GRI is currently considered the most rigorous guideline for sustainable reporting and 'de facto' -framework. (Nasreen, et al. 2023, quoted in Boiral, 2013; Bananuka et al. 2022; and Petcharat & Zaman, 2019)

CSR can be defined as the conscious and deliberate actions of a company to improve the social well-being of those affected by its economic activities. CSR can take place in many different societies, in a variety of business and economic contexts around the world, by small, large and complex companies. This definition captures the central and overarching importance of CSR for both business and society, highlighting and linking the economic activities of business, the social systems of humanity and the various institutions. CSR operates as an organic relationship between business and society, seeking the well-being of the community, taking into account the demands and objectives of business's own economic activities and those of society. (Weber & Wasieleski, 2018, 4)

Globalisation is driving companies towards more sustainable CSR. The signals from global markets are important for Finnish companies because they affect their ability to maintain their market position. The media and various NGOs are sensitive to the issue of corporate social responsibility of global companies in relation to issues such as child labour, human rights, forced labour and bribery. (Panapanaan et al. 2003, 138)

An effective CSR policy and well-managed strategic business operations that take CSR and ethical behaviour into account help companies to act responsibly on a global scale. Stakeholders such as regulators, industry associations and employees promote CSR in companies (Figure 6). (Panapanaan et al. 2003, 138-139)

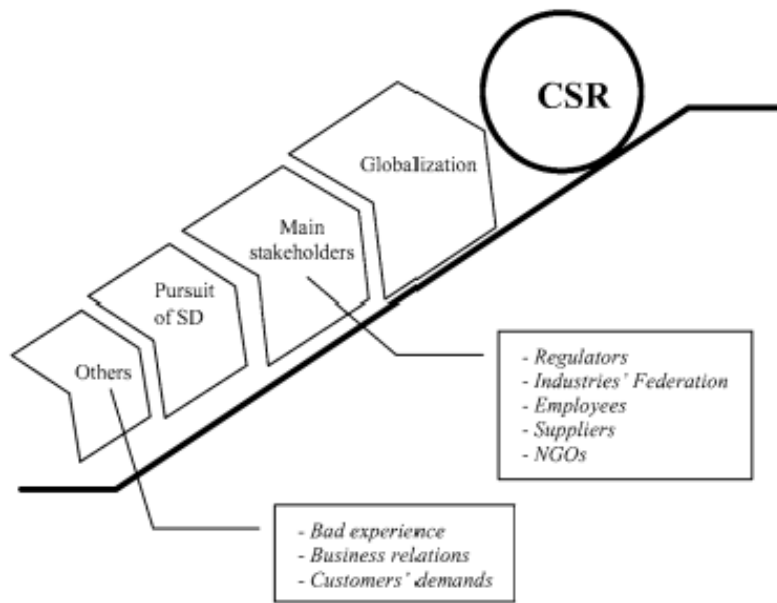


Figure 6. Main factors driving CSR in Finnish companies (Panapanaan et al. 2003, 13).

2.3 EU Regulation on CS reporting

Sustainability reporting in the EU is changing and becoming more demanding as new regulations come into force. The new rules already apply to a large number of companies and will apply to more and more companies in the coming years as the reporting obligation shifts from large to smaller companies.

2.3.1 Corporate Sustainability Reporting Directive

A political agreement between the European Parliament [hereafter Parliament] and the European Council [hereafter Council] on a new directive, CSRD, for sustainable corporate reporting was reached in June 2022. The CSRD is an important part of the EU's sustainable finance agenda and the EGD, and it will clarify and tighten sustainability reporting on corporate social and environmental information. (European Commission, 2022c)

The CSRD came into force in January 2023, requiring both large companies and listed Small and Medium sized Enterprises (SMEs) to report. The number of companies covered by the

new directive is larger than before. Around 50,000 companies in Europe will be affected. (European Commission, n.d., E)

The new regulation will help both investors and other stakeholders to assess the investment risks of companies in relation to climate change and sustainability issues on the basis of the information reported. (European Commission, n.d., E)

The CSRD also aims to increase the transparency of companies' reporting on their environmental impacts. In addition to transparency, the regulation will help reduce reporting costs by making reporting more cost-effective in the medium and long term through data harmonization. (European Commission, n.d., E)

The CSRD replaces the Non-Financial Reporting Directive (NFRD). The first companies subject to the new CSRD will have to apply the new legislation for the first time in the financial year 2024, with sustainability reporting to be published in 2025. (European Commission, n.d., E)

The CSRD reporting will be based on the European Sustainability Reporting Standards (ESRS). The draft standards are being developed by the European Financial Reporting Advisory Group (EFRAG). The standards are based on international standard-setting initiatives but will be aligned with EU policies. The first standards are expected to be endorsed by the Commission in mid-2023 for the draft standards issued by EFRAG in November 2022. (European Commission, n.d., E)

According to the Commission, the ESRS will clarify sustainable reporting and, through reporting, highlight the following benefits (Figure 7) for sustainable reporting work in the companies (European Commission, 2022d).

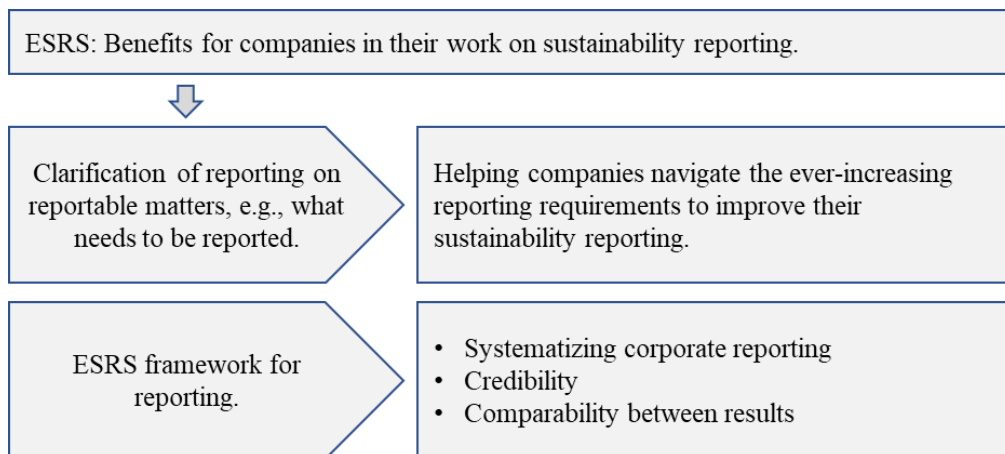


Figure 7. Benefits of ESRS to companies in sustainability reporting (Adapted from the text of European Commission, 2022d).

The ESRS standards would be applied as follows, with possible exceptions:

- 1) large companies in the EU region where companies meet two of the following criteria: 250 employees, €40 million net turnover or €20 million total assets;
- 2) EU listed companies (excluding micro-undertakings); and
- 3) parent companies from outside the EU if the total turnover of the group in the EU exceeds €150 million (separate standards for SMEs and parent companies from outside the EU are currently being developed by the Commission and are expected to be adapted by June 2024). (KPMG International, 2022a, 5)

The first set of standards is expected to be ready by June 2023. Thereafter, the future set of new standards, including standards for SMEs and parent companies outside the EU, are expected to be ready by June 2024. (KPMG International, 2022a, 5)

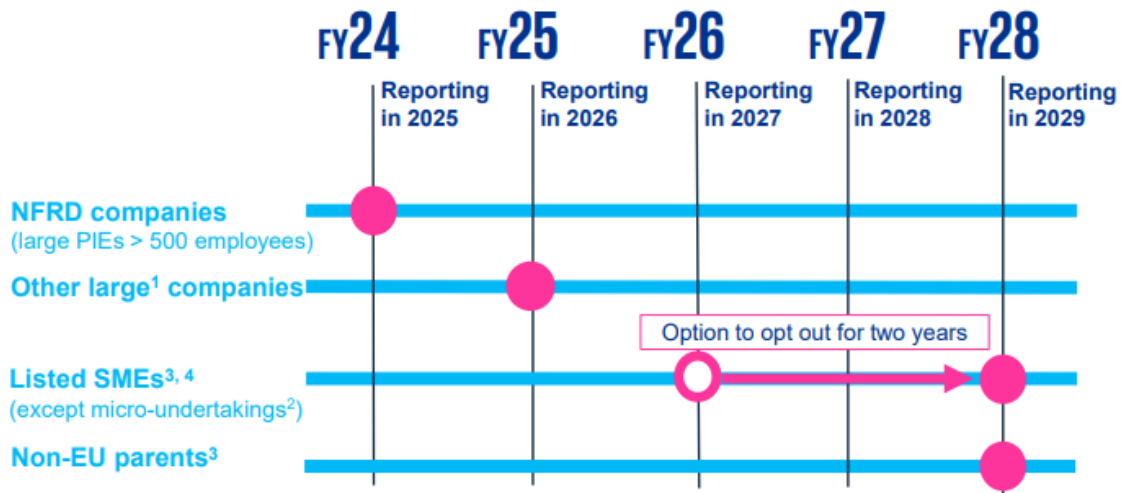


Figure 8. Timetable for starting to report in each Financial Year (FY) in accordance with ESRS standards (KPMG International, 2022a, 5).

The CSRD includes the concept of double materiality. The concept consists of the following elements that need to be disclosed in the CSRD report:

- 1) financial materiality: the potential financial risks to the company in relation to sustainable development; and
- 2) impact materiality: the company's impact on people and the environment. (European Commission, 2022d)

The concept of double materiality in CSRD reporting benefits both the company itself and its stakeholders. In a broader context, double materiality creates a significant value as part of the sustainable development process and reduces the risk of green washing (Figure 9). (European Commission, 2022d)

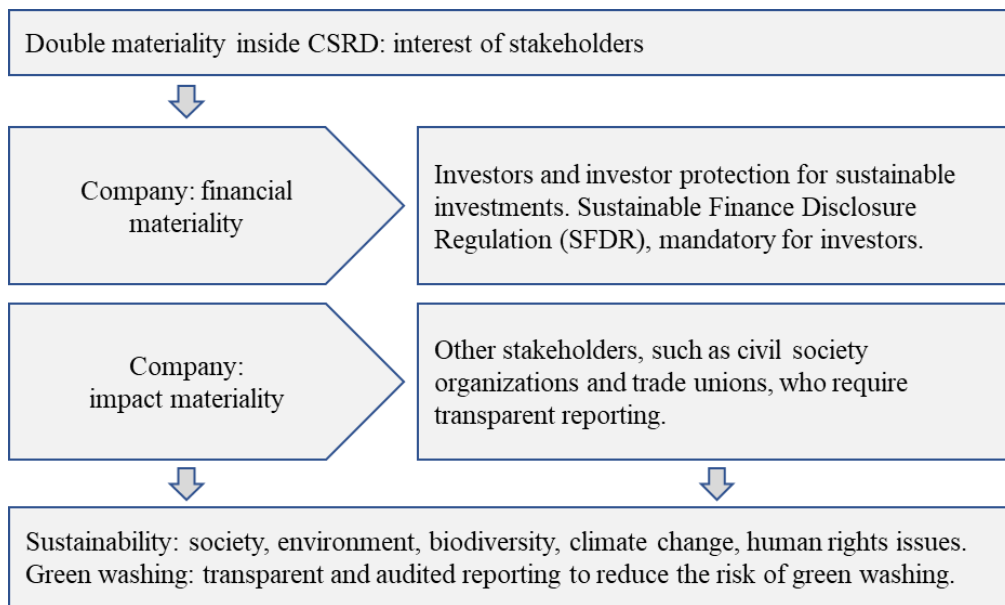


Figure 9. Benefits of double materiality inside CSRD (Adapted from the text of European Commission, 2022d).

2.3.2 Corporate Sustainability Due Diligence Directive

The Corporate Sustainability Due Diligence Directive (CSDDD) is consistent with the NFRD, CSRD, SFDR and the Taxonomy (European Commission, 2022e).

The NFRD has covered around 12,000 companies in the EU and its reporting requirements have contributed to the management of environmental, social, and human rights risks, but have not reached the entire value chain of the company. This has not been sufficient to achieve the level of sustainable corporate governance that the EU is aiming for. (European Commission, 2022e)

The CSRD complements the NFRD and emphasizes the importance of Due Diligence (DD) throughout the value chain. This means a company's obligation to identify, prevent, mitigate, and address externalities arising from human rights abuses and negative environmental impacts, both within its own operations and those of its subsidiaries, and throughout its value chain. (European Commission, 2022e)

Under the SFDR, financial market participants subject to the regulation must, among other things, report on their own DD policies. The report is based on the "comply or explain"

principle and must list the factors in investment decisions that have a negative impact on sustainability. In the same context, companies with more than 500 employees are obliged to carry out a DD report. All technical standards and indicators for the DD process related to regulation and sustainability measurement have been adapted by the Commission. (European Commission, 2022e)

The CSDDD's requirement to focus reporting on the company's entire value chain will provide investors with more detailed information on the company's sustainable economic performance. In this way, the CSDDD complements the Taxonomy Regulation and will help investors to better allocate capital to companies that operate both responsibly and sustainably. (European Commission, 2022e)

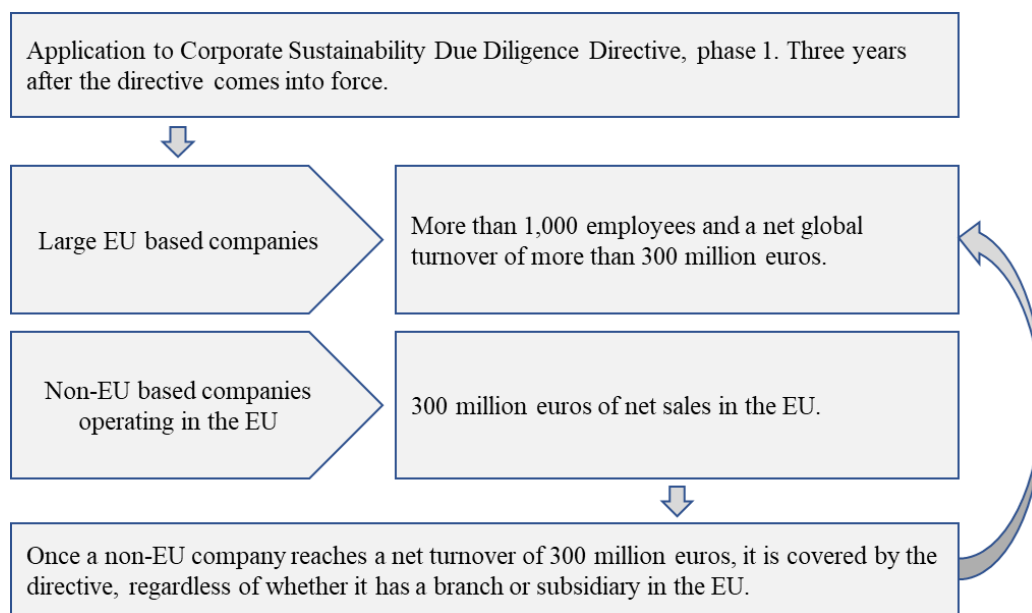


Figure 10. Application of the Corporate Sustainability Due Diligence Directive, phase 1 (Adapted from the text of the European Council, 2022a).

The general approach of the December 2022 meeting was part of the negotiating position adopted by the Council. The next step is for the Council presidency to bring the directive to the negotiating table with Parliament. (European Council, 2022a)

2.3.3 Sustainable Finance Disclosure Regulation

The SFDR applies from March 2021 and is a regulation applicable at EU level that imposes reporting obligations on both manufacturers of financial products and financial advisors. These include asset managers, insurance companies, pension funds and institutional investment managers. Reporting concerns the management of sustainability risks in relation to the various processes relating to investments and financial products for sustainable investment. Reporting should also consider the adverse impacts on the society or on different financial products. This aims to reduce both direct and indirect negative impacts on the environment and society when either investment decisions are made, or financial advice is given. In doing so, the investment strategy takes central stage as part of sustainable development and seeks to prevent unsustainable investments, such as those that would destroy biodiversity. (European Commission. n.d., D)

Regulatory technical standards for SFDR were adapted in April 2022 by the Commission and the new requirements under this Delegated Regulation apply from January 2023. The key objective of the new requirements is to prevent greenwashing and to support the EU financial system in its transition towards a more sustainable economy, as well as to strengthen the protection investors need against adverse investments. (European Commission. n.d., D)

2.3.4 Taxonomy

The Taxonomy is a science-based and a stable tool for businesses and investors that provides a common approach to making a positive contribution to climate and environmental well-being. From an investor's perspective, a common language helps to focus investment on economic activities or projects that contribute to sustainability. In addition to being a common language, the Taxonomy also imposes communication obligations on both companies and financial actors. (European Commission, 2021a)

According to statement of the EU Technical Expert Group on Sustainable Finance (TEG) (European Union, 2020, 3), the Taxonomy has several benefits to green recovery in EU (Figure 11).

1. The Taxonomy helps target sustainable investment funding.
2. The Taxonomy is tailored to identify those investments that will make the best contribution to the environmental and climate change objectives of the EU.
3. The Taxonomy is science-based. It is stable. It avoids the risk of unintended consequences.
4. The Taxonomy is a direct response to the environmental challenges facing the EU.
5. The Taxonomy can be used as a driving force for the financing of the transition.
6. As a tool, the Taxonomy can help prevent harm to society.
7. The Taxonomy can facilitate better cooperation between the EU, the member states, businesses, local authorities, public financial institutions and investors.

Figure 11. Benefits of Taxonomy to green recovery in the EU (Adapted from the text of European Union, 2020, 3).

Taxonomy is not a list that investors are obliged to invest in. Companies or financial products are not subject to binding environmental obligations. Investors are free to choose where they want to invest. However, to achieve the EU's climate and environmental goals, the Taxonomy is expected to provide an incentive to move towards sustainability over time. (European Commission. n.d., I)

2.3.5 Taxonomy as a tool for CS strategy

Organisations may have different views on what is sustainable. As a classification system, the Taxonomy provides black and white answers as well as complex ones. The usefulness of the Taxonomy can therefore be seen as an accurate and robust basis for creating a corporate strategy for sustainability. (Pettingale et al. 2022)

Those organisations that are already bound by the Taxonomy will be able to set clear guidelines for the economic activities that need to be achieved in order to meet the EU's climate neutrality target by 2050. On the other hand, organisations that are not yet bound by the Taxonomy Regulation can use the definitions of environmental targets and technical

criteria provided by the Taxonomy to strategically define their own sustainable activities. (Pettingale et al. 2022)

An important issue in business strategy work on the Taxonomy is the collection of information. A company should be able to develop its business, collect data according to the Taxonomy and at the same time be in line with the sustainability goals set by the EU. However, data should not only be collected for reporting purposes, but also be used as part of business development. A strong knowledge base of the company's financial performance and responsibilities includes not only the sustainability strategy KPIs, but also a view of the current (environmental) and future (social) Taxonomies. (Pettingale et al. 2022) The author of this research has considered ESG aspect as part of the development path of the Taxonomy between 2017 and 2023 (Figure 25), although this research does not take a more specific position on the ESG framework in relation to CS, CR, sustainability reporting and the Taxonomy.

According to research by Pettingale et al. (2022), the Taxonomy serves as a tool to facilitate a smoother transition to more environmentally sustainable activities and investments, based on the creation of a sustainable strategy (Figure 12).

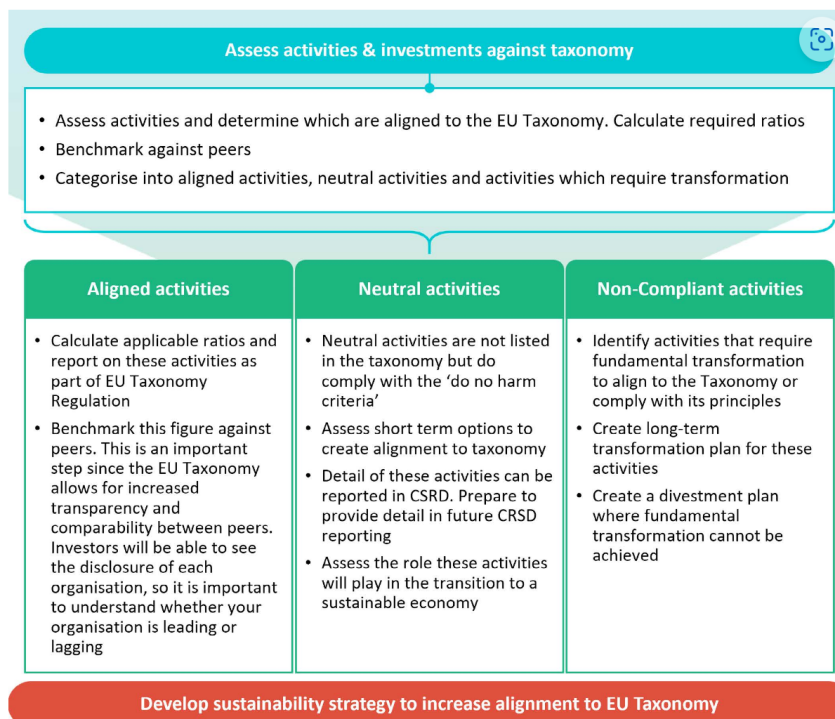


Figure 12. Evaluation of activities and investments against the Taxonomy (Pettingale et al. 2022).

3 Taxonomy: A tool for EU green recovery

This section of the research discusses the Taxonomy as a phenomenon whose development and implementation has a major impact on the classification of sustainable finance and the creation of the necessary criteria to identify the financial and investment objectives to be classified as sustainable.

3.1 Sustainable growth in the EU and the Action Plan on Sustainable Finance

Financial decision-making in sustainable finance is based on integrating sustainability considerations as part of the decision-making process. Increasingly, this is aimed at projects that are carbon neutral, energy, and resource efficient and based on the circular economy. By incorporating sustainability considerations, it reduces negative environmental impacts while taking into account social impacts, including economic impacts. The Paris Agreement, the SDGs and the EGD are an important part of the growth of sustainable development in the EU. (European Union, 2019)

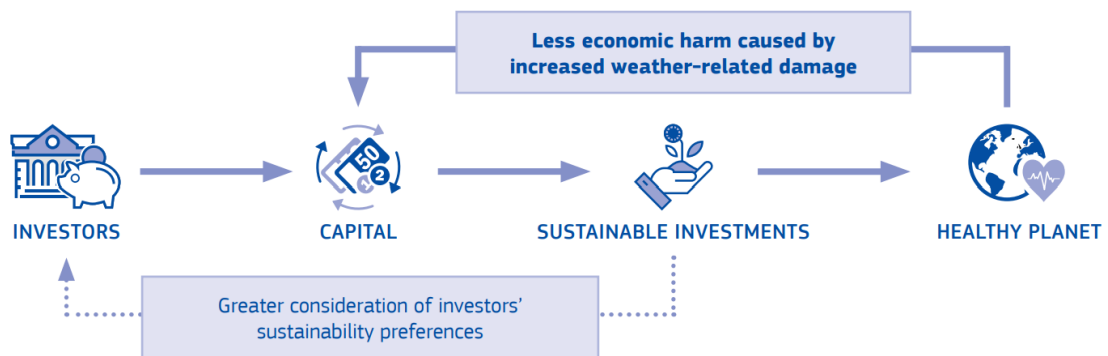


Figure 13. Benefits of sustainable finance in the EU (European Union, 2019).

In January 2017, the Commission appointed the High Level Expert Group on Sustainable Finance (HLEG) team to make recommendations that would contribute to the transition to a low-carbon economy in the EU. One year later, in March 2018, in line with the Paris

Agreement and the EU's 2030 climate goals, the Commission decided to develop a strategic roadmap in which finance will play a key role in promoting a well-functioning economy and environmental and social goals. The roadmap is based on the Action Plan on Sustainable Finance [hereafter Action Plan] recommended by the HLEG. (European Commission, 2018a)

In addition to the Paris Agreement and the SDGs, the Action Plan is also relevant to the European economy on a larger scale (European Commission, 2018a). Climate change will affect the financial system both physically and through transition. Physical risk refers to factors related to climate change, such as changing weather conditions and rising sea levels. Transitional risk is the risk that an investment will lose value and consists of changes in technology, policies to combat climate change and changes in legislation. (Euroopan tilintarkastustuomioistuin, 2021, 7)

The Action Plan, marked as EU sustainable finance strategy includes the most relevant tasks and actors of the financial system in EU:

- 1) create a common classification for sustainable finance, such as the classification system, or Taxonomy, to determine which economic activities are sustainable. It will also recognize areas for sustainable investment that can have the greatest impact on sustainability;
- 2) create EU labels based on green financial products as part of the Taxonomy. This will allow investors to identify green or low-carbon investments based on the EU classification system;
- 3) clarify the obligations of asset managers and institutional investors with regard to sustainability in investment processes, including disclosure requirements;
- 4) address customer interest in sustainability issues in insurance and investment companies;
- 5) the European economy needs external financing and therefore banks and insurance companies are important for external financing. The Commission will examine the possible recalibration of the so-called green support factor so that sustainability can be included as part of the prudential requirements; and

- 6) increase transparency in corporate reporting and provide guidance on non-financial information, in line with the recommendations of the TCFD. (European Commission, 2018a)

3.2 Preparatory work: Technical Expert Group on Sustainable Finance

The Technical Expert Group on Sustainable Finance (TEG) started its work in July 2018. The TEG consists of 35 members working together on the EU sustainable finance strategy in line with the package of Commission legislative proposals on sustainable finance (May 2018). Members include representatives from civil society, academia, business, and the financial sector. It also includes formal experts from the EU and international public sector bodies. Work will be carried out both through participation in formal EU plenary meetings and in sub-meetings related to the different work streams. The aim is to complete the technical work of the experts prior to the establishment of the future platform. (European Commission, 2018b)

The Commission's package of legislative proposals on sustainable finance includes proposals to:

- 1) establish a common classification system for the sustainable economy ("Taxonomy");
- 2) improve disclosure requirements on how institutional investors integrate Environmental, Social, Governance (ESG) factors into their risk management processes; and
- 3) help investors compare the carbon footprint of their investments by creating a new category of benchmarks. (European Commission, 2018c, 1)

3.2.1 A mandate to TEG

The TEG was mandated by the Commission to develop technical screening criteria for economic activities that significantly improve climate change mitigation and adaptation measures. In addition, economic activities must not significantly undermine other EU

environmental objectives. These environmental objectives range from three to six (Figure 15). (European Commission, 2020a, 10)

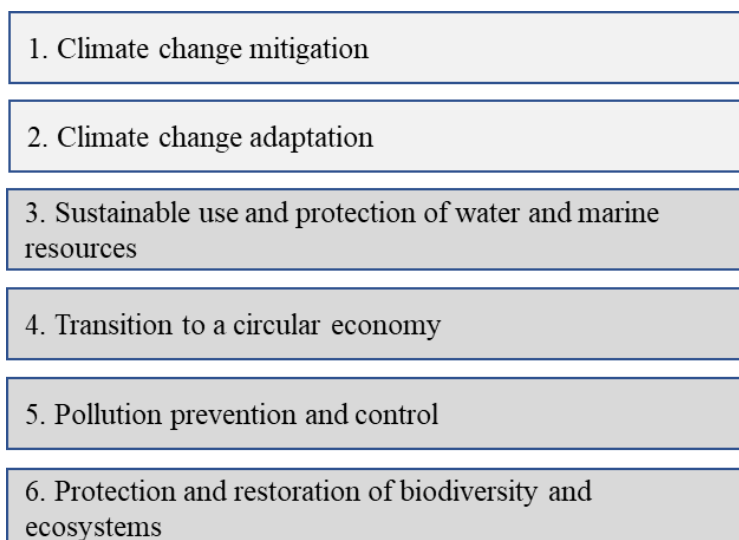


Figure 14. Six environmental objectives of Taxonomy highlighting objectives 3–6 (European Commission, 2020a, 2). Text written as official website of the Commission. Highlighted by Taina Tervonen.

In addition, the TEG worked on three other areas of sustainable finance, namely:

- 1) the development of a standard for green bonds linked to a Taxonomy;
- 2) CS and corporate climate disclosure, including Taxonomy-related guidance for the disclosure part; and
- 3) and guidance on investment benchmarks for climate change. (European Commission, 2020a, 10)

3.2.2 Request for feedback

A first preliminary proposal for the Taxonomy was presented by the TEG working group in December 2018. Public feedback was invited. The first proposals for the technical screening

criteria were made in June 2019. These criteria address climate change mitigation in relation to 67 different economic activities. (European Commission, 2020a, 10)

The proposed economic activities, in the form of various questions within these criteria, relate to, among other things, adaptation to climate change and the practical operation of the Taxonomy. There were 830 responses to the questionnaire and the TEG commented only in general terms on the feedback received. Respondents included the business sector (24%), the financial sector (10%) and individuals (48%). (European Commission, 2020a, 11)

3.2.3 Second extension to mandate

The original timeframe for the TEG mandate given by the Commission was until June 2019 (with an option for December 2019). The Commission has extended the mandate until December 2020. The Commission's decision was influenced by two reasons:

- 1) to ensure that the final report of the TEG would include all feedback from the consultation; and
- 2) to reach a political decision on the Taxonomy Regulation and possible related changes to the technical recommendations in December 2019. (European Commission, 2020a, 12)

After the publication of the final report, the TEG will continue to work on environmental objectives, including tax issues, and will act as an advisory body until the new working group under the Taxonomy Regulation, the Sustainable Finance Platform [hereafter Platform], becomes operational. (European Commission, 2020a, 12)

3.3 Decision-making and ordinary legislative procedure in the EU

The three main institutions involved in the EU decision-making process represent the different views of stakeholders within the EU (Figure 15) (European Union, n.d., A).

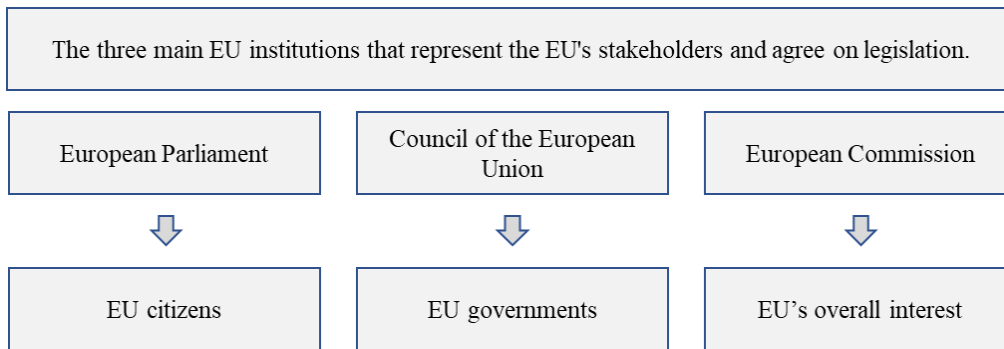


Figure 15. Three main EU institutions representing EU's stakeholders (Adapted from the text of European Union, n.d., A).

The history of the codecision procedure dates back to 1992, when the procedure was introduced. The extension to the original procedure took place in 1999. Under the Lisbon Treaty, the procedure is called the ordinary legislative procedure (Figure 16). It applies to some 85 EU policy areas and is the EU's main decision-making procedure. (European Council, 2022b)

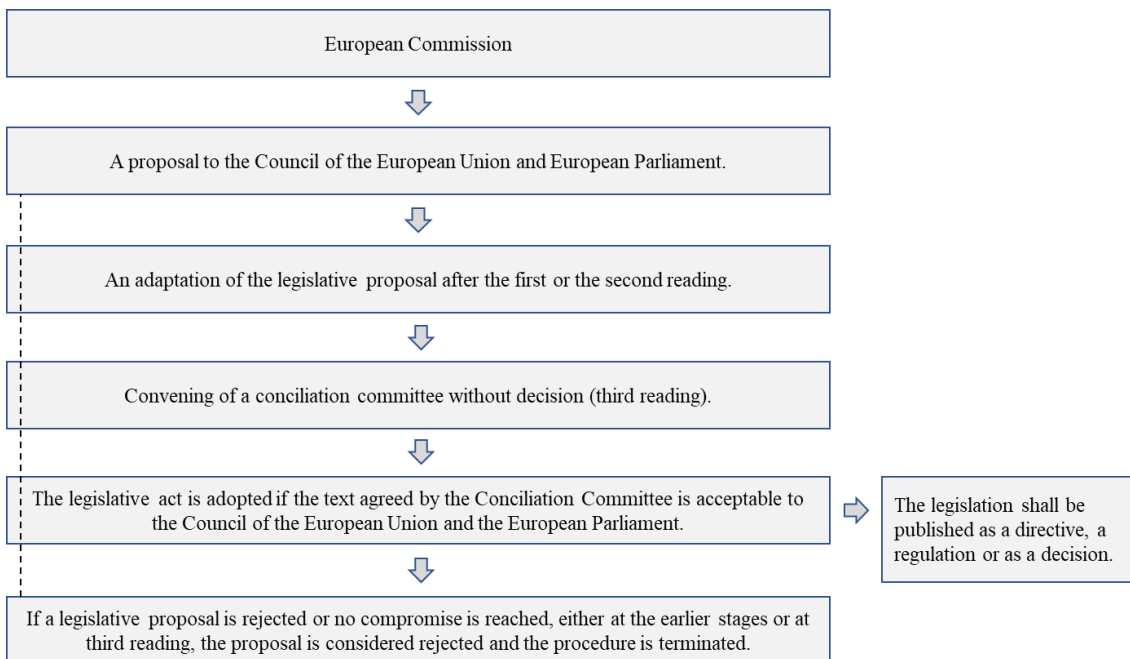


Figure 16. The ordinary legislative procedure in the EU (Adapted from the text of European Council, 2022b).

EU countries are free to decide how to achieve the result set out in the directive. However, they must transpose the measures into national law to achieve the result. This ensures that the objectives of the directive are achieved in EU countries. The Commission also requires that the measures taken at national level are reported to the Commission. (European Commission, n.d., F)

Regulations are legal acts that EU countries do not transpose into national law, although they are automatically and uniformly binding on all EU countries in all aspects covered by the regulations when they enter into force (European Commission, n.d., F).

The decision is binding in all respects on those to whom it is addressed and who are specified in the decision (European Commission, n.d., F).

3.4 Taxonomy Regulation

The Taxonomy Regulation was first submitted to the European Commission in May 2018. A political agreement on a legally binding Taxonomy Regulation was reached in December 2019. The Commission welcomed the Parliament's approval for a Taxonomy Regulation on 18 June 2020. (European Commission, 2020b) The Taxonomy Regulation entered into force on 12 July 2020, ahead of its official publication in the Official Journal of the EU on 22 June 2020 (European Commission, n.d., A).

The Taxonomy Regulation ((EU) 2019/2088 and 2020/852) contains the regulation itself and the technical criteria for the regulation. The technical criteria will be further specified by Delegated Acts [hereafter Delegated Act or Delegated Acts] of the Commission. The implementation of the green transition will require these financial facilitation measures to channel capital towards more environmentally sustainable activities. In this context, the Taxonomy Regulation will serve as a tool that EU member states, investors and companies can use to target financing in support of the green transition. (Vanhala et al. 2022, 303)

In terms of applicability, the Taxonomy Regulation has three groups of users for whom the classification system is particularly well suited. These are:

- 1) financial market operators and private investors providing finance in the EU;
- 2) certain large companies and groups subject to reporting requirements; and

- 3) EU member states whose activities include steering public finance, setting standards for the products themselves and for green rated operators, and member states' own public finance instruments. (Vanhala et al. 2022, 303-304)

The Taxonomy Regulation sets out three groups of Taxonomy users:



Figure 17. Three groups of Taxonomy users (European Commission, 2020a, 26).

Reporting companies must comply with the Taxonomy Regulation with regard to reporting requirements. In other respects, companies are not required to comply with the Taxonomy Regulation. However, taking into account the stakeholders and investors of companies, companies are likely to face additional requirements in relation to the requirements and criteria set out in the Taxonomy Regulation. In this case, the impact of the Taxonomy Regulation will be more dominant for companies. (Vanhala et al. 2022, 303)

For each product offered, financial market participants must report on the following points:

- 1) how and to what extent operators have adapted the Taxonomy as part of the work to define the sustainability of investments;
- 2) an explanation of the environmental objectives under the Taxonomy to which the investments contribute; and
- 3) the proportion, calculated as a percentage of the investment, fund or portfolio, of underlying investments based on the Taxonomy Regulation (Taxonomy-aligned). (Canfora et al. 2022, 10-11)

According to a study by Canfora et al. (2022, 11), the application of Taxonomy to an investment portfolio can be illustrated as described in the TEG report (Figure 18) (European Commission, 2020a, 40).

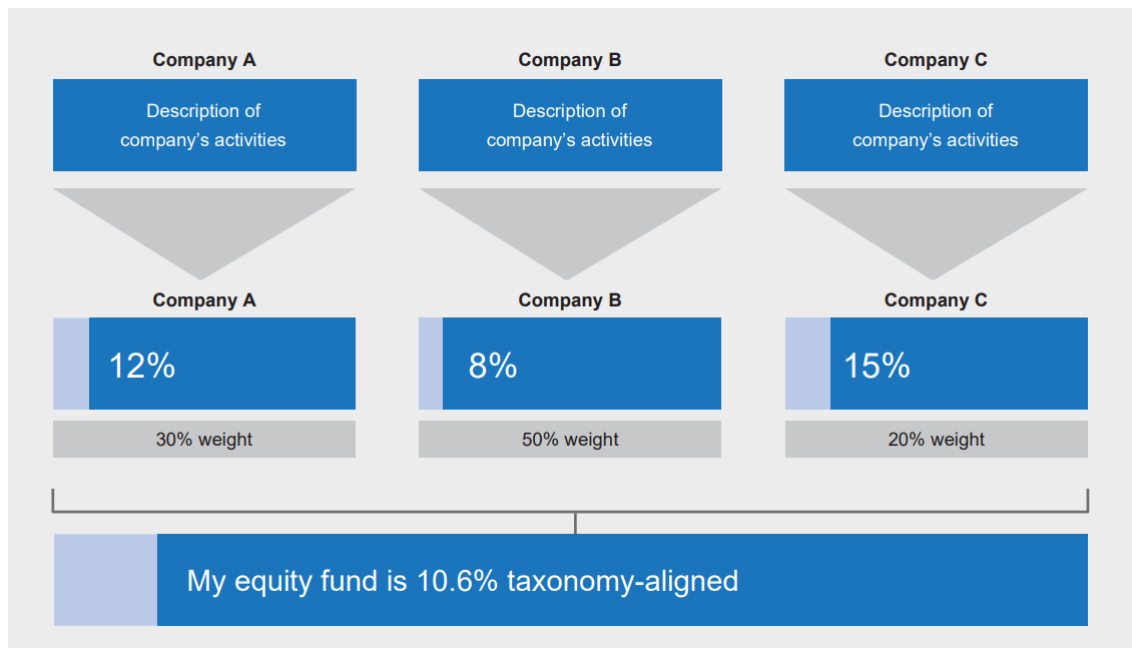


Figure 18. Application of Taxonomy to the investment portfolio described in the TEG-report (European Commission, 2020a, 40).

The reporting requirements for non-financial participants include:

- 1) the proportion of turnover subject to Taxonomy; and
- 2) the proportion of CAPEX and, where applicable, OPEX costs also associated with the activity that is part of the Taxonomy-aligned activities. (Canfora et al. 2022, 11)

This report is not part of the financial statements but can either be included in the company's annual report or mentioned as part of the company's sustainability report. (Canfora et al. 2022, 11)

A capital expenditure (CAPEX) is not expensed in the income statement, but the corresponding cost of goods and services is recognized or capitalized as part of the balance

sheet. Operating expenses (OPEX) include the shorter-term costs of running the business (European Commission, 2020a, 28).

The Action Plan also sets out long-term objectives for the Taxonomy Regulation. One of these relates to bank capital adequacy requirements, including sustainability criteria, whereby the Taxonomy Regulation would serve as a tool for classifying bank capital adequacy from a sustainability perspective. This would potentially affect the price of financing offered to a company if its activities could be classified as less risky based on the Taxonomy. (Vanhala et al. 2022, 304)

Even before the EGD initiative, there was a need for Taxonomy, and Taxonomy plays a key role in the reform of the sustainable economy. The link between the objective of the EGD and the Taxonomy is the coherent set of environmental objectives that both emphasize between the sectors of the economy to be reformed. (European Commission, 2020a, 9)

3.5 European Green Deal

In December 2019, the Commission presented the EGD, which is based on tackling climate and environmental challenges in all sectors of the economy (e.g., transport, energy, agriculture, textiles, and construction), including by increasing the uptake of the circular economy in different sectors. At the heart of the EGD is resource efficiency in the context of mitigating climate change, preserving biodiversity and reducing pollution. (European Commission, 2019)

Sustainable financing as part of the EGD is central, taking into account, among other things, investments in the circular economy and the financial instruments available in the EU. The Commission invites the Parliament and the Council to recognize the importance of the EGD and to support its implementation, with a view to the Biodiversity Strategy for 2030. (European Commission, 2019)

With the publication of the EGD in 2019, the Commission set a 100-day deadline for the publication of a 'European Climate Law' [hereafter Climate Law). By enshrining the EGD in law, the Commission has strengthened the role of the EGD as a policy objective. At the same time, the Commission announced that the goal of becoming the first climate neutral

continent by 2050 is realistic, provided that the 2030 emissions targets are raised. (European Commission, 2019)

The Climate Law entered into force in July 2021. The Climate Law sets the goal of making Europe economically and socially climate neutral by 2050, and also sets an interim target of a 55% reduction in net greenhouse gas emissions by 2030. The target is calculated in terms of net emissions compared to 1990 levels. (European Commission, n.d., B)

To be carbon neutral is to achieve zero net greenhouse gas emissions within the EU. In practice, this would be achieved through the reduction of net emissions, through investment in green technologies and through the protection of the environment. Climate Law requires all EU policies to contribute to achieving the target. (European Commission, n.d., B)

In April 2020, the Commission launched a consultation on a renewed strategy for sustainable finance. The strategy is an important part of the EGD and builds on both the 2018 Action Plan and the reports of the TEG. The Commission has set a target to launch the renewed strategy in the second half of 2020, drawing on the insights from the comments received in the sustainable finance projects on the private investment sector, e.g., from European citizens, businesses, civil society organizations and public authorities. (European Commission, 2020c)

For 2020, the strategy is a key part of the EGD investment plan, although the Commission has linked the open commentary and strategy to the recovery from the coronavirus downturn (European Commission, 2020c).

3.6 Renewed Sustainable Finance Strategy

In June 2021, the EU published a renewed strategy, which is broader and more ambitious than the previous strategy of 2018. The renewed strategy will require more legislation, which will take several years to prepare. By the end of 2023, the Commission is expected to publish a report on the measures taken under the 2021 strategy. (Työ- ja elinkeinoministeriö, 2022, 21)

The renewed strategy includes four different areas of focus:

- 1) transition finance;
- 2) scaling up sustainable financing to both the private sector and sector of SMEs;
- 3) building resilience in the financial sector and contributing to sustainable finance policies; and
- 4) international cooperation to support the sustainable finance agenda at the global level. (Työ- ja elinkeinoministeriö, 2022, 21)

The EU has an ambitious goal to promote sustainable finance and the setting of these goals will be translated into concrete actions in the period 2022-2023 through the following three strategic actions:

- 1) further development of the strategic projects included in the 2018 strategy, in particular the Taxonomy;
- 2) new strategic initiatives, including the setting of standards for debt and investment products, the inclusion of digital technologies as part of sustainable development, and the transparency and comparability of sustainability ratings; and
- 3) sustainability risk management and risk treatment in the risk supervision of financial actors. (Työ- ja elinkeinoministeriö, 2022, 21)

A very important element of the new strategy is the integration of SMEs in sustainable finance and business. The involvement of SMEs in this specific activity is reflected in the strategy through various initiatives. In addition, the updated strategy also takes a position on, among other things, the inclusion of a social dimension in the Taxonomy Regulation. This is an indication that reporting requirements for companies, in particular ESG reporting, will become more demanding in the coming years. From an international perspective, ESG reporting is currently not comparable due to different standards. Taking this into account, the updated strategy also aims to harmonize reporting frameworks to meet the growing needs of financial markets for ESG reporting data at an international level. (Työ- ja elinkeinoministeriö, 2022, 21-22)

3.7 Examination by the European Court of Auditors

The European Court of Auditors examined in September 2021 whether the Action Plan on sustainable finance adapted by the Commission had been implemented in terms of actions for sustainable finance (European Court of Auditors, 2021).

In particular, the main issues related to sustainable finance and the timetable for the Action Plan were examined. It also assessed the coherence of EU financial support for sustainable development and sustainable investment. (Euroopan tilintarkastustuomioistuim 2022, 4)

The European Court of Auditors noted that the Action Plan emphasizes definitions of sustainable investment and transparency in reporting but called for the EU to better steer sustainable investment involving private and public funds. The EU supports sustainable investment in its budget, but particular attention needs to be paid to the criteria used to define sustainable investment. (Euroopan tilintarkastustuomioistuim 2022, 4)

The European Court of Auditors concluded that simply reporting and defining sustainable investments is not enough and that an EU-level sustainability rating system needs to be promoted to standardize CS data and label different financial products. This will not happen without significant action to take the issue forward. Without action, sustainable development will not be achieved and there will be significant costs for unsustainable activities, taking into account environmental issues and costs to society. The European Court of Auditors also found that the EU did not take sufficient account of all national energy and climate plans, which would have had the necessary definitions to qualify for EU support. (Euroopan tilintarkastustuomioistuim 2022, 5)

Finally, the European Court of Auditors also highlighted the role of the European Investment Bank in the development of sustainable investments and the application of the sustainability rating system and called for a closer look at the DNSH -principle, which will play an important role in the development of the EU sustainability rating (Euroopan tilintarkastustuomioistuim, 2022, 5).

3.8 Delegated Acts: Taxonomy

The Commission can use legally binding Delegated Acts to supplement or amend other parts of EU legislation, but not its essential elements. For example, the Commission can propose different measures to be introduced. (European Commission, n.d., F)

3.8.1 Climate Delegated Act

The first Delegated Act on climate change mitigation and adaptation in the Taxonomy, the EU Climate Delegated Act, was published in the EU Official Journal in December 2021 and will apply from January 2022 (European Commission, 2021b).

The Taxonomy Climate Delegated Act introduced the first technical screening criteria for the two environmental objectives of the Taxonomy Regulation: adaptation to climate change and mitigation of climate change. The criteria for these objectives are based on the scientific opinions of the TEG. These opinions are based on feedback and discussions with stakeholders, the Parliament, and the Council. (European Commission, 2021a)

The Climate Delegated Act would target and at the same time cover around 40% of listed companies whose business sectors account for a significant share of direct greenhouse gas emissions in the European region, close to 80%. These sectors include such as energy, forestry, industry, transport, and buildings. To ensure that the legislation keeps pace with developments such as technological progress and conversion activities, the legislation and its criteria will be regularly reviewed. (European Commission, 2021a)

3.8.2 Delegated Act supplementing Article 8

The Disclosures Delegated Act, adapted by the Commission in July 2021, complements the Article 8 of the Taxonomy Regulation, and requires large financial and non-financial undertakings to disclose to investors company-specific information on the environmental performance of their assets and related financial activities. The Delegated Act shall apply from 1 January 2022. (European Commission, 2022a, 3)

The purpose of the Disclosures Delegated Act is to add transparency in the market. It should help financial market participants to better design their financial products and portfolios. Better planning will therefore be based on the collection of information from financial and non-financial companies in line with the information reported. (European Commission, 2022a, 3)

The Disclosures Delegated Act defines the reporting procedure, the content, and the presentation of the information to be disclosed in relation to business, investment, and lending activities, that are aligned with the Taxonomy Regulation (Article 8) (European Commission, 2022a, 3).

Non-financial companies are required by the Taxonomy Regulation and the Taxonomy Climate Delegated Act to report on the share of their turnover, capital and operating expenditure related to environmentally sustainable business activities. New future Delegated Acts will also have to be taken into account, along with other environmental targets. (European Commission, 2022a, 3)

For financial companies (investment companies, asset management companies, insurance companies, banks), the Key Performance Indicators (KPIs) are linked to the share of environmentally sustainable economic activities in their financial activities, such as lending, investments, and insurance-related activities (European Commission, 2022a, 3).

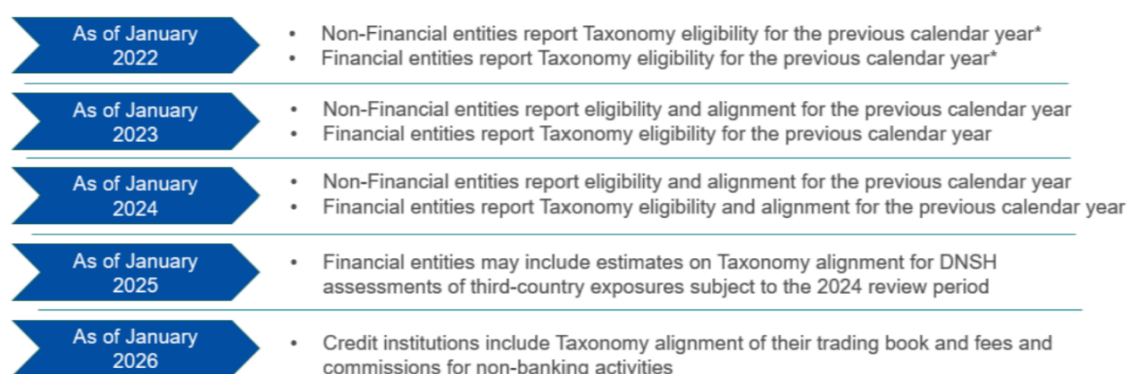


Figure 19. Reporting requirements for undertakings, what and when (European Commission, 2022a, 5).

3.8.3 Complementary Climate Delegated Act

In March 2022, the Commission formally adopted a Complementary Delegated Act allowing, under strict conditions, certain nuclear and gas energy activities to be included in the list of economic activities for the purposes of the Taxonomy (European Commission, 2022b).

The Complementary Delegated Act was published in the Official Journal in July 2022, following the expiry of the period for review and specific assessment granted to the legislator. The Complementary Delegated Act will apply from January 2023. The criteria for specific gas and nuclear activities will contribute to the EU's objective of climate neutrality by accelerating the transition away from fossil fuels. (European Commission, 2022b)

3.9 Technical screening criteria for sustainable economic activities

To make Taxonomy the best possible tool for moving towards a more sustainable economy, the Taxonomy Regulation sets performance thresholds, called technical screening criteria, to meet the criteria for environmentally sustainable economic activity (European Commission, 2020a, 2).

These performance thresholds will, among other things, help investors to target green finance, help companies to access green finance and, more generally, help to identify green activities that are already reducing carbon emissions or supporting a resource-efficient economy. The performance thresholds for economic activities are defined in the Taxonomy Regulation. (European Commission, 2020a, 2)

Article 3 of the Taxonomy Regulation ((EU) 2020/852) sets out the definition of environmentally sustainable investments, which includes economic activities. An economic activity is sustainable if it:

- 1) makes a significant contribution to the achievement of one or more of the environmental objectives set out in Article 9 (pursuant to Articles 10 to 16);
- 2) does not cause significant harm to any of the environmental objectives set out in Article 9 (pursuant to Article 17);

- 3) is carried out in accordance with the minimum safeguards set out in Article 18; and
- 4) complies with the technical screening criteria established by the Commission (pursuant to Article 10, 11, 12, 13, 14 or 15). (Regulation (EU) 2020/852, 2020)

When an economic activity is included as part of a Delegated Act at a given point in time, it is interpreted as contributing significantly to one or more environmental objectives (Figure 20) that are consistent with the Taxonomy Regulation and have been reviewed and approved by technical experts. In this case, the Taxonomy-eligible activity becomes part of the Delegated Act and receives technical screening criteria. (European Commission, 2021c, 3)



Figure 20. Six environmental objectives of Taxonomy (European Commission, 2020a, 2).

The classification of an activity as environmentally sustainable or Taxonomy-aligned includes the fulfilment of technical criteria, even if the activity is not included in the list of criteria. This does not mean that the activity is not sustainable, but that it may be marginally environmentally beneficial. (European Commission, 2021c, 3)

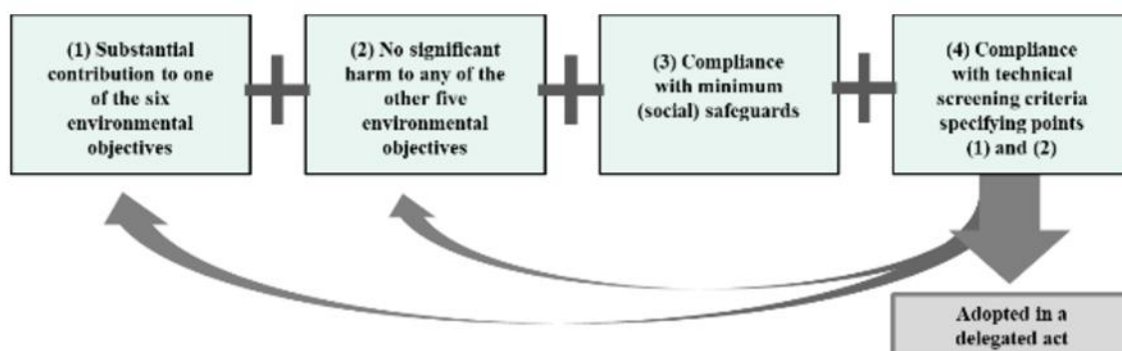


Figure 21. The four basic conditions for economic activities in the Taxonomy Regulation (European Commission, 2021c, 2).

The technical screening criteria are based on Delegated Acts and are designed to support the achievement of the environmental objectives of the Taxonomy. The technical screening criteria for substantial contribution ensure that an economic activity either has a significant positive impact on the environment or results in a significant reduction of negative environmental impacts. A significant reduction may include, for example, a reduction in greenhouse gas emissions from an economic activity. (European Commission, n.d., C, 4)

In terms of performance levels, for example in the context of mitigation, a substantial contribution means measuring performance in terms of climate neutrality and aiming to limit the global temperature increase to 1.5 degrees Celsius. In the context of adaptation, it means solutions that make a significant contribution to preventing climate change. These solutions include taking into account and addressing already identified climate risks. The Taxonomy Regulation refers to such activities as environmentally sustainable, but this does not mean that an activity that does not comply with the Taxonomy (Taxonomy-alignment) is unsustainable. (European Commission. n.d., C, 5)

The Taxonomy Regulation specifically addresses two practices that are broadly relevant to environmental sustainability and make a substantial contribution. These are transitional activities and enabling activities. Transitional activities are classified as activities for which it is not yet feasible to use low-carbon alternatives, but the greenhouse gas emissions from these activities are consistent with the performance of the activity or industry. An example of such a sector is cement manufacturing, where the manufacturing process has been

identified as best in class in terms of performance. However, the Taxonomy Regulation imposes two conditions on transitional activities:

- 1) the activity must not prevent low-carbon alternatives from developing or becoming established; and
- 2) the activity should not affect carbon-intensive assets to lock them in over their economic life. (European Commission, n.d., C, 5)

Enabling activities are activities that, through their operation, enable others to contribute to the achievement of environmental objectives. Such activities include, but are not limited to, the production of renewable energy sources, manufacturing technologies that support targets, energy efficiency activities in buildings, and the reduction of flood risk through the use of cover crops. (European Commission, n.d., C, 5)

For the DNSH -criteria, the regulation stipulates that the economic activity must not constitute an obstacle to the achievement of other environmental objectives, i.e., it must not have a significant negative impact in relation to the achievement of other environmental objectives (European Commission, n.d., C, 4).

Minimum safeguards for economic activities covered by the Taxonomy should be aligned with several standard frameworks (Figure 22). This definition has been made by the Parliament and the Council and these standard frameworks are applied in the Taxonomy. Where appropriate, more stringent requirements of EU law will continue to apply. (European Commission, 2020a, 17)



Figure 22. Standard frameworks for minimum safeguards (European Commission, 2020a, 17). Text written as official website of the Commission.

Sectors currently covered by the Taxonomy include construction and real estate, energy, forestry, manufacturing, transport, and waste management, among others (European Commission. n.d., I). The EU's environmental objectives, as set out in the Taxonomy Regulation, will start to apply gradually. From the beginning of 2022, the first two (climate change mitigation and climate change adaptation) will apply. (European Commission. n.d., I)

The Commission has opened a four-week comment period between 5 April 2023 and 3 May 2023 on the other four environmental objectives and their criteria (Figure 23). The initiative also includes proposed amendments to the Climate Delegated Act and the Disclosure Delegated Act. (European Commission. n.d., J)

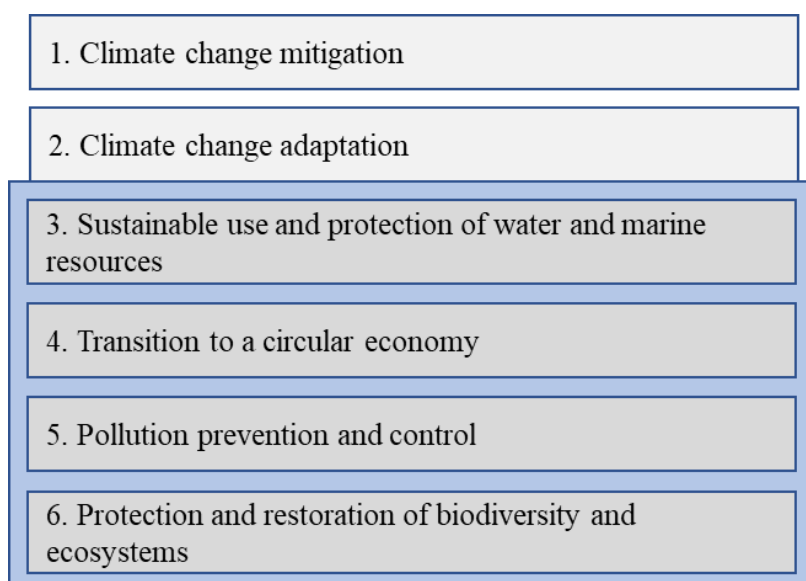


Figure 23. The Commission's initiative to set Taxonomy criteria in April/May 2023 highlighting four environmental objects (European Commission. n.d., J). Text written as official website of the Commission. Highlighted by Taina Tervonen.

3.10 Recommendations done by the Platform on Sustainable Finance

The Platform provides an advisory body of sectoral experts and the Commission to work together to promote sustainable development in the EU. The Platform is subject to the rules governing the Commission's expert groups. Experts from the financial and industrial sectors, among others, will contribute their expertise to the Platform. (European Commission, n.d., G) It consists of 57 members and 10 observing members (European Commission. n.d., H).

The new composition of the Platform was last announced in February 2023, following its initial creation in 2020, and the first meeting under the new composition will take place in March 2023 (European Commission, n.d., G).

As markets begin to apply the Taxonomy Regulation and other sustainable finance-related legislation, the main role of the Platform will be to advise the Commission on the implementation of the Taxonomy and its usability. In addition, the Platform will comment on the work to develop the Taxonomy Regulation and monitor capital flows within the EU. (European Commission, n.d., G)

In its October 2022 report, the Platform made a number of recommendations for the Commission to use at its discretion in the future development of the Taxonomy. The recommendations are based on the Platform's knowledge and experience of the Taxonomy from 2020 to 2022, with a particular focus on the Taxo (Taxonomy) four objectives, the environmental objectives three to six. (Platform on Sustainable Finance, 2022, 39) These environmental objectives are discussed in this research in section three (3) 3.2.1 as part of the work of the TEG, and in section three (3) 3.9 as part of technical screening criteria.

The elevated target level, i.e., a substantial contribution to environmental objectives three to six, was defined on the basis of the Platform's methodological work and is not mandatory under EU legislation. The methodological work and defined criteria have been used to identify, as far as possible, those targets that are considered to be pioneering or whose environmental performance is in line with the objectives of the EGD initiative. (Platform on Sustainable Finance, 2022, 39)

Unlike environmental targets, DNSH -criteria has always been developed to include thresholds and criteria set by both EU standards and legislation (Platform on Sustainable Finance, 2022, 39).

The Platform recommends that the recommendations of the October 2022 report on the development of the Taxonomy are relevant for further work in the Commission and will be considered as part of the improvement of the Taxonomy Regulation in specific areas (Platform on Sustainable Finance, 2022, 39).

Two recommendations to the Commission are highlighted in the Platform's report, based on the DNSH and adaptation to climate change (Figure 24) (Platform on Sustainable Finance, 2022, 39-40).

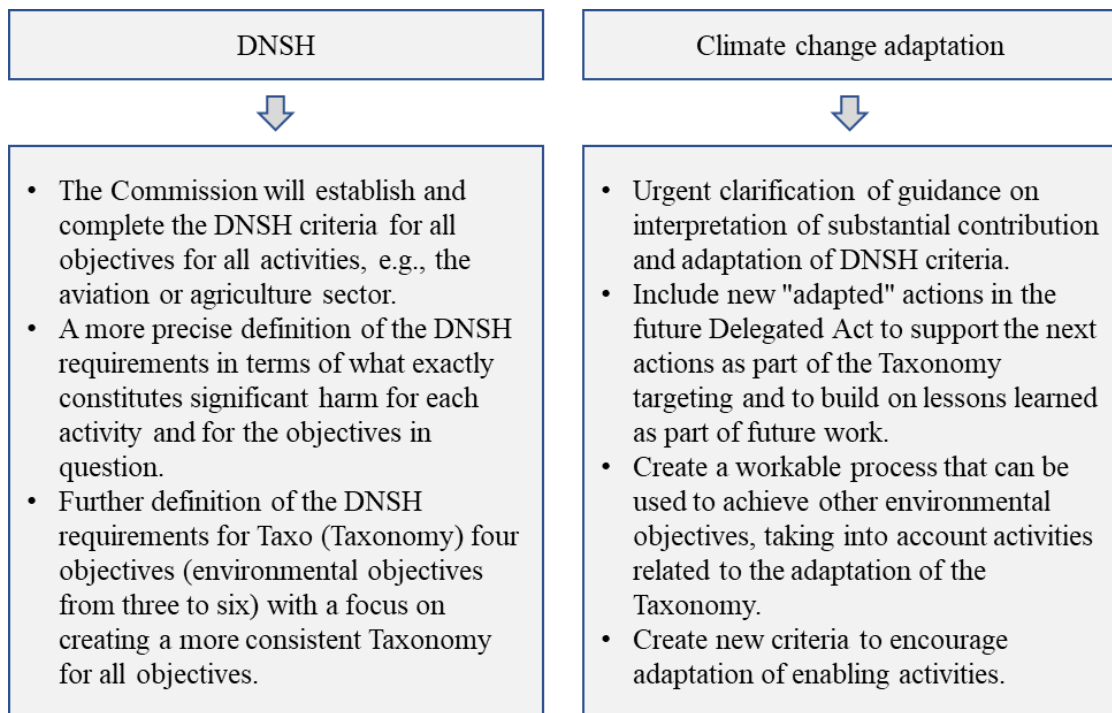


Figure 24. Two highlighted recommendations of the Platform to the Commission (Adapted from the text of Platform on Sustainable Finance, 2022, 40-43).

4 Methodology

This research explores the role, capabilities, and challenges of Finnish business actors in assisting their clients, partners, members, or entities they represent in determining the sustainability issues, Taxonomy-alignment of their business and in Taxonomy reporting issues, for example by providing strategic guidance, training, and advice.

The research follows a qualitative approach. The four selected themes of the interviews support the overall picture of the research, starting with CS in general, extracting more detailed information on regulatory and Taxonomy expertise at EU level, and ending with a discussion on the role of external expertise and advice now and in the future.

4.1 Analysis of the operating environment: Taxonomy

The analysis of the environment in which the Taxonomy operates (Chapter 3) is carried out using qualitative research methods by accessing the official EU website, the material bank of the European Documentation Centres (EDC), reading the literature and attending webinars and seminars on the subject.

The theoretical framework of the research, the discussion on CS and sustainability reporting, and the analysis of the operating environment for the Taxonomy, the Taxonomy as a phenomenon, are reflected in the results of the thematic interviews. The results of the interviews examine Finnish business actors' perceptions of the Taxonomy as a phenomenon and discuss which issues highlighted in the theoretical part and the analysis of the operating environment are relevant for understanding and implementing the Taxonomy in practice.

4.2 Thematic interviews

The interviews were conducted in April 2023, with a total of 12 for theme one and 11 for themes two to four (Table 1).

Interview	Area of expertise	Type of advice	Area of operation
1	Training	Academic institution	Finland, international
2	Advisory expertise	Association	Finland, international
3	EU level expertise	Association	Finland, EU, international
4	Advisory expertise	Association	Finland, international
5	Advisory expertise	Consulting	Finland, global
6	Advisory expertise	Consulting	Finland
7	Advisory expertise	Business development	Finland
8	Advisory expertise	Business development	Finland, global
9	Training	Association	Finland, global
10	Advisory expertise	Consulting	Finland, global
11	Advisory expertise	Consulting	Finland, global
12	Advisory expertise	Consulting	Finland

Table 1. The respondents' level of expertise, advice, and engagement

The interview form (Appendix 1) contains four different themes and a total of 13 questions. The questions were sent to the interviewees for familiarisation before the interview. Almost all themes were discussed with all interviewees, some in depth and some more superficially. Some interviewees found the questions a bit challenging, but in a positive way, as the topic sparked their interest in increasing their knowledge of Taxonomy both within their organisation and among their stakeholders.

To illustrate the complexity of the Taxonomy and its evolution from 2017 to 2023, the thematic interviews use an illustrative diagram (Figure 25) to explain the current state of the Taxonomy and related sustainability reporting directives and regulations that are aligned with the Taxonomy.

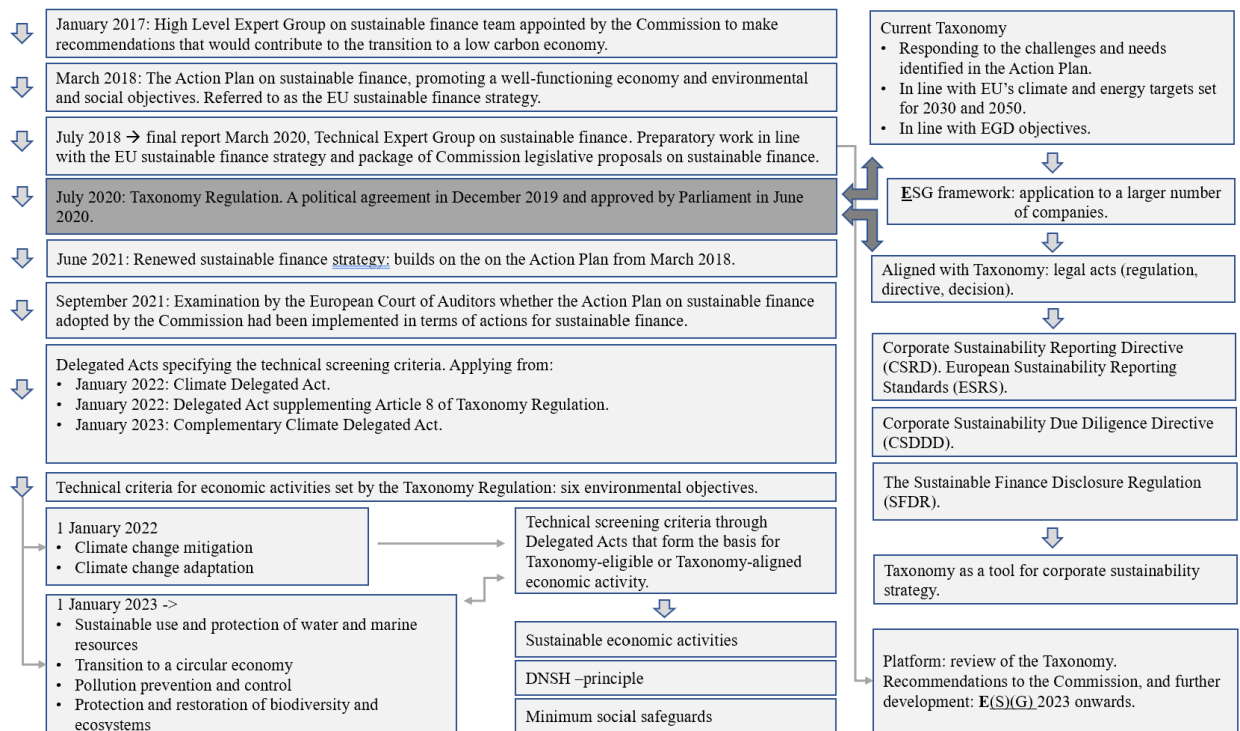


Figure 25. Developing and structuring the Taxonomy from 2017 to 2023 (Adapted from the text of the European Commission, 2018a; European Commission, 2018c; European Commission, 2020a; European Commission, 2021b; European Commission, 2022a, 3; European Commission, 2022e; European Commission. n.d., A; European Commission. n.d., D; European Commission, n.d., E; European Court of Auditors, 2021; Pettingale et al. 2022; and Työ- ja elinkeinoministeriö, 2022, 21-22; and in the course of the research work).

4.3 Data analysis and limitations

Almost all interviews were recorded and transcribed (11/12 interviews). For one interview, extensive notes are taken during the interview. The textual responses are then processed in a Word document so that each question is given the appropriate keywords, which are colour coded. The colour coded keywords are used as an indicator to find the answers to each question. The keywords are selected after reading all the responses to get an overview of the responses where the keywords are either directly repeated or the response can be read as belonging to the keyword set.

Some of the Finnish business actors interviewed are more active in the SME-sector than in the large enterprise sector. This can be seen as limiting this research, but also as a useful factor, as some of the interview questions also concern the SME-sector, which will face the effects of the Taxonomy later than large enterprises, but which already have to prepare for the effects of the Taxonomy.

4.4 Validity and reliability of the research

Although there is a lot of information available on the Taxonomy as a regulation and its implications for companies, the official EU information is very complex and, in some places, difficult to understand, considering that the author of this research is not a legal expert who would be able to interpret the sometimes very complex text of the regulation with the required precision.

However, given the diversity of experts represented in the interviews on behalf of Finnish business actors, the data from the interviews can be considered an important factor at a general level when considering the validity and reliability of the research.

In the data analysis of the interviews, finding the right number of keywords for some of the responses is a challenge, but this is taken into account in the data analysis where appropriate. Consistency is achieved across a range of responses, suggesting that for a number of questions the questions are fairly accurate in terms of both CS and Taxonomy, given the background and number of respondents.

5 Results

The results are analyzed in an appropriate and applied way by highlighting the key words and relevant entities used in the interview texts and presented according to the four different themes of the thematic interviews, taking into account the questions asked to the interviewees under each theme.

In qualitative research, the analysis and interpretation of responses requires some level of abstraction. This means interpreting the wording of individual responses where appropriate, but this cannot be completely divorced from the researcher's theoretical perspective, values, or assumptions. (Seale, 1999, 154)

5.1 Theme 1: Sustainability in general

The first theme focuses on how and at what level Finnish business actors currently view the sustainability of Finnish companies' operations, and the first question focuses on a general discussion of the level of CS among Finnish companies.

The keywords and relevant entities that emerged from the responses (12/12 respondents) to question number one are: sustainability, competitiveness, large companies, SMEs, biodiversity, human rights, and corporate social responsibility. Given the general nature of the question, the responses (9/12 respondents) suggest that Finnish companies are striving to act responsibly, are pioneers in promoting sustainability issues, are taking steps forward and are taking concrete actions to promote sustainable development. The three responses (3/12 respondents) that highlight the need for more sustainability include sustainability at a societal level, multinational companies, and cultural differences. In general, the question does not distinguish between large companies and SMEs. Three responses (3/12 respondents) highlight the importance of recognizing the importance of sustainability issues for SMEs, identifying the business benefits, and taking concrete actions to support them. Other responses focus on Finnish companies in general, with two responses (2/12 respondents) highlighting large companies that have been working on sustainability for a longer period and are more familiar with sustainability issues than smaller companies.

The second question relates to the internal competencies of Finnish companies in the context of ever-changing and increasing sustainability regulation. The responses are analyzed using the following keywords and relevant entities: education, regulation, multidisciplinary, reporting, data, legislation, ESG, strategy, business, skills, and resources. Knowledge of interpreting regulations and monitoring the development of legislation in responsibility is mentioned in seven responses (7/12 respondents). Responding to regulations and obligations is seen as an essential part of sustainability reporting now and in the future. This mainly involves developing internal competencies in strategy, ESG framework, business, data

collection and reporting. In terms of skills and resources, the responses (5/12 respondents) include developing reporting skills, understanding regulation, improving internal communication, and focusing resources and strategic planning on the key areas considered most important in the companies. Five responses (5/12 respondents) highlight multidisciplinary skills and potential new recruitment needs. Responses highlight the following sustainability-related skills and emphasize interdisciplinary areas such as biology, geography, environmental technology, law, business, and communication skills.

The third question under the first theme deals with the opportunities offered by responsible business, both for Finnish companies and from a broader perspective of the Finnish economy. In terms of textual analysis and results, the keywords and relevant entities used to describe the responses (12/12 respondents) to question three are: innovation, newness, growth, green transition, investment, and competitive advantage. Innovation creation, new business creation (e.g., new product and service concepts), competitive advantage, growth potential and export potential are the opportunities highlighted in most responses to question 3A (10/12 respondents). Regarding question 3B on the benefits for the Finnish economy, the answers are considered to cross over a bit already during the interviews and thus the green transition, the circular economy, and investments in e.g., renewable energy, can be interpreted as an opportunity for both Finnish companies and the Finnish economy (9/12 respondents).

5.2 Theme 2: EU Regulation

The second theme focuses on the knowledge of EU Regulation in relation to responsibility reporting, the current readiness of smaller companies to meet the demands of increased regulation, and the challenges and benefits that Finnish companies face in terms of Taxonomy-alignment, definition, and reporting.

In terms of knowledge of EU Regulation in the first question, the keywords and relevant entities are SMEs, large enterprises, finance and investment, supply chain, value chain, need for more information and lack of understanding. One respondent (1/11) highlights the financial and investment sector where regulation is well known because the sector is already highly regulated. More than half (6/11) of respondents say that regulation is well known in large companies, but in SMEs (7/11 responses) regulation is either not known or does not

yet affect all SMEs to the extent that it is relevant to know about regulation or will become relevant in the near future to consider regulation through procurement and value chains (3/11 respondents). The need for further information, including training, is highlighted for both large and SMEs (7/11 respondents).

When looking at the current readiness of SMEs to meet the requirements of the EU Regulation in the second question, the key words and relevant entities are resources, skills, and capabilities. There is a partial overlap with the first question (4/11 respondents), but more than half of the respondents still see SMEs as limited in their ability to comply with regulatory requirements (7/11 respondents). With regard to skills, it is noted that not all SMEs may have sufficient skills or resources (6/11 respondents).

In terms of challenges and benefits related to Taxonomy-alignment, definition, and reporting in question three the keywords and relevant entities are practical challenges, interpretability, comparability, practical implementation, and benefits. Practical challenges and interpretability are data collection, reporting, understanding the regulation, verification of Taxonomy reporting, regulatory fragmentation, and resources (9/11 respondents). In terms of comparability, sector-specific indicators, monitoring of indicators and benefits for companies and stakeholders are identified (3/11 respondents). Practical implementation is associated with benefits; measurability, reduction of greenwashing, competitive advantage, and new business opportunities (9/11 respondents).

5.3 Theme 3: External expertise and advice now: Taxonomy

The third theme focuses on the use of external expertise for Taxonomy compliance. The first question concerns the role of Finnish business actors themselves in helping companies by providing expert services to companies.

The answers to the first question are analyzed using the following keywords and relevant entities: training or awareness raising, legislation, reporting, development, consulting, and verification. In terms of business development and reporting, training, and awareness-raising (6/11 respondents) emerges as an important role. Advisory, reporting and verification and regulatory expertise are other emerging roles (5/11 respondents). The results show the role of expert organizations in helping companies to succeed in their own business with the help

of external experts; helping companies with their current challenges, anticipating future challenges, and helping companies to understand the big picture of sustainability and compliance with the Taxonomy as part of it.

The second question examines the type of external advice that is currently required by businesses to meet the requirements of Taxonomy (10/11 respondents in total). The answers to the second question are analyzed using the following keywords and relevant entities: training, consultation, and sharing of practices. The need for training and advice covers both basic knowledge of the Taxonomy and more in-depth advice on issues such as reporting, interpretation of the Taxonomy and wording, as well as the conduct and implementation of the whole process (9/10 respondents). Training is seen as increasing knowledge of Taxonomy in the field and understanding of the requirements and technical criteria associated with Taxonomy (9/10 respondents). Sharing knowledge, examples and practices is mentioned in relation to the interpretation of the Taxonomy and the search for information (2/10 respondents).

The third question focuses on the adoption of Taxonomy reporting in Finnish companies and the main pain points in the reporting process at the moment (10/11 respondents in total). The answers to the third question are analyzed using the following keywords and relevant entities: initial phase, uncertainty, resources, and interpretation. The initial phase requires time to absorb and learn (3/10 respondents) and this time includes uncertainty, a certain learning curve and allocating resources to do the right things; creating processes, collecting data and reporting (6/10 respondents). The question does not differentiate between SMEs and large companies, but large companies are considered to be better prepared to adopt the reporting requirements of the Taxonomy (2/10 respondents) than SMEs, especially in terms of resource use (1/10 respondents). Well over half of respondents (7/10 respondents) cite the difficulty of interpreting the Taxonomy and the different interpretations as the main problem. The difficulty of interpretation is highlighted by the different interpretations of the same issue and the uncertainty related to the interpretation of the guidelines.

The fourth question focuses on what challenges or new practices Finnish business actors face or adopt in their own organizations when acting as experts for Finnish companies on Taxonomy-related issues. The answers to the fourth question are analyzed using the following keywords and relevant entities: education, service design, resources, and challenges. Both internal and external training is seen as important for developing skills, not

only in Taxonomy-related issues, but also in sustainability issues in general (8/10 respondents). Internal training can include external expertise or skills development through service design. External training mainly takes the form of attending seminars, webinars or participating in industry forums. Expertise of existing resources is used and, where necessary, new resources are or have been recruited (4/10 respondents). Challenges in terms of resource allocation are seen, among others, in the new practices brought about by the Taxonomy Regulation, the increasing regulation in general in terms of sustainability and the large number of entities to be managed (5/10 respondents).

The fifth question asks how Finnish business actors, in terms of their own professional services, are prepared for the fact that sustainability reporting obligations, including reporting based on the Taxonomy, are increasing year by year and will apply to more and more Finnish companies. The answers to the fifth question are analyzed using the following keywords and relevant entities: training, strategy, piloting, partnership models, recruitment, legislation, and service delivery. As in question four, the importance of continuous training is linked to question five and is seen as an important part of the development of Finnish business actors in service provision, either in terms of client interface, memberships, partnerships, or the entities represented by the actors (7/11 respondents). For two respondents, influencing legislation is part of their professional work (2/11 respondents), while strategic work is emphasized by more than half of the respondents (7/11 respondents), mentioning for example process development, pilot projects, service delivery development and implementing Taxonomy in their daily work. To ensure the future provision of expert services, it is important to recruit new experts with expertise in ESG reporting, sustainability as an area of expertise in general, Taxonomy, and sustainability reporting, such as CSRD (3/11 respondents).

5.4 Theme 4: External expertise and advice in the future: Taxonomy

The fourth theme examines the future role of Finnish business actors in providing Taxonomy-related expertise.

The first question focuses on whether the use of external expertise and advice for Taxonomy reporting will increase in the future. The responses to the first question are analyzed using the following keywords and relevant entities: growth, regulation, knowledge sharing and

specific expertise. When discussing the growth and evolution of the need, the responses clearly show that the need is growing, and that the growth of the need is linked to the ever-increasing regulation and reporting requirements (11/11 respondents). Awareness is spreading both internally and externally (5/11 respondents). Internally, increasing internal knowledge and training is highlighted as a key factor in spreading knowledge. Externally, training, benchmarking and information exchange between different stakeholders are the main means of spreading knowledge. Specific know-how is seen as part of recruitment, training, and external consultancy (7/11 respondents).

The responses to the second question are analyzed using the following keywords and relevant entities: training, awareness, recruitment, consultancy, certification, and benchmarking. When examining the role of external expertise in advising Finnish companies in the future as reporting becomes more widespread, training and embedding knowledge, for example through internal groupings or expert teams, is mentioned in several responses. Training is seen as a means to understand the interpretation of the Taxonomy, for example in relation to technical criteria, and other issues arising from the reporting obligation in an applied sense, such as active monitoring of legislation (6/11 respondents). Increasing internal knowledge is strongly linked to hiring expertise, including in the implementation of reporting. This highlights the difference between SMEs and large companies in terms of the ability to recruit larger teams (4/11 respondents). External consultancy, which can be distinguished from training in this context, is seen as specific external expertise in the context of, inter alia, Taxonomy-alignment (6/11 respondents). Verification of reporting by an external and independent body is mentioned by two respondents (2/11 respondents). As knowledge sharing is also mentioned in the responses to the first question, it is also seen as an important issue for the future (4/11 respondents), especially sharing knowledge through good benchmarks and testimonials is seen as important.

6 Discussion

The discussion section draws conclusions on how well the research answers the research questions set for the research. The results are reflected in the theoretical framework of CS and sustainability reporting and in the analysis of the operating environment from a Taxonomy perspective.

The first research question seeks to answer the question of the role of Finnish business actors in helping companies to comply with the Taxonomy as part of sustainability reporting.

Regarding the results, it is important to understand the views of Finnish business actors on how they currently perceive the level of CS in Finnish companies and their internal competence in sustainability management. The picture that emerges from the interviews is based both on the actors' cooperation with companies and on their general perception of the Finnish business community when talking to them. The picture can be seen as a basis for the expert work that Finnish business actors carry out either in their interface with customers, at partner level, for their member companies or in cooperation with the entities they represent.

Although more than half of the interviewees consider Finnish companies to be sustainable in their business operations and pioneers in promoting sustainability issues, the increase in reporting requirements is seen, if not as a direct concern, as an essential part of the actors' view of how companies can develop their internal competences and acquire cross-sectoral competences in the future. Maintaining and increasing resources and know-how in companies can also be interpreted as part of the well-being of the Finnish economy in terms of profitable business, growth, and competitiveness of companies, especially in terms of green transition and investment.

When discussing the role of Finnish business actors in assisting the business community in complying with the Taxonomy, the most important issue in relation to the research question is the role of the actors themselves as external experts. Looking at the results on the internal expertise of companies, Taxonomy as a whole is also partly challenging for experts, as regulation is evolving and requires experts to continuously educate themselves and deepen their own expertise. The results show that while regulation is well understood in large companies, the need for external expertise in SMEs is expected to increase in the future.

When companies, whether large or SMEs, need external expertise, it is most likely due to either a lack of resources or a lack of know-how. In this case, the role of the external expert is to help the company deal with an issue that is significantly related to its business, in this case understanding and implementing the Taxonomy as part of the company's business and, more broadly, as part of CS, which also affects the network of stakeholders around the company.

Starting to report on Taxonomy can also be interpreted as affecting the workload, resources and maintaining the internal expertise of external experts. As with internal resources, external experts need to be able to interpret the Taxonomy Regulation correctly.

In addition to legal expertise (interpretation or proactive work), where this is not available within companies, they also need external advice on, for example, the interpretation of technical criteria. This research does not make a terminological distinction as to whether training is considered part of consultancy, but in this case, it can be interpreted as also being part of consultancy, which can also be interpreted as including CS development work, assistance with reporting and verification of reporting, in so far as these services are part of the expertise of an external expert organization.

A certain learning curve is obviously also part of the role of external experts when it comes to Taxonomy Regulation. Looking at the introduction of Taxonomy reporting in Finnish companies and the prevailing pain points, initial uncertainty, resource adequacy and diversity of interpretation emerge. In this respect, resource adequacy, resource allocation and maintaining expertise in the face of ever-increasing reporting are also challenges for Finnish business actors.

The second research question examines how external experts can prepare now for the fact that sustainability reporting requirements, including Taxonomy-alignment reporting, are increasing every year and will apply to more and more companies.

The extension of regulatory reporting requirements to the SME-sector will impose obligations for which SMEs should be preparing now. Although the interview responses suggest that larger companies have a better understanding of sustainability and related reporting than SMEs, the issues raised by the Taxonomy can also be interpreted as a challenge for large companies. Whether an SME or a large company, the results suggest that data collection, reporting, understanding the regulations, verification of reporting, regulatory

fragmentation and resources are the main challenges currently associated with Taxonomy-alignment and reporting work.

The results suggest that Finnish business actors are prepared to support both large companies and SMEs in the future. This is reflected in the internal work of the experts, including process development, training, and deepening of expertise, for example through targeted recruitment in specific areas of expertise such as ESG framework and CSRD reporting.

Based on the results of this research, the author highlights specific areas of competence, which also come up in the interviews when asked about the future internal competence of Finnish companies: biology, geography, environmental technology, law, business, and communication (theme 1, question 2). The research does not compare in-house competences and the services provided by external experts, but the results show that the need for competences is increasing both in the expert companies and in the companies and that specific competences are increasingly focused on areas and issues related to sustainability reporting. Although the research does not interview Finnish companies, but only external experts, their view of Finnish companies' expertise in sustainable development can be considered well-informed.

The increase in mandatory sustainability reporting is new for both companies and external experts. The results of the interviews show that there is a strong need for training on both sides. In some cases, the importance of training is highlighted both in terms of practical implementation and anticipating future challenges, both within companies and in terms of the skills of external experts.

The results of this research suggest that the amount of external expertise and specialized knowledge will increase in the future. This is linked to the ever-increasing regulatory and reporting requirements, which are becoming, if not more complex, then more diversified, considering the ever-expanding scope of sustainability. Awareness is expected to increase not only through training, but also as part of the dissemination of information, to the extent that information can be shared through so-called 'practical examples'.

6.1 Discussion based on theory and analysis of the operating environment

Nasreen et al. (2023) refer to the 1987 Brundtland Report, which defines sustainable development in terms of actions and decisions taken by companies 'today'. The author of this research sees that the research results, which highlight concrete actions taken by Finnish companies (theme 1, question 1) to promote CS not only 'now' but also in the future, show that the 'present', which historically reflects the 1987 Brundtland Report, also reflects the 'now' in Finnish companies' CS work.

According to Marrewijk (2003, 103) CS is an end goal that encompasses CR and its dimensions of CR (Figure 3). Achieving these goals requires strategic planning and expertise, both within the companies themselves and from Finnish business actors providing external expertise. The importance of strategic work is underlined by the results of this research on the development of expertise of business actors to support companies in the CS field in the future (theme 3, question 5).

Figure 1 (KPMG International, 2022b, 6) illustrates the shift in sustainability reporting today, driven by mandatory regulation. These developments will have a significant impact on companies' reporting practices now and in the future (KPMG International, 2022b, 3). As the results of this research show, the challenge is not just about the availability of resources within companies, but a holistic change that affects the overall strategic behavior of organizations and their orientation towards greater CS, including their supply chains (theme 1, question 2; and theme 2, question 1). What is remarkable about the results, however, is that this research focuses, with a small sample, on discussing CS in relation to Taxonomy-alignment and reporting from the perspective of Finnish business actors, not from the direct perspective of different business representatives.

In terms of global linkages, the author of this research highlights an insightful initiative by ABB regarding Taxonomy and its existence as a classification system only in the EU. According to ABB's Sustainability Report 2021, their statement sets out a global sustainability rating system, and the Taxonomy, if well implemented, could serve as an example (ABB, 2021). In line with ABB's 'statement', the results of this research show that responsible business offers opportunities, including a competitive advantage, not only in national markets but also in terms of growth and exports (theme 1, question 3). The research suggests that the current classification system should support rather than hinder this change,

particularly in relation to classification uncertainty, as innovation, the creation of new services and investment are all essential elements of responsible business (theme 3, question 3).

In light of the findings of this research, and taking into account the taxonomy as an operating environment and the ultimate goal of CS, the researcher proposes the following findings for discussion in further research:

- 1) corporate financial disclosure is closely linked to the introduction of voluntary CS frameworks, such as the SDGs, and now increasingly regulated sustainability reporting, such as the CSRD. According to the Commission (n.d., E), the CSRD will help to reduce reporting costs in the medium and long term by harmonizing information. However, based on the results of this research, short-term costs are expected to arise from the need for organizations to hire staff as reporting obligations increase. According to Rabobank (2022), lack of expertise and data collection are examples of the challenges companies face in sustainability reporting. As discussed in Chapter six (6), the results of this research highlight similar issues (theme 2, question 3; and theme 3, questions 2 and 3) in relation to knowledge of EU Regulation and the use of external expertise as part of reporting under the Taxonomy Regulation. Knowledge sharing and training, which can be seen as part of the accumulation of experience, is particularly evident in the results of this research in terms of knowledge exchange and sharing, both internally and externally (theme 3, question 2; theme 4, question 1; and theme 4, question 2). The author of this research considers community-based knowledge sharing (without significant costs), for example through sustainability reporting practices, to be a useful area of research, given the competitive challenges associated with knowledge sharing;
- 2) according to Commission (n.d., E) the CSRD reporting will be based on the ESRS. The ESRS standards would be applied to listed SMEs in 2026 (KPMG International, 2022a, 5) It is likely that up-front CSRD reporting by large companies will be reflected in SMEs already earlier, for example through supply chains. However, according to the results of this research, SMEs may not have sufficient skills or resources to meet the reporting requirements (theme 2, question 1; theme 2, question 2; theme 3, question 3; and theme 4, question 2). The use of external expertise, either as a paid resource or through the provision of free training, can be seen as an

opportunity and, in line with the findings, Finnish business actors are already preparing for the increasing demand for expert services. For further research, the author of this research suggests a discussion on the involvement of stakeholders in supply chains in the cooperation between large companies and SMEs to share information on the future CSRD reporting; and

- 3) research related to all the environmental objectives of the Taxonomy, once all the objectives have entered into force, in addition to the first two that are now in force (climate change mitigation and climate adaptation). The author of this research suggest that future research could also look more broadly at how the Taxonomy Regulation affects the growth, competitiveness, internationalization and especially access to capital of Finnish companies as part of the green transition objectives, not only at the company level but also as part of the Finnish economy.

6.2 Discussion in relation to current practice

In April 2023, Deloitte compiled a report on Finnish listed companies whose Taxonomy data has been published. The sample does not include companies from the financial sector but includes 62 companies from different industries and size categories. Weighted by business activity, 78% of the companies are not covered by the Taxonomy, 11% are Taxonomy-eligible but do not contribute to environmental objectives and 11% contribute to environmental objectives, i.e., these companies are Taxonomy-aligned. Weighted by company size, 80% of companies are not covered by the Taxonomy, 6% are Taxonomy-eligible and around 15% are Taxonomy-aligned. Non-inclusion in the Taxonomy does not directly mean that the company is not operating in line with current environmental objectives, but that the company's sector of activity is not yet included in the current sectors covered by the Taxonomy, but the company can report Taxonomy data for activities that are sustainable, such as investing in energy efficiency. (Deloitte, 2023)

The Commission has completed an initiative on the four remaining environmental objectives (Figure 23), which was open from April to May 2023 (European Commission. n.d., J). One of the contributors is the Ellen MacArthur Foundation [hereafter Foundation], which participated in the work of the Platform from 2020 to 2022. The Foundation takes a specific position on the environmental objective of the circular economy, highlighting the textile,

furniture, and food sectors as important value chains in the circular economy. With regard to economic activities, the Foundation strongly recommends that these sectors be included in the Delegated Act. (European Commission, 2023) The highest number of replies came from Belgium with 142 (28%). Finland received 15 replies (3%). A total of 508 replies were received, with the highest number of replies coming from business associations (199) and the second highest number coming from companies (150). (European Commission. n.d., K)

According to Deloitte (2023), adding the four remaining environmental objectives (Figure 23) to the Taxonomy, where relevant, will increase the share of Taxonomy-aligned activities in Finnish listed companies.

In order to provide information on the Taxonomy and its application to reporting obligations, the Commission has developed tools to help understand the purpose and benefits of the Taxonomy, not only at company level, but also in relation to the objectives of the EGD. Two different tools are currently available: the navigator tool, which includes information on the different sectors and technical criteria, and the calculator tool, which has been developed in an interactive format. The calculator tool provides guidance on reporting obligations (Disclosures Delegated Act, Article 8) and information on KPIs (CAPEX and OPEX). (European Commission. n.d., L)

FIBS (the largest corporate responsibility network in the Nordic countries) published the Corporate Responsibility 2023 survey in May 2023 (FIBS, 2023, 1, 5). The survey targets the 1000 largest companies in Finland (sample 184 companies, of which 29% are listed companies) (FIBS, 2023, 3).

According to FIBS (2023, 6), the five key findings of the survey are:

- 1) companies recognize the benefits of sustainability work and sustainability work is part of their strategy;
- 2) companies have room for improvement in terms of concrete actions related to sustainability;
- 3) innovation and investment could potentially contribute more to push companies away from unsustainable business practices;
- 4) the role of public policy in the sustainability transition needs to be better recognized by companies; and

- 5) the skills gap in companies related to sustainability work can be seen as a problem for the future.

The Joint Research Centre (JRC) has published the technical report on voluntary sustainability reporting by SMEs in the context of the Taxonomy Regulation (Taxonomy-alignment). The report discusses the benefits of voluntary reporting at the current level, including visibility, improved access to finance, analysis of comparative sustainability data and better monitoring of sustainability performance. (European Commission, 2022g, 2)

With regard to sustainability reporting, the findings of the report highlight the availability, collection and quality of data, as well as the use of resources and existing expertise (European Commission, 2022g, 21-23). According to the JRC report (2022, 26), reporting itself is not an objective, but the aim is to make companies understand the results of their activities in the transition to a carbon neutral society.

The report mentions targets linked to the Paris Agreement or EGD targets as possible incentives that could be used to identify KPI indicators for SMEs. The benefits of meeting targets could include, for example, improved access to finance or positive visibility within the industry and with customers. (European Commission, 2022g, 26)

7 Conclusions

Companies don't run without capital, and the Finnish economy needs business, trade, and exports. Sustainable business is a driver for a sustainable economy and a green transition that does not allow over-consumption of natural resources. According to Elinkeinoelämän Keskusliitto (2023), the green economy will increase both the amount of investment (about 100 billion euros) and the number of jobs (about 100,000) in Finland over the next ten years. From a financial perspective, directing investment towards sustainable activities is an essential part of the Taxonomy Regulation. The Taxonomy Regulation defines what is sustainable and this is the backbone of the call in the Action Plan (2018) for a common classification system for sustainable economic activity in the EU. (European Commission, n.d., A)

This research is motivated by the researcher's interest in studying sustainability in the context of mandatory sustainability reporting, where Taxonomy as a research topic creates an interesting and topical research area. The aim of the research is to get a clear picture of the Taxonomy and how Finnish business actors promote Taxonomy-alignment in companies in different industries as part of sustainability reporting through their services. In the interview responses, Finnish business actors are involved in sharing empirical knowledge, providing expertise either at the customer interface, through a network of partners or members, or through the entities they represent.

As Taxonomy has not yet been extensively researched in terms of how Taxonomy reporting is initiated in Finnish companies and what challenges and benefits it brings, the author of this research sees Taxonomy-related research as an essential part of CS work, especially in the areas highlighted and discussed in section six (6) 6.1 based on the theoretical part and supported by findings from current practice in section six (6) 6.2. The author of this research also sees this research as supporting the prevailing understanding of the extent to which both large companies and SMEs currently need support in their sustainability reporting in the context of Taxonomy-alignment, the challenges they face, and the types of challenges that Finnish business actors can help them with. The results of the research are useful for external experts as well as for companies that have already prepared for the Taxonomy-alignment or are just starting to prepare for their sustainability reporting obligations.

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Appendix 1.

Themes and questions for the interview.

Diplomityön teemahaastattelun teemat ja kysymykset

Perustiedot koskien teemahaastatteluja

Haastateltava henkilö ja organisaatio (analysoidaan anonymisti tuloksissa):

Haastattelun ajankohta ja kesto: _____

Muuta huomioitavaa: _____

Haastattelija: opiskelija Taina Tervonen, Lappeenrannan–Lahden teknillinen yliopisto LUT

Teema 1: vastuullisuus yleisesti

1. Kuinka vastuullisena näette tällä hetkellä suomalaisten yritysten liiketoiminnan?
2. Millaista sisäistä osaamista näette suomalaisten yritysten tarvitsevan nyt ja tulevaisuudessa muuttuvan ja lisääntyvän vastuullisuussääntelyn myötä?
3. A) Millaisia mahdollisuuksia näette vastuullisen liiketoiminnan tarjoavan suomalaisille yrityksille? B) Entä Suomen talouden kannalta?

Teema 2: EU-tason regulaatio

1. Miten hyvin asiakas-, kumppani, -tai jäsenyrityksenne tai edustamanne tahot tuntevat kestävyys- ja vastuullisuusraportointiin liittyvän EU-sääntelyn?
2. EU-taksonomia laajenee koskemaan tulevaisuudessa yhä useampia suomalaisia yrityksiä, suuryrityksistä kohti pienempiä yrityksiä. Miten näette pienempien yritysten tämänhetkisen valmiustilan lähteä vastaamaan lisääntyvän sääntelyn mukanaan tuomiin vaatimuksiin?
3. A) Millaisia haasteita näette suomalaisten yritysten kohtaavan EU-taksonomiamukaisuuden määrittämisessä ja taksonomiaraportoinnissa? B) Entä hyötyjä?

Teema 3: ulkopuolinen asiantuntijuus ja neuvonta: EU-taksonomia

1. Miten näette oman roolinne suomalaisten yritysten auttamisessa EU-taksonomian noudattamisessa osana kestävä kehityksen raportointia?
2. Millaista ulkopuolista asiantuntijuutta ja neuvontaa asiakas-, kumppani, -tai jäsenyrityksenne tai edustamanne tahot tarvitsevat taksonomian asettamien vaatimusten täyttämiseksi tällä hetkellä?
3. Miten näette taksonomiaraportoinnin lähtevän toimimaan suomalaisissa yrityksissä, ja mitkä ovat suurimmat kipupisteet tällä hetkellä?
4. Millaisia haasteita tai uusia käytäntöjä olette kohdanneet tai ottaneet käyttöönnne omassa organisaatiossanne toimiessanne asiantuntijana suomalaisille yrityksille EU-taksonomiaan liittyvissä asioissa?
5. Miten olette omien asiantuntijuspalveluidenne osalta valmistautuneet siihen, että kestävä kehityksen raportointivelvoitteet, mukaan lukien EU-taksonomiaan perustuva raportointi, lisääntyvät vuosi vuodelta ja tulevat koskemaan yhä useampia suomalaisia yrityksiä?

Teema 4: ulkopuolisen asiantuntijuuden ja neuvonnan rooli tulevaisuudessa: EU-taksonomia

1. Miten näette suomalaisten yritysten ulkopuolisen asiantuntijuuden ja neuvonnan käyttämisen tai hyödyntämisen tarpeen määrän kehittyvän koskien taksonomiaraportointia tulevaisuudessa?
2. Millaista ulkopuolista asiantuntijuutta ja neuvontaa näette suomalaisten yritysten tarvitsevan lisääntyvän taksonomiaraportoinnin myötä tulevaisuudessa?