

Opportunities and Challenges of Supply Chain Sustainability Reporting: The Case of Slovenian Multinational Manufacturing Companies

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Abstract

This article explores reporting on supply chain sustainability from the perspective of opportunities and challenges for multinational manufacturing companies, considering the evolved European Union (EU) regulations and the scope and complexity of international supply chains. In the theoretical part, we examine corporate sustainability reporting, focusing on EU regulatory framework, sustainability in international supply chain management, and reporting on supply chain sustainability. The empirical analysis is based on the secondary and primary data gathered from a non-random sample of Slovenian multinational manufacturing companies from B2B industry. The analysis shows that the companies discussed included information on supply chain sustainability in their sustainability reports; however, they weren't very well-prepared for the requirements of the new EU sustainability reporting directives. We found they perceived opportunities and challenges in supply chain sustainability reporting similarly. Our research findings have several implications for corporate sustainability management and national institutional business support.

Introduction

Corporate sustainability reporting requirements are evolving and becoming more stringent. Over the past two decades, sustainability reporting has been largely voluntary. Adopting mandatory and regulated sustainability reporting in the last few years has significantly changed the landscape of non-financial corporate reporting (KPMG International, 2022, 3-6; OECD, 2024, 3). Transparency on sustainability implementation has become a part of the information companies must disclose to the public. Therefore, the knowledge and understanding of sustainability reporting is becoming increasingly important for companies (Deloitte, 2020, 2).

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Since supply chains represent a large part of companies' activities, their sustainable performance is essential for achieving corporate sustainability commitments (Alves, Mork, Rogge, Dutta, & Steinberg, 2022, 3). Pursuing sustainable supply chains, including a thorough review process as part of a corporate's management system, helps companies identify supply chain risks and better understand their supply chain performance (OECD, 2017, 3), which is becoming a significant part of sustainability reporting (Yadava & Sinha, 2016, summarised in Freire Lins, Erthal, & Marques, 2023, 2).

The European Union (EU) is tightening its regulatory framework on sustainability. Under Green Deal and the Sustainable Financial Framework, the EU is developing and amending sustainability reporting regulations as mechanisms for achieving sustainability goals. Two directives that mark the importance of value and supply chains in corporate sustainability reporting have been developed: The Corporate Sustainability Reporting Directive (CSRD) entered into force in January 2023 (European Commission, 2023), and the Corporate Sustainability Due Diligence Directive (CSDDD) was adopted in May 2024 (European Commission, 2024). In connection with CSRD, the European Sustainability Reporting Standards (ESRS) have been developed at the end of 2023 (European Commission, 2023). While CSRD expands the scope of reporting, ESRS standards provide a framework for consistency and comparability.

Our research assumes that the sustainability of supply chains has a crucial impact on achieving overall corporate sustainability performance and that the new EU sustainability regulation significantly impacts corporate sustainability performance and reporting. The evolution of corporate sustainability regulation and the commitment to sustainability reporting brings new challenges and opportunities for companies. Mandatory detailed reporting on the sustainability of international supply chains presents new dilemmas for multinational companies with complex supply chains regarding the number of business partners involved, their geographical origins, and the organization of downstream and upstream supply chain activities. There is a research gap in the existing literature on identifying the perceptions of multinational corporations on the new mandatory sustainability reporting of their large and complex international supply chains. Neither the perceptions of these companies about the content nor their perceptions about the implementation of this reporting are known. Such research can contribute to developing proactive supply chain sustainability management and national business institutional support for this reporting type.

This article aims to explore the sustainability reporting on supply chains in selected Slovenian multinational manufacturing companies operating in the B2B industry and determine their awareness, commitment, and perceptions about the new EU sustainability reporting regulations, focusing on supply chain sustainability reporting. We intend to identify opportunities and challenges the discussed companies perceive when reporting on the sustainability of their supply chains.

In the first section, we review the literature on corporate sustainability reporting, focusing on supply chain sustainability in the context of the evolved new EU regulatory framework on sustainability reporting. Then, we develop the hypotheses and describe the Methodology and Data. In the fourth section, we present and discuss the research results. The fifth section comprises a conclusion with research limitations, suggestions for further research, implications for corporate sustainability management, and national institutional business support.

Literature Review

Corporate Sustainability Reporting

Corporate Sustainability Reporting refers to companies publicly disclosing information about their non-financial performance and impacts (Deloitte, 2020, 2-6. A sustainability report includes disclosure of a company's ESG targets and informs about the company's progress and efforts to achieve these targets (GEP, 2023a). This reporting aims to provide stakeholders—such as investors, customers, employees, and the community—a transparent view of how a company manages its sustainability practices and contributes to sustainable development. Reporting on environmental performance and impacts comprises metrics like energy consumption, greenhouse gas emissions, waste management, water usage, and biodiversity impacts. In social responsibility, companies report on labor practices like employee welfare, diversity and inclusion, labor rights, and community engagement. Governance performance includes reporting on management practices, like the company's governance structure, ethical practices, compliance with regulations, sustainability risk management, and stakeholder engagement (CGC, 2024).

Corporate sustainability reporting has developed from environmental and corporate social responsibility reporting (UNEP, 2019, 13-26). It is an evolving field with different reporting systems. Various organizations have developed guidelines for approaching sustainability

reporting. Global Reporting Initiative (GRI) was the first organization to create voluntary standards for sustainability reporting, often used as the basis for mandatory reporting requirements. GRI standards are the most commonly used standards for sustainability reporting.

Sustainability reporting can vary depending on the type of company, its sector, size, location, and intended audiences. It can be voluntary or mandatory. Different groups of instruments can be used to enforce sustainability reporting, such as requirements or expectations of sustainability reporting laws, regulations, and policies issued by administrative bodies, self-regulatory reporting requirements, guidelines or recommendations for reporting on a specific topic or by a specific sector, and voluntary guidelines and standards for sustainability reporting (UNEP, 2019a, 56).

EU Regulatory Framework on Corporate Sustainability Reporting

The EU developed the Green Deal in 2019 to respond to the climate crisis and as a key to a climate neutrality and sustainability (European Parliament, 2023; European Council and Council of the European Union, 2023). It is a package of policy initiatives governing the areas of climate, environment, energy, transport, industry, agriculture, and sustainable finance, all of which are closely interlinked. Based on the Green Deal, the EU has made several commitments, notably to become the first climate-neutral continent by 2050 and to reduce GHG emissions by at least 55% below 1990 levels by 2030 (European Commission, 2021a). In 2018, the EU adopted its first Sustainable Growth Finance Action Plan. Building on this plan, the EU has set out the three building blocks of a sustainable finance framework (European Commission, 2021a, 2024): 1) a classification system or 'taxonomy' of sustainable activities that sets the conditions that economic activity must meet to be considered environmentally sustainable; 2) a disclosure framework for non-financial and financial companies, providing investors with the information they need to make informed decisions on sustainable investments; and 3) investment tools, including benchmarks, standards, and labels.

Under the second building block, the EU has also developed the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), which complement each other. The CSRD, which entered into force in 2023,

expands the previous Non-Financial Reporting Directive (NFRD) by broadening the scope of companies required to disclose sustainability information, strengthening reporting requirements, and integrating sustainability into corporate governance (EcoVadis, 2023, 3; Deloitte, 2023, 7). It ensures that companies report reliable and comparable sustainability information that investors and other stakeholders need. The CSRD emphasizes double materiality, which requires companies to report on the impacts of their activities on people and the natural environment, as well as how sustainability matters affect the company (Directive (EU) 2022/2464, 2022, 10). Double materiality expands the traditional notion of materiality in accounting and auditing, measured by financial factors, to environmental, social, and governance (ESG) considerations. It recognizes that a company's impact on society and the environment is significant for its financial performance and overall sustainability. By adopting double materiality, organizations acknowledge that their economic activities have broader implications beyond financial results, requiring a more holistic approach to reporting and accountability.

The CSRD is binding for an extended range of companies. Different groups of companies must report on different timetables (European Commission, 2023a; Wollmert & Hobbs, 2022). Companies previously subject to the NFRD (large listed companies, large banks, and large insurance companies) and large non-EU listed companies with more than 500 employees are committed to reporting from the financial year 2024, with the first sustainability report published in 2025. Other large companies with number of employees between 250 and 500, including other large non-EU listed companies, are committed to reporting from the financial year 2025, with a first sustainability report published in 2026, and listed small and medium-sized enterprises (SMEs), including non-EU-listed SMEs, are committed to reporting from the financial year 2026, with a first sustainability report published in 2027.

The CSRD requires companies to apply standards for sustainability reporting. Therefore, the European Commission adopted a new common European Sustainability Reporting Standards (ESRS) in 2023. By requiring common standards, the CSRD aims to ensure that companies across the EU report comparable and reliable sustainability information. The ESRS comprises 12 standards, which are thematically grouped and cover different elements of sustainability (EFRAG, 2024). They are based on the standards of the Global Reporting Initiative (GRI) and the standards of the International

Sustainability Standards Board (ISSB) (European Commission, 2023a).

The CSDDD, which entered into force in 2024, updates and strengthens the rules related to the social and environmental information companies must report and ensures a consistent flow of sustainability information (European Commission, 2021a). It emphasizes a better understanding of the double materiality perspective. Besides financial data, companies must publicly disclose relevant information about the sustainability risks and opportunities they face and the impacts of their activities on people and the natural environment (Wollmert & Hobbs, 2022; European Commission, 2021). The CSDDD focuses on due diligence of a company's operations, subsidiaries, and value chain in which direct and indirect business relationships are established (European Commission, 2022). Due diligence is a process by which companies can identify, prevent, mitigate, and explain how they address their actual and potential adverse impacts (OECD, 2017, 18). The due diligence process concerns a company's entire value chain, including its activities, products and services, business relationships, and supply chains. Impacts related to the company's activities include impacts directly caused by the company, impacts to which the company contributes, and impacts related to the company's value chain (Directive (EU) 2022/2464, 2022, 10-11). Supply chain due diligence is gathering information and reviewing records to assess the risks and opportunities associated with a company's supply chain. It is essential to any company's risk management strategy and helps companies make informed decisions about their suppliers and subcontractors (GEP, 2022). CSDDD seeks to ensure that companies address the negative impacts of their actions, including their value chains inside and outside Europe (European Commission, 2024a). The commitment for groups of companies is divided into three periods from CSDDD's entry into force (European Parliament and Council, 2024, 91-92): 1) from 2027 for companies with more than 5000 employees and a turnover of €1500 million; 2) from 2028 for companies with more than 3000 employees and a turnover of €900 million; and 3) from 2029 for companies with more than 1000 employees and a turnover of €450 million.

Supply Chain and Its Management

A supply chain is a network of interrelated companies that supply materials, products, and services. The upstream supply chain is the process of getting materials to the manufacturer, while the downstream supply chain is the process of getting products from the manufacturer

to the end consumer (EFRAG, 2022, 26). Suppliers directly supplying goods or services are first-tier suppliers, while suppliers that supply the first-tier suppliers are referred to as second-tier suppliers. The international supply chain is similar to a complex network where numerous companies are part of multiple supply chains (Sanders, 2012, 5, 6). Supply chain management (SCM) is the systematic and strategic coordination of business functions within a given company and between companies within a supply chain to improve the long-term performance of individual companies and the supply chain as a whole (Mentzer et al., 2001, 18, summarised in Freire Lins, Erthal, & Marques, 2023, 3). SCM activities must be coordinated in domestic and international operations. International SCM involves the global focus of a company, including its diverse and internationally dispersed markets, production facilities, and suppliers. It requires a well-planned, designed, and managed supply chain network (Sanders, 2012, 346).

Sustainability in Supply Chain Management

Integrating sustainability into supply chains can bring several benefits to a company: it reduces the negative environmental impacts of the supply chain, increases the company's reputation, promotes the development of better techniques to reduce risks in the supply chain, improves cooperation within the company and with stakeholders, fosters a favorable work culture, and creates new business opportunities etc. (GEP, 2023).

The integration of sustainability into supply chain management (SCM) has given rise to the term sustainable supply chain management (SSCM), understood as "the strategic, transparent integration and achievement of an organization's social, environmental and economic objectives in the systematic alignment of key inter-organizational business processes to improve the long-term economic performance of an individual company and its supply chains" (Carter & Rogers, 2008, summarised in Freire Lins, Erthal, & Marques, 2023, 1). According to Seuring and Muller (2008, summarised in Okongwu, Morimoto, & Lauras, 2013, 4), SSCM is defined as "the management of material, information and capital flows and collaboration between companies along the supply chain, integrating objectives from all three dimensions of sustainable development, i.e., economic, environmental and social, derived from customer and stakeholder requirements". Environmental, social, and governance (ESG) management has also gained significant importance in corporate sustainability management. In this context, supply chain sustainability

is about shaping a company's investment, operational, and purchasing decisions to achieve positive ESG outcomes and reduce negative impacts (World Economic Forum, 2022, 4).

Reporting on the Sustainability of Supply Chains

Sodhi and Tang (2019, 2946-2948) distinguish between visibility and transparency of the supply chain. Supply chain visibility refers to a company's efforts to gather information about upstream and downstream activities in its supply chains. In contrast, supply chain transparency refers to a firm disclosing information to the public about upstream and downstream activities and the products it sells. Gaining visibility in the supply chain is a necessary step towards obtaining and disclosing information. Visibility caters to the needs of a company's internal stakeholders, transparency, however, is aimed at external stakeholders, including customers, investors, non-governmental organizations (NGOs), regulators, and oversight agencies.

Companies disclose information on the sustainability of their supply chains to different degrees: in detail for both types of suppliers, only for first-tier suppliers, and only to assure customers that their suppliers meet the standards (Sodhi & Tang, 2019, 2948). Supply chain disclosure is influenced by regulatory requirements, stakeholder pressures (investors, customers), corporate governance and risk management processes, reputation management, industry factors, position in the supply chain, past industry affairs, business opportunities, and competitive pressures (Bayne, Ng, & Wee, 2022, 3893-3894; Freire Lins, Erthal, & Marques, 2023, 1-2).

Marshall, Mcgrath, McCarthy, and Harrigan (2016, 3-4) list four types of supply chain information that are commonly publicly disclosed: 1) information about the supplier members that make up the supply chain, including at least the names and location of first-tier suppliers and the location of second-tier suppliers; 2) information on origin, comprising information on the materials used in the product, the source location of the material or ingredients and details of how the material or ingredients were sourced and produced; 3) environmental information, such as water use, land use, levels of emissions and energy consumption generated, air pollution and waste from own activities and downstream suppliers; 4) social information, such as working hours, wages and benefits, working conditions, and health and safety reports, human rights, including child labour, forced labour, freedom of association, and

non-discrimination, social impact, including anti-corruption policy, impact on local communities, local cooperation and development programs, and non-compliance with rules and regulations.

Opportunities and Challenges in Supply Chain Sustainability Reporting

Early commitment to transparency and supply chain accountability can provide opportunities to prepare for mandatory sustainability information disclosures (Sodhi & Tang, 2019, 2950-2951). Companies that lead in sustainability practices can differentiate themselves in the market, gaining an edge over competitors who may not prioritize these issues. Measuring and reporting sustainability can drive innovation, leading to new products and services that meet evolving customer demands for sustainable solutions. Analyzing sustainability data can reveal opportunities for reducing waste, improving resource efficiency, and cutting costs, leading to more sustainable operations. By disclosing information on their supply chains, companies can also use the gathered information to shape their strategies, manage risks, and achieve more robust and sustainable corporate performance in the long term (EY, 2021, 19). By integrating sustainability into their core strategies, companies can ensure long-term resilience and adaptability in a changing market landscape. Additionally, they maintain and enhance reputation and gain customers' and investors' trust, as well as employee satisfaction and retention.

On the other hand, by hiding supply chain information, companies traditionally protect their competitive advantage in product development, production costs, product quality, and speed of delivery. Reporting on the sustainability of supply chains presents several additional challenges for companies, including difficulty in gathering accurate and comprehensive data from multiple suppliers and other stakeholders in the supply chain, the complexity of supply chains, lack of standardization on sustainability reporting, resistance of suppliers to cooperate, companies resource constraints, changing regulations on sustainability reporting, the challenge to provide clear and consistent reporting due to subjectivity and interpretation of sustainability metrics, difficulty in balancing the varying expectations of different stakeholders regarding sustainability reporting, risk of greenwashing that undermines credibility, costly and time-consuming work and requisite demonstration of continuous improvement and future commitments, which requires ongoing effort and

resources (Sodhi & Tang, 2019, 2946; Jain & Tripathi, 2022). Therefore, some companies wait until sustainability reporting is mandatory for them.

While significant opportunities exist in reporting on supply chain sustainability, the reporting challenges require strategic planning and investment to overcome them.

Hypotheses Development

Companies can prepare their sustainability reports within the voluntary reporting framework based on various international frameworks, standards, or guidelines, such as GRI standards, the Sustainability Accounting Standards Board (SASB), the OECD Guidelines for Multinational Enterprises, the United Nations Global Compact, and ISO 26000 standards. The use of the aforementioned voluntary standards and frameworks for sustainability reporting was also proposed by the European Commission's Non-Financial Reporting Directive (NFDR), as the predecessor of the CSRD (Hahnkamper-Vandenbulcke, 2021, 3). Adhering to these international guidelines enables companies to be better prepared for the demands of mandatory sustainability reporting. On this basis, we developed the hypothesis 1:

H1: Selected Slovenian multinational companies report on their supply chain sustainability voluntarily and follow the selected standards/frameworks proposed by the Non-Financial Reporting Directive.

In CSRD and CSDDD, the focus is on considering companies' value chains and reporting on their broader impact. The CSDDD creates an obligation for companies to conduct due diligence regarding actual and potential negative impacts on human rights and the natural environment concerning their operations, the operations of their subsidiaries, and activities within the value chain in the context of established business relationships. The CSDDD encompasses the inclusion of due diligence in policies and management systems. With due diligence, companies identify, assess, prevent, mitigate, or eliminate actual and potential negative impacts on human rights and the natural environment throughout their value chains and report on these aspects (European Commission, 2022, 23-32). However, due to the size and complexity of international supply chains, many companies still lack insight into the details of their international supply chains, as required by the new mandatory directives on sustainability reporting. On this basis, we developed the hypothesis 2:

H2: As part of their voluntary sustainability reporting, selected Slovenian multinational companies don't conduct due diligence on all aspects of their supply chains.

A review of the supply chain helps company to improve its information, knowledge, and understanding of its supply chain. Companies better manage the social and environmental risks arising from supply chains by understanding and reporting information about sustainability (Aplanet, 2023). With transparency, a company gains and maintains the trust of its stakeholders and protects its reputation (Sodhi & Tang, 2019, 2950). Revealing information about the sustainability of supply chains enables companies to comply with voluntary and mandatory reporting requirements. However, conducting due diligence on the supply chain can be challenging for companies due to the complexity of supply chains, market pressures, and lack of clarity regarding due diligence obligations (European Commission, 2022, 2). Collecting and disclosing information about supply chains can be expensive and time-consuming. Companies are also exposed to potential risks of disclosing supply chains' information, which they prefer to keep confidential, and negative responses from stakeholders (Sodhi & Tang, 2019, 2946, 2952). The challenge also represents a misunderstanding of the requirements for voluntary and mandatory reporting on the supply chains' sustainability. Companies recognize the significance of conducting due diligence and disclosing information about the supply chains' sustainability. However, reporting on sustainable business practices brings companies opportunities and challenges. On this basis, we developed the hypothesis 3:

H3: Selected Slovenian multinational companies perceive more challenges than opportunities in reporting on the sustainability of their supply chains.

Methodology and Data

In the empirical analysis, we used a qualitative method of case study analysis. The non-randomized sample of three Slovenian multinational manufacturing companies from different B2B industries was drawn from the online database of Slovenian exporters SLOEXPORT, according to the following criteria: manufacturing industry, more than 500 employees, an export share in revenues of at least 51%, the headquarters in one of two selected Slovenian regions - the Podravska or Savinjska -, evident commitment to sustainable business practices and consent to participate in the research. Since they are large manufacturing companies, from the number of

employees and the extent of resources points of view, with a high proportion of their revenues from international business activities and extensive and complex supply chains, they could share similar experiences and perceptions about supply chain sustainability reporting, indicating broader applicability of our empirical results.

Due to the companies' request for anonymity, in the research, they are denoted with the letters A, B, and C. Company A operates in construction, mechanical engineering, transportation, pharmaceuticals, food industry, cosmetics, automotive industry, motorcycle manufacturing, and electrical engineering. It has subsidiaries in Serbia, Bosnia and Herzegovina, and Croatia. Company B supplies the automotive, packaging, plastics, chemical, interior design, coatings and paints, household appliances, textiles, agriculture, construction, and pharmaceutical industries. It has a subsidiary in Bosnia and Herzegovina and a representative office in Serbia. Company C supplies automotive, pharmaceutical, food, transportation, electrical, consumer goods, construction, and aerospace industries. It comprises several manufacturing and service companies in Serbia, Croatia, Hungary, Brazil, and the USA.

In the first part of the empirical research, we analyzed the companies' reporting on the sustainability of their supply chains by reviewing their sustainability e-reports for the year 2022. We reviewed the sustainability reports, which are separate or part of companies' annual reports. In the second part of the empirical research, which started in May 2024, we conducted the e-survey of non-anonymous representatives of selected companies by structured semi-open-ended e-questionnaire prepared in the 1KA application. Before the e-survey, we contacted the three companies and asked for the appropriate contact person according to the survey content. After receiving the completed e-questionnaires at the end of May 2024, we contacted the companies' representatives who answered the survey and asked them for additional explanations about their answers to open-ended questions in the e-survey. The questionnaire comprised sections on the company's supply chain, sustainability reporting, due diligence in supply chain review, and the opportunities and challenges of sustainability reporting in the company's supply chain (See Table 1 in the Appendix).

Results and Discussion

Analysis of Sustainability Reports

In analyzing the selected companies' reporting on their supply chains' sustainability we considered

environmental, social, and governance (ESG) aspects. We also analyzed the due diligence of the company's supply chains.

Two selected companies provided their sustainability report as part of the annual report, while one company prepared a stand-alone report. All companies prepared 2022 sustainability reports based on GRI standards for the first time. They also considered other international frameworks and standards from various fields. All companies stated standards such as ISO 9001 (quality management system), ISO 14001 (environmental management system), and ISO 45001 (safety and health at work). Some of them also used some standards from their industry. Company A cites standard ISO 22095 (chain of custody) for specific products. Company B has completed registration in the environmental management and assessment system EMAS for its unit at a separate location. Company C commits to compliance with the SA8000 standard (social accountability management system). The activities related to the UN Sustainable Development Goals are mentioned in the reports of companies A and B. Company C stated compliance with the ISO 26000 standard. In their sustainability reports, the selected companies stated goals related to sustainable development. Companies B and C elaborated and described the sustainability goals in detail. All companies described their risk management. Companies B and C mentioned risks associated with their supply chains in the context of additional statements regarding identified risks. Company B also revealed the risks of child labor in its supply chain and indicated the need for further verification.

All companies cited efforts towards a circular economy. In this context, for example, they included recycling, reusing materials, using secondary and recycled materials, and a closed-loop system. Companies described the supply of materials. Company A described responsible input sourcing and critical raw materials from conflict zones. Company B described the supply of several vital materials, specifically from which regions they are sourced, how often, and in what manner. Company C reported on conflict materials in its supply chain. Companies support responsible and sustainable behavior among their employees and business partners with varied documents. They have formulated documents such as the Sustainability Policy, Code of Ethical Conduct, Corporate Integrity Regulations, and Quality Policy. They described the expectations towards their suppliers and other business partners. The management of supply chain sustainability and the careful monitoring of supply chains are significantly influenced by establishing a supplier

code of conduct. Company B stated that the suppliers' code of sustainable conduct is being prepared. Company A outlined the conditions that influence the formation of the supplier network. Company B stated the procedure for evaluating suppliers and highlighted the results from the evaluation. Company C provided information on suppliers' annual evaluations based on set criteria groups.

All companies emphasized respect for human rights, which they also demand from their suppliers. In this regard, the two companies mentioned their consideration of international documents such as the UN Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights, and the ILO Declaration on Fundamental Principles and Rights at Work.

Selected companies are members of several national and international associations and organizations promoting sustainable and responsible supply chain management. All selected companies also mentioned the established procedures for accepting and addressing complaints and reports of inappropriate practices. This is also an essential part of the careful review (due diligence) of the supply chain and enhances and strengthens the understanding and transparency of the supply chain. All three selected companies also stated that their compliance with the European Union's REACH regulation on protecting human health and the environment against the harmful effects of chemical substances contributes to the due diligence of their supply chains.

Analysis of the Survey Results

Table 1 in the Appendix summarizes selected companies' responses in the survey and follow-up interviews.

Sustainability Reporting Awareness and Commitment

We asked companies about their current and previous commitment to sustainability reporting and their awareness of CSRD, ESRS, and CSDDD. All companies were committed to the NFDR, the predecessor of the CSRD. Companies have already had to prepare reports on sustainable business practices. They shaped these reports according to their judgment of appropriateness, as using standards or frameworks for sustainability reporting weren't mandatory for them. All three companies were preparing their first report under the CSRD, which was required in 2024, with the first report to be published in 2025. Two companies were well-informed about the CSRD, ESRS, and CSDDD, while one was poorly informed. We asked companies about the factors influencing

sustainability reporting in their supply chains. Similar and different factors in companies influenced their reporting on the sustainability of the supply chains. All companies cited the factor of "compliance with regulatory requirements." The factors "customer demands," "initiatives and guidelines in your industry," "concern for reputation," and "requirements of the company's owners or shareholders" have been mentioned twice. The factors "use of voluntary standards and guidelines" and "improving the understanding of the impacts of the company's supply chain on the environment and society" were mentioned once. The factors "creating competitive advantages," "past negative events in the industry," and "corporate governance procedures" were not selected as influential factors for supply chains' sustainability reporting.

Respondents also assessed the companies' preparedness for supply chains' sustainability reporting according to the requirements of the CSRD. Two companies reported good readiness, while one reported poor readiness. The company that reported poor preparedness claimed that the relevant EU directive must be read and studied in detail.

Opportunities and Challenges in Supply Chain Sustainability Reporting

We asked companies about the challenges and opportunities they perceive when disclosing information about the sustainability of supply chains. The overview of selected perceived opportunities and challenges shows similarities and differences among companies. B and C companies perceived six opportunities to disclose information, while company A stated three opportunities. Company B perceived six challenges, while companies A and C perceived four.

All companies face challenges such as "the prolonged duration of information gathering" and "suppliers' reluctance to provide information about their operations." Twice, the identified challenges included the selected responses "additional costs of collecting and interpreting information," "questionability of ensuring the quality of collected information," and "risk of disclosing confidential information about the supply chain." The challenges of "lack of knowledge about the supply chain" and "acquiring and selecting information for reporting" were selected twice. The challenges for the companies also represent "negative stakeholder feedback" and "lack of understanding of reporting requirements."

Concerning opportunities for supply chain's sustainability reporting, all selected companies chose the response "improving supply chain knowledge." The responses "building credibility and gaining trust among stakeholders (customers, local community, owners)," "readiness for future regulatory requirements regarding sustainability reporting," "acquiring new customers," and "using sustainability information to improve business operations" were selected twice, "compliance with industry expectations," "incentive to improve the sustainability of supply chains," "enhancement of reputation," and "improvement of understanding the impact of supply chain sustainability on the company's business", "access to capital through sustainable financial instruments, incentives, subsidies, participation in tenders" and "readiness to manage social and environmental risks and impacts of the supply chain" were selected once.

We identified similarities in the perception of opportunities and challenges among selected surveyed companies. A common opportunity they perceive is to disclose information to enhance their knowledge and, thus, understanding of the supply chain. The common challenges they perceive involve the difficulty in obtaining information due to the reluctance of suppliers and the lengthy process of gathering information.

Due Diligence Conduct in Supply Chains

A thorough supply chain review is critical for understanding supply chains and gaining insight into their performance. We surveyed companies about the factors that influence the conduct of due diligence in their supply chains. All selected companies have chosen the factors of "knowledge and understanding of the supply chain," "identification and management of operational supply chain risks," and "identification and management of socio-environmental supply chain risks." The factors "consideration of regulatory requirements," "gathering information about suppliers," and "evaluating new supply chain opportunities" were selected twice. The factors "ensuring supply chain efficiency," "identifying, mitigating, and preventing actual and potential harmful impacts of the supply chain," and "pressures from stakeholders (customers, local community, owners)" were selected once.

In the case of the selected three companies, the most significant influence on the performance of due diligence in the supply chain is driven by the intention to understand better and comprehend the supply chain and the identification and management of risks that arise

within it. We asked companies to what extent they conduct due diligence on their supply chains and gain insights regarding sustainability risks and impacts on the natural environment and society. In response to this question, company A stated that it conducts due diligence on the parent company's supply chain and examines subsidiaries/affiliates. Company B responded that it conducts due diligence on its supply chain within the parent company and assesses direct suppliers. Company C responded that it conducts due diligence on its supply chain to the extent of reviewing direct suppliers. To sum up, two surveyed companies reported conducting due diligence within the parent company, and one company also in its subsidiaries. Two companies include direct suppliers in this process, while none include the second-tier suppliers.

We asked companies which due diligence steps out of six possible are carried out by the company on their supply chains. The suggested possible steps for due diligence were related to the steps outlined in the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023), which are also the basis for the due diligence process within the framework of the discussed EU directive. Company A responded that it has established the following due diligence steps: identifying current or potential adverse impacts; preventing and mitigating potential negative impacts, eliminating current negative impacts and minimizing their extent as much as possible; monitoring the effectiveness of the policy and due diligence. Company B outlined the following steps: identifying current or potential adverse impacts, monitoring the effectiveness of the policy and due diligence, and publicly communicating about the due diligence. Company C responded that they have established a process for incorporating due diligence into their business policies. Thus, two companies have implemented three, one company one, and none of the selected companies has implemented all six mentioned due diligence steps.

Hypotheses Testing

By examining the 2022 sustainability reports of selected companies, we found that they included information about their supply chains' sustainability. We recognized the importance of various international standards covering different business areas and the adherence to international human rights documents. Since selected companies are also members of several national and international associations and organizations, they have formulated various codes of conduct to transfer sustainability requirements to their suppliers and other

business partners. We found that all three companies prepared their sustainability reports according to voluntary sustainability reporting international GRI standards. As part of their commitment to voluntary non-financial reporting, selected companies report on the sustainability of their supply chains according to GRI standards. Based on this, we confirmed our first hypothesis that selected Slovenian multinational companies report on their supply chain sustainability voluntarily and follow the selected standards/frameworks proposed by the Non-Financial Reporting Directive. The finding that all of the selected multinational companies already report voluntarily on the sustainability of their operations is encouraging, as all of them seem to be working to achieve economic impacts through their operations through their positive impacts on the natural environment and society without binding regulations. Voluntary reporting on supply chain sustainability offers several benefits for companies, including operational efficiency, competitive advantage, stakeholder engagement, attracting investment, innovation opportunities, enhanced reputation, regulatory preparedness, risk management, long-term viability and employee satisfaction. By adopting voluntary reporting on supply chain sustainability, companies can contribute positively to society and the natural environment and reap significant business advantages.

From the answers to the survey, we gained important insights into the existent and prospective future corporate sustainability reporting of selected companies. We found that surveyed companies were not highly prepared to report on supply chains under the CSRD, although all of them already reported on sustainability voluntarily. The responses indicate a need for a better understanding of the new requirements in the field of sustainability reporting. All three companies face challenges in disclosing information about supply chains, including the lengthy process of gathering information and suppliers' reluctance to share details about their operations. They also see the opportunity to improve their understanding of the supply chain. All three companies believe that conducting due diligence promotes knowledge improvement, supply chain's understanding, and identifying and managing risks that may arise within the supply chain. We asked companies about the extent of conducting due diligence on their supply chains and obtained insights regarding sustainability risks and impacts on the environment and society. We found that none of the three companies conducts due diligence on supply chains at all specified

stages. The companies also don't conduct due diligence on indirect suppliers. Based on this, we confirmed our second hypothesis that selected Slovenian multinational companies don't conduct due diligence on all aspects of their supply chains as part of their voluntary sustainability reporting. This finding is unsurprising, as such reporting can disclose information representing companies' competitive advantages.

On the other hand, recent voluntary sustainability reporting has left companies with few mechanisms to obtain the necessary information from their suppliers and other stakeholders. Mandatory reporting on the sustainability of supply chains presents an opportunity in terms of the required closer scrutiny of supply chains. This can lead to identifying gaps to make them more efficient and benefit the corporation's value chain.

Analyzing responses to questions about perceived opportunities and challenges in reporting on the supply chains' sustainability, we found that companies recognize both opportunities and challenges. They perceive challenges and opportunities similarly with no evident significant difference. Based on this, we rejected our third hypothesis that selected Slovenian multinational companies perceive more challenges than opportunities in reporting on the sustainability of their supply chains. We hypothesized that companies would perceive more challenges than opportunities before mandatory reporting on the sustainability of their supply chains and before due diligence and reporting would become routine for them. On the other hand, the rejection of this hypothesis is reasonable given that all companies were preparing sustainability reports voluntarily before mandatory reporting and saw many opportunities in such reporting.

Our research shows that the selected companies share some similarities in their awareness and commitment to supply chain sustainability reporting, perceived opportunities and challenges, and the extensiveness of the supply chain due diligence process. However, there are also some differences among them in this regard. Our research confirms that chain sustainability reporting practices can be influenced by various factors that interact in complex ways (Bayne, Ng, & Wee, 2022, 3893-3894; Freire Lins, Erthal, & Marques, 2023, 1-2). Supplier reluctance to share information can be related to the fear of scrutiny or lack of understanding of sustainability benefits. Also, it could be more common in industries where supply chains are more fragmented, with numerous suppliers and stakeholders participating.

Furthermore, supply chain sustainability reporting practices can be related to industry trends concerning consumer demand and transparency and types of market competition. For instance, in B2C industries with high competitive pressures, growing consumer awareness and demand for sustainable products can push companies to enhance their sustainability reporting, and the reverse could be true for B2B industries. Additionally, local regulations, companies' technological advancement in data management technologies, and internal corporate culture in leadership commitment and employee engagement may impair or improve supply chain sustainability reporting perceptions. By recognizing the types of these influences, companies can better strategize their reporting practices and address specific challenges more effectively.

Conclusion

The new EU regulations in sustainability reporting significantly shape corporate sustainability reporting and impact the increased inclusion of information about the company's supply chain into sustainability reports. Tracking and successfully meeting the requirements of these regulations can pose challenges and opportunities to companies. How companies cope with these requirements depends, to a large extent, on how they are prepared for this reporting. It is essential, in particular, if they have already voluntarily reported on sustainability implementation, what kind of sustainability reporting system they have in place, and the extent to which they have already carried out due diligence and integrated sustainability information across their supply chains into sustainability reports.

This research shows that reporting on the supply chains' sustainability is becoming an essential part of sustainability reporting, herewith increasing corporate accountability across supply chains. We believe this can significantly impact the improvement of the sustainability performance of more companies and the transparency of international supply chains.

The overall results of our empirical analysis show that not all selected companies were well prepared for the demands of the new sustainability reporting regulations. However, voluntary reporting according to established international standards enabled companies to be more prepared than if they didn't engage in it. We assume that surveyed companies are compelled to improve their due diligence in supply chain management primarily to increase the understanding of their complex international supply chains. With this, providing the

appropriate information for successful reporting to the new sustainability reporting requirements will be possible.

In our empirical research, we limited the sample of Slovenian companies by the following characteristics: size (number of employees, extent of capital), type of industry (manufacturing and B2B), region of their headquarters, multinational presence, and commitment to sustainability through voluntary reporting. In the future, similar research could be done based on a larger sample of companies from different countries and of different supply chain scopes, further enhancing insights into the topics addressed. Differences between companies in the B2B and B2C sectors in reporting on the sustainability of supply chains could be explored. Conducting research on this topic over successive periods seems essential to follow the progress. Future research on supply chain sustainability reporting can expand understanding and improve practices in several other areas. Longitudinal research could be performed to assess the impact of sustainability reporting on company performance, reputation, innovation performance, and stakeholder engagement over time. Exploring reporting practices in specific industries to develop tailored guidelines and benchmarks would also be interesting. Additional impactful research topics could explore different stakeholders' (e.g., customers, investors) perceptions about sustainability reporting and its impacts on their decisions.

Overcoming the challenges of mandatory supply chain sustainability reporting while seizing its opportunities demands from companies to implement proactive approaches and changes in their business processes and management. By proactively addressing the challenges of mandatory supply chain sustainability reporting and leveraging the associated opportunities, companies can ensure compliance and enhance their overall business strategy and resilience in the marketplace.

To gather accurate and comprehensive data from all supply chain partners, companies should implement robust data management systems and establish clear data-sharing protocols with suppliers. They should stay informed about regulations through continuous education and consider hiring compliance experts or consultants to overcome the complexity of sustainability regulations. To seize the supply chain sustainability reporting as the competitive advantage, companies should use this reporting as a marketing tool to attract environmentally conscious consumers and investors. They should actively communicate sustainability efforts

through marketing and public relations channels to improve brand image and customer trust. Concerning the opportunity for higher operational efficiency through supply chain sustainability reporting, companies should assess supply chain processes for inefficiencies and implement sustainable practices that lower costs. They should also encourage cross-functional teams to brainstorm and develop innovative solutions contributing to sustainability goals. Since investors increasingly favor companies with strong sustainability performance, sustainability achievements in investor communications should be highlighted to attract funding.

National business support institutions can play a crucial role in helping companies navigate the challenges of supply chain sustainability reporting. They can raise awareness about the importance of sustainability reporting, influence public perception, and encourage sustainable consumption. To implement sustainability initiatives and innovation, these institutions can offer financial assistance through grants and funding and

connect businesses with investors interested in funding sustainable practices. By offering access to sustainability consultants and industry-specific compliance assistance, they can provide relevant training and education through workshops, seminars, guides, toolkits, and consultation services. Additionally, they can recommend software solutions for sustainability data collection, management, and reporting. Concerning learning from practice, these institutions can offer networking opportunities through collaborative initiatives and peer learning in forums where companies can share experiences, challenges, and solutions related to sustainability reporting. Their important role can also be shown in advocating for government policies and local regulations that support sustainable practices and reduce compliance burden. Business support institutions can empower companies to overcome supply chain sustainability reporting challenges. This collaboration benefits individual companies and contributes to broader sustainability goals across industries and countries.

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Appendix

Table 1

Survey respondents' answers

Question	Company A	Company B	Company C
Knowledge on CSRD	High	High	Low
Knowledge on ESRS	Very high	Very high	Low
Knowledge on CSDDD	High	High	Low
Commitment to prepare the first report following CSRD	Commitment in 2024, with the report published in 2025	Commitment in 2024, with the report published in 2025	Commitment in 2024, with the report published in 2025
Commitment to NFDR	Yes	Yes	Yes
Factors influencing the reporting on the sustainability of the supply chain	- Meeting regulatory requirements - Use of voluntary standards and guideline - Requests from the company's owners or shareholders	- Meeting regulatory requirements - Customer demand - Requirements of company's owners or stakeholders - Industry initiatives and guidelines - Striving for company's reputation	- Meeting regulatory requirements - Customer demand - Industry initiative and guidelines - Striving for company's reputation - Improving understanding of the environmental and social impacts of a company's supply chain.

Continuation of Table 1

Survey respondents' answers

Question	Company A	Company B	Company C
Readiness to report on the sustainability of supply chains under the CSRD	High	High	Low
Perceived challenges in disclosing information on the sustainability of supply chains	- Additional costs of collecting and interpreting information; - Time-consuming collection of information; - Questionability of quality assurance of the information collected; - Suppliers are reluctant to provide information on their operations.	- Lack of knowledge of the supply chain; - Additional costs of collecting and interpreting information; - Time-consuming information collection; - Questionability of quality assurance of the information collected; - Risk of disclosure of unwanted supply chain information; - Reluctance of suppliers to provide information on their business.	- Collecting and selecting information for reporting; - The length of time it takes to collect information; - Risk of disclosure of unwanted supply chain information; - Reluctance of suppliers to provide information on their operations.
Perceived opportunities in disclosing information on the sustainability of supply chains	- Improving knowledge of the supply chain; - Building credibility and trust with stakeholders (customers, local community, owners); - Readiness for future regulatory requirements on sustainability reporting.	- Improving knowledge of the supply chain; - Building credibility and trust with stakeholders (customers, local community, owners); - Compliance with the expectations of the company's industry; - Acquiring new customers; - Using sustainability information to improve business performance; - Incentive to improve the sustainability of supply chains.	- Improving knowledge of the supply chain; - Improving reputation; - Readiness for future regulatory requirements on sustainability reporting; - Attract new customers; - Improve understanding of the impact of supply chain sustainability on business operations; - Using sustainability information to improve business performance
Factors influencing the implementation of supply chain due diligence	- Knowledge and understanding of the supply chain; - Identify and manage supply chain operational risks; - Identify and manage socio-environmental supply chain risks; - Compliance with regulatory requirements.	- Knowledge and understanding of the supply chain; - Identify and manage supply chain operational risks; - Identify and manage socio-environmental supply chain risks; - Obtaining information on suppliers; - Compliance with regulatory requirements; - Assessing new supply chain opportunities	- Knowledge and understanding of the supply chain; - Ensuring supply chain efficiency; - Identifying and managing supply chain operational risks; - Identify and manage socio-environmental supply chain risks; - Obtaining information on suppliers; - Identify, mitigate, and prevent actual and potential adverse supply chain impacts;

Continuation of Table 1*Survey respondents' answers*

Question	Company A	Company B	Company C
			- Stakeholder pressures (customers, local community, owners); - Assessing new supply chain opportunities.
Scope of supply chain due diligence	- Screening within the parent company; - Screening of branches/subsidiaries.	- Screening within the parent company; - Screening of direct suppliers.	Checking direct suppliers
Due diligence steps in place	- Identifying actual or potential adverse impacts; - Prevention and mitigation of potential adverse impacts; and Elimination of actual negative impacts and minimization of their extent; - Monitoring the effectiveness of the policy and due diligence.	- Identifying actual or potential adverse impacts; - Monitoring the effectiveness of the policy and due diligence; - Public communication on due diligence.	Integrating due diligence into business policies

Source: Authors' compilation.

Priložnosti in izzivi poročanja o trajnosti dobavne verige: primer slovenskih večnacionalnih proizvodnih podjetij

Izvleček

Ta članek obravnava poročanje o trajnosti dobavne verige z vidika priložnosti in izzivov za multinacionalna podjetja ob upoštevanju spremenjenih predpisov Evropske unije (EU) ter obsega in zapletenosti mednarodnih dobavnih verig. V teoretičnem delu obravnavamo poročanje o trajnosti podjetij, pri čemer se osredotočamo na regulativni okvir EU, trajnost v upravljanju mednarodne dobavne verige in poročanje o trajnosti dobavne verige. Empirična analiza temelji na sekundarnih in primarnih podatkih, zbranih na nenaključnem vzorcu slovenskih proizvodnih večnacionalnih podjetij iz B2B industrije. Analiza kaže, da so obravnavana podjetja v svoja trajnostna poročila vključila informacije o trajnosti dobavne verige, vendar pa niso bila dobro pripravljena na zahteve novih direktiv EU o trajnostnem poročanju. Ugotovili smo, da obravnavana podjetja priložnosti in izzive na področju poročanja o trajnosti dobavne verige zaznavajo podobno. Ugotovitve naše raziskave prinašajo več implikacij za trajnostno upravljanje podjetij in nacionalno institucionalno podporo podjetjem.

Ključne besede: korporativna trajnost, večnacionalno proizvodno podjetje, mednarodna dobavna veriga, poročanje o trajnosti dobavne verige, Slovenija.