



**Cross-chain collaboration:  
How the EU Corporate Sustainability Reporting Directive  
(CSRD) influences the relationship between chocolate  
manufacturers and smallholder  
cocoa farmers**

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## Abstract

The chocolate industry must be considered a high-risk sector for various violations of environmental and human rights, facing a multitude of challenges across economic, social and ecological categories. In this context, the underlying cocoa value chain, which can be described as a North-South network with chocolate manufacturers at the top, cocoa farmers at the bottom and a multitude of middlemen in between, must be considered a major driver for many of these challenges. Regarding the topic of this thesis, the absence of transparency and traceability within this complex network makes it particularly difficult to identify cocoa farmers at the lower end of the chain and makes frequent dialogue between chocolate manufacturers and cocoa farmers extremely challenging.

Simultaneously, with an increasing interest in sustainability across a variety of interest groups, non-financial reporting is gaining relevance. Thereby, the EU Corporate Sustainability Reporting Directive (CSRD) is considered a milestone in European sustainability reporting and seeks at greater transparency and increased comparability between sustainability reports.

This master's thesis therefore aims to link the difficulties in reaching cocoa farmers at the lower end of the cocoa value chain with the stricter and more far-reaching reporting requirements triggered by the introduction of the CSRD. Accordingly, this thesis aims to investigate to what extent the CSRD influences the relationship between chocolate manufacturers and smallholder cocoa farmers.

Therefore, semi-structured interviews with seven experts from different organisations were conducted. The analysis of the interview data revealed that the introduction of the CSRD currently does not influence the relationship between chocolate manufacturers and smallholder cocoa farmers. Instead, when looking at communication for data collection purposes, it must be assumed that a relationship between chocolate manufacturers and cocoa farmers is almost completely absent at present. Moreover, the interview results provide a variety of possible causes and explanations for the missing relationship. Therefore, the findings of this thesis provide valuable insights for practitioners and policymakers by highlighting possible improvements for establishing sustainability reporting processes along the cocoa value chain and addressing the need for adjustments within current reporting requirements. In addition, this thesis opens up several opportunities for future research such as the incentivisation of chocolate manufacturers to get involved at the farm level and establish more long-term relationships with smallholder cocoa farmers.

**Keywords:** CSRD, Sustainability Reporting, Smallholder Cocoa Farmers, Chocolate Manufacturers, Cocoa Supply Chain, Supplier Relationships

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## List of Abbreviations

CSRD	Corporate Sustainability Reporting Directive
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EUDR	EU Deforestation Regulation
NFRD	Non-financial Reporting Directive
SQ	Sub-question

# 1. Introduction

## 1.1 Societal Problem and Research Aim

The cocoa industry is exposed to a variety of sustainability risks, including environmental problems such as deforestation or the loss of primate species as well as human rights violations including child- and forced labour (Bai et al., 2022; Thorlakson, 2018). Several of these risks are exacerbated by the complex and dynamic structures of the cocoa supply chain, including an extensive agricultural network and multiple suppliers, retailers, and distributors, leading to a lack of transparency and traceability within the cocoa industry (Bai et al., 2022). According to a study by Renier et al. (2023), more than 55% of cocoa exports are not traceable, making a holistic approach to avoiding the above-mentioned sustainability risks more difficult (Bai et al., 2022). Throughout academia, Ghana and Côte d'Ivoire, the two leading producers of cocoa, have been linked to labour rights violations multiple times (Busquet et al., 2021; Griek et al., 2010). In these countries, around 1.5 million children aged from 10 to 17 work for starvation wages, and around 16,000 children fall into the category of forced labour (Busquet et al., 2021; Global Slavery Index, 2023). In addition, cultivating cocoa beans, which often takes place on family-run farms with limited political regulation, requires labour-intensive processes, resulting in around 90% of children performing hazardous work (Busquet et al., 2021; Griek et al., 2010). Hence, the cocoa industry must be considered a risk sector for various offences against environmental and human rights requiring more specific policies and regulations (Thorlakson, 2018).

With the ever-increasing relevance of sustainability issues for a broad spectrum of interest groups and shareholders, non-financial reporting is gaining importance. Accordingly, the EU Non-financial Reporting Directive (NFRD) was adopted in 2014 (Spinaci, 2022). The directive, which applies to large listed firms (> 500 employees), banks and insurance companies, requires the publication of reports on company measures taken in the areas of

environmental protection, treatment of employees, respect for human rights, anti-corruption, or bribery (Spinaci, 2022). However, with the increasing importance of holistic regulation of environmental and human rights violations, drafting new legislation and developing existing regulations are evolving dynamically. Accordingly, in January 2023 the EU Corporate Sustainability Reporting Directive (CSRD) was introduced as the successor to the NFRD, which aims to modernise and reinforce the previous guidelines (European Commission, 2024a). Ultimately aiming at the standardisation of sustainability reporting, by introducing the European Sustainability Reporting Standards (ESRS), to enable a more comparable and reliable data basis for all interest groups (European Commission, 2024a; Spinaci, 2022). In addition, the CSRD extends the scope of companies obliged to reporting requirements including all large companies, regardless of whether they are listed or not (> 250 employees and > €40 Mio. annual turnover), and introduces less stringent reporting standards to small and medium-sized enterprises (SMEs) that are listed on public markets (Spinaci, 2022). Another key difference compared to the NFRD is that companies that are not initially subject to the reporting obligation themselves can be required to report due to their status as a supplier to a company obliged to the reporting directive (Allgeier & Feldmann, 2023). This is due to the overall broader scope of the CSRD, arising from Art. 19 a para. (2) point (f) (ii) Accounting Directive (EU) 2013/ 344, as well as Art. 19a para. 3 Accounting Directive. Accordingly, the reporting company is required to report the most significant actual or potential adverse impacts in connection with its own business activities and the company's value chain, including its products and services, its business relationships, and its supply chain (EUR-Lex, 2024). Consequently, companies that fall under the above size criteria and are therefore subject to reporting requirements face further challenges as they now require additional data from their suppliers, business partners or customers in order to fulfil the new reporting obligations (Allgeier & Feldmann, 2023). Particularly smaller companies along the value chain could be facing difficulties as a result. According to Allgeier and Feldmann (2023), non-listed SMEs will struggle with data reporting due to their economic inferiority, which could jeopardise current business relationships. Concerning the chocolate industry, this implies that manufacturers

covered by the CSRD will have to report information on their business relationships with their cocoa suppliers at deeper levels of their supply chains. In this regard, the means available to smallholder cocoa farmers for collecting and transmitting data, as well as the complexity and lack of transparency within the cocoa supply chain mentioned at the beginning, certainly pose considerable challenges. Further research into both the positive and negative impacts of CSRD on the overall livelihoods of cocoa farmers offers interesting opportunities for the future. However, as the first companies will only be obliged to submit their first CSRD reports for the 2024 financial year and therefore in the 2025 calendar year, the number of scientific publications in the area of the CSRD remains very low (European Commission, 2024a). In general, research into the requirements for non-financial reporting is still at an early stage (Cuomo et al., 2022). Due to the upcoming reporting period under the CSRD guidelines, the industry currently focuses on preparing for the new requirements, including collecting data along its value chain. Therefore, this master's thesis aims to further explore this research gap by investigating to what extent the introduction of the CSRD affects the relationship between chocolate manufacturers and cocoa farmers. In this context, particular attention is placed on the processes of data collection, data verification, and the general communication between chocolate manufacturers, reporting in accordance with CSRD regulations, and smallholder cocoa farmers at the lower end of the supply chain.

## **1.2 Research Questions**

In accordance with the objectives and the overarching societal problem described above, the following central research question was formulated:

**To what extent does the EU Corporate Sustainability Reporting Directive (CSRD) influence the relationship between chocolate manufacturers and smallholder cocoa farmers?**

In addition, several sub-questions (SQ) need to be answered in this context:

*SQ-1: How does the reporting company communicate with the cocoa farmers in the context of the CSRD?*

*SQ-2: How does the reporting company collect data from the cocoa farmers to comply with the CSRD?*

*SQ-3: How does the reporting company verify the data collected from the cocoa farmers to comply with the CSRD?*

The "reporting company" is the chocolate manufacturer required to report following CSRD guidelines.

### **1.3 Thesis Outline**

The following thesis consists of multiple chapters. Chapter 2 will highlight relevant literature concerning the chocolate industry and its underlying supply chain as well as the development of European reporting concepts to provide a theoretical background for the ongoing analysis. Chapter 3 will present and justify the chosen research approach concerning the collection and analysis of data. Chapter 4 will provide the interview results with regard to the research questions, while Chapter 5 will combine them with the insights gained from the literature for further analysis. Chapter 6 will conclude with brief answers to the research questions and several recommendations for practitioners and further research whilst addressing the limitations of the underlying research approach.



## 2. Literature review

### 2.1 The Challenges within the Cocoa Industry

Cocoa serves as the basis for a wide range of products but is primarily used as a raw material for the production of chocolate (Ahoa et al., 2020; Fair & Smart Data, 2024). The underlying chocolate industry thereby represents a large market, which reached a volume of around \$127.7 billion in 2022 and serves to secure the livelihoods of around 50 million people along the cocoa supply chain (Ahoa et al., 2020; Fair & Smart Data, 2024). The lower end of this chain is represented by around 5 to 6 million cocoa farmers worldwide, of which around 90% are considered smallholders, meaning they grow cocoa on plots of less than 5 hectares (Fair & Smart Data, 2024; Glavee-Geo et al., 2020). While the demand for chocolate is growing globally, cocoa can only be grown in tropical belt areas (Solidaridad, 2023). Therefore, cocoa farmers are often found in developing countries across Africa, Asia, and Latin America, however, with almost 70% of cocoa stemming from Ghana and Côte d'Ivoire, these two West African countries must be considered as the two leading producers of cocoa worldwide (Fair & Smart Data, 2024; Solidaridad, 2023).

As mentioned previously, the cocoa industry is confronted with a variety of sustainability risks that concern different categories such as economic, social, and environmental issues (Bai et al., 2022; Thorlakson, 2018). Thereby, the poverty of farmers can be seen as one of the main causes of problems across these categories (Fair & Smart Data, 2024). According to Martins et al. (2023), approximately 70% of smallholder cocoa farmers live in extreme poverty, earning less than \$2 per day, while chocolate manufacturers make huge profits (Glavee-Geo et al., 2020; Global Slavery Index, 2024). The resulting economic disparity represents another key issue in the cocoa industry, which is exacerbated by highly volatile cocoa bean prices and therefore incentives to hire vulnerable workers to reduce costs (Global Slavery Index, 2024; Martins et al., 2023). Accordingly, additional challenges arising from farmers' poverty are human rights violations, such as forced- and child labour, human trafficking or hazardous

working conditions. Accordingly, around 2 million children work on cocoa farms in Côte d'Ivoire and Ghana, of which around 500,000 work under exploitative conditions and approximately 16,000 are forced to work (Global Slavery Index, 2024; Ofodile, 2023). Paired with other labour rights violations, these figures result in cocoa being one of the top five products associated with modern slavery (Ofodile, 2023). However, social issues concerning the poverty of cocoa farmers go beyond child- and forced labour. Accordingly, families working in cocoa cultivation are additionally burdened by limited access to education or inadequate health and sanitation facilities (Fair & Smart Data, 2024).

Regarding the category of environmental issues, the climate crisis must be considered another major sustainability risk faced by the cocoa industry. In general, around one-quarter of global greenhouse gas emissions arise from agricultural, forestry, and land-use change. Thereby, deforestation is one of the cocoa industry's biggest contributors to the climate crisis (Renier et al., 2023). It is estimated that 65% of Ghana's forests have been destroyed, whereas the figure for Côte d'Ivoire is even higher at around 90% (Solidaridad, 2023). Thereby, a variety of factors driving the trend of deforestation within the cocoa industry can be identified. Among others, a decrease in suitable land, insufficient implementation of agricultural techniques or declining production capacity due to the obsolescence of cocoa trees can be considered as key drivers and additional motivation for the conversion of further areas (Ashiagbor et al., 2022; Fair & Smart Data, 2024). While cocoa production is actively contributing to the climate crisis, it also represents one of the biggest concerns, as around 75% of farmers in Ghana and Côte d'Ivoire do not have the financial means to adapt to these changing conditions, due to the previously mentioned economic issues (Solidaridad, 2023).

In addition to the poverty of farmers, the complex and dynamic structure of the underlying cocoa supply chain is another major factor for sustainability risks in the economic, social and environmental categories. Accordingly, the cocoa supply chain comprises a vast network of farmers, traders, distributors, manufacturers and wholesalers, leading to difficulties

in transparency and traceability (Bai et al., 2022; Martins et al., 2023). Following a study by Reiner et al. (2023), more than 55% of cocoa exports remain unknown. The corresponding lack of transparency and traceability, therefore, makes it difficult to take a holistic approach to avoid any form of sustainability risk (Bai et al., 2022) and makes the cocoa supply chain a central element in the various challenges facing the chocolate industry. It also has significant importance in the context of this thesis, as it decisively influences communication between chocolate manufacturers and cocoa farmers in the context of sustainability reporting. To illustrate its structure and the resulting difficulties, a simplified example of a cocoa supply chain network will be presented in the following section. In addition, *Table 1* summarises the industry-wide challenges discussed in this section across the economic, social, and environmental categories.

**Table 1**

*Chocolate industry challenges across different categories*

<b>Economic</b>	<b>Social</b>	<b>Environmental</b>
Poverty of farmers	Poverty of farmers	Poverty of farmers
Climate crisis	Forced & child labour	Climate crisis
Economic disparity	Human trafficking	Deforestation
Highly volatile cocoa prices	Hazardous working conditions	Complex supply chain
Complex supply chain	Limited access to education	
	Inadequate health & sanitation facilities	
	Complex supply chain	

## 2.2 The Cocoa Supply Chain

Besides the 5 to 6 million farmers, the cocoa supply chain provides employment for around 70,000 people in the importing countries and serves around 2,000 companies in the European Union (EU). Thereby, Europe remains the largest importer of cocoa beans, accounting for 61% of global imports (Solidaridad, 2023). The network can be described as a North-South supply chain whose most prominent actors are European or American chocolate manufacturers and cocoa traders as well as cocoa producers, often represented by smallholder farmers in West Africa, Asia, and South America (Martins et al., 2023). Farmers are an integral part of these complex networks, by selling cocoa beans to individual traders or cooperatives, who in turn sell to traders and exporters (Solidaridad, 2023). Considering the dominance of cocoa stemming from Ghana and Côte d'Ivoire, the following section takes a closer look at the cocoa supply chain in Ghana, mainly focussing on findings from Ahoa et. al (2020).

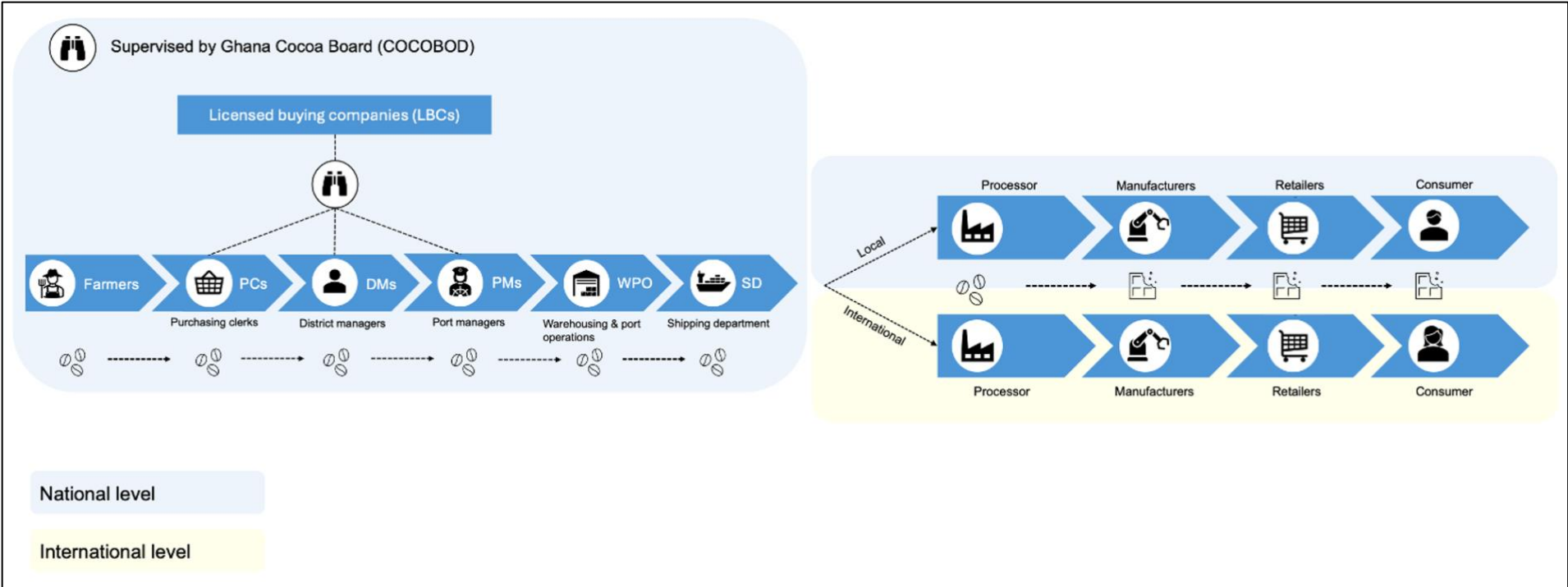
The cocoa industry secures the income of around 6 million people in Ghana, which is almost 30% of the total population (Ahoa et al., 2020). Ghana's supply chain network typically includes various stakeholders with different interests, needs, and backgrounds. Thereby, the aforementioned farmers are usually responsible for cultivating and harvesting the cocoa beans, while cocoa traders monitor the domestic purchase and transport of bagged cocoa beans. The actions of all players within the supply chain network are ultimately controlled and supervised by the government through the Ghana Cocoa Board (COCOBOD) (Ahoa et al., 2020). Within the agri-food industry, business operations are a sequence of interconnected activities that encompass the production, distribution, and transaction of goods and services throughout all members of the supply chain network (Ahoa et al., 2020). A similar structure can be seen in the example of Ghana's cocoa supply chain. The cocoa traders, officially known as Licensed Buying Companies (LBCs), have District Managers (DMs) who are active in cocoa-growing regions. These DMs supervise an additional actor group, the so-called Purchasing Clerks (PCs), who buy cocoa beans from farmers with funds provided by overarching Licensed Buying Companies (Ahoa et al., 2020). Furthermore, the PCs sort, pack, and transport the

dried cocoa beans to their District Managers, who store the beans and deliver them to the nearest inland harbour, where they are handed over to another stakeholder group overseen by LBCs, so-called Port Managers (PMs). Once there, the beans are documented and handed over to Warehousing and Port Operations (WPO), which prepares the final dispatch of the cocoa beans by the Shipping Department to local and international processors, before they run through manufacturers, retailers, and consumers (Ahoa et al., 2020; Fair & Smart Data, 2024).

The brief description of the cocoa supply chain network in Ghana is intended to illustrate the complexity of the various actors involved as well as the long path of cocoa beans from farmers to the end customer. Accordingly, the intensive networks pose difficulties with regard to holistic sustainability management within the sector, the traceability of beans and the collection of data as well as communication with the various players in these extensive networks. The cocoa supply chain is therefore of great importance to understand the influence of the CSRD on the chocolate industry and thus is significant for this thesis. To illustrate this in more detail, a simplified version of Ghana's supply chain network is shown in *Figure 1* below.

**Figure 1**

*Simplified cocoa supply chain in Ghana derived from Ahoa et. al (2020) and Fair and Smart Data (2024).*



## 2.3 Corporate Reporting on Sustainability Performance

### 2.3.1 The Development of Reporting Concepts

With the increasing interest in non-financial information from a multitude of bodies such as governments, financial investors or financial regulators, the landscape of corporate reporting on sustainability performance has evolved dynamically in recent times (Bossut et al., 2021). This is reflected both in the number of reporting guidelines and the increasing scope of these, as well as in the development of the reporting concept itself (Bossut et al., 2021). Accordingly, the following four concepts of corporate reporting on sustainability performance can be distinguished: non-financial reporting, sustainability reporting, integrated reporting, and climate reporting (Baumüller & Sopp, 2021). While they are all structured according to environmental, social, and governance (ESG) issues, they differ in terms of target groups and the way in which they prioritise sustainability issues over financial issues (Baumüller & Sopp, 2021). According to an analysis by Baumüller and Sopp (2021), the following section will provide a brief overview of the main differences in the scope and content of these various reporting concepts.

The term non-financial reporting generates a great deal of interest in academic literature and is mentioned in connection with a wide variety of topics (Stolowy & Paugam, 2018). However, in the context of European disclosure requirements, it can be defined as a concept that applies to reporting on sustainability issues (Baumüller & Sopp, 2021). Thus, it forms the basis for the aforementioned Non-Financial Reporting Directive (NFRD) and, even if the name suggests otherwise, serves financial investors as its main target group (Baumüller & Sopp, 2021). In contrast, sustainability reporting, as in Corporate Sustainability Reporting Directive (CSRD), takes a broader approach by including economic aspects and assigning them the same importance as environmental and social issues when it comes to reporting. It is therefore aimed at a broad spectrum of stakeholders and makes stakeholder involvement a central aspect of the reporting process (Baumüller & Sopp, 2021). In comparison, integrated reporting exceeds the concept of sustainability reporting by harmonising the company's economic,

environmental, and social performance instead of simply assigning them equal importance for reporting purposes. The International Integrated Reporting Committee (IIRC) can be considered among the most prominent initiators of integrated reporting (Vaz et al., 2016). Similar to the concept of non-financial reporting, financial investors can be seen as the main target group in this regard (Baumüller & Sopp, 2021). The fourth and final concept, climate reporting, adopts a similar perspective. Strongly orientated towards financial reporting, the concept aims to support investors by highlighting the relevance of climate-related issues in the course of financial decision-making (TCDF, 2017). The Task Force on Climate-Related Financial Disclosure (TCFD) promotes the integration of climate reporting in companies' annual reports (David & Giordano-Spring, 2022). Once again, financial investors can again be seen as the main addressee audience group.

To summarise, *Table 2* was created down below to illustrate the main commonalities and differences between these four concepts. In addition to presenting the historical development of different reporting concepts, this section pursued one further objective. It is therefore intended to illustrate that the transition from NFRD to CSRD represents, among many other differences, a conceptual shift from non-financial reporting to sustainability reporting (Baumüller & Grbenic, 2021). Further distinctions resulting from this transition are explained in more detail in the following sections.



**Table 2**

*Different reporting concepts derived from Baumüller and Sopp (2021)*

	<b>Content</b>	<b>Audience</b>	<b>Regulation/ Framework</b>
<b>Non-financial reporting</b>	<ul style="list-style-type: none"> <li>– A company's ecological &amp; social impacts</li> </ul>	Financial investors	Non-Financial Reporting Directive (NFRD)
<b>Sustainability reporting</b>	<ul style="list-style-type: none"> <li>– A company's economic, ecological &amp; social impacts (triple bottom line)</li> <li>– A company's environmental impacts (inside-out)</li> </ul>	Diverse stakeholder spectrum	Corporate Sustainability Reporting Directive (CSRD)
<b>Integrated reporting</b>	<ul style="list-style-type: none"> <li>– A company's economic, ecological &amp; social impacts (triple bottom line)</li> <li>– Related to the creation, preservation and destruction of value</li> </ul>	Financial investors	International Integrated Reporting Committee (IIRC)
<b>Climate reporting</b>	<ul style="list-style-type: none"> <li>– Strong focus on financial reporting</li> <li>– Value relevance of climate-related matters (outside-in)</li> </ul>	Financial investors	Task Force on Climate-Related Financial Disclosure (TCFD)

### **2.3.2 The Concept of Materiality**

The concept of materiality originates from financial reporting, where it is used as a threshold to influence investors' financial decision-making (Calabrese et al., 2017). However, with the ongoing developments in the landscape of non-financial reporting, the concept has recently been introduced to sustainability reporting (Jones et al., 2016). Following the Global Reporting Initiative (GRI), material aspects in this context are topics which reflect the economic, environmental, and social impacts of an organisation or are considered influential for stakeholder decision-making (Global Reporting Initiative, 2013). Accordingly, the assessment of materiality plays a decisive role, as it determines the content of non-financial reports and has a significant influence on the scope of stakeholders addressed by them. In recent years,

two different types of materiality have emerged, the distinction between which is of great importance for further understanding the development of European reporting on sustainability performance. Thereby, the initial type of materiality is known as *financial or single materiality*. This perspective is closely linked to the concept of materiality within the context of financial reporting and therefore focuses primarily on non-financial information that relates to the company's (future) financial performance (Bossut et al., 2021). Accordingly, this concept is described as representing an *outside-in perspective*, as it only considers the impact of external ESG issues on the company's financial performance indicators (Bossut et al., 2021). The second type of materiality, the so-called *double materiality*, expands this point of view by introducing an *inside-out perspective*. Accordingly, negative ESG impacts caused through the company's operations, even if not directly affecting the financial performance, must be taken into account when determining material reporting topics (Bossut et al., 2021). Therefore, by equally considering the *outside-in* and *inside-out perspective*, the concept of *double materiality* must be seen as a much more holistic approach when compared to the aforementioned concept of *single materiality*. Within the context of European reporting standards on sustainability performance, the principle of *double materiality* has already been introduced by the NFRD (European Commission, 2021). Accordingly, firms in the scope of the NFRD must disclose information on implementing corporate structures in terms of environmental protection, social responsibility, anti-corruption, bribery, etc. (Bossut et al., 2021). However, the NFRD has often been criticised for a lack of depth and a missing link between the reporting requirements, the companies' strategies, and governance processes (Baumüller & Grbenic, 2021). Therefore, with the implementation of the CSRD, the concept of *double materiality* is becoming much more prominent when it comes to fulfilling the newly introduced reporting obligations. In addition, the preceding double materiality analysis, mandatory for all companies obliged by CSRD standards, must be seen as a major difference in reporting requirements between NFRD and CSRD (Baumüller & Sopp, 2021). Further insights into changing reporting requirements following the introduction of the CSRD are discussed in the subsequent section.

### 2.3.3 The Introduction of the CSRD

Adopted by the EU in June 2022, the CSRD, as part of the European Green Deal, represents a milestone in European sustainability reporting (European Commission, 2022). The European Green Deal thus provides the framework for Europe's sustainable transformation towards net zero by 2050 and comprises a variety of different regulations (European Commission, 2024b). Thereby, the increased comparability of sustainability reports driven by the CSRD can be seen as one of the greatest differences compared to the previous NFRD (Spinaci, 2022). Additionally, reports following CSRD guidelines must be externally audited for the first time (Baumüller & Grbenic, 2021). Consequently, sustainability reporting will be of equal relevance to financial reporting, as investors will be provided with comparable data to evaluate investment risks related to climate change and other sustainability issues (European Commission, 2022). Standardisation and enhanced comparability are further improved by the European Sustainability Reporting Standards (ESRS), which form the basis of the CSRD (European Commission, 2024a). Developed by the European Financial Reporting Advisory Group (EFRAG), the ESRS standards specify what companies must report across 10 different sets of standards in the areas of environmental, social, and governance to create a systematic and credible reporting environment (EFRAG, 2023; European Commission, 2022). As already mentioned, the CSRD follows the concept of *double materiality*. Material topics thereby need to be identified through the newly introduced *materiality analysis*, the process of which also needs to be published within the company's report (Baumüller & Sopp, 2021). Accordingly, as part of the report, the *materiality analysis* falls equally under the newly introduced external audit (Baumüller & Sopp, 2021). Following the principle of *double materiality*, companies, obliged to CSRD standards, must not only report on how sustainability aspects can lead to financial risks but also on the social and environmental impacts of the company's activities (Bossut et al., 2021). The latter thereby includes the company's most significant actual or potential negative impacts in connection with its own business operations as well as along its value chain (EUR-Lex, 2024). The extension of reporting obligations beyond the company's own boundaries, therefore, marks another significant difference to the NFRD and is of great

relevance in the context of this thesis (Baumüller & Grbenic, 2021). When investigating the relationship between chocolate manufacturers and cocoa farmers, the ESRS standard S2 *Workers in the value chain* is of central importance. The term *value chain* thereby includes all employees along the reporting company's upstream and downstream supply chain (EFRAG, 2022). Accordingly, the S2 standard, as part of the ESRS social standards, focuses on material impacts on employees along the value chain which are caused or contributed to by the reporting company (EFRAG, 2022). Therefore, the reporting company must disclose, among other things, information on how workers in the value chain are affected and what measures are taken to prevent, mitigate or remedy these impacts (EFRAG, 2022). According to the EFRAG (2022), material impacts are those concerning working conditions (i.e., secure employment, working time or adequate wages), equal treatment and opportunities for employees (i.e., gender equality, equal payments, etc.) and other labour-related rights such as child labour, forced labour, adequate housing, water or sanitation. In the context of this thesis, this means that chocolate manufacturers affected by the CSRD must report transparently on the current labour conditions present in their value chain as well as the preventive measures taken in this regard. Accordingly, it seems that information from cocoa farmers is required to fulfil reporting requirements (Rau et al., 2014). Therefore, a certain level of communication between manufacturers and farmers is needed to collect the required data. With regard to the previously identified challenges within the chocolate industry and the corresponding supply chain in particular, these requirements certainly pose major difficulties.

The following analysis, conducted in the course of this thesis, is intended to provide further insights into the extent to which the introduction of the CSRD influences the chocolate industry and how it affects the relationship between chocolate manufacturers and cocoa farmers.

## **3. Methodology**

### **3.1 Research Approach**

The above-mentioned research questions are further analysed using a qualitative research approach. Due to the shortcomings in the academic literature regarding the impact of the CSRD and the corresponding exploratory nature of the underlying study, a qualitative approach was considered the most appropriate (Esch et al., 2013). To obtain further background information concerning the cocoa industry as well as the need for sustainability reporting, a scientific literature review was carried out to gather relevant findings from previous academic studies. Using Google Scholar as the main search engine, terms such as sustainability reporting, non-financial reporting, CSRD, CSRD reporting, data collection, information exchange, cocoa supply chain, cocoa farmers, and chocolate industry were used to identify relevant literature. Thereby articles were selected on the basis of their relevance to the underlying research questions, their general scientific relevance and quality, as well as their geographical relevance (e.g., cocoa industry in West Africa). In addition, semi-structured interviews were conducted to further explore the underlying topic and to enrich the results of previous research with current and context-specific information regarding the relationship between chocolate manufacturers and cocoa farmers as well as the resulting communication and data collection processes.

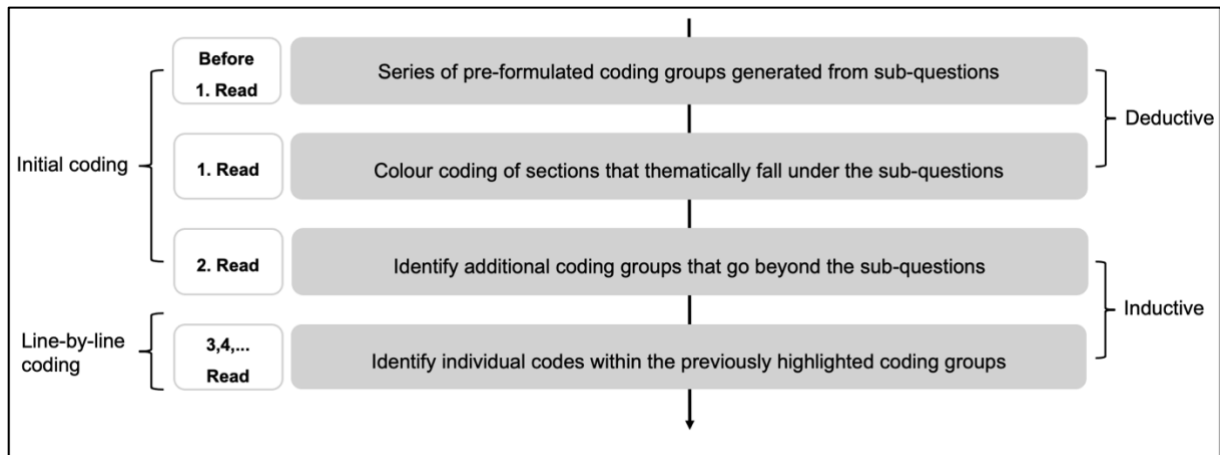
### **3.2 Methods of Data Collection**

As mentioned above, the underlying thesis uses semi-structured interviews as the main method of data collection. Even though the collection of data through surveys would certainly have led to a larger volume of data and simplified its comparability (Esch et al., 2013), expert interviews were chosen as the main method of data collection due to the exploratory nature of this thesis's central research question. Accordingly, interviewing experts was considered the most appropriate approach, as conducting surveys or analysing corporate reports and

websites might not provide such sensitive information. In addition, semi-structured interviews have the advantage of providing a certain degree of consistency across the different interviews, while also offering the opportunity to explore additional themes that emerge during the conversation (Kallio et al., 2016). Therefore, all interviews followed pre-formulated questions, which can be found in Appendix A, and which were adapted during the process based on the individual interviewees or the general course of the conversation. All interviews were conducted via virtual face-to-face platforms (i.e., Zoom, Microsoft Teams, etc.), to create a more personalised atmosphere while benefiting from a certain independence of location. Furthermore, the audio track of all interviews was recorded and transcribed for subsequent analysis purposes. The selection of interviewees is supposed to cover different stakeholder groups in relation to the chocolate industry and the European reporting landscape to provide a comprehensive overview of the underlying research topic and prevent potential biases. Therefore, an expert with in-depth knowledge of European reporting standards and practical experience with the chocolate industry was selected as the first interview partner. In addition, a sustainability consultant working in the field of global commodities, specialising in sustainable value chains and circular economy was interviewed second. Accordingly, these first two interviewees were chosen to provide a holistic view of the new CSRD requirements and the associated implications in the area of data collection and data verification within the chocolate industry. In order to include more critical perspectives, a third interview with two different participants was conducted. Firstly, the founder and director of an advocacy group working to combat labour rights violations within the cocoa supply chain and secondly, a food systems expert and founder of various communication services in the field of global food security. Furthermore, a fourth interview with an expert from academia was conducted to enhance the research with a broader perspective on the underlying issue. Finally, a fifth interview was conducted including two sustainability experts working in the industry to gain insights into sustainable and responsible sourcing practices within agricultural value chains.

### 3.3 Methods for Data Analysis

The interview transcripts were analysed using a mixture of deductive and inductive coding. Thereby, deductive coding can be considered a top-down approach in which the collected data is analysed using pre-formulated codes, often originating from an underlying research framework (Adeoye-Olatunde & Olenik, 2021). In contrast, inductive coding represents a bottom-up approach in which codes stem primarily from the collected data itself (Adeoye-Olatunde & Olenik, 2021). As already mentioned, in the course of this thesis, a mixed approach was applied. Thereby, a series of pre-formulated coding groups were generated from the three sub-questions, while further coding groups were identified while reading the interview transcripts. The aim was to identify different themes within the interviews, which will subsequently be used to create individual codes to summarise findings coherently and meaningfully (Adeoye-Olatunde & Olenik, 2021). Accordingly, colour coding was used to differentiate the themes within all interview transcripts. The coding process took place in several rounds, whereby it can be distinguished between an initial coding phase and a subsequent line-by-line coding phase (Khandkar, 2009). The first coding phase consisted of two reading sessions. To begin with, all transcripts were read for the first time while each section that thematically fell under one of the three sub-questions was marked with the corresponding colour code. Afterwards, the transcripts were read a second time to emphasise coding groups that go beyond the three sub-questions. During the second round of coding, the line-by-line coding phase, all interview transcripts were read several more times to identify further individual codes within the previously highlighted coding groups. The following flowchart (*Figure 2*) was created to further illustrate the gradual coding process carried out as part of this thesis, while the full list of coding groups and individual codes can be found in Appendix B.

**Figure 2***Flowchart of the data analysis process*

## 3.4 Reflections on Data Gathering

### 3.4.1 Limitations

The data collection for the underlying thesis occurred on the basis of limited time and resources. Accordingly, clear thematic prioritisation had to be established throughout the literature review regarding the multitude of challenges within the cocoa industry, but also concerning the complex reporting landscape in accordance with the CSRD guidelines. In addition, recruiting suitable interview partners within the given time was one of the greatest difficulties in the course of this thesis. In this regard, the recruitment of chocolate manufacturers must be considered particularly difficult. Furthermore, due to several late cancellations of scheduled interviews, the process of data gathering was additionally challenged. Accordingly, interviews with more actors from the cocoa value chain would have been necessary to answer the research questions in more detail. Regarding the general method of data collection, the interviews themselves also entail certain limitations. While attention was paid when selecting potential interviewees to reflect as many different points of view as possible, remaining biases cannot be completely ruled out. This is further enhanced by the flexibility that prevails in semi-structured interviews. While this represents a fundamental advantage, it is important to ensure that the questions do not vary too much between the interviews and that the questions do not



influence the interviewees (Kallio et al., 2016). Therefore, as mentioned above, a set of pre-formulated questions (Appendix A) was used throughout the interviews to ensure a certain level of consistency. Given that the interview process took longer than originally anticipated, the data collection for this thesis is mainly based on the seven interviewees in addition to the literature review. With more time left, a systematic document analysis of company and NGO reports as well as content published on company and NGO websites could have been conducted to obtain further information or confirm the findings from the interviews.

### **3.4.2 Ethical Considerations**

All interviewees were provided with a research consent form based on a Maastricht University template. Within this document, the interview participants were informed about their rights during the interview process. All were given the opportunity to cancel the interview at any time, to stop the corresponding audio recording and to withdraw their participation until the final publication of the thesis. In addition, the interviewees were informed about the further use of the recorded audio files and offered various options for the degree of anonymisation. As several interview participants do not wish to be named by their own name, the name of their employer or their job title, all interviewees will be completely anonymised in the following analysis for purposes of standardisation. In terms of storing the audio recordings, all files were uploaded to SURFdrive, a personal cloud storage for Dutch education and research available to students at Maastricht University.

## 4. Results

The following section presents the results of the interviews conducted and thereby aims to provide insights into the underlying research question of this thesis: *To what extent does the EU Corporate Sustainability Reporting Directive (CSRD) influence the relationship between chocolate manufacturers and smallholder cocoa farmers?* In this regard, this section will first provide answers to the three sub-questions (SQ) formulated as part of this thesis. Furthermore, it will be extended by additional findings concerning the general impact of the CSRD on the chocolate industry and cocoa farmers, as well as potential challenges and side effects that may arise.

*SQ-1: How does the reporting company communicate with the cocoa farmers in the context of the CSRD?*

Regarding this first sub-question, all interview participants agreed that there is typically no communication between chocolate manufacturers and cocoa farmers. One interviewee mentioned chocolate manufacturers who run their own cocoa plantations and therefore maintain much closer relations with their farmers as one of the few exceptions in this context. Another interview participant cites specific sustainability projects carried out by manufacturers, to engage more closely with cocoa farmers and improve their livelihood through focusing on components such as a living income, the protection of environmental and human rights as well as the traceability of cocoa beans as an additional exception. However, all interviewees consider such close relationships and the associated frequent dialogue to be very rare. One explanation given by the interviewees in this context is the lack of traceability of cocoa beans. Following two interview participants, a common problem within the cocoa industry stems from the fact that the cocoa beans, collected at different farms, get mixed during this collection process. This means that once they have left the farm level, they can no longer be traced back to their origin, making it impossible for manufacturers to get in touch with the original farmer.

As a further reason for the scarce relationships between chocolate manufacturers and cocoa farmers, the interviewees cite the complexity of the cocoa supply chain. Thereby, the multitude of middlemen along the chain and the high number of farmers at the bottom of this value chain were mentioned most frequently. Accordingly, the number of participants involved hinders reaching the end, while the global network of 5 to 6 million farmers represents an almost insurmountable hurdle for chocolate manufacturers to establish and, above all, maintain regular contact with cocoa farmers. Instead, the interview participants assume the cocoa cooperatives, exporters, and importers to be the most regular contacts for chocolate manufacturers within the cocoa value chain when it comes to data reporting, such as under the CSRD.

*SQ-2: How does the reporting company collect data from the cocoa farmers to comply with the CSRD?*

While all interviewees agree that primary data, collected directly at the farm level provides the most ideal option for reporting purposes, the lack of communication between chocolate manufacturers and cocoa farmers described above certainly impairs the process of data collection in the context of the CSRD. In this regard, one interviewee emphasises that the introduction of new regulations, and the associated changes in requirements, demand room for manoeuvring and that in the case of the CSRD, the lack of supply chain transparency must be seen as such a requirement for manoeuvre. In this context, when asked about the biggest challenge arising from CSRD requirements, one interviewee says that internal information on environmental or operational data can be easily gathered. In contrast, supply chain data poses difficulties as it often is not under the full control of the reporting company. Furthermore, several interviewees refer to an implementation guide, published by the EFRAG, on the publication of data relating to the company's value chain. According to the interview participants, companies, affected by the CSRD, are given a transitional period of three years in which they are only required to report what they currently know concerning their value chain. Therefore, one

interviewee describes the present reporting and data collection process to the extent that companies, falling under CSRD guidelines, simply report what they currently know and use estimates for the remaining parts. In this regard, a different interviewee further emphasises the necessity of establishing a solid management system for risk assessments along the value chain when it comes to data collection for CSRD reporting. Due to the impossibility of collecting primary data, he continues, the scores in these risk assessment systems are therefore based on estimates or approximate values. Thereby, companies assign specific scores on a selected scale (e.g., 1-10) to certain regions of their value chain, which illustrate the probability of certain violations against environmental- or human rights (e.g., child labour). Following the interviewee, these scores can then be categorised as low-, medium- and high-risk, depending on their magnitude on the previously specified scale. Ultimately, these clusters will enable further structuring of internal risk management processes and the prioritisation of high-risk countries concerning stricter information requirements and increased demand for primary data when collecting value chain data for reporting purposes. In general, when asked about the process of data collection for CSRD purposes, interviewees tend to highlight the variety of different value chain participants and the resulting multitude of potential data sources along this chain. Accordingly, manufacturers may know the country of origin of their sourced beans but often lack data on the individual farmer. Therefore, similar to SQ-1, the data currently available to manufacturers generally does not stem directly from cocoa farmers but rather arises from other value chain participants such as cocoa cooperatives, traders, exporters, or importers. According to one interviewee, cocoa traders and exporters hold most of the value chain-related data and must therefore be considered particularly valuable when it comes to data collection for CSRD reporting.

*SQ-3: How does the reporting company verify the data collected from the cocoa farmers to comply with the CSRD?*

Similar to the collection of data, the interview participants agree that a close relationship and regular exchange between chocolate manufacturers and cocoa farmers would represent the best form of data verification. Furthermore, two interviewees added that numerous smaller companies are in close contact with their suppliers and are therefore able to trace their cocoa beans back to the farmer at the very end of their supply chain. This enables these companies to better ensure that the data collected for reporting purposes is accurate. Nevertheless, as described above, many chocolate manufacturers currently lack strong relationships with their suppliers, which tends to make the verification process of collected data more complicated and less holistic. According to several interviewees, a frequent reaction of chocolate manufacturers to the uncertain availability of data can be seen in the demand for specific certification among their suppliers. In doing so, manufacturers expect to systematically remove particularly high-risk suppliers from their value chains. However, due to the remaining hidden risks arising from the complex structures of the cocoa value chain, as well as potential loopholes that can be used to circumvent the need for certified farmers, the mere presentation of certificates is often not enough. Furthermore, another interview participant refers back to the difficulties regarding the traceability of cocoa beans. Accordingly, it is often not possible to guarantee that certified beans are not mixed with non-certified beans. In these cases where certification is not enough, the internally established risk assessment systems must be utilised once again. According to one interviewee, robust risk management and due diligence systems must be considered the only way for most chocolate manufacturers to adequately verify their collected data. Thereby, these management processes function similarly to those described within the answer to SQ-2. Based on chosen risk indicators, companies can identify the likeliness of collected data being correct or incorrect and take further steps to verify the data accordingly. The interviewee clarified this using an additional example. Accordingly, if a supplier from a country with a high risk of labour rights violations declares that there are no cases of child labour within its

operations, the manufacturer will automatically be advised to review this supplier more carefully. Based on this additional examination, it can then be decided whether the supplier's information can be categorised as credible or not. As an additional tool for data verification, but especially in cases where the credibility of the collected data remains in doubt, several interviewees advocate for onsite audits. Consequently, as long as sufficient data on the origin of sourced cocoa beans is known, manufacturers can, in individual cases, trace their value chains back to the farm level and directly verify data on local conditions. The resulting challenges for both chocolate manufacturers and cocoa farmers and the corresponding reasons why on-site audits as instruments for data verification often remain an exception will be discussed again in the following.

In addition to the findings relating to these three sub-questions, the interviews provide further insights into the extent to which the CSRD will affect the chocolate industry and cocoa farmers as well as their relationship with chocolate manufacturers. Accordingly, these additional results are presented below and deliver further insights to answer the central research question of this thesis. When asked to what extent the CSRD will affect the chocolate industry, some interviewees expressed concerns. Thereby, many of these concerns are related to the general focus and the associated requirements of the CSRD. In this regard, three interviewees indicated the importance of understanding that the CSRD, as a reporting guideline, only obliges companies to disclose information on their current business activities to increase the transparency and comparability of available data. However, these companies do not have to change anything regarding their business operations or value chain networks to fulfil these new reporting requirements. In this context, interview participants repeatedly referred to the EU Deforestation Regulation (EUDR), which enters into force on 30 December 2024 and, like the CSRD, is part of the European Green Deal. According to the interviewees, the EUDR obliges companies that trade, import or process relevant raw materials within the European Union, such as soya, rubber, coffee or cocoa, to prove that these have been produced without any form of deforestation, and in accordance with national legislation. Goods

for which this evidence cannot be provided may otherwise no longer be imported into the European Union. Therefore, in order to confirm the absence of deforestation, companies need to identify the geocoordinates of the cultivation areas and compare them with satellite images dating back to the year 2020. At the same time, compliance with national legislation must be ensured (i.e., the absence of child labour) which, similar to the CSRD, will probably take place through an increased demand for certified suppliers among manufacturers. According to one interviewee, the EUDR and the CSRD are thereby closely linked, as the measures that companies undertake based on the EUDR will be reported within their CSRD report in future. Based on the combination of requirements, but especially due to the active exclusion of imported goods related to deforestation or breaches of national law, the interviewees expect the EUDR to have a much bigger impact on the cocoa industry. However, all interviewees also recognise certain limitations, burdens and difficulties for farmers and companies arising from the EUDR requirements. In contrast, the interviewees estimate the industry-wide impact of the CSRD to be rather low and consider those chocolate manufacturers who have to establish internal processes for risk assessments and external connections to value chain members to be the ones primarily affected. In addition, one interviewee, although considering the general objectives of CSRD to be good, fears that companies may be pursuing the wrong incentives with their reports. Representing corporate entities, companies could therefore place more emphasis on increased legitimacy among customers rather than on sustainability measures at the end of their value chain. Another interviewee expresses doubts concerning the implementation process of the CSRD and particularly addresses the transition period of three years given to companies for mapping their value chains. Accordingly, such allowances could provide companies with loopholes to continue business as usual. Furthermore, based on missing effects from past regulations, two interviewees add further doubts about the general influence of the CSRD on the chocolate industry as well as the binding nature of CSRD requirements. In this context, another interview participant cites the CSRD's strong European focus and the associated difficulties in its application within West African countries such as Côte d'Ivoire or Ghana as an additional reason for missing effects within the chocolate industry.

In contrast, one interviewee assumes the requirement of double materiality for the identification of relevant disclosure topics to be an important change when compared to previous regulations. Building upon this, another interview participant considers the stricter regulations regarding reliable data and the ending of self-determined reports through the introduction of external audits in particular, to be a significant improvement. In addition, one interviewee mentions that the inclusion of workers along the value chain and the associated expansion of reporting obligations could represent genuine added value for the industry and could lead to real differences in the long term. Accordingly, one possible improvement could be the rising need to reorganise the cocoa value chain by reducing the current layer of middlemen and thereby enabling closer relationships between chocolate manufacturers and cocoa farmers.

In contrast, another interviewee states that the introduction of the CSRD is more likely to lead to closer relationships with cocoa cooperatives as they contain more reporting-relevant data. Thereby, this interviewee generally questions the relationships that may arise from the introduction of the CSRD regardless of with whom they are concluded. Accordingly, the relationship would primarily aim at the exchange of data but would most likely not extend far beyond that. Thereby, the interviewee describes an interaction between two parties that solely focuses on data exchange as a relationship of dependency, whose desirability is to be categorised as questionable. However, the majority of interview participants share the belief that the greater transparency, promoted by the CSRD, represents a realistic opportunity for the establishment of more long-term and stable partnerships between chocolate manufacturers and cocoa farmers.

Following on from this point, the interviews revealed additional influences of the CSRD on cocoa farmers. According to one interviewee, the potential creation of long-term relationships between chocolate manufacturers and cocoa farmers could therefore strengthen the commitment of manufacturers in the regions of origin, including the exclusion of child labour, as well as the compliance with national legislation. However, apart from these potential long-term effects, the interviewees consider the short-term effects of the CSRD on cocoa



farmers to be less beneficial. Thereby one participant fears, similar to the industry-wide influences, possible loopholes within the regulatory system, which should significantly reduce the positive effects on farmers. The most common concerns mentioned by the interviewees relate to additional efforts and increased costs for farmers. In this context, one interview participant emphasises the importance of understanding that farmers are not obliged to disclose data themselves. However, they may be required by manufacturers to undergo an external audit or become certified for future collaboration which leads to additional expenses and greater effort on behalf of the farmers. In this context, one interviewee highlights that additional regulatory costs caused by the CSRD requirements will lead to higher prices for cocoa products, which may affect the demand for chocolate and thus impose additional economic pressures on farmers. Two other interviewees emphasise that the growing demand for certificates and audits among manufacturers, which must be seen as a top-down approach, will lead to an increased bureaucratic workload for farmers. Accordingly, the multitude of questionnaires and audits, facing farmers in the future, is repeatedly described as a burden, especially when considering farmer's generally limited access to technology and education. In addition, one interviewee notes that the increased demand for certified suppliers could mean that farmers, who are unable to meet these new requirements, could face the loss of previous business relationships in the future. However, he continues, this would certainly not cause farmers to stop growing cocoa, but only to seek other sales opportunities to less regulated markets outside the European Union, which could ultimately lead to competitive disadvantages for European-based manufacturers. In contrast, another interviewee replies that he does not expect non-certified farmers to be excluded in the future because, unlike the EUDR, the CSRD does not actively require any changes in business operations or supplier relationships. Lastly, one interviewee cites the complexity of the cocoa value chain as one reason for the missing impact of the CSRD on cocoa farmers. Accordingly, the CSRD does not necessarily connect chocolate manufacturers and cocoa farmers but rather aims at a sequential interlinking of all value chain members. Therefore, the measures and long-term objectives implemented at the upper end are diluted as they pass through the numerous value chain levels to such an extent

that they often lose their core value by the time they reach the farmers at the lower end. This is further exacerbated by significantly different priorities of sustainability among the value chain members. According to the interviewee, long-term sustainability goals are considered less important by cocoa farmers, who have to survive on poor wages in the present, compared to highly profitable manufacturers in Europe. Thus, to effectively influence farmers, regulations must strike the right balance between long-term sustainability objectives and the immediate survival needs of cocoa-producing households, which, according to the interviewee, is not the case with the CSRD.

Concerning the central research question of this thesis, the interview results so far indicate that the current relationship between chocolate manufacturers and cocoa farmers, for purposes of communication or data collection, is either hampered or even completely absent due to a variety of different factors. In this regard, the interview participants mention a series of explanations that build upon the more general cocoa industry issues described within the literature review. Accordingly, several interviewees attribute the difficulties in building closer relationships to the general business model of the chocolate industry and its underlying value chain in particular. More precisely, one interviewee explains that opacity must be considered an essential part of business practices within the cocoa sector. Accordingly, another interviewee emphasises that most participants within the extensive cocoa network currently benefit from the complex structures and therefore do not share the desire for more transparency triggered by the CSRD, as they fear being bypassed in the future. In addition, one interviewee mentions that supply chain information must be considered highly confidential data. Thus, many manufacturers are very reluctant to openly disclose their supplier network as they fear competitive disadvantages. An additional challenge affecting the relationship between chocolate manufacturers and cocoa farmers stems from constant changes within supplier partnerships. Following two interview participants, cocoa is currently traded on a spot market, meaning that manufacturers put certain amounts of cocoa mass out to tender and the supplier with the most favourable offer is given the contract. Further influenced by natural

market fluctuations this results in constantly changing supplier relations, hindering long-term partnerships, previously identified as necessary for closer communication and development at the farm level. Thereby, the poverty of farmers resulting from this lack of development must be considered an additional driver of a multitude of further challenges. Accordingly, two interviewees emphasise that financial hardship among cocoa farmers encourages deforestation due to a lack of education on sustainable farming methods and the associated premature death of cocoa plants. Furthermore, another interviewee highlights that these unsustainable farming practices are exacerbated by the aforementioned economic pressures. Farmers are therefore forced to maintain a certain level of yield with very low profit margins, which implies limited resources to invest in sustainable farming practices or the adaptation to changing weather conditions. In addition, one interviewee mentions that this financially unattractive business model leads to an ageing population on rural cocoa farms, as young people often move to the surrounding cities for more rewarding jobs. Lastly, another challenge arising from farmers' poverty and thereby affecting the relationship between chocolate manufacturers and cocoa farmers, is the lack of basic infrastructure in the countries of origin. Following one interviewee, particularly the cocoa farms in West Africa are very difficult to access due to a lack of roads as well as technical infrastructure, which makes building and maintaining close relationships considerably more difficult. In comparison, this interviewee describes the relationships between manufacturers and farmers in countries such as Guatemala, Ecuador, Vietnam or Peru as much better, as farmers receive enough money to build up a minimum level of infrastructure there.

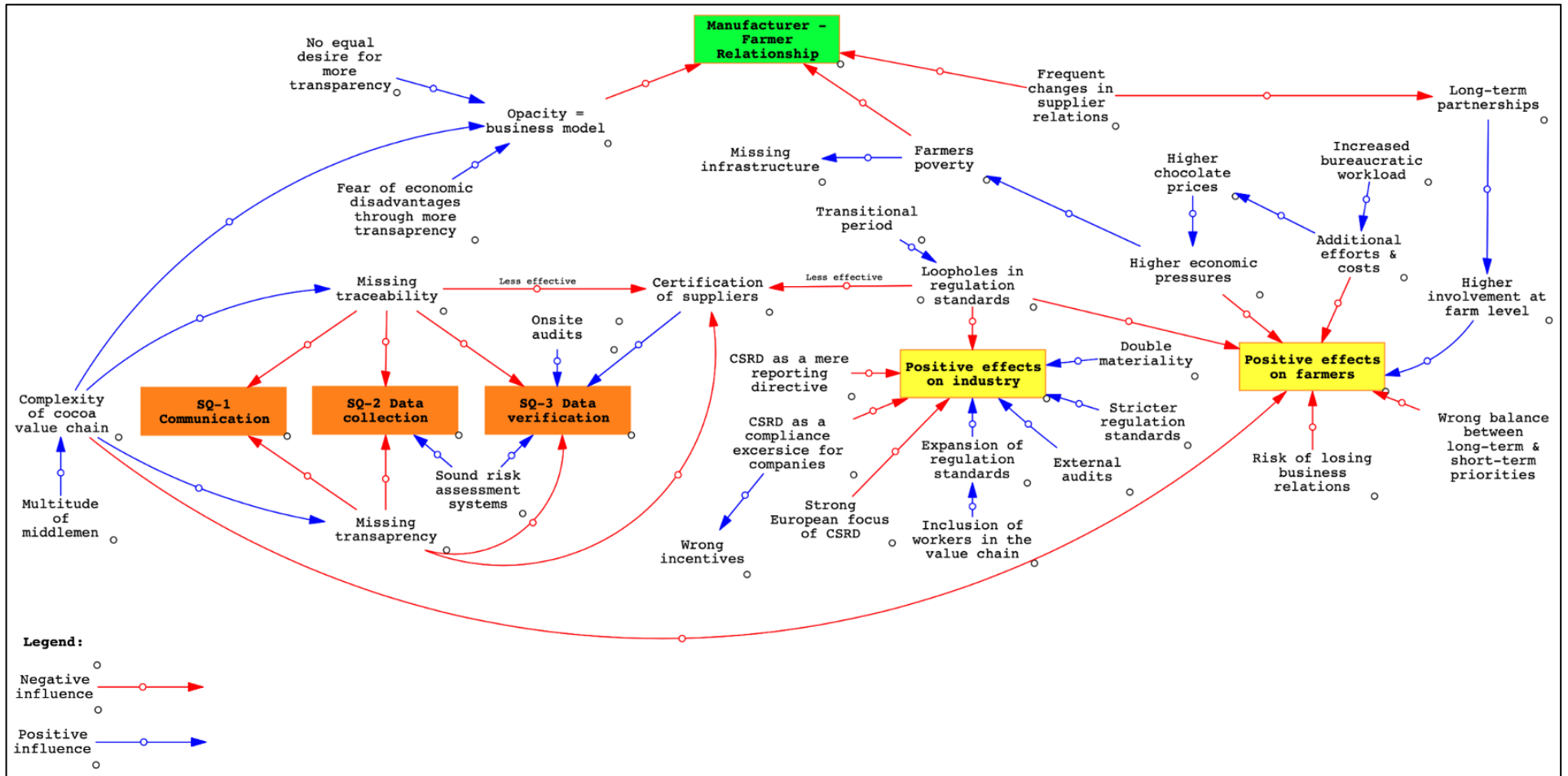
As mentioned above, these additional challenges raised by the interviewees offer further explanations for the fact that the relationship between manufacturers and farmers is often very limited and therefore provide additional insights into the central research question. To visualise the results obtained from the interviews, a causal loop diagram (*Figure 3*) was created which illustrates the interconnectedness and complexity of variables impacting the central research question, the three sub-questions, and the influences on the chocolate

industry and cocoa farmers. Thereby, red arrows indicate a negative influence between two variables, while blue arrows represent positive influences.

By combining the findings on the central research question with the results regarding the sub-questions, the following discussion chapter will interpret and analyse them further by relating them to the findings from the previous literature review.

Figure 3

Causal loop diagram – Illustration of the interview results



## 5. Discussion

The discussion chapter of this thesis aims to combine the interview results with the insights gained from the literature review to further elaborate on the three sub-questions as well as the central research question of this thesis: *To what extent does the EU Corporate Sustainability Reporting Directive (CSRD) influence the relationship between chocolate manufacturers and smallholder cocoa farmers?* Thereby, it should be emphasised that the scientific literature on practical approaches to CSRD standards is currently limited, as the first CSRD reports will not be published until 2025 (European Commission, 2024). However, it is noticeable that the interviews, focusing on the relationship between chocolate manufacturers and cocoa farmers, reflect many of the industry-specific challenges previously highlighted in the literature review.

*SQ-1: How does the reporting company communicate with the cocoa farmers in the context of the CSRD?*

Regarding SQ-1, the previously highlighted lack of traceability within the chocolate industry (Bai et al., 2022; Martins et al., 2023), was also cited by the majority of interview participants as one of the most frequent challenges concerning the communication between chocolate manufacturers and cocoa farmers. In addition, the large number of value chain actors and the corresponding complexity, as described by Ahoa et al. (2020) and Martins et al. (2023), must be considered another obstacle in this context. Accordingly, the aforementioned 55% of cases in which cocoa beans cannot be traced back to the farm level (Renier et al., 2023), illustrate the current lack of traceability in the value chain and the corresponding difficulties in identifying and communicating with cocoa farmers at the point of origin. In combination with the multitude of middlemen along the chain, highlighted by Ahoa et al. (2020) and further illustrated in *Figure 1*, the lack of transparency and traceability must be considered the most direct factors for the limited or missing communication between manufacturers and farmers, which is also reflected in the interview results. In addition to complementing some of

the industry-specific challenges mentioned in the academic literature, the interview results present additional challenges regarding the relationship and associated communication between manufacturers and farmers. Accordingly, the poverty among farmers, highlighted within the literature review (Fair & Smart Data, 2024), must be regarded as even more far-reaching than initially assumed. Following one interviewee, the absence of basic infrastructure, both in terms of roads and technical equipment, caused by missing financial resources, makes it considerably more difficult for manufacturers to reach the region of origin and therefore significantly hinders the establishment of long-term relationships as well as the communication with cocoa farmers. Another interviewee provides an additional finding that expands on the insights presented in the literature review and relates to the fact that certain value chain members do not want the chocolate industry to be more transparent as they fear losing current business opportunities. Thereby, this shows once again how deeply embedded the challenges of missing transparency and traceability are within the chocolate industry and how difficult it therefore becomes for regulations, such as the CSRD, to drive holistic change.

*SQ-2: How does the reporting company collect data from the cocoa farmers to comply with the CSRD?*

As mentioned within the literature review, the ESRS standard *S2 Workers in the value chain* requires companies to disclose information on material impacts on all employees along their upstream and downstream value chain (EFRAG, 2022). In this context, the interviews highlighted a transitional period of three years, granted by the EFRAG, in which companies only need to report what they currently know about their value chain. In combination with the aforementioned lack of communication between manufacturers and farmers, the majority of interview participants mentioned that no efforts are currently being made to collect data at the farm level. Instead, European chocolate manufacturers, obliged by the CSRD, identify alternative ways to collect data along their value chains. In this regard, the interviews revealed that cocoa traders, exporters, and occasionally importers are the most frequent contacts for

chocolate manufacturers. As mentioned before, academic publications on practical approaches towards CSRD requirements are limited at present. However, following the findings of Ahoa et al. (2020), illustrated in *Figure 1*, cocoa traders, which would fall under the Licensed Buying Companies (LBCs) within the supply chain network in Ghana, maintain the most regular exchange with cocoa farmers and therefore certainly possess a large amount of relevant data. According to Ahoa et al. (2020), operations within the agri-food sector must be considered a sequence of interconnected activities. Therefore, cocoa exporters, representing the last instance within the country of origin, can be seen as a relevant source for value chain-related insights when it comes to data collection purposes. Lastly, although contact with cocoa importers is easily feasible for manufacturers due to geographical proximity, the information provided by them must be seen as critical due to the large number of middlemen up until the farm level and the variety of difficulties arising from this (see i.e., Martins et al., 2023). Although the data collection process does not reach the farm level immediately after the introduction of the CSRD, the interviews revealed possible changes following the transition period of three years, once the requirements become more demanding. However, this delayed influence therefore demands a more critical consideration of CSRD requirements compared to what is outlined in the literature review and will be taken up again in the further course of this discussion chapter.

*SQ-3: How does the reporting company verify the data collected from the cocoa farmers to comply with the CSRD?*

As outlined in SQ-2, data collected by chocolate manufacturers will not originate from the cocoa farmers but will be obtained from other participants across the value chain. The interviews revealed various options for more general data verification processes, including a sound risk management and due diligence system. As mentioned above, while the first CSRD reports will be published in 2025 (European Commission, 2024), academic publications on practical approaches to these new reporting standards are currently limited. However, the



literature agrees on the fact that the CSRD represents an important step towards greater comparability of sustainability reports, which can be related to the verification of data by external audits (Baumüller & Grbenic, 2021; European Commission, 2022; Spinaci, 2022). The majority of interviews revealed equally positive influences through the increased amount of comparable data, the ending of self-determined reports through the introduction of independent audits, as well as a generally higher demand for certifications among suppliers. However, most interview participants also consider data verification as one of the biggest challenges of sustainability reporting, especially due to the aforementioned complexity within the chocolate industry. In this respect, the transitional period for value chain-related disclosures, imposed by the EFRAG, further emphasises the recognition of difficulties associated with the verification of value chain-related data.

Particularly in relation to this transitional period, the interviews revealed a variety of different concerns regarding a lack of effects from the CSRD due to possible loopholes for reporting companies as well as their suppliers. While the CSRD, as part of the European Green Deal, its underlying ESRS standards and the required external assurance is considered a milestone for European sustainability reporting (European Commission, 2022), most interviewees state that the short-term effects on the chocolate industry and the relationship between chocolate manufacturers and cocoa farmers will be limited. As highlighted within the literature review, the ESRS S2 standard requires the disclosure of information on how employees in the value chain are affected and what measures are being taken to prevent, mitigate or remedy these effects (EFRAG, 2022). In this context, the sole requirement to disclose information on current business activities and internal policies, but the lack of obligation to make any changes within business operations or the value chain network was criticised. In comparison, the interviews attribute significantly greater potential to other European regulations included within the Green Deal package, such as the EUDR, as it actively prohibits the import of products associated with deforestation into the European market. As mentioned within the literature review, the European Green Deal aims at the

transformation towards net zero within the European Union and therefore includes a multitude of different regulations (European Commission, 2024b). Thus, one could argue that the CSRD, as a mere reporting directive, has no direct influence on ongoing business operations or the termination of existing business relationships. Furthermore, one could say that in the case of the chocolate industry, the CSRD does not lead to an increase in transparency, despite the desires mentioned within the literature review (Spinaci, 2022), since cocoa farmers currently remain very difficult to identify. However, the mere obligation to disclose current business operations and supplier relations may well encourage improvement, as the standardised ESRS standards lead to better comparability of sustainability reports (European Commission, 2024a) and certainly, no company wants to attract negative attention. Furthermore, the move from non-financial reporting to sustainability reporting, triggered by the CSRD, must be seen as an important change within the landscape of European reporting requirements (Baumüller and Sopp, 2021). Moreover, it emerged from the interviews that the EUDR and the CSRD are closely connected, as the actions taken by companies in response to the EUDR are included in their CSRD reporting. Therefore, even though the CSRD was analysed as a single regulation in the course of this thesis, it should not be considered a mere reporting directive. Rather, it could be seen as an underlying basis and necessity for the development and establishment of a variety of other regulations on the European level, which in turn can have a more direct influence on the chocolate industry and the relationship between chocolate manufacturers and cocoa farmers.

Building on these results, the following chapter answers the central research question and the corresponding sub-questions of this thesis and provides recommendations for further research and action in this area.

## 6. Conclusion & Recommendations

### 6.1 CSRD and the Cocoa Supply Chain

As highlighted within the literature review of this thesis, the cocoa industry faces various challenges across economic, social, and environmental categories (Bai et al., 2022; Thorlakson, 2018). Labour rights violations such as child and forced labour, extreme poverty among cocoa farmers, and environmental damages caused by deforestation are among the most pressing challenges within the cocoa sector (Global Slavery Index, 2024; Ofodile, 2023; Fair & Smart Data, 2024; Renier et al., 2023). In addition, the absence of traceability and transparency within the underlying supply chain must be considered the cause of many additional challenges (Bai et al., 2022; Martins et al., 2023). Moreover, the cocoa supply chain can be characterised as a North-South chain comprising a vast network of different actors, with chocolate manufacturers at the top and cocoa farmers at the bottom (Martins et al. 2023). Accordingly, the multitude of middlemen between the top and bottom ends makes it extremely difficult to reach the farmers who suffer the most from the challenges described above.

However, with an increasing interest in non-financial information, the requirements for corporate reporting on sustainability performance increased. In this context, the EU Corporate Sustainability Reporting Directive (CSRD) obliges companies, among others, to disclose information on how employees across the value chain are impacted and what actions are being implemented to prevent, mitigate or remedy these impacts (EFRAG, 2022). Therefore, this master's thesis aimed at linking the complexity of the cocoa industry, particularly focusing on the underlying supply chain network and the associated difficulties in reaching the farm level, with increasing reporting requirements triggered by the introduction of the CSRD. Accordingly, the central research question of this thesis is: To what extent does the EU Corporate Sustainability Reporting Directive (CSRD) influence the relationship between chocolate manufacturers and smallholder cocoa farmers?

## 6.2 Answers to the Research Questions

In addition to the central research question, three further sub-questions were addressed, which were analysed through semi-structured interviews with seven experts from different organisations. The answers to these questions are presented below. However, it should be noted that the CSRD represents a very recent reporting directive, whose reports will not be published until 2025 (European Commission, 2024). Accordingly, most companies are currently in the preparation phase and have not yet had the chance to scrutinise internal processes in detail.

Regarding the communication between the reporting company and cocoa farmers in the context of the CSRD (SQ-1), the study reveals that most chocolate manufacturers do not communicate with cocoa farmers during the current introduction phase of the CSRD. Only a small number of chocolate manufacturers who either run their own cocoa plantations or have specific sustainability programmes implemented with cocoa farmers can be seen as an exception here. Instead, the study identifies cocoa cooperatives, exporters, and importers as the most regular contacts for chocolate manufacturers in the context of the CSRD.

The lack of communication between chocolate manufacturers and cocoa farmers is also reflected in the reporting companies' data collection for CSRD purposes (SQ-2). The study shows that the data currently available to chocolate manufacturers in most cases does not originate from cocoa farmers. Alternatively, cocoa traders, exporters, and importers are the most valuable source of data for chocolate manufacturers. Once again, chocolate manufacturers with their own plantations or specific sustainability programmes can be exceptions in this regard.

Although the collected data does not stem from the cocoa farmers, this study identifies a variety of possible data verification processes for the reporting company to comply with the CSRD (SQ-3). According to one interviewee, a sound risk assessment and due diligence

system must be considered an integral tool for the verification of collected data. Furthermore, this study reveals a higher demand for certification among suppliers in response to the CSRD requirements, as chocolate manufacturers wish to systematically eliminate the previously identified high-risk suppliers from their supply chains. In addition, onsite audits can be carried out at the farm level, which certainly offers the best opportunity to verify the accuracy of the data collected. However, due to the aforementioned barriers, such as the lack of traceability within the cocoa value chain, the study shows that this form of data verification remains an exception and is only carried out in individual cases.

Based on the insights derived from the three sub-questions, the central research question of this study can be answered as follows. The introduction of the CSRD does not influence the relationship between chocolate manufacturers and smallholder cocoa farmers, which must be considered almost completely absent at present. This study provides a variety of possible causes and explanations for the lack of this relationship. Thereby, the majority relate to the deeply rooted challenges in the cocoa sector such as the lack of transparency and traceability. Moreover, the study identifies various opportunities to improve the future relationship between chocolate manufacturers and cocoa farmers, e.g., through more binding requirements after the transitional period of three years.

### **6.3 Recommendations to Practitioners and Policymakers**

Based on the results and the subsequent discussion, this thesis offers several recommendations for practitioners and policymakers.

First, by highlighting the variety of industry-specific challenges within the context of data collection for CSRD reporting purposes, this study provides valuable insights for improvements when it comes to establishing sustainability reporting processes along the cocoa value chain. In this context, the development of long-term partnerships between chocolate manufacturers

and cocoa farmers can be mentioned as an example. Less frequent changes in supplier relationships will make it more attractive for chocolate manufacturers to get in touch with cocoa farmers and get involved at the farm level. Therefore, not only do chocolate manufacturers benefit from a higher volume of primary data, but also farmers get positively influenced through a higher level of local involvement.

Second, this study helps to position the CSRD within the surrounding regulatory landscape by considering it as part of the European Green Deal and comparing it with other regulations such as the EUDR. Thereby, this thesis reveals both possible positive influences of the CSRD on the chocolate industry and potential reasons for missing effects. Therefore, it can be considered beneficial to policymakers by highlighting the need for certain adjustments within the current reporting requirements such as the strong European focus at present and the associated difficulties of implementation in West African countries.

Lastly, this thesis makes a general contribution to the field of sustainability reporting within the chocolate industry, while particularly focusing on CSRD standards and the corresponding collection of data and communication along the value chain. Thereby, it contributes to the further understanding of both the general supply chain structures within the cocoa sector as well as the requirements and further developments of current reporting standards within the European Union. As several interviewees mentioned, cocoa farmers are currently not obliged to provide any data. By actively requiring data collection at the farm level in the future, the CSRD could oblige manufacturers to first identify and then enter into dialogue with cocoa farmers. This would lead to a reduction in middlemen along the value chain and thus positively impact both the chocolate manufacturers and the cocoa farmers.

## **6.4 Reflection on Limitations**

The underlying topics concerning the cocoa industry, as well as the European reporting landscape, are highly complex. Especially the complexity of the cocoa supply chain and all the challenges associated with it became increasingly clear throughout this thesis. Due to the time available and the restricted scope, this thesis can only cover a limited part of possible topics and perspectives. Furthermore, this thesis aims to fill the research gap, resulting from the recent introduction of the CSRD and the corresponding lack of published reports until 2025. Accordingly, the number of comparable studies is limited, which makes learning from best practices or comparing the results of this thesis with other findings more difficult. Moreover, it must be emphasised that the results of this thesis, apart from the literature review, are based exclusively on the perceptions of the identified interview participants. Accordingly, the perspective of cocoa farmers, in particular, could have been more clearly represented by interviewing cocoa cooperatives or smallholder farmers. In addition, policymakers could have been considered to gain further insights into the legal requirements of the CSRD and their possible development. While the interviews conducted in the course of this thesis led to relevant findings and provided a sufficient methodological approach to answer all research questions, this thesis lacks an additional source of information to validate the interview data. Therefore, an additional document analysis of corporate or NGO reports could have been useful in identifying potential similarities or differences.

## **6.5 Recommendations for Further Research**

The following section will provide recommendations for further research to expand on the findings of this thesis. The interviews conducted provide a good understanding of the current relationship between chocolate manufacturers and smallholder cocoa farmers in the context of the CSRD. Further research could expand on these insights in the future by following a broader approach and including more viewpoints through interviews and/or surveys. Furthermore, the results of this thesis revealed that missing transparency remains a major

problem within the chocolate industry and that the CSRD, at present, is unlikely to affect the livelihood of cocoa farmers in a positive way. This opens up several opportunities for future research. On the one hand, it could be investigated whether the current level of transparency and the influence on farmers does increase after the end of the CSRD's three-year transitional period. On the other hand, it could be analysed more generally which regulatory changes within the CSRD standards are necessary to increase transparency and reach cocoa farmers to positively influence them. In addition, the interviews revealed that certain chocolate manufacturers do maintain close relationships with cocoa farmers due to specific sustainability programmes or the operation of their own plantations. Accordingly, further research could investigate how political frameworks can incentivise chocolate manufacturers to get involved at the farm level and establish long-term relationships with cocoa farmers to positively influence them.



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# Appendices

## Appendix A – Interview Questions

1. How will the introduction of the CSRD affect the chocolate/cocoa industry in general?
2. How does the reporting company communicate with the cocoa farmers in the context of the CSRD?
3. How does the reporting company collect data from the cocoa farmers to comply with the CSRD?
4. How does the reporting company verify the data collected from the cocoa farmers to comply with the CSRD?
5. What do you consider the biggest challenges for the chocolate manufacturer when it comes to data collection?
6. What happens if cocoa farmers cannot fulfil the new CSRD requirements?
7. What possible side effects can you imagine for cocoa farmers due to new legal requirements in Europe?

## Appendix B – Codes

Code group	Code
<b>RQ1: Communication</b>	Manufacturer
	Farmer
	Cooperation
	Trader
	Exporter
	Importer
	Group of actors
	Middlemen
	Infrastructure
	Relationship
	Partnership
	Contact
	Communicate
	Challenges
	Supplier relations
Supply chain structure	
<b>RQ2: Data collection</b>	Data
	Report
	Supply chain network
	Chain of custody
	Manufacturer
	Farmer
	Cooperation
	Trader
	Exporter
	Importer
	Challenges
	Estimates
	Industry averages
	Proxies
	Certification
	Source of data
	Data flow
	Product-level
	Primary data
	Farm level
Risk assessment	
Centralisation	
Transitional period	
<b>RQ3: Data verification</b>	Audits
	Certification
	Due diligence system
	Risk assessment
	Risk management
	Estimates
	Proxies
Relationships	

<b>Influences on cocoa industry</b>	Concerns
	Opportunities
	Comparability
	Transparency
	Current practices
	Concerns
	Worries
	Misleading
	Loopholes
	Changes in operations
	Risk assessment
	Identification of responsibilities
	Goal of reporting
	Supply chain mapping
<b>Influences on farmers</b>	Discrimination
	Business relationships
	Efforts
	Certification
	Farm mapping
	Regulatory requirements
	Different needs
	Different priorities
	Reduced effects
	Burden
	Concerns
	Worries
	Loopholes
	Education
	Infrastructure
	Farmer poverty
Hygiene	
Costs	
<b>Challenges</b>	Deforestation
	Farmer poverty
	Education
	Hygiene
	Ageing population
	Farming practices
	Missing guidance
	Traceability
	Transparency
	Missing audits
	Information asymmetry
	Reporting as a strategic tool
	Spot market
	Vertical integration
	Inconsistent market conditions
	Inconsistent supplier relations
	Opaque business model
	Loopholes
Economic competition	
Confidential data	
Decentralisation	

	Various interpretations of sustainability
	Missing infrastructure
<b>Side effects</b>	Introduction of processing
	Competitive disadvantages
	Business relationships
	Shift in sales markets
	Increased prices
<b>Importance of other European regulation</b>	Green Deal
	Deforestation regulation
	EUDR
	CSDDD



## Declaration of Originality Master's thesis

By signing this statement, I hereby acknowledge the submitted Master's thesis titled

“To what extent does the Corporate Sustainability Reporting Directive (CSRD) influence the relationship between chocolate manufacturers and smallholder cocoa farmers?”

to be produced independently by me, without external help.

Wherever I paraphrase or cite literally, a reference to the original source (journal, book, report, internet, etc.) is provided.

I declare to also have finalized the SDG statement for this thesis (available in the MSc. thesis documentfolder on the Intranet).

By signing this statement, I explicitly declare that I am aware of the fraud sanctions as stated in the Education and Examination Regulations (MSc-EER 2023-2024) of SBE, Maastricht University.


Place: Maastricht .....

Date: 21.06.2024 .....

First and last name: Paul Eichhorn .....

Study programme: Master programme Sustainability Science, Policy and Society .....

ID number: i6358033 .....

Signature:  .....

## Sustainable Development Goals (SDG) Statement

Through the research conducted for this Master's thesis, I seek to contribute to one or more of the 17 SDG(s) set forth by the United Nations (<https://www.undp.org/sustainable-development-goals>). Specifically:



SDG Code(s): (SDG 1, 4, 6), SDG 12 – Responsible consumption and production

Explanation (max. 300 words):

The research conducted for this Master's thesis addresses a variety of different challenges arising across the cocoa value chain. Hence, challenges throughout economic, social and environmental categories can be identified. Therefore, this thesis highlights the need for more responsible practices along the cocoa value chain. In this context, the extent to which the CSRD, as part of the European Green Deal, can influence the relationship between chocolate manufacturers and cocoa farmers is analysed. The study addresses difficulties concerning the communication between manufacturers and farmers and proposes solutions to strengthen the relationship between these two parties. In this way, it offers opportunities to improve the living conditions of farmers, who are currently suffering the most from the irresponsible circumstances within the cocoa sector. Furthermore, this thesis investigates how the CSRD

reporting requirements lead to positive influences within the industry. In addition, the research highlights shortcomings within the current requirements and therefore provides recommendations for improvements concerning the effectiveness of the CSRD which can lead to better support for sustainable production and consumption (SDG 12) in the future. In addition, this thesis addresses challenges faced by cocoa farmers due to poverty (SDG 1) and limited access to education (SDG 4), health and sanitary facilities (SDG 6). However, this thesis does not contain any specific recommendations to address these challenges and therefore only partially contributes to these three Sustainable Development Goals.