



# Fostering Sustainability in Small and Medium-sized Enterprises

## Generali SME EnterPRIZE White Paper

**SDA Bocconi**  
SCHOOL OF MANAGEMENT  
SUSTAINABILITY LAB

powered  
by  GENERALI

 **SME  
EnterPRIZE**

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## FOREWORD

### Generali Group CEO - Philippe Donnet

At Generali, we are committed to leading the European insurance industry for small- and medium-sized enterprises. SMEs are the foundation of the European economy and currently provide two out of three jobs on the continent. We believe they are also key in making our whole economic and business system more sustainable. With this in mind, our Group recognized the importance of promoting a sustainability culture among SMEs as an integral part of our “Generali 2021” three-year strategic plan and announced the establishment of SME EnterPRIZE to reward the most forward-looking small- and medium-sized enterprises across Europe.

Today, our commitment is stronger and more meaningful than ever. Not only has Covid-19 further increased SMEs’ insurance and protection needs, but as we work together to relaunch our economies, it is clear that sustainability must be at the heart of the recovery effort. In other words, we simply cannot go back to the pre-pandemic way of doing business.

SME EnterPRIZE is the long-term flagship initiative through which Generali aims to accompany small- and medium-sized enterprises as they adopt more sustainable business practices. This is a journey where everybody has an important role to play, and we plan to amplify it by increasing the geographic reach as well as the number of partners involved. The program itself will be overseen by a Scientific Committee composed of professionally accomplished individuals from the worlds of politics, academia and business.

Many SMEs already understand the benefits of adopting a sustainable business model, in terms of gaining or maintaining access to business opportunities and resources. Insurers, like Generali, must support these companies through a dedicated and tailored offering that will help them in their day-to-day activities as well as with their transition to a more responsible way of operating. National and international institutions are increasingly striving for a more sustainable world and are using their policy-making decisions to promote sustainable development across all sectors.

With this White Paper, we want to inform the discussion and provide a useful and reliable source of information to anyone who wishes to learn more about SMEs and the sustainable approach to doing business. Therefore, my gratitude, and that of all colleagues at Generali, goes to the SDA Bocconi School of Management, to the researchers and to everyone who worked hard on such an important and ground-breaking research report.

We are confident that we will stimulate interest in this key, ever-evolving field with the aim of triggering concrete action. After all, it is not only in the interest of SMEs, but it is in the interest of everyone, as citizens committed to the long-term sustainability of our society, our economy, and our planet.

## FOREWORD

### Bocconi University Rector - Gianmario Verona

Now more than ever, a real cultural revolution is taking place. A revolution in which companies are now scrutinized for the value they create with respect to the natural environment and, more generally, to all stakeholders, including workers and communities. This is certainly true for large enterprises but it also holds for SMEs, albeit in a manner peculiar to this type of company.

A careful observation of the current trends, corroborated by the evidence drawn from numerous studies and research, highlights three strategic directions on which it is essential to work without delay: investments in sustainability, digital transformation, and human capital.

In terms of environmental, social and economic sustainability, the sustainable transition requires the full involvement of SMEs, which are key players in global value chains. Without SMEs, this transition would simply not occur. On the other hand, for SMEs the challenge of sustainability represents an incredible opportunity to acquire or consolidate their competitive advantage.

The sustainable transition is also strictly linked to the digital transformation, which represents a fundamental enabler, accelerator and multiplier of opportunities, also for SMEs. Truly sustainable development can only be achieved by exploiting the environmental, social and economic opportunities for innovation underpinning the fourth industrial revolution, which have their basis at the interconnection of the physical, digital and biological domains.

Lastly, investment in human capital is essential to build and consolidate the skills necessary for the implementation of the two previous strategic lines of action. This is certainly true for SMEs which, as is well known, do not always possess the skills and resources to operate successfully in this changing context.

Many of the initiatives currently in place, starting from the resources of the Next Generation EU, are made operational by national action plans. However, tools and resources made available by the private sector are also built along the pillars of sustainable innovation, with the cornerstone of knowledge development.

For this to be possible, it is paramount to involve and activate SMEs. This is the only way to achieve an effective sustainable transition.

## Executive summary

The White Paper is promoted by Generali as part of the SME EnterPRIZE project, which aims to create an European platform providing increased visibility to sustainable SMEs and inspiring small and medium entrepreneurs to adopt more responsible business models. The White Paper has been developed by SDA Bocconi School of Management with the support of researchers from a network of EU universities in eight selected countries (Austria, Czech Republic, France, Germany, Hungary, Italy, Spain, Switzerland).

The objective of this White Paper is twofold. Firstly, it aims to provide an exhaustive overview of the managerial literature of recent years on sustainability and SMEs, combined with the evidence drawn from the most up-to-date "grey literature" (i.e. non scientific studies, reports, analyses) on the subject. Secondly, it is intended to provide an initial systematisation of the tools and initiatives currently available to bring SMEs on board with the sustainability agenda.

The document is primarily intended for SMEs, especially with regard to the elements relating to the benefits of adopting a sustainability strategy, and the description of the tools and initiatives that can be activated.

The White Paper is also intended for policy makers, institutions, large companies, the financial world, research and academia, who are called upon to synergistically enable the **just sustainable transition** of SMEs, i.e. a transition compatible with SMEs' resources and capacities, through the effective development of additional tools and initiatives, and their transposition or adaptation according to the actual needs and capabilities of these companies.

The literature on the subject, analysed for this document, counts more than 3,000 sources, in addition to several hundreds of reports, studies, and analyses conducted by institutions, research centres and business associations at international and local level. The initial desk research was combined with a thorough review at national level in the eight selected countries of interest.

**The first chapter** addresses the relevance of sustainability for SMEs and for the success of the sustainability agenda. SMEs constitute a key pillar of the European economy and play a fundamental role in social and community dynamics. Moreover, SMEs are key players in European and global value chains, making them essential in the efforts towards the sustainable transition. On the other side, sustainability has emerged as a fundamental strategic factor. For SMEs, being involved is critical to gain or maintain access to business opportunities and resources. Interestingly, although the Covid-19 pandemic has significantly affected European SMEs, recent surveys confirm that Covid-19 is also acting as an accelerator towards a higher SMEs' activation on social and environmental issues.

**In the second chapter** we analyse the approach to sustainability of European SMEs and highlight that European SMEs' approach to sustainability is still informal and not structured, with margins for growth. European SMEs do more than they are aware of doing and/or are capable of communicating, for example in terms of employee welfare, including occupational health and safety and well-being, environmental initiatives, and community engagement.

**The third chapter** analyses the main barriers that prevent SMEs from adopting a structured and integrated approach to sustainability. We identify five main barriers, related to institutional, organisational and individual factors, such as lack of internal resources, including competencies and skills, lack of economic and/or financial resources, institutional factors, including regulations and bureaucracy, lack of consumer or customer demand and lack of dedicated and standardised tools for SMEs.

**In the fourth chapter** we present and discuss 15 broad categories of tools and initiatives to bring SMEs on board with the sustainability agenda and to secure a **just transition** towards sustainability. These supporting initiatives can be either economic or non-economic, developed or administered by public or private organisations, as well as by public-private partnerships. We link these instruments to the main barriers identified in the previous chapter. For all these instruments, illustrative examples have been reported from the countries analysed.

**The fifth chapter** provides insights related to the lessons learned and future developments. On the basis of our analyses, SMEs' needs **dedicated, proportionate and convergent** initiatives to remove the factors that still hinders these companies from the adoption of a sound sustainability approach. The challenge of fostering sustainability in SMEs can be overcome through the activation of all the relevant players. International and national institutions and policy makers, large companies, the world of finance, academia and research, are all called upon to contribute to the creation of an "ecosystem" of public and private players, acting in a coordinated way and in collaboration, starting from education and capacity building, and continuing with sustainable finance, thriving in a clear and established policy framework favourable to SMEs. Additional instruments aimed at promoting the public and private demand for sustainable products and services, as well as tailored disclosure on materiality and assessment initiatives are expected to enhance and foster the involvement of SMEs in the sustainability agenda.

**A quick guide on how SMEs can get started on the sustainability agenda** provides these companies with several steps that can help them to get started on their journey towards the sustainable transition.



CHAPTER 1

## Why sustainability is relevant for SMEs?

## 1. SMEs constitute a key pillar of the European economy and play a fundamental role in social and community dynamics. Moreover, SMEs are key players in European and global value chains, making them essential actors in the efforts towards the sustainable transition

European SMEs<sup>1</sup> account for more than 25 million companies, or 99.8% of the total number of firms operating in the European Union and Switzerland. Large companies account for the remaining 0.2%. SMEs hold a vital role in the provision of employment, supplying 2 out of 3 jobs in the EU and Switzerland, accounting for 100 million jobs. A similar picture can be drawn for their value contribution, with SMEs' Value Added counted at €4.3 billion within the EU or 56.4% of the total.<sup>2</sup>



SMEs strongly contribute to the sustainability profile of the value chains in which they are involved. This contribution becomes critical for a variety of products and services

SMEs' economic and social relevance, as well as their extensive participation in national and international value chains, amplify the need to further engage SMEs in the sustainability agenda. SMEs, in fact, strongly contribute to the sustainability profile of the value chains in which they are involved. This contribution becomes critical for a variety of products and services, since environmental impacts linked to activities carried out along the value chains typically account for more than 80% of GHG emissions, and up to 90% of the impact on air, land and water, biodiversity, and use of natural resources<sup>3</sup>. Similar considerations can be made with regard to social impacts, related for example to the respect of human and workers' rights, including child and forced-labour violations, fair wages, and workers' health and safety issues.

**Through the 2030 Agenda, the United Nations identifies the crucial role of firms, including SMEs, in achieving the 17 Sustainable Development Goals (SDGs) alongside governments and civil society.**

1. According to the EU definition, micro, small and medium-sized enterprises employ fewer than 250 persons and have either an annual turnover not exceeding €50 million or an annual balance sheet total not exceeding €43 million. More specifically, micro-enterprises are defined as enterprises that employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed €2 million; small enterprises are defined as enterprises that employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed €10 million; and medium-sized enterprises are defined as enterprises that employ fewer than 250 persons and either have an annual turnover that does not exceed €50 million, or an annual balance sheet not exceeding €43 million

2. European Commission Executive Agency for Small and Medium-sized Enterprises (EASME) Annual Report on European SMEs 2018/2019 Research & Development and Innovation by SMEs November 2019 on Eurostat's Structural Business Statistics (SBS) data; for Switzerland, EAER: Federal Department of Economic Affairs, Education and Research, SME Portal, Figures on SMEs: Companies and jobs

3. McKinsey & Company (2016), Starting at the source: Sustainability in supply chains  
<https://www.mckinsey.com/business-functions/sustainability/our-insights/starting-at-the-source-sustainability-in-supply-chains>

The relevance of SMEs is evident, as providers of products and services, and as employment and wealth creators. The achievement of the SDGs requires the development of innovative business models, new technologies and more sustainable and ethical ways of doing business. This transformation is expected to bring new opportunities for businesses in general, and especially for SMEs, as it could generate economic opportunities worth \$12 trillion and create 380 million jobs by 2030, more than 50% of which will be located in developing countries<sup>4</sup>.

**The EU is leading the sustainability arena, and it is making unprecedented efforts with regard to the sustainability agenda.** The *EU SME Strategy for a sustainable and digital Europe*<sup>5</sup> aims to unleash the full capabilities of European SMEs adopting the twin sustainability and digitalisation transitions. This strategy is coupled with the *New Industrial Strategy for Europe*<sup>6</sup>, released in 2020 and recently updated in the context of the pandemic recovery and the strategic dependencies this has highlighted<sup>7</sup>. SMEs are given significant attention in the EU's Industrial Strategy (and its update), with tailored financial support and measures to reduce burdens on SMEs, as well as new KPIs specifically formulated to track the health of the SME ecosystem in the bloc<sup>8</sup>. Both strategies are instrumental to implementing, among others, the *European Green Deal* and the *Circular Economy Action Plan*.

On the other hand, the EU is mobilising the financial sector through the *Action Plan for Financing Sustainable Growth*, aspiring to foster sustainable finance. A noteworthy development was the appointment of the multi-stakeholder Technical Expert Group (TEG), which was responsible for establishing guidelines for Environmental, Social and Governance (ESG) reporting, and in charge of developing the EU Taxonomy, the European classification system for sustainable activities. On 21 April 2021 the European Commission adopted a comprehensive package of measures to enhance the flow of resources towards sustainable activities, including the *EU Taxonomy Climate Delegated Act*, aimed at clarifying which economic activities most contribute to meeting the EU's environmental objectives<sup>9</sup>.

Moreover, building on the shortcomings of non-financial reporting under the current legal framework (e.g. lack of completeness, reliability, comparability, and digital readiness of reported non-financial information), on the same occasion the Commission adopted a new proposal for a *Corporate Sustainability Reporting Directive (CSRD)*, intended to amend the existing *Non-Financial Reporting Directive (NFRD)*. The proposal extends the scope of non-financial reporting to all large companies and to all companies listed on regulated markets (except listed micro-enterprises), requires the audit (assurance) of reported information, introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards to be further developed<sup>10</sup>.

The EU is leading the sustainability agenda, and it is making unprecedented efforts in the sustainability area

4. UN Department of Economic and Social Affairs (UNDESA) (2020), Report on MSMEs and the Sustainable Development Goals [https://sdgs.un.org/sites/default/files/2020-07/MSMEs\\_and\\_SDGs.pdf](https://sdgs.un.org/sites/default/files/2020-07/MSMEs_and_SDGs.pdf)

5. European Commission (2020), A SME Strategy for a sustainable and digital Europe, Brussels 10.3.2020 COM(2020) 103 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2020%3A103%3AEFIN>

6. European Commission (2020), A New Industrial Strategy for Europe, Brussels 10.3.2020 COM(2020) 102 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0102>

7. European Commission (2021), Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, Brussels, 5.5.2021 COM(2021) 350 final [https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020\\_en.pdf](https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020_en.pdf)

8. European Commission (2021), Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, Brussels, 5.5.2021 COM(2021) 350 final [https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020\\_en.pdf](https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020_en.pdf)

9. [https://ec.europa.eu/info/publications/210421-sustainable-finance-communication\\_en](https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en)

10. European Commission (2021), Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, Brussels, 21.4.2021 COM(2021) 189 final [https://ec.europa.eu/finance/docs/law/210421-proposal-corporate-sustainability-reporting\\_en.pdf](https://ec.europa.eu/finance/docs/law/210421-proposal-corporate-sustainability-reporting_en.pdf)

These measures are in line with the growing information needs of users (e.g. investors, NGOs, social partners, and other stakeholders), and they will support a sustainable recovery after the Covid-19 pandemic, as sustainability is centrally positioned in the EU's response to the *health and economic emergency posed by the Covid-19 pandemic*. NextGenerationEU (NGEU) is the recovery instrument developed to repair the damage caused by the crisis, while building a sustainable, more resilient Europe of tomorrow, and it provides unprecedented opportunities for SMEs.



## 2. Sustainability has emerged as a fundamental strategic factor for enterprises

A positive relationship between SMEs' sustainable behaviour and their economic, financial and competitive performance is essentially confirmed by the literature<sup>11</sup>. Efforts devoted to corporate sustainability can promote superior corporate performance through several drivers, such as accountability, transparency, commitment, trust, reputation, innovation, efficiency, licence to operate<sup>12</sup>.

A recent survey by ISTAT, the Italian national statistical institute, certified the relationship between productivity and sustainability, of both an environmental and social nature. The study shows the existence of a "**sustainability bonus**" in terms of labour **productivity**, expressed as value added per employee. This sustainability-related productivity bonus increases along with the degree of attention to environmental and social topics, depends on the human and physical capital dimension of the companies, and can reach values of up to 15%<sup>13</sup>.

Similar insights emerge from the latest of a five-year series of studies, *Welfare Index PMI*, developed by Generali Italia with the participation of Italian business associations. The analysis highlights a positive relationship between corporate welfare and business results. Companies with the highest welfare levels generally have **better productivity**, are more profitable and financially solid, and grow faster. Although it is safe to affirm that the "healthiest" companies can develop welfare initiatives more easily, on the other hand welfare contributes to improving business results by impacting positively on the internal climate, employee satisfaction and productivity<sup>14</sup>. In some ways, SMEs seem better suited to implementing sustainability related actions, due to their closer relationship with local stakeholders, and a better understanding of employees' needs.

For SMEs, being involved in the sustainability agenda is critical in order to gain or maintain access to business opportunities and resources, from different perspectives

The relationship between sustainability and productivity exists, and has been proven by several studies

11. The Systematic Literature Review (SLR) main findings highlight a positive relationship between small companies' sustainable behavior and their economic and financial performance. At this regard, see Bartolacci et al. (2020), *Sustainability and financial performance of small and medium sized enterprises: A bibliometric and systematic literature review*. *Business Strategy & the Environment*, 3, pp. 1297-1310; Boakye et al. (2020), *Sustainable environmental practices and financial performance: Evidence from listed small and medium-size enterprise in the UK*. *Business Strategy & the Environment*, 6, pp. 2583-2603; Dey et al. (2019), *Could lean practices and process innovation enhance supply chain sustainability of small and medium-sized enterprises?* *Business Strategy & the Environment*, 4, pp. 582-599; Andersén et al. (2020), *Can environmentally oriented CEOs and environmentally friendly suppliers boost the growth of small firms?* *Business Strategy & the Environment*, 2, pp. 325-335; Sánchez et al. (2015), *CSR Policies: Effects on Labour Productivity in Spanish Micro and Small Manufacturing Companies*. *Journal of Business Ethics*, 4, pp. 705-725

12. For a pioneering study providing an in-depth conceptualization of the linkages between corporate social performance and the process of sustainable value creation establishing the theoretical framework of analysis, see Perrini et al. (2011). *Deconstructing the Relationship Between Corporate Social and Financial Performance*. *Journal of Business Ethics*, 102, pp. 59-76. Performance outcomes can be either revenue-related (growth opportunities, competitive positioning, brand equity) and cost-related (cost of labor, operational efficiency, cost of capital, risk management).

13. ISTAT (2019), *Rapporto annual 2019*. <https://www.istat.it/storage/rapporto-annuale/2019/Rapportoannuale2019.pdf>

14. Welfare Index PMI Rapporto 2020'. <https://www.welfareindexomi.it/evento-2020/>

Embracing the sustainability transition is critical for SMEs, as a means to gain and maintain access to business opportunities and resources in terms of:

1

**Certified supply chains and global markets:** the possibility of having access to the certified value chains of large companies and to global markets will require SMEs to develop a more formalised and structured approach on sustainability, both from an environmental and social point of view

2

**Dedicated funding for the sustainable transition:** the resources made available at international and national level for the ecological transition will be accessible only to SMEs that implement specific efforts aimed at enhancing their sustainability profile

3

**Sustainable finance and better financial conditions:** ESG information is also becoming increasingly important with regard to providing credit to businesses. This trend is supported both by the assessments made by banks with respect to the exposure of their portfolio to ESG risks, and by the most recent developments in financial regulation encouraging financial institutions to introduce ESG variables in their evaluation policies

4

**Public procurement:** SMEs' participation in public procurement has increased in recent years. In 2011, SMEs held 58% of all public procurement contracts in the EU and EEA, while most recently they had obtained 65% (32% in value)<sup>15</sup>. As green or social criteria in sustainable public procurement increase, SMEs need to be ready to meet the most stringent ESG criteria

5

**Better competencies and talents:** human capital is one of the strategic assets of SMEs. A superior sustainability profile and corporate reputation favour more qualified and motivated human resources with regard to recruitment and talent retention

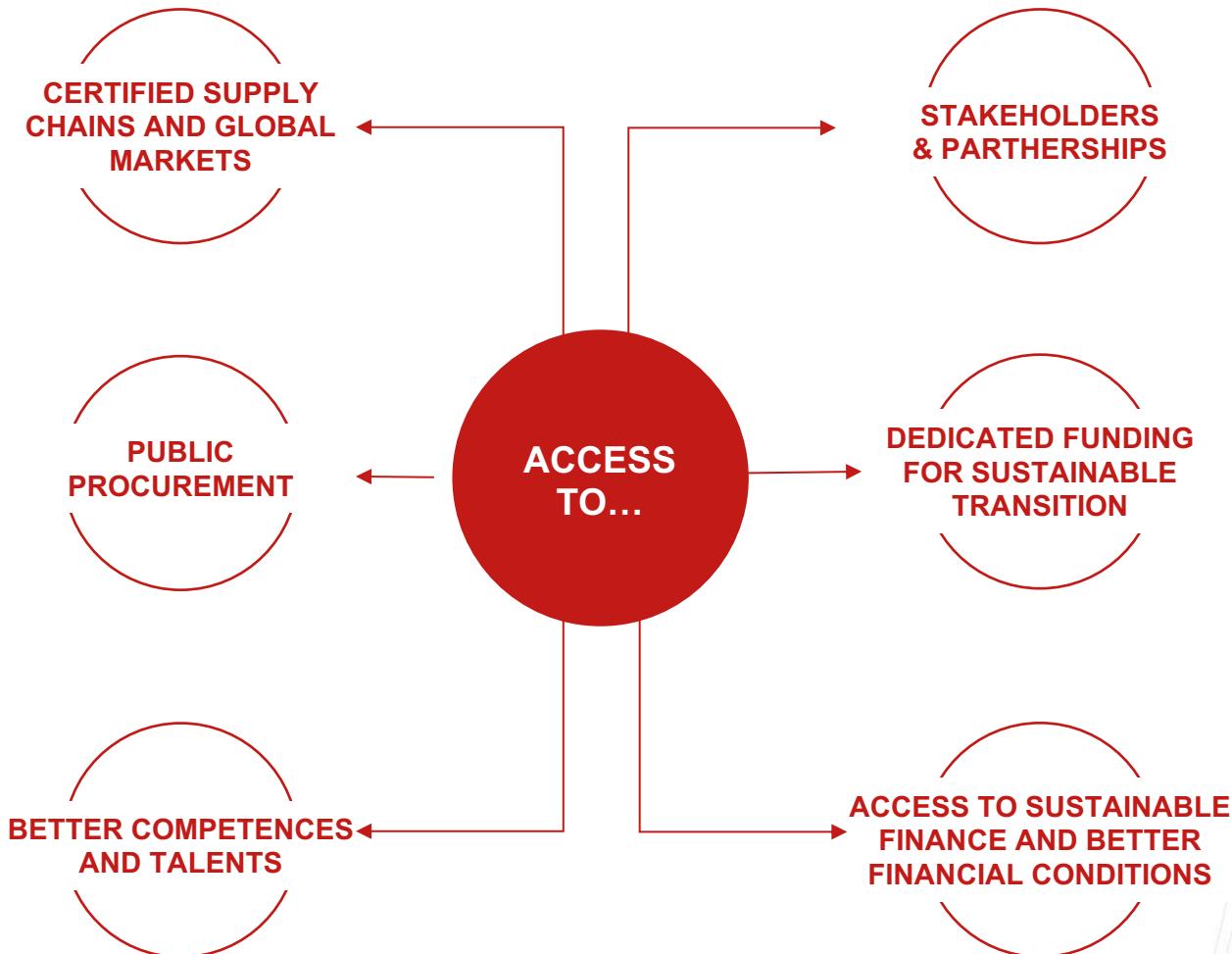
6

**Stakeholders and partnerships:** the sharing of ethical, social and environmental principles can also improve the ability of SMEs to establish and maintain better relations with stakeholders and partners, in order to secure support, and access to resources and capabilities

By embracing the sustainability transition, SMEs can gain access to unprecedented resources and business opportunities

15. European Commission (2019), Analysis of the SMEs' participation in public procurement and the measures to support it - 697/PP/GRO/IMA/18/ 1131/10226 Final report  
<https://ec.europa.eu/docsroom/documents/42102/attachments/1/translations/en/renditions/native>

Sustainability increasingly drives SMEs' access to business opportunities and resources



## Recovery through sustainable transformation: NextGenerationEU (NGEU) and Multiannual Financial Framework (MFF) 2021-2027 provide unprecedented opportunities for sustainable SMEs



Focus On

Adopted by the European Council on 14 December 2020, NGEU is an €806.9 billion temporary recovery instrument designed to help move Europe out of the coronavirus crisis. Combined with the MFF for 2021-2027, the total financial stimulus package reaches the unprecedented amount of €2 trillion. Apart from addressing the pressing needs for citizens, companies and regions to repair the damage caused by the crisis, the EU Recovery Plan draws on rebuilding a more modern and sustainable post-Covid EU.

More than 50% of these combined NGEU and MFF resources will be directed to the reinforcement of modernisation, including through policies for research and innovation via the Horizon Europe programme; fair climate and digital transitions, through the Just Transition Fund (JTF) and Digital Europe programmes; and preparedness, recovery and resilience, via the Recovery and Resilience Facility (RRF), RescEU and a new health programme.

Taking a closer look at the NGEU recovery instrument, €723.8 out of the total €806.9 billion are allocated to its centrepiece, the RRF. European Member States are required to draw up their own Recovery and Resilience plans aimed at addressing country-specific challenges. Specific minimum thresholds for climate and digital expenditure have been set at 37% and 20% respectively, and the methodology for reviewing the RRF Plans reveals a variety of priorities put forward to fund sustainable interventions tailored to SMEs. These priorities include, among others: the digitalisation of SMEs in compliance with greenhouse gases (GHG) emission reduction or energy efficiency criteria; energy efficiency and demonstration projects in SMEs; support for environmentally friendly production processes in SMEs; contribution to green skills and jobs as well as the green economy.

**Sustainable SMEs have the opportunity to embark on this transformation and gain access to critical funds.**

Table: MMF and NGEU expenditure categories (€ billion),  
European Commission (2021) adapted from <https://ec.europa.eu>

MMF + NGEU Expenditure categories	MMF	NGEU	TOTAL
1. Single Market, Innovation and Digital	149.5	11.5	161.0
2. Cohesion, Resilience and Values	426.7	776.5	1,203.2
3. Natural Resources and Environment	401.0	18.9	419.9
4. Migration and Border Management	25.7		25.7
5. Security and Defence	14.9		14.9
6. Neighbourhood and the World	110.6		110.6
7. European Public Administration	82.5		82.5
<b>TOTAL</b>	<b>1,210.9</b>	<b>806.9</b>	<b>2,017.8</b>
<b>TOTAL expressed in 2018 prices</b>	<b>1,074.3</b>	<b>750.0</b>	<b>1,824.3</b>

Sources:  
[https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/spending/headings\\_en#https://data.consilium.europa.eu/doc/document/PE-75-2020-INIT/en/pdfhttps://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_20\\_2465](https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/spending/headings_en#https://data.consilium.europa.eu/doc/document/PE-75-2020-INIT/en/pdfhttps://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_2465)

## Covid-19 is acting as an accelerator and catalyst for awareness and activation towards sustainability issues



According to a survey conducted in April 2020 involving more than **2,000 consumers** in Germany and the UK, aimed at monitoring consumer sentiment during the Covid-19 pandemic, 88% believed that more attention needs to be paid to reducing pollution, and two-thirds highlighted the increased relevance of acting to limit the impacts of climate change. This **increased awareness is coupled with superior activation**, as consumers claim to have already started changing their behaviour: 57% have made significant changes to their lifestyles to reduce their environmental impact, and more than 60% report that they recycle and purchase products in environmentally friendly packaging<sup>16</sup>.

Another recent survey, published in June 2020 involving **18,980 consumers** in 28 countries, including more than 2,200 in France, Germany, Italy and Spain, reveals similar figures: **sustainability seems to have reached a tipping point**, as consumers increasingly look for products and brands that are aligned with their values. 80% claim that sustainability is important, and 57% are willing to reduce their environmental impact by changing their shopping behaviours. 71% of consumers who declare that sustainability is important would pay a premium of up to 35%, on average, for sustainable and environmentally responsible brands<sup>17</sup>.

16. McKinsey & Company (2020). Survey: Consumer sentiment on sustainability in fashion  
<https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion>

17. IBM Institute for Business Value (2020). Meet the 2020 consumers driving change Why brands must deliver on omnipresence, agility, and sustainability  
<https://www.ibm.com/downloads/cas/EXK4XKX8>

As for **Italian SMEs**, in the new socio-economic context affected by the Covid-19 pandemic, one in three companies believes that integrating sustainability into strategic management will **help get out of the crisis more quickly** (39% among companies with at least 50 employees) and 37% expect an increase in attention to ESG issues<sup>18</sup>. With regard to the reaction to the pandemic, the awareness of the social role of SMEs was strengthened, as they constituted a point of reference for their communities. Almost **all have undertaken social support initiatives** not simply limited to the application of mandatory safety standards, such as: health and safety measures in 96% of cases, changes in the organisation of work to enhance work-life balance for employees (79% of cases), or economic support for workers<sup>19</sup>.

**German SMEs appear to have a rather optimistic outlook** on how 2021 will play out economically for them. According to a recent survey by KfW, the German state-owned development bank (Kreditanstalt für Wiederaufbau), around 70% of SMEs believe in a recovery in 2021. Sustainability remains an important topic. In another survey of over 400 German companies by the BNW (Bundesverband Nachhaltige Wirtschaft), the German Federation of Sustainable Economy and Entrepreneurs for Future, focusing mainly on SMEs from various industries, over 95% agreed that sustainability and climate protection are just as important as they were prior to the pandemic, if not more so<sup>20</sup>.

Also, the vast majority of German SMEs, some 65%, have maintained their investments in future innovations despite the economic effects of the pandemic. Taken together, it is safe to assume that sustainability goals and topics remain important for German SMEs despite the pandemic, and future investments in sustainability projects and innovations, although they may be delayed in part, will remain more or less unaltered.

The report “**Focus SME**” by the Austrian Federal Ministry for Digital and Economic Affairs<sup>21</sup>, based on a study by the WIFU (Wittner Institute for Family Business) published in January 2021 and other studies, shed some light on how SMEs and family businesses are trying to tackle the crisis. To date, most of the activities in Austrian SMEs have mainly been related to short-term measures and initiatives, although innovative digital solutions seem to play a major role, including for micro firms. To what extent these often very innovative adaptations will be transferred into long-term business model innovations, is not a question that can be answered at the present time.

18. Forum per la Finanza Sostenibile (2020). PMI italiane e sostenibilità <https://finanzasostenibile.it/attivita/pmi-italiane-sostenibilita/>

19. Generali (2020). Welfare Index PMI Rapporto 2020 <https://www.welfareindexpmi.it/wp-content/uploads/2020/09/WIPMI-2020-Rapporto-2020.pdf>

20. [https://entrepreneurs4future.de/wp-content/uploads/EAF\\_Klimastudie.pdf](https://entrepreneurs4future.de/wp-content/uploads/EAF_Klimastudie.pdf)

21. Bundesministerium Digitalisierung und Wirtschaftsstandort. (January 2021). KMU im Fokus 2020 - Bericht über die Situation und Entwicklung kleiner und mittlerer Unternehmen der österreichischen Wirtschaft, Vienna.

Empirical evidence suggests that in Austria, similarly to other European countries, those industries that have been heavily hit by Covid-19 plan to use the crisis for an **ecological and digital transformation**. One example is the tourism industry, where suggestions range from adaptations of the existing business model to radical changes to integrate ecological demands and stakeholder needs.

The coronavirus crisis has left its mark on the **Swiss corporate landscape**, as revealed by a survey of 1,001 companies by Credit Suisse (2020). Measures to contain the pandemic led to the sharpest decline in gross domestic product, in the second quarter of 2020, since the survey began in 1980. Despite the situation, the study revealed that ecological sustainability will not lose its importance for most companies in the future: 49% of SMEs want to continue their efforts in this area, maintaining pre-crisis levels of commitment and 26% even intend to intensify their efforts<sup>22</sup>. A more recent survey developed by UBS in February - March 2021 on a sample of 2,502 **Swiss** firms, 9% of which were medium-sized and 81% micro and small enterprises, confirms and reinforces the evidence: The coronavirus crisis has led companies to pay more attention to sustainability, both from a social and ecological standpoint. Nine out of ten companies, in fact, claim that sustainability is important or very important, and the areas concerned are: energy consumption, environmental protection both in the country and abroad, social standards in Switzerland and in supply chains, and corporate governance.<sup>23</sup>

22. Credit Suisse (2020), Swiss SMEs: Flexible response to the corona crisis, Monitor Switzerland with SME survey, 4.Q 2020. <https://www.credit-suisse.com/ch/en/unternehmen/unternehmen-unternehmer/aktuell/nachhaltigkeit-als-erfolgsfaktor.html>

23. UBS (2021), Sustainability in Swiss companies UBS Outlook Switzerland, 2nd quarter 2021 - May 2021. Survey on a sample of 2,502 Swiss companies conducted from 22 February to 10 March 2021. 72% of the companies surveyed are based in German-speaking Switzerland, 24% in western Switzerland and 4% in Ticino. Companies with more than 250 employees represent 5% of the sample, those with 50 to 249 employees 9%, while small and micro enterprises represent 86%. Service providers represent 81% of the total.



## CHAPTER 2

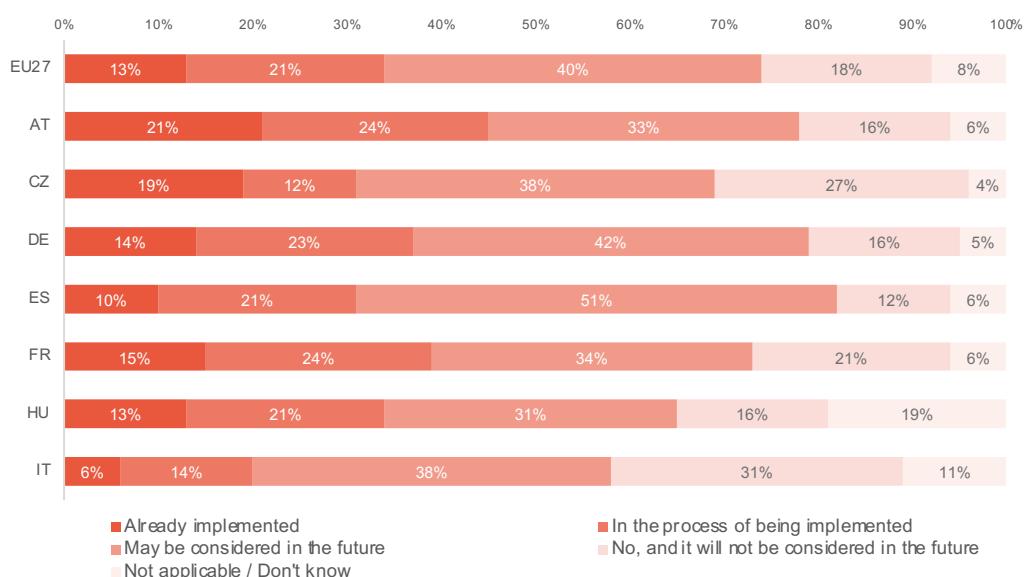
# What is the approach to sustainability of European SMEs?

## 1. SMEs rarely use the language of corporate sustainability to describe their activities: they adopt more informal strategies, aimed at securing their licence to operate

SMEs' approach to sustainability is less structured and formalised than that of larger firms. The literature demonstrates that SMEs rarely use the jargon of corporate sustainability, whereas they adopt more informal strategies, attempting to secure their licence to operate while contributing to their local communities. Only 13% of EU27 SMEs actually indicate that they have already adopted a sustainability strategy, while 21% seem to be in the process of implementing one. A significant 40% of SMEs report the potential of becoming a sustainable enterprise in the future by possibly adopting a sustainability strategy, while 18% declare that they have not considered implementing one and will not do so in the future<sup>24</sup>.

SMEs' approach to sustainability is more informal and less structured than that of large companies

### SMEs with a strategy or action plan to become a sustainable business, i.e. combining long-term success and profitability with a positive impact on society and the environment



24. European Commission (2020), SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486  
[https://data.europa.eu/euodp/en/data/dataset/S2241\\_486\\_ENG](https://data.europa.eu/euodp/en/data/dataset/S2241_486_ENG)

Source:  
European Commission (2020), SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486

A still early-stage and not yet fully developed approach to sustainability by SMEs therefore emerges. Delving deeper into the analysis in selected European countries and extending the investigation to more detailed sources of information, a more granular approach confirms the basic evidence, although with some nuances according to the specific contexts.

In **France**, evidence suggests that SMEs rarely implement a sustainability strategy that simultaneously focuses on economic, social and environmental dimensions. French SMEs prefer to emphasise either the environmental or the social dimensions, in order to avoid jeopardising economic sustainability, which is considered to be the most important factor. Moreover, the sustainability strategies of French SMEs are closely linked to their size: medium-sized firms (from 50 to 249 employees,) have a score that is around 28% higher than that of micro firms (0 to 9 employees) and 17% higher than that of small firms (between 10 and 49 employees)<sup>25</sup>.

In **Italy**, 50% of SMEs declare they would like to integrate sustainability into their business activities, although they haven't yet done so<sup>26</sup>. And in Italy again, sustainable behaviours increase in line with the size of the company. Larger firms (250 employees and over) show values around 10-20 percentage points above SMEs in all macro activities. The morphology of sustainability presents other interesting dimensional differences: micro enterprises show a more accentuated orientation towards improving workers' well-being, while larger companies are more focused on safety issues and on reducing their environmental impact<sup>27</sup>.

In **Spain**, sustainability is gaining relevance in the context of SMEs and 45% have an environmental policy, while 41% would like to integrate the SDGs in their strategy, although no specific actions had already been taken in this regard<sup>28</sup>. In **Germany**, although sustainability has gained traction in SMEs and sustainability-related measures are increasingly implemented, most SMEs lack a strategic approach and communication<sup>29 30</sup>. 45% of SMEs in Germany are analysing the impact of climate change on their activities, but only a relatively small portion of them have already planned specific measures<sup>31</sup>.

75% of **Austrian** SMEs seem to attribute considerable importance to social issues, and more than 60% to environmental ones<sup>32</sup>, with their sustainability focus being predominantly on local embeddedness and regional prosperity. However, they do not seem to recognise sustainability as a future strategic priority, as only 2% name corporate sustainability among the most important strategic challenges in the years to come when directly asked about it<sup>33</sup>. In **Hungary**, the attention of many SMEs is still focused on regulatory compliance, while in **Switzerland** 67% of companies with more than 100 employees declare their commitment to sustainability issues, compared to 33% for companies with fewer than 30 employees<sup>34</sup>.

25. Akeb, H., Delchet-Cochet, K., & Vo, L. C. (2015). Analyse exploratoire de la mise en œuvre des trois dimensions de la RSE dans les PME françaises. *Revue de l'organisation responsable*, 10(2), 5-27

26. Forum per la Finanza Sostenibile (2020), PMI italiane e sostenibilità <https://finanzasostenibile.it/attivita/pmi-italiane-sostenibilita/>

27. ISTAT (2020), Sostenibilità nelle imprese: aspetti ambientali e sociali <https://www.istat.it/it/archivio/244337>

28. UN Global Compact Pacto Mundial Red España (2020), Comunicando el Progreso 2020 Una llamada a la acción sostenible y al reporte empresarial <https://www.pactomundial.org/2021/02/reporting-2020-el-ibex35-pasa-del-compromiso-a-la-accion-en-materia-de-ods/>

29. Baker Tilly (2018), Nachhaltigkeit im Mittelstand. Corporate Social Responsibility (CSR): Strategien, Organisation und Berichtswesen, 2nd Edition

30. BfAS (2018). CSR-Trends. Eine Analyse am Beispiel des CSR-Preises der Bundesregierung. [https://www.csr-in-deutschland.de/SharedDocs/Downloads/DE/CSR-Preis/cs-preis-trendanalyse.pdf?\\_\\_blob=publicationFile&v=5](https://www.csr-in-deutschland.de/SharedDocs/Downloads/DE/CSR-Preis/cs-preis-trendanalyse.pdf?__blob=publicationFile&v=5)

31. DZ Bank (2019), Klimawandel & Mittelstand – Herausforderungen aus Unternehmersicht. [https://www.dzbank.de/content/dam/dzbank/de/documents/mittelstand/20Klimawandel\\_Umfrageergebnisse\\_Kantar\\_DZ%20Bank.pdf](https://www.dzbank.de/content/dam/dzbank/de/documents/mittelstand/20Klimawandel_Umfrageergebnisse_Kantar_DZ%20Bank.pdf)

32. Busch, Ortiz, Löffler, Scholz (2020). Nachhaltigkeitsmanagement in österreichischen KMU. Institute for business ethics and sustainable strategy (IBES). Okt. 2020.

33. Statista 2020, Joshua Consulting, Bankhaus Spängler. May - July, 2018 <https://de.statista.com/statistik/daten/studie/932806/nachfrage/herausforderungen-fuer-familienunternehmen-in-oesterreich/>

34. 2019 economic survey conducted by the Chambers of Commerce of French and Italian-speaking Switzerland on a sample of 1,753 companies

While SMEs implement sustainability mainly because they see it as part of their DNA, larger companies attach greater importance to regulations, reputation, customer needs and attractiveness for capital leaders<sup>35</sup>.

In the **Czech Republic**, SMEs do not feel the need to formally define the direction they are taking as sustainable businesses. Their social sustainability lies rather in close links with the local community, contributing to employment and economic prosperity in the region, or is targeted towards supporting charitable projects in their surrounding area<sup>36</sup>.

### European SMEs' approach to sustainability is still informal and not structured, with margins for growth...

13% of EU27 SMEs indicate that they have already adopted a sustainability strategy



21% seem to be in the process of implementing one, although they haven't yet done so



40% report they may potentially adopt a sustainability strategy in the future



18% declare that they have not considered implementing one and will not do so in the future



European SMEs are active in three specific sustainability domains: employee welfare, environment, and community engagement

### ... in fact, European SMEs do more than they are aware of doing and/or are capable of communicating, for example in terms of welfare, environmental, and community engagement

#### Employee welfare, including occupational health and safety and well-being

Initiatives are reported by 66% of SMEs in Italy, 65% in Germany, 76% in Austria, 66% in Spain, 68% in Hungary. French, Czech, and Swiss SMEs significantly engage employees on welfare initiatives too

#### Environmental

Initiatives are reported by 67% of SMEs in Italy, 69% in Spain and 66% in Switzerland. Environmental initiatives in SMEs are widespread in Germany, France, Hungary, Czech Republic and Austria as well

#### Community engagement

European SMEs confirm being active in supporting social, educational, cultural, as well as charitable and religious-related initiatives in their local communities

35. UBS (2021), *Sustainability in Swiss companies UBS Outlook Switzerland*, 2nd quarter 2021 - May 2021

36. <https://archiv.ihned.cz/c1-66383970-jak-na-udrzitelne-podnikani>

## 2. Employee welfare initiatives, as well as environmental-related actions including circular economy, energy efficiency and decarbonisation, and community engagement e.g. corporate philanthropy, drive European SMEs' efforts on sustainability

Scientific literature, international reports and national observations illustrate that, aside from the majority of SMEs still being unable to immediately and/or spontaneously associate all their actions with a sustainability strategy, they do much more than they are aware of doing, and/or are capable of communicating.

**Three specific domains of intervention emerged**, with employee welfare being the most relevant, followed by environmentally related initiatives, and community engagement, which is rarely communicated, as it is in many ways “rooted” in SMEs’ very informal ways of operating within their local communities.

### 2.1. Employee welfare

According to a recent survey, more than 66% of **Italian** SMEs are engaged in actions to improve workers’ well-being and employees’ professional development. Most of the companies that have declared that they are carrying out actions in these domains (more than 709,000, equal to 69% of the companies surveyed) have adopted more flexible working hours or good practices related to employee professional development, as well as initiatives related to equal opportunities, or to a larger extent devoted to ensuring the health and safety of employees in the workplace<sup>37</sup>.

Similar figures are reported in **Germany**, where 65% of SMEs also try to “retain” skilled workers through dedicated welfare programmes, followed by 55% who want to increase flexibility in the work environment, with the aim of creating an attractive workplace<sup>38</sup>. In **Austria**, a recent survey reported that 76% of the responding SMEs declare their commitment to employees as a relevant sustainability aspect, together with initiatives to ensure responsible and non-discriminating employment and recruiting policies, which also score quite highly (52%)<sup>39</sup>.

In **Spain**, 66% of Spanish SMEs implement initiatives including health and well-being programmes and 67% report having adopted measures to address work-life balance. The Covid-19 pandemic seems to have also increased remote working in SMEs, which were previously more reluctant to adopt these kinds of initiatives. Most Spanish SMEs (77%) have anti-discrimination policies and provisions, and 46% of them implement initiatives for the inclusion of disabled people<sup>40</sup>.

European SMEs are engaged in improving workers’ well-being and professional development, including in the field of employees’ retention, equal opportunities and occupational health and safety

37. ISTAT (2020), Sostenibilità nelle imprese: aspetti ambientali e sociali <https://www.istat.it/it/archivio/244337>

38. IfM (2020). Mittelstand Future Panel 2020 - Update of the expert survey on current and future challenges for the German Mittelstand. IfM-Materialien 282. [https://www.ifm-bonn.org/fileadmin/data/redaktion/publikationen/ifm\\_materalien/dokumente/IfM-Materialien-282\\_2020.pdf](https://www.ifm-bonn.org/fileadmin/data/redaktion/publikationen/ifm_materalien/dokumente/IfM-Materialien-282_2020.pdf)

39. Busch, Ortiz, Löffler, Scholz (2020). Nachhaltigkeitsmanagement in österreichischen KMU. Institute for business ethics and sustainable strategy (IBES). Okt., 2020.

40. UN Global Compact Pacto Mundial Red Española (2020). Comunicando el Progreso 2020 Una llamada a la acción sostenible y al reporte empresarial <https://www.pactomundial.org/2021/02/reporting-2020-el-ibex35-pasa-del-compromiso-a-laaccion-en-materia-de-odds/>

**French** SMEs devote specific attention to the promotion of diversity in human resources, and to initiatives aimed at improving working conditions (e.g. health and safety in the workplace and well-being of employees), and promoting the respect of human rights<sup>41</sup>. In **Hungary**, a survey of almost 300 SMEs found that about two-thirds engage in activities aimed at the improvement of employee welfare, with 68% making an effort to provide fair wages and working hours<sup>42</sup>.

In the **Czech Republic**, several competitions and awards, including for SMEs, highlight the presence of good practices related to a number of domains, such as a responsible approach to employees' work-life balance, facilities promoting the return of parents with young children to professional life, continuing education, and support for vulnerable groups<sup>43</sup>. In **Switzerland**, SMEs' strong links with the territory, a widespread sensitivity to ethical and environmental issues, a consolidated relationship with their employees and a propensity to act, integrating economic profit with social and environmental attitude, are confirmed as well.

## 2.2. Environment

Analogous considerations can be made for environmental issues: some examples may help to set the scene. 67% of **Italian** SMEs declare having implemented one or more environmental-related initiatives, ranging from the installation of efficient machinery, systems and/or appliances that reduce energy consumption, the thermal insulation of buildings, the installation of systems for the production of electricity from renewable sources, as well as the adoption of recycled materials, and the containment of water consumption. Once again, in terms of environmental initiatives, the larger the company, the higher the number of initiatives adopted<sup>44</sup>.

A significant proportion of **Spanish** SMEs (69%) declare that they are engaged in CO<sub>2</sub> emissions reduction, while a smaller number of SMEs measure their impact in terms of water usage or implement circular economy initiatives (32% and 25% respectively)<sup>45</sup>.

In **Germany**, the ecological dimension of SMEs' sustainability activities focuses mainly on the reduction of energy use (90%), reducing the use of resources (84%) and recycling (76%)<sup>46</sup>. Among the SMEs who are already taking action with regard to the effects of climate change on their business, 14% are already climate neutral, 34% have implemented measures to reduce GHG emissions, and 13% plan to do so in the future<sup>47</sup>. When focusing on environmental issues, **French** SMEs are particularly concerned with measuring their direct and indirect impact on the environment, designing more environmentally-friendly products and services, and paying particular attention to the environmental norms and standards related to environmental practices.

SMEs' initiatives in the field of environmental protection range from recycling to energy efficiency, use of renewables and containment of water consumption

41. Akeb, H., Delchet-Cochet, K., & Vo, L. C. (2015). Analyse exploratoire de la mise en œuvre des trois dimensions de la RSE dans les PME françaises. *Revue de l'organisation responsable*, 10(2), 5-27.

42. Milton, S., Zilahy, G. (2011): *A hazai kis- és középvállalkozások társadalmi felelősségvállalása (CSR in Hungarian SMEs)*, Munkaadó Szemle, 2011/II

43. <https://www.odpovednefirmy.cz/cena-top/kategorie/top-odpovedna-mala-firma.html>

44. ISTAT (2020), *Sostenibilità nelle imprese: aspetti ambientali e sociali* <https://www.istat.it/it/archivio/244337>

45. UN Global Compact Pacto Mundial Red España (2020), *Comunicando el Progreso 2020 Una llamada a la acción sostenible y al reporte empresarial* <https://www.pactomundial.org/2021/02/reporting-2020-el-ibex35-pasa-del-compromiso-a-la-accion-en-materia-de-ods/>

46. Baker Tilly (2018), *Nachhaltigkeit im Mittelstand. Corporate Social Responsibility (CSR): Strategien, Organisation und Berichtswesen*, 2nd Edition

47. DZ Bank (2019), *Klimawandel & Mittelstand – Herausforderungen aus Unternehmersicht*, [https://www.dzbank.de/content/dam/dzbank\\_de/de/librarypresselibrary/pdf\\_dokumente/Mittelstand%20Klimawandel\\_Umfrageergebnisse\\_Karifor\\_DZ%20Bank.pdf](https://www.dzbank.de/content/dam/dzbank_de/de/librarypresselibrary/pdf_dokumente/Mittelstand%20Klimawandel_Umfrageergebnisse_Karifor_DZ%20Bank.pdf)

Based on the survey of 1,001 companies, among **Swiss** SMEs that plan to improve their sustainability, efforts are mainly concentrated at the level of: materials/resource consumption (e.g. reducing energy consumption, reintroducing waste material into the production cycle) (66%); procurement (e.g. evaluation of suppliers/producers according to ecological criteria) (50%); environmentally-friendly product design (e.g. production of goods with a longer lifespan) (41%)<sup>48</sup>. These figures are confirmed by another survey of 2,502 Swiss companies: just over half of the SMEs interviewed have already taken concrete steps, or have committed to doing so as well as developing specific projects to significantly reduce their CO<sub>2</sub> emissions. For industry and transport the figure rises to 60%, and for larger companies it is almost 70%<sup>49</sup>.



## 2.3. Community engagement

In terms of community engagement, European SMEs confirm that they are strongly rooted in their social environment, and active in promoting and supporting social, educational and cultural, as well as charitable and religious-related initiatives in their local communities. 84% of **German** SMEs focus their social engagement on supporting social, charitable or church institutions within their community, 68% support local sports associations and 66% promote educational initiatives<sup>50</sup>. Due to their links with the community, **Spanish** SMEs are active in empowering specific segments of the population that might have difficulties with their economic or social development such as people living in rural areas, disabled people, or people in a situation of social exclusion<sup>51</sup>. The same considerations apply the other countries analysed.

SMEs are active in community dynamics, supporting social, educational, cultural and religious initiatives

48. Credit Suisse (2020), Swiss SMEs: Flexible response to the corona crisis, Monitor Switzerland with SME survey, 4.Q 2020. <https://www.credit-suisse.com/ch/en/unternehmen/unternehmen-unternehmer/aktuell/nachhaltigkeit-als-erfolgsfaktor.html>

49. UBS (2021), Sustainability in Swiss companies UBS Outlook Switzerland, 2nd quarter 2021 - May 2021

50. Baker Tilly (2018), Nachhaltigkeit im Mittelstand. Corporate Social Responsibility (CSR)-Strategien, Organisation und Berichtswesen, 2nd Edition

51. El Bien Social <https://elbiensocial.org/es/empresas-y-proyectos-sociales-sostenibles-espana/>

### 3. Several factors drive European SMEs in their sustainability approach with some slight differences, which are also based on the specific socio-economic, cultural and legal contexts

The analysis at country level allowed us to identify **several factors** that influence European SMEs in the development of welfare, environmental and community engagement initiatives:

- 1** **Individual beliefs, principles and values** were found to be relevant in all the different contexts under analysis. In particular, the owner's or manager's personal attitudes, environmental orientation and ethics are reported as key factors, both preventing, when absent, or favouring, when present, the adoption of sustainability initiatives
- 2** **Social proximity, beyond the business context, strong social identity, and deep involvement in local communities** are reported as being another strong driver shaping SMEs' attitude towards stakeholders and the adoption of initiatives suitable to promote positive impacts on the society, including employees as part of the social community, and the local environment
- 3** **Socio-cultural environment** was found particularly relevant to driving employee welfare initiatives in some countries, such as Austria and Germany, due to the long-standing tradition of the so-called system of *Mitbestimmung*, with employees being traditionally given a voice on boards and committees, combined with strong legal protection for unions and workers' councils<sup>52 53</sup>
- 4** **Legislative framework** was also found significant in other contexts, such as Spain, where more than one third of Spanish SMEs have a gender equality plan, which will be compulsory for every firm with 50 or more employees as of March 2022<sup>54</sup>
- 5** **Organisational benefits** emerged as another relevant element both for employee welfare and environmental-related initiatives. With regard to employee welfare, for example, a central topic for German SMEs is *Fachkräftemangel*, i.e. the lack of appropriately skilled workers. Therefore, "retaining" these skilled workers within the company is a key challenge, and measures aimed at creating an attractive workplace are essential. With regard to the environmental perspective, eco-efficiency, as well as eco-innovation, are other drivers influencing companies in the development of investments and projects with the aim of achieving positive returns

52. Niedenhofer, H. (2005). *Mitbestimmung im europäischen Vergleich. IW-Trends – Vierteljahrschrift zur empirischen Wirtschaftsforschung aus dem Institut der deutschen Wirtschaft Köln*, 32. Jahrgang, Heft 2/2005. Deutscher Instituts-Verlag, Köln; DOI: 10.2373/1864-810X-05-02-0.

53. Stadler, B., Allinger, L. (2017). *Mitbestimmung im Betrieb. Ergebnisse des European Company Survey für Österreich*. Bericht im Auftrag der Arbeitskammer Wien.

54. The Spanish Decree-Law 6/2019, whose subject was to introduce "urgent measures to guarantee equal treatment and opportunities for women and men in employment and occupation", is progressively extending the obligation to implement a gender equality plan to smaller companies as well. The obligation, already effective for companies with 100 or more employees, will also be applied to companies with 50 or more employees by March 7th, 2022. Among the other obligations, companies will be required to maintain wage registries showing average pay levels disaggregated by gender, and differences between average pay by gender of 25% or more must be justified.

## Several drivers influence European SMEs in the development of welfare, environmental and community engagement initiatives

- Individual beliefs, principles and values
- Social proximity, strong social identity, and deep involvement in local communities
- Socio-cultural environment
- Legislative framework
- Organisational benefits



## Examples of initiatives

### Welfare for employees

- Improve workers' well-being, including work-life balance
- Promote health and safety in the workplace
- Promote employees' professional development
- Improve diversity, equality and non-discrimination policies
- Integrate people with disabilities

### Environmental

- Reduce CO<sub>2</sub> emissions
- Reduce energy consumption
- Generate and adopt renewable energy
- Increase use of recycled materials
- Contain water consumption

### Community engagement

- Support social, charitable or church institutions
- Support local sports associations
- Promote educational initiatives
- Support initiatives for vulnerable and disadvantaged groups

From our analysis, European SMEs are not unfamiliar with the world of sustainability, however they have not yet fully developed a strategic and formalised approach, due in part to several barriers that still limit their mobilisation on sustainability topics.



CHAPTER 3

## What are the barriers that prevent SMEs from adopting a more structured approach to sustainability?

## 1. Five main barriers prevent SMEs from adopting a structured and integrated approach to sustainability: these barriers are related to institutional, organisational and individual factors

The analysis of the scientific literature, recent international and national research reports, as well as the opinions of selected scholars and experts, including interviews with selected SMEs, highlight the existence of five major factors, both external and internal to companies, capable of hindering SMEs in adopting sustainability strategies:

**1**

**Lack of internal resources, including competencies and skills:** lack of internal competencies and skills rank among the most relevant barriers<sup>55</sup>. The inherent complexity of many aspects relating to sustainability, including elements of a technical and technological, specialist, as well as administrative nature, in many multi-disciplinary domains (i.e. environment, social, governance), combined with the substantial lack of resource specialisation within many SMEs, represents a critical factor for many smaller firms

**2**

**Institutional factors, including regulations and bureaucracy:** the literature and empirical evidence highlight the lack of governmental support and clear legislation, the lack of uniformity in regulatory frameworks and norms, the administrative complexity, and relative excessive costs (real or perceived), as being among the main barriers preventing SMEs from adopting sustainability strategies<sup>56</sup>.

**3**

**Lack of economic or financial resources:** access to finance is essential for SMEs to support the investments needed for the sustainable transition. According to the EU, small and medium enterprises face a major finance gap in Europe of €20-35 billion, despite support programs at EU and national level

**4**

**Lack of demand:** although several reports highlight growing consumer attention to environmental and social issues, further strengthened in the Covid-19 pandemic, almost 1 out of 3 SMEs in the EU complains of a lack of awareness regarding sustainable products and services<sup>57</sup>. Therefore, initiatives aimed at further stimulating the demand for sustainable products and services are needed, both in the Business-to-Business as well as Business-to-Consumer markets

Institutional, organisational and individual barriers prevent SMEs from adopting sustainability strategies

55. In this regard, see among others: De Steur et al. (2020), *Drivers, adoption, and evaluation of sustainability practices in Italian wine SMEs*. *Business Strategy & the Environment* (John Wiley & Sons, Inc), 2, pp. 744-763; Alvarez Jaramillo et al. (2019), *Barriers to sustainability for small and medium enterprises in the framework of sustainable development—Literature review*. *Business Strategy & the Environment*, 4, pp. 512-525; Bakos et al. (2020), *An analysis of environmental sustainability in small & medium-sized enterprises: Patterns and trends*. *Business Strategy & the Environment*, 3, pp. 1285-1297; Fernández and Camacho (2016), *Effective Elements to Establish an Ethical Infrastructure: An Exploratory Study of SMEs in the Madrid Region*. *Journal of Business Ethics*, 1, pp. 113-132

56. In this regard, see among others: Bakos et al. (2020), *An analysis of environmental sustainability in small & medium-sized enterprises: Patterns and trends*. *Business Strategy & the Environment*, 3, pp. 1285-1297; De Steur et al. (2020), *Drivers, adoption, and evaluation of sustainability practices in Italian wine SMEs*. *Business Strategy & the Environment*, 2, pp. 744-763; García-Quevedo et al. (2020), *Barriers to the circular economy in European small and medium-sized firms*. *Business Strategy & the Environment*, 6, pp. 2450-2465; Soundararajan et al. (2018), *Small Business Social Responsibility: A Critical Multilevel Review*. *Synthesis and Research Agenda*. *International Journal of Management Reviews*, 4, pp. 934-957

57. European Commission (2020), *SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486* [https://data.europa.eu/eurostat/data/dataset/S2244\\_486\\_ENG](https://data.europa.eu/eurostat/data/dataset/S2244_486_ENG)

## 5

**Lack of standardised tools for SMEs:** a comprehensive review of sustainability management tools developed in the last 20 years to be applied by SMEs and/or having the potential to be applied by SMEs, highlights that of the 145 referenced tools, only 8 (i.e. 5.5%) were found to be specifically designed for application in SMEs<sup>58</sup>. These tools mainly relate to the strategic planning and/or the integrated assessment, evaluation and reporting of the sustainability and social responsibility performance of SMEs



## 2. The analysis by country provides greater insight into the main factors faced or perceived by SMEs as barriers in the adoption of a structured approach to sustainability

Among the main factors preventing **Italian** SMEs from adopting sustainability initiatives, bureaucracy or higher costs (52%), for example to obtain or maintain certifications, rank among the most reported. This problem is experienced in particular by micro-firms. Furthermore, 38% complain of a market that is not yet mature enough to adequately respond to the issues of sustainability. Internal and organisational factors exist, but seem to be of lesser impact, including the difficulty of integrating sustainability into the value system of the company (26%) and into the vision of top management (17%), who are still not inclined to operate in a sustainable way<sup>59</sup>.

Time constraints and regulations and bureaucracy in particular, as well as a lack of personnel and lack of demand from stakeholders discourage **German** SMEs from adopting a sustainability strategy or reporting on the measures implemented: 55% indicate time restraints, 46% claim that regulations and bureaucracy hinder their commitment to combating climate change, 44% report lack of demand from stakeholders, 42% lack of personnel, and 37% point to a lack of workers with the necessary skills<sup>60 61</sup>.

Many factors affect the ability of **French** SMEs to adopt sustainability initiatives, including policy and legal framework uncertainty, which reduces firms' willingness to make long term investments, as well as uncertainties about market demand and customers' willingness to pay for more sustainable products or services. Lack of internal skills and competencies, including the technical and technological knowledge required for the development of innovation in the ecological domain, also rank among the most significant factors<sup>62</sup>.

58. Johnson, Matthew P.; Schaltegger, Stefan (2016). Two Decades of Sustainability Management Tools for SMEs: How Far Have We Come? *Journal of Small Business Management*, 2, pp. 481-506

59. Forum per la Finanza Sostenibile (2020), PMI italiane e sostenibilità <https://finanzasostenibile.it/attivita/pmi-italiane-sostenibilita/>

60. Baker Tilly (2018). Nachhaltigkeit im Mittelstand. Corporate Social Responsibility (CSR) – Strategien, Organisation und Berichtswesen, 2nd Edition

61. DZ Bank (2019). Klimawandel & Mittelstand – Herausforderungen aus Unternehmersicht [https://www.dzbank.de/content/dam/dzbank\\_de/de/libr ary/presselibrar/pdf\\_dokumente/Mittelstand%20Klimawandel\\_Umfrageergebnisse\\_Kantar\\_DZ%20Bank.pdf](https://www.dzbank.de/content/dam/dzbank_de/de/libr ary/presselibrar/pdf_dokumente/Mittelstand%20Klimawandel_Umfrageergebnisse_Kantar_DZ%20Bank.pdf)

62. Pinget, A., Bocquet, R., & Mothe, C. (2015). Barriers to environmental innovation in SMEs: Empirical evidence from French firms. *M@nagement*, 18(2), 132-155.

Among the main barriers preventing **Spanish** SMEs from implementing the UN Global Compact and the UN 2030 Agenda, a recent report confirms that 46% of SMEs consider that there is a lack of internal resources, including economic and financial capabilities, 28% report a lack of incentives for contribution to the SDGs, 26% complain of a lack of knowledge on the topic in their firm, and 26% report an absence of dedicated tools and resources to facilitate the contribution of SMEs towards the SDGs<sup>63</sup>.

The **Austrian** context suggests a relatively recent adoption of a national priority for sustainability/climate change, with substantial regulatory pressure for SMEs still lacking. Besides the lack of awareness at managerial level<sup>64</sup>, the lack of specific and tailored instruments for SMEs to implement corporate sustainability, leading to a lack of competencies in sustainability, as well as the reluctance of the majority of SMEs to communicate their sustainability activities to both internal and external stakeholders, are major barriers in this regard<sup>65</sup>. Moreover, the high strategic prioritisation given to competitive pressure, efficiency gains and trained staff may lead to the reallocation of financial and personal resources away from sustainability issues<sup>66</sup>.

**Hungarian** SMEs are prevented from making a more active contribution to the environmental and social agenda by the lack of both financial and human resources, and also due to the fact that several SMEs are run by their original owner-managers, who are not always aware of state-of-the-art management and environmental practice. **Czech** SMEs, meanwhile, are slowly moving towards the implementation of sustainability, in particular related to environmental issues of circularity<sup>67</sup>. They are usually motivated to do so right at the beginning of their activities (start-ups focused from the very beginning on sustainable business), or their export activities, when they declare sustainability within their public relations actions. In relation to the main barriers, SMEs in the Czech Republic consider a lack of time (34%) to be the biggest factor preventing the introduction of sustainability into the corporate culture. Other common barriers are a lack of information on corporate sustainability strategy (25%) and the bureaucratic burden (25%)<sup>68</sup>.

Finally, the principal barriers faced by **Swiss** SMEs in undertaking structured sustainability initiatives are mainly related to lack of time (53% industry and 51% services), and lack of economic resources (52% industry and 40% services). Lack of resources remains the main constraint for both large and small enterprises. Lack of time is the main constraint for 59% of enterprises with more than 100 employees and 50% of enterprises with less than 30 employees. Lack of competent resources is only considered a constraint by 29% of industrial enterprises and 26% of service companies<sup>69</sup>.

63. UN Global Compact Pacto Mundial Red Española (2020). Comunicando el Progreso 2020 Una llamada a la acción sostenible y al reporte empresarial <https://www.pactomundial.org/2021/02/reporting-2020-el-litex-35-pasa-del-compromiso-a-la-accion-en-materia-de-ods/>

64. Statista 2020. Joshua Consulting, Bankhaus Spängler. May – July, 2018 <https://de.statista.com/statistik/daten/studie/932806/u-mfrage/herausforderungen-fuer-familienunternehmen-in-oesterreich/>

65. Busch, Ortiz, Löffler, Scholz (2020). Nachhaltigkeitsmanagement in österreichischen KMU. Institute for business ethics and sustainable strategy (IBES). Okt., 2020

66. Statista 2020. Joshua Consulting, Bankhaus Spängler. May – July, 2018 <https://de.statista.com/statistik/daten/studie/932806/u-mfrage/herausforderungen-fuer-familienunternehmen-in-oesterreich/>

67. Sebestova, J., Sroka, W. (2020). Sustainable Development Goals and SME Decisions: The Czech Republic vs. Poland Journal of Eastern European and Central Asian Research, 7 (1), 39-50. <http://dx.doi.org/10.15549/eecar.v7i1.418>

68. [https://flagship.cz/blog/detail/mruzkum-csr-a-male-stredni-firmy\\_433](https://flagship.cz/blog/detail/mruzkum-csr-a-male-stredni-firmy_433)

69. 2019 economic survey conducted by the Chambers of Commerce of French and Italian-speaking Switzerland on a sample of 1,753 companies

**Main barriers preventing SMEs  
from adopting a structured sustainability approach**



To fully engage SMEs in the sustainability agenda, it is of fundamental importance to remove the obstacles to the sustainable transition, and to develop dedicated and customised tools and mechanisms, mobilising SMEs with the support of all the different parties.

Source:  
Systematic Literature Review, Authors' elaboration on referenced sources



## CHAPTER 4

# What are the instruments and initiatives to support SMEs' just sustainable transition?

## 1. In order to overcome the barriers that prevent SMEs from adopting sustainability strategies, tailored instruments and dedicated support are needed

SMEs are extremely diversified. They range from service microenterprises to small or medium-sized manufacturing firms, and from traditional artisanal laboratories to innovative or high-tech start-ups. Some are independent firms, while others are part of vertically integrated networks, industrial groups or conglomerates. Due to their heterogeneity, there can be neither a “gold standard”, nor a “one-size-fits-all” approach for providing dedicated instruments and tailored support to SMEs.

Several studies highlight the relatively limited availability of instruments and supporting initiatives in the field of sustainability and corporate responsibility that are truly tailored to SMEs. Findings suggest that to enable a more widespread diffusion of sustainability among SMEs, it would be key to develop instruments and initiatives that are aligned with SMEs needs and expectations, such as simplicity and cost-effectiveness, flexibility, and company customization<sup>70</sup>.

## 2. Institutions and policy makers, as well as the private sector, including large enterprises and financial companies, need to support SMEs through specific actions aimed at securing a just transition towards sustainability

Instruments and supporting initiatives can be either economic or non-economic, and developed and administered by public or private organisations, as well as by public-private partnerships. Through extensive research we have identified **15 broad categories of initiatives and tools** that can assist, guide and support SMEs in their process of integrating sustainability, **in order to secure a just transition towards sustainability**, i.e. a transition that is compatible with SMEs' resources and capacities. Moreover, we linked these instruments to the main barriers identified in the previous chapter. We have classified them into public, private, and public-private, as well as into economic and non-economic. For many of these instruments, illustrative examples have been reported from the countries analysed.

The challenge is to create the conditions for these tools to be effective and relevant for SMEs, tailoring them to their needs.

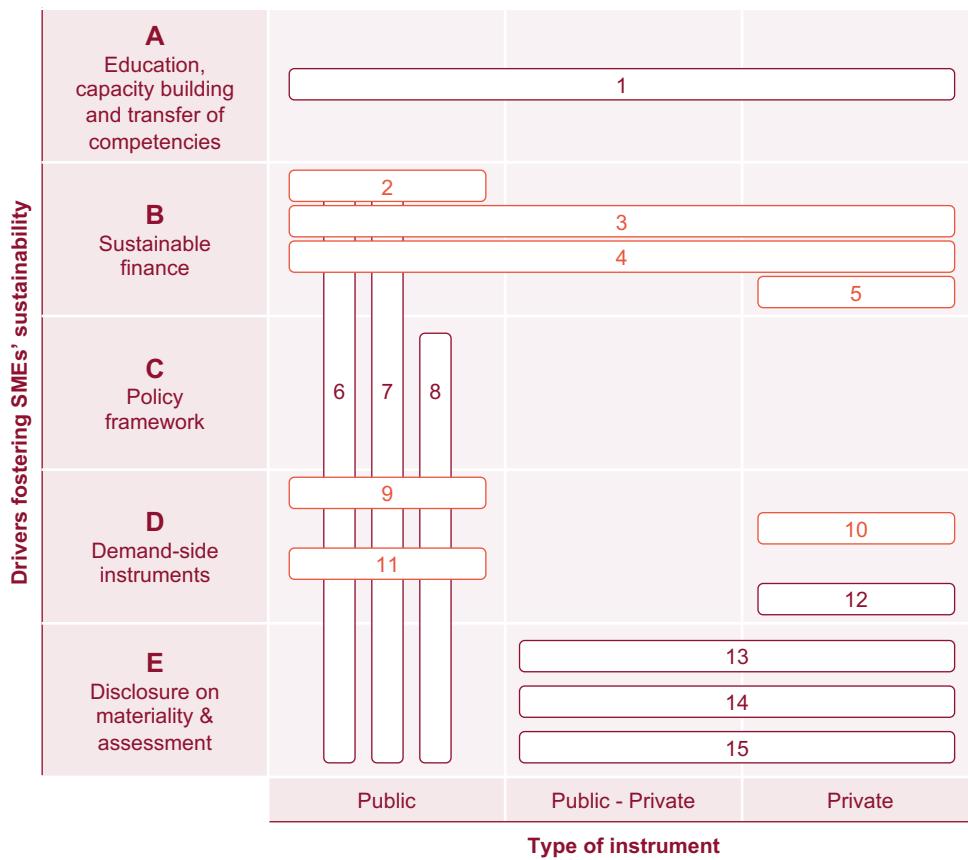
Due to their heterogeneity, there can be neither a “gold standard”, nor a “one-size-fits-all” approach to fostering sustainability in SMEs



15 broad categories of initiatives and tools that can assist, guide and support SMEs in their just transition towards sustainability were analysed

<sup>70.</sup> Johnson, Matthew P.; Schaltegger, Stefan (2016). Two Decades of Sustainability Management Tools for SMEs: How Far Have We Come? *Journal of Small Business Management*, 2, pp. 481-506

## Initiatives and tools to foster sustainability in SMEs



**1** Education, capacity building and transfer of competencies, including innovation, technology transfer, digitalisation

**2** Public green Credit Guarantee Schemes

**3** ESG-linked loans and green/social financial instruments ESG -linked

**4** insurance initiatives

**5** Fintech applications

**6** Designated ESG taxonomy for SMEs

**7** Supranational and national regulation on ESG disclosure

**8** Extended supply chain responsibility and due diligence

**9** ESG-linked tenders in public procurement

**10** ESG-linked private procurement

**11** Sustainability-linked incentives promoting private demand

**12** Sustainable supply chain management programmes

**13** Soft-regulation, including multi-stakeholder initiatives

**14** ESG reporting tools for SMEs

**15** ESG assessment and valuation for SMEs

Economic

Non-economic

## 2.1. Education, capacity building and transfer of competencies to SMEs on sustainability issues are paramount in order to promote more sustainable behaviours

(1) Awareness raising, education and capacity building initiatives, as well as transfer of competencies developed by public, as well as private organisations, often joining forces in public-private partnerships, are critical in order to improve SMEs' knowledge of the benefits and opportunities linked to sustainability, as well as on the available instruments, and their adoption. Several examples are included below.

At the EU level, there are a number of network and governance structures to support SMEs. The Enterprise Europe Network (EEN) helps businesses innovate and grow on an international scale. It is the world's largest support network for SMEs, active in more than 60 countries worldwide, bringing together 3,000 experts from more than 600 member organisation<sup>71</sup>. As confirmed by this year's communication on the updated Industrial Strategy, the EEN is already putting in place Sustainability Advisors to provide dedicated advice to SMEs, aimed at fostering innovation in decarbonised electricity generation, including the use of solar panels, and in energy efficiency. Indeed, innovation, technology transfer and digitalisation, are enablers that can amplify the effects of sustainability. The Sustainability Advisors are expected to be fully in place as of 2022<sup>72</sup>. Beyond the EEN, the updated Strategy details how Industrial Networks, Pacts for Skills, and Digital Innovation Hubs are being deployed across the EU's 14 ecosystems to build SME capacity, including in meeting sustainability goals in a range of sectors (e.g. construction; intelligent energy systems; mobility; textile and fashion).

In the field of the circular economy, the project promoted by the European Commission, *Boosting the circular economy amongst SMEs in Europe*, aimed to provide SMEs with training, support and policy advice regarding resource efficiency, eco-innovation and circular economy<sup>73</sup>. In the communication *An SME Strategy for a sustainable and digital Europe*, the Commission envisaged the appointment of a dedicated, high-level EU SME Envoy, in charge of driving the implementation of the strategy and the application of the Think Small First principle in all EU policies, together with Strategic Entrepreneurship Ambassadors, a new advisory group of entrepreneurs from across Europe which will act as a sounding board.

Education, capacity building and transfer of competencies are paramount in order to promote the adoption of a more structured approach to sustainability in SMEs

Innovation, technology transfer and digitalisation, are enablers that can amplify the effects of sustainability

71. <https://een.ec.europa.eu/>

72. European Commission (2021). Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery, Brussels, 5.5.2021 COM(2021) 350 final [https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020\\_en.pdf](https://ec.europa.eu/info/sites/default/files/communication-industrial-strategy-update-2020_en.pdf)

73. [https://ec.europa.eu/regional\\_policy/en/newsroom/news/2017/07/27-07-2017-boosting-the-circular-economy-amongst-smes-in-europe](https://ec.europa.eu/regional_policy/en/newsroom/news/2017/07/27-07-2017-boosting-the-circular-economy-amongst-smes-in-europe)

The **French** government has launched a plan to accelerate the ecological transition of SMEs, with the support of ADEME (the Ecological Transition Agency) and Bpifrance (a French investment bank, created in 2012 through a joint venture of the Caisse des dépôts et consignations and EPIC BPI-Groupe). The plan includes ten measures to analyse, finance, and support the conversion of SMEs. Some measures aim to make SMEs more aware of the challenges and opportunities of the ecological transition. For example, the *SME ambassadors* programme promoted the establishment of a network of managers and entrepreneurs to carry out concrete actions on the ecological transition and agreed to promote such an approach among their peers. Some other measures are aimed at providing companies with consultancy services. For example, the *Diag Eco-Flux* scheme offers a personalised support programme for SMEs from 20 to 250 employees, focused on flow optimisation (energy, water, materials, and waste) to identify concrete and measurable savings opportunities<sup>74</sup>.

In **Austria**, respACT – the Austrian business council for sustainable development - is a multi-stakeholder initiative, with several federal ministries and business associations as funding partners. It is the leading platform for Corporate Social Responsibility (CSR) in Austria, offering opportunities for exchange with stakeholders from business, science, society, and politics through knowledge transfer and networking events<sup>75</sup>. In the **Czech Republic**, CzechInvest (the state agency for business and investment promotion) organises workshops on sustainable SME entrepreneurship<sup>76</sup>.

## 2.2. Sustainable finance for SMEs represents an incredible opportunity for mobilising resources that can contribute to the implementation of projects aimed at promoting the ecologic transition, while alleviating the lack of financial resources that limit the development of SMEs

Sustainable finance is a concept related to the integration of ESG aspects into investment or financing decisions, generally linked to the creation of long-term value by investing in, or financing, companies active in environmental protection, in addressing social issues, and in being accountable with regard to their governance conduct. The figures testimony the growth of sustainable finance. According to the latest report published by the Global Sustainable Investment Alliance (GSIA), in 2020 ESG Investments amounted globally to \$35.3 trillion, a 15% increase in the past two years (2018-2020) and 55% increase in the past four years (2016-2020). To date, Europe accounts for \$12.0 trillion of global sustainable investing assets, or 34% of the global market<sup>77</sup>.



**Sustainable finance provides unprecedented opportunities to SMEs, contributing to their ecological transition**

74. <https://www.bpifrance.fr/Toutes-nos-solutions/Accompagnement/Conseil/Diag-Eco-Flux>

75. <https://www.respact.at/>

76. <https://www.czechinvest.org/cz/Homepage/Akce/Trenovky>

77. <http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIA-20201.pdf>

In 2020, ESG investment funds and sustainable ETFs (exchange-traded funds) operating in Europe received €233 billion in net flows<sup>78</sup>. Global issuance of green, social, sustainability and sustainability-linked bonds<sup>79</sup> is expected to continue to grow in 2021, with a global issuance of \$610 billion, up 20% from the previous year<sup>80</sup>. In 2020, the global issuance of sustainability-linked loans<sup>81</sup> was \$119.5 billion, while green loans amounted to \$80.3 billion<sup>82</sup>.

Key drivers of growth in Europe are closely linked to the initiatives taken by European institutions, as a means of mobilising the necessary resources to finance the Green Deal, as well as the achievement of the decarbonisation targets set in the Paris Agreement.

**Bringing sustainable finance to SMEs is paramount**, focusing on creating more favourable conditions for sustainable SMEs, in order to facilitate their access to economic and financial resources and public guarantees.

Several **(2) Credit Guarantee Schemes** (CGSs) have been implemented in the EU in the last 20 years, although not specifically focused, until recently, on ESG issues. Evidence from France shows the economic significance of these programmes for French SMEs with the beneficiary firms achieving asset growth of 9%, sales growth of 7%, employment growth of 8%, and 5% lower default rates on average<sup>83</sup>. Similarly, another study has demonstrated the positive effects of credit guarantee programmes on SMEs based in Central, Eastern and South-Eastern European countries, including the Czech Republic, with beneficiary firms increasing their workforce by 17.3% and their turnover by 19.6% on average<sup>84</sup>. Finally, findings from a pan-European assessment study on the effects of EU loan guarantee schemes for SMEs, focusing on 19 European countries including the Czech Republic, France, Hungary and Italy, confirm the positive relationship between such loans and asset growth (by 7% to more than 35%), sales growth (by 5% to 35%), employment growth (by 8% to 30%) and a lower default probability (by 4% to 5%)<sup>85</sup>. The EU's latest guarantee instrument, pursuing environmental and social objectives, is the Pan-European Guarantee Fund (EGF), aimed at alleviating the damage that Covid-19 has inflicted on the European economy, with a total allocation of €25 billion, 65% of which is dedicated to SMEs. Nevertheless, building on the encouraging results illustrated above, mainstream financing opportunities through guarantees for sustainable SMEs still need to be strengthened, seizing the tremendous opportunity to promote risk-sharing financing facilities for leading sustainable SMEs.

SMEs need to be supported in accessing the opportunities provided by sustainable finance

78. Cerved (2021). Rapporto Cerved Italia Sostenibile 2021 [https://know.cerved.com/wp-content/uploads/2021/04/RAPPORTO-ITALIA-SOSTENIBILE-2021\\_WEB.pdf](https://know.cerved.com/wp-content/uploads/2021/04/RAPPORTO-ITALIA-SOSTENIBILE-2021_WEB.pdf)

79. Principles and guidelines have recently been defined for Green, Social, Sustainability and Sustainability-linked bonds. The International Capital Market Association (ICMA) updated the Green Bond Principles (GBP) in 2018 and in the same year published the Sustainability Bond Guidelines (SBG), while the Sustainability-Linked Bond Principles (SLBP) and the Social Bond Principles (SBP) were published in 2020. Green and Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green or Social Projects, whereas Sustainability Bonds are intended to finance or re-finance a combination of both Green and Social Projects. Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives, within a predefined timeline. The objectives are measured through predefined Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets.

80. [https://www.research.unicredit.eu/DocsKey/credit\\_docs\\_2021\\_179233.aspx?XFT=pdf&KFY=03271Y275KKmcnBAVJA21BZjelh-meW7SwX\\_rkg=&T=1](https://www.research.unicredit.eu/DocsKey/credit_docs_2021_179233.aspx?XFT=pdf&KFY=03271Y275KKmcnBAVJA21BZjelh-meW7SwX_rkg=&T=1)

81. In recent years, the category of sustainable loans has evolved to the point of requiring the Loan Market Association (LMA) to publish the Green Loan Principles in 2018, the Sustainability Linked Loan Principles in 2020, and in April 2021 the Social Loan Principles. Green and Social Loans are dedicated to exclusively finance or re-finance, in whole or in part, new and/or existing eligible Green or Social projects, while Sustainability Linked Loans are not necessarily aimed at the realisation of specific projects, but incentivise the borrower to achieve ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using sustainability performance targets, set against KPIs. While the economic conditions of the Green and Social Loans are predetermined from the beginning of the contract, and do not vary for its duration, those of Sustainability Linked Loans can vary, in a way that can be convenient for the financed party, based on the achievement of the predefined KPIs.

82. <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>

83. Asdrubali, P., & Signore, S. (2015). The Economic Impact of EU Guarantees on Credit to SMEs—Evidence from CESEE Countries (No. 2015/29). EIF Working Paper.

84. Bertoni, F., Colombo, M. G., & Quas, A. (2018). The effects of EU-funded guarantee instruments of the performance of small and medium enterprises: Evidence from France (No. 2018/52). EIF Working Paper

85. Brault, J., & Signore, S. (2019). The real effects of EU loan guarantee schemes for SMEs: A pan-European assessment (No. 2019/56). EIF Working Paper

## European Green Deal: the Italian Export Credit Agency SACE at the forefront of providing “green” guarantees to Italian SMEs



Focus On

SACE, the Italian Export Credit Agency, has recently extended its operations in support of the EU Green Deal, as part of the broad extension of its mandate to support the Italian national economy. In 2020, SACE was authorised to issue green guarantees from the public fund set up at the Italian Ministry of Economy and Finance which, for the current year, is allocating €2.5 billion to cover the risk of non-payment by debtors. The projects that can be financed must facilitate the transition towards an economy with a lower environmental impact, integrate production cycles with low-emission technologies for the production of sustainable goods and services, and promote initiatives that aim to develop a new mobility with lower polluting emissions. On this point, SACE will issue a "green rating" in relation to the projects. In the near future all projects will essentially be qualified as "brown" and "green". Green projects will have access to funding more easily and with reduced spreads. The request for green guarantees by SMEs is extremely significant, equal to approximately 75% of the applications presented to SACE as of March 2021.

Public or private actors and, more frequently, public-private partnerships, have recently developed **(3) sustainability loans and green/social-related financial instruments** targeted at SMEs. The EU has implemented a range of measures to support access to finance for green SMEs, including direct financing through the European Investment Bank, and in partnership with other private financial institutions<sup>86</sup>. In **France**, investments in efficient production systems for SMEs and in the development of eco-efficient products can be financed by green loans provided by France's Banque Publique d'Investissement (Bpifrance), at a subsidised interest rate and with no guarantees secured against company assets. In **Germany**, similar low-interest rate green loans are offered by KfW (Kreditanstalt für Wiederaufbau) in collaboration with on-lending banks, for investments in energy efficiency, which must meet KfW's performance criteria, outperforming industry benchmarks<sup>87</sup>. In **Italy**, Cassa Depositi e Prestiti (CDP) has been promoting the sustainable development of the Italian economy with a series of SME-specific investments for sustainable innovation, thanks to the Italian Investment Fund (Fondo Italiano d'Investimento - FII) and its Venture Capital (VC) Fund of Funds.

<sup>86</sup>. United Nations Environment Programme (2017), *Mobilizing sustainable finance for Small and Medium-sized Enterprises. Reviewing experience and identifying options in the G7* / <https://www.cbd.int/financial/2017docs/unep-smefinance2017.pdf>

<sup>87</sup>. <https://www.cbd.int/financial/2017docs/unep-smefinance2017.pdf>

With regard to private initiatives, in 2020 **Italy's** Intesa Sanpaolo launched a credit solution with a €2 billion ceiling called Sustainability Loan (S-Loan), dedicated to SMEs. This initiative is devoted to financing innovative investments based on ESG criteria in line with the European plan for sustainable growth. S-Loan is characterised by a formula allowing the sharing of improvement objectives, including through forms of "reward" according to an ESG approach, based on specific sustainability-related indicators agreed with the financed company and certified in its financial statements. In **Germany**, GLS bank has initiated the Financing Partnership for Green Entrepreneurs, under which it has developed a Special Purpose Vehicle (SPV) for mobilising funds for green entrepreneurship.

In the **Czech Republic**, the common initiative of Komerční banka and CIRA Advisory provides a tailored advisory service and financial instruments for boosting sustainability in SMEs. The financial instruments include a combination of grants and bank loans to support investments in renewable energy, low-carbon technologies, more efficient energy management, emission reductions, the circular economy. Support will be given to energy-saving projects, renewable energy sources, projects within the circular economy or clean mobility<sup>88</sup>. The initiative has resulted in some sustainable investment projects within SMEs<sup>89</sup>.

With regard to **green, social, sustainable and sustainability-linked bonds**, in recent years there has been growing attention towards SMEs, although this specific sector still has significant margins for growth. These instruments allow SMEs to access sources of financing that are complementary to the bank channel, and are useful for carrying out investments and innovation in the environmental and social domains. Based on recent estimates for **Italy**, the potential national market for green minibonds, i.e. mainly targeted at SMEs, is worth €7.2 billion, assuming an average issue for each company equal to 15% of the latest available revenues<sup>90</sup>. In any case, 90% of professional experts believe that Italian SMEs do not possess the knowledge required to exploit the opportunities provided by sustainable finance instruments<sup>91</sup>.

As risk managers, risk carriers and investors, the insurance industry plays an important role in promoting **(4) ESG-linked insurance initiatives** aimed at fostering economic, social and environmental sustainability. In June 2020 the UN Environment Programme's Finance Initiative (UNEP-FI) Principles for Sustainable Insurance Initiative (PSI) published the first-ever insurance industry guide on ESG issues. The guidance provides the insurance industry with a global framework to address ESG risks and opportunities to build resilient, inclusive and sustainable communities and economies<sup>92</sup>. More specifically, the insurance sector plays a strategic role from multiple points of view.

88. <https://spolecne-udzitelne.cz/dotace>

89. <https://spolecne-udzitelne.cz/z-praxe>

90. Cerved (2021), Rapporto Cerved Italia Sostenibile 2021 [https://know.cerved.com/wp-content/uploads/2021/04/RAPPORTO-ITALIA-SOSTENIBILE-2021\\_WEB.pdf](https://know.cerved.com/wp-content/uploads/2021/04/RAPPORTO-ITALIA-SOSTENIBILE-2021_WEB.pdf)

91. Cerved Rating Agency (2020), 8 years of Minibond - the Cerved Rating Agency review and outlook [https://ratingagency.cerved.com/sites/ratingagency.cerved.dev/files/20201210\\_Cerved%20Rating%20Agency%20-%20MINIBOND.pdf](https://ratingagency.cerved.com/sites/ratingagency.cerved.dev/files/20201210_Cerved%20Rating%20Agency%20-%20MINIBOND.pdf)

92. <https://www.unepfi.org/wordpress/wp-content/uploads/2020/06/PSI-ESG-guide-for-non-life-insurance.pdf>

First of all, the insurance industry is Europe's largest institutional investor and an important provider of stable, long-term funding for businesses, increasingly driven by ESG considerations, embedded in sustainability strategies and financial products. Secondly, insurance companies provide technical advice to businesses, especially small and medium-sized ones that rarely have internal structures for assessing and managing risks, including those of an environmental nature. Through insurance coverage products, insurance contributes to increasing the resilience of SMEs. In addition, with reference to services relating to corporate welfare, insurance represents an incredible tool for the creation and consolidation of corporate strategies aimed at the well-being and protection of employees.

**(5) Financial technology (fintech) innovations** can benefit SMEs in terms of lowering cost of capital, reducing transaction costs through the incorporation of smart technologies, and providing credit ratings based on insights deriving from big-data analytics. In **Italy**, Banca Etica runs a yearly competition to finance selected projects aimed at developing technological innovations with respect to welfare and sustainability. This is done by means of reward crowdfunding backed by a microfinance and crowdfunding fund fuelled by Etica SGR's retail investors and additional donations from clients<sup>93</sup>. Fintech applications have also emerged as regards the **optimisation of payment flows**, in particular with respect to working capital. Specialised platforms, created to match the accounts receivable and accounts payable for hundreds of thousands of companies, enable suppliers to receive early payment on their invoices, at discounts determined by them. Recently, the possibility has emerged of including ESG criteria in the assessments made by clients, who can therefore differentiate the discount conditions, in order to better reward companies with excellent ESG profiles in their supply chain, many of which are SMEs<sup>94</sup>.

93. <https://www.eticasgr.com/investimento-responsabile/il-nostro-impatto/microfinanza>

94. <https://www.c2fo.com/amer/us/en-us>

## Eligibility criteria for green, social and sustainability bonds and loans, and specific KPIs to assess sustainability-linked bonds and loans

Green, social and sustainability bonds and loans differ from sustainability-linked financing instruments in two main characteristics: firstly, the former can be used exclusively to finance or re-finance new and/or existing eligible green and/or social projects, whereas the latter are broader in their scope; secondly, sustainability-linked instruments incentivise the issuer/borrower to achieve predetermined green, social and/or sustainability objectives assessed against specific KPIs. If the KPIs are achieved, the issuer/borrower benefits from better financial conditions, such as a predefined decrease in the interest rate.

**Eligibility criteria for green, social and sustainability bonds and loans** are related to the assessment of the projects and initiatives intended to be financed, which must be aimed, for example, at climate change mitigation or adaptation, natural resource or biodiversity conservation, pollution prevention and control, or, in the case of social-related instruments, at directly addressing or mitigating specific social issues and/or seeking to achieve positive social outcomes. A combination of both criteria occurs in the case of sustainability instruments. Periodic reporting on the state of the financed activities, and of the actual and expected impacts, should be produced.

**KPIs to assess sustainability-linked bonds and loans** are defined on a case-by-case basis, shared and agreed among the parties, and periodically verified by external assurance. Due to the characteristics of the instruments, their credibility greatly depends on the definition of KPIs that are measurable and material to the issuer/borrower's sustainability, that address relevant environmental and/or social challenges under management's control, and that represent meaningful improvement in relation to a predetermined performance target benchmark.



## 2.3. In order for all the instruments and initiatives aimed at SMEs to be successful, it is necessary to define policy frameworks that reflect the needs of SMEs as closely as possible, streamlining their adoption, while avoiding excessive costs and complexities

As already mentioned, assessing the sustainability of businesses, including SMEs, is becoming increasingly pervasive.

In order to do this, **(6) ESG designated criteria for SMEs**, as well as **(7) supranational and national regulation on ESG disclosure**, are therefore necessary, if SMEs are to be engaged. The feedback by respondents to the public consultation recently developed by BlackRock Financial Markets Advisory for the European Commission on the development of tools and mechanisms for the integration of ESG factors into banks' business strategies and investment policies, published in December 2020, reported **strong support for simplified standards for SMEs**<sup>95</sup>. The relevant point here is that such criteria should be based on a thorough evaluation of the real informative necessity, taking into consideration the specificities of SMEs in demonstrating their compliance, recognising the higher costs for smaller companies and their lack of resources and competencies.

This concept is recalled and confirmed in the recent *Corporate Sustainability Reporting Directive (CSRD)* proposal, aimed at adopting a **proportionate and gradual approach** to determining which companies will be subject to mandatory reporting, not imposing new requirements on SMEs, except for SMEs listed on EU regulated markets. The Commission will adopt standards for large companies and **separate, proportionate standards for SMEs**. The SME standards will be tailored to the capacities and resources of these firms. While SMEs listed on regulated markets will be required to use these proportionate standards, non-listed SMEs may choose to use them on a voluntary basis.

At the national level, the Sustainable Finance Advisory Board of the Federal Government recently published the report *Shifting the Trillions. A sustainable financial system for the great transformation*, with 31 recommendations for transforming the **German** economy in the direction of sustainability. A fundamental recommendation contained in the report aims at sustainable finance that recognises the unique role of SMEs, especially non-listed ones, which must be enabled to respect, implement and apply the rules of sustainability. In order to do so, the report recommends **rules proportionate to the size of the companies**. The more complex the regulation, the larger the reporting company. On the other hand, especially for SMEs, the requirements of sustainable finance must be simplified, standardised and de-bureaucratised<sup>96</sup>.

ESG designated and proportionate criteria for SMEs, and supranational and national regulation on ESG disclosure are much needed to bring SMEs on board with the sustainability agenda

95. European Commission (2020), *Development of tools and mechanisms for the integration of environmental, social and governance (ESG) factors into the EU banking prudential framework and into banks' business strategies and investment policies* Interim report prepared by BlackRock Financial Markets Advisory  
[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/2021/interim-study-esg-factors-banking\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2021/interim-study-esg-factors-banking_en.pdf)

96. Sustainable-Finance-Beirat der Bundesregierung (Sustainable Finance Advisory Board of the Federal Government) (2021). *Shifting the Trillions Ein nachhaltiges Finanzsystem für die Große Transformation 31 Empfehlungen des Sustainable-Finance-Beirats an die Bundesregierung*  
[https://sustainable-finance-beirat.de/wp-content/uploads/2021/02/210224\\_SFB-Abschlussbericht-2021.pdf](https://sustainable-finance-beirat.de/wp-content/uploads/2021/02/210224_SFB-Abschlussbericht-2021.pdf)

Similar and closely linked considerations arise regarding the **(8) extended supply chain responsibility and due diligence regulation**, envisaged by the European Commission (the new directive proposal on *Sustainable Corporate Governance*). According to this novel policy, parent companies should be held liable for environmental and social due diligence obligations throughout their entire supply chains, which generally include SMEs as suppliers. This requires, again, the definition of specific assessment and reporting criteria for SMEs, based on the principles of proportionality and relevance of the requested information.

## **2.4. Demand-side instruments can be leveraged to increase client awareness on ESG issues, and to favour responsible purchases. This meets the requests of SMEs claiming a lack of attention to ESG aspects inherent to their products and services**

Public administrations are major consumers, spending 14% of the EU's gross domestic product<sup>97</sup>. Therefore, by introducing **(9) ESG or green criteria in their public tenders** they can leverage their purchasing power to choose more socially and/or environmentally sustainable goods and services, supporting the demand for more resource-efficient, as well as socially responsible companies, including SMEs.

The 2014 public procurement directives allow environmental, social and labour related aspects to be taken in consideration in the procurement cycle. Despite this, Member States are not yet fully exploiting the possibilities of public procurement as a means to support social and environmental objectives<sup>98</sup>. Similar considerations can be made **for private companies including (10) ESG or green criteria in their procurement procedures**. Large companies in particular now take ESG aspects into account in a stable and continuous manner, including qualification criteria, and contractual management clauses, within the procurement and supply procedures. As regards **(11) sustainability linked initiatives promoting final demand** (either related to households and families or businesses), numerous examples concern the establishment of incentives, for example in the form of tax deductions, aimed at increasing energy efficiency for example for buildings (e.g. eco-bonuses).



97. European Innovation Council and SMEs Executive Agency (European Commission) (2020). *Making socially responsible public procurement work: 71 good practice cases* <https://op.europa.eu/en/publication-detail/-/publication/e8cf51d0-f632-11ea-991b-01aa75ed71a1>

98. European Innovation Council and SMEs Executive Agency (European Commission) (2020). *Making socially responsible public procurement work: 71 good practice cases* <https://op.europa.eu/en/publication-detail/-/publication/e8cf51d0-f632-11ea-991b-01aa75ed71a1>

## Large companies can develop sustainable supply chain management initiatives with the aim of improving their sustainability while helping suppliers align with ESG practices



Focus On

A recent example of a (12) sustainable supply chain management programme is **Open-es** (where “es” stands for **ecosystem sustainability**), promoted by Eni together with the Boston Consulting Group (BCG), Google Cloud, Rina and Techedge Group<sup>99</sup>. Open-es is intended to align sustainability issues with digital transformation within an industrial ecosystem. It serves as a platform where companies can participate in collaborative processes to address their commitment towards four key sustainability pillars: Planet, People, Economic Prosperity and the Principles of Corporate Governance.

Eni has adopted the World Economic Forum (WEF)’s metrics for the Open-es ESG data model, adapted from their “stakeholder capitalism” measurement framework. All participant companies, whether SMEs and start-ups or multinationals, have to adopt this system of metrics, thus aligning with a sustainable growth pathway, increasing awareness on sustainable practices and building capacity across the value chain. The ecosystem accounts for approximately 1,000 firms, including other leading companies in the energy industry and in other sectors.

Another recent example of a sustainable supply chain management programme is **Enel’s Supplier Development Programme** targeting more than 400 strategic suppliers, including SMEs, with the aim of promoting the financial and managerial growth of participating companies, as well as contributing to greater cost efficiency, innovation and sustainability. Selected companies will be granted access to a series of services, at advantageous conditions, provided by partners with whom Enel has signed collaboration agreements<sup>100</sup>.

Among the services included in the programme, it is worth mentioning **financial services** (e.g. the possibility of obtaining an anticipated discount on invoices to obtain immediate liquidity, or supply chain agreements to guarantee selected suppliers better credit conditions from major financial institutions), **training services** (e.g. management and technical training provided by leading business schools and technical universities), as well as **consulting services** (e.g. support in the implementation of processes linked to the circular economy, innovation, internationalisation, M&A).

99. <https://onehes.io/>

100. <https://globalprocurement.enel.com/it/news/news/2020/07/un-percorso-di-crescita-e-di-sviluppo-sostenibile>

## 2.5. Tailored and dedicated tools can enhance SMEs assessment and disclosure on materiality issues, and help SMEs integrate ESG issues in business activities

In addition to any possible and future activity aimed at defining specific evaluation and assessment criteria dedicated to SMEs, within the EU ESG taxonomy framework, supplementary and tailored tools for SMEs need to be developed or mainstreamed, in order for these firms to keep pace with regard to the sustainability agenda. As of today, some examples of initiatives and simplified tools and instruments exist in the domain of ESG reporting, assessment and evaluation.

In **Switzerland**, in the Canton of Ticino, a working group was set up in 2016 to coordinate and promote sustainability initiatives among SMEs. Members of the group include the Department of Finance and Economy of the Canton of Ticino, the Ticino Banking Association, the Ticino Industry Association, the local Chamber of Commerce, Industry, Crafts and Services and the University of Applied Sciences and Arts of Southern Switzerland<sup>101</sup>.

Among the numerous initiatives put in place and currently being implemented, not limited to awareness raising, education and capacity building, but also spanning other categories of instruments, such as **(13) multi-stakeholder initiatives**, as well as **(14) ESG reporting** and **(15) assessment and evaluation tools for SMEs**, the following are being deployed:

- 1 An online questionnaire for SMEs allowing an initial assessment of their sustainability
- 2 A simplified sustainability reporting template for SMEs
- 3 The introduction in the second half of 2021 of a 4% bonus criterion in public procurement for socially responsible companies
- 4 Training courses to enable CSR managers to develop a sustainability strategy among local businesses and organisations
- 5 Communication projects (webinars, events, publications) for the promotion of good practices implemented by enterprises.

101. <https://www4.ti.ch/dfe/de/csr/home/>

In **France**, the multi-stakeholder initiative *Companies committed to nature - act4nature France* scheme among SMEs has the objective of engaging companies in favour of biodiversity and nature. It aims to promote action plans in SMEs that are dependent on several services provided by nature and want to contribute to the protection of biodiversity. This initiative is led by the French Office for Biodiversity and built with business networks, environmental associations, scientific and institutional partners. Companies participating in the initiative will sign up to 10 common principles and then have one year to formulate an action plan.

Klimabündnis AT, Climate Alliance **Austria**, is part of the EU-wide Climate Alliance. This multi-stakeholder initiative connects more than 1,000 municipalities and companies, most of them SMEs, via its regional branches (at the “Länder” level), as well as more than 600 educational institutions in Austria. The core objective of Climate Alliance AT is to provide a common ground for networking activities and further education, as well as to implement projects and campaigns in the areas of climate protection, climate justice and climate change adaptation<sup>102</sup>. The Climate Alliance offers companies a partnership programme on the basis of a voluntary commitment. It includes a comprehensive check of the firm’s energy, procurement, catering, waste management, mobility, sustainability/climate awareness and relevant internal organisational structures. Companies benefit from an analysis of environmentally relevant activities, specific proposals on cost reduction through resource optimisation, and on climate protection, regular evaluation of the company, networking events, and reputational gains from being a Climate Alliance Company.

102. <https://www.klimabuendnis.at/ueber-uns/kb-ueber-uns>



## CHAPTER 5

# Lessons learned and future developments

## 1. Based on our analysis, SMEs can be mobilised and brought on board with the sustainability agenda.

Although the majority of SMEs have not yet developed a formalised strategic approach to sustainability, it has been shown that they already do much more than they are able to report and communicate. This is particularly true for employee welfare, several environmental-related initiatives, and community engagement.

**The sustainable transition of SMEs needs dedicated and harmonised initiatives and tools**, to remove the factors that deter these companies from adopting a sound sustainability approach and to ensure a just transition, compatible with SMEs' resources and capabilities. In particular, as SMEs are not "smaller large enterprises", they need special attention, including dedicated and specific tools. Our analysis returned 5 broad categories of initiatives and 15 different instruments or tools, some of which are addressed to SMEs. Strengthening what has already been developed, adapting to the real needs of SMEs, and extending to as many companies as possible, is therefore necessary. Some **tools require simplification, harmonisation and convergence**, in order to provide SMEs with a clear overview of the steps required to face the sustainable transition. Access to relevant and specific information for SMEs on sustainability-related issues is also paramount.

Following the classification of the different categories of initiatives or instruments, several lines of action can be identified.

## 2. SMEs' awareness, education, transfer of competencies and capacity building on ESG issues need to be strengthened through the intervention of different players at various levels

International and national institutions have activated various initiatives aimed at increasing the awareness and capabilities of SMEs on sustainability issues. Often, such interventions clash with the objective difficulty of reaching smaller companies in a widespread manner. In the SME strategy, the European Commission presented a new information portal aimed at raising SMEs' awareness on trade policies and opportunities. This initiative could be replicated to increase SME's awareness on sustainable practices. Furthermore, the aspects inherent to the enhancement of competency transfer, **including in the field of technology and digitisation**, which are enablers that can amplify the effects of sustainability, must be taken into consideration and linked to the needs of SMEs.

**Engagement activities must be combined with the ability to reach SMEs through multiple channels**, whether at the level of the supply chain (e.g. through involvement by larger client companies), at the level of business associations, or at the territorial level (e.g. through local institutions, chambers of commerce, universities and research centres).

Dedicated and harmonised initiatives are needed to remove the obstacles that prevent SMEs from adopting a sound sustainability approach, ensuring a just transition compatible with SMEs' resources and capabilities

Awareness, education, transfer of competencies, and capacity building need to be strengthened through engagement activities suitable to reach SMEs through multiple channels

### 3. Sustainable finance provides unprecedented opportunities to SMEs, but evidence highlights that these companies are not yet prepared to exploit such opportunities

A tremendous potential for activating sustainable finance tools, including for SMEs, exists in the current European economic context. This situation will be made even more attractive when the support tools of the NGEU and the national recovery and resilience plans are made fully operational. On the other hand, the evidence gathered from different countries describes SMEs as not yet prepared, in general, as they do not possess the knowledge and expertise to take up the challenge of sustainable finance. From this point of view, therefore, **the world of finance must take action, for example through involvement, education, support and consultancy activities**, so that SMEs acquire the skills, the competencies, and the organisational structure to exploit the opportunities available to them. As regards the **governance of sustainability**, SMEs must make a further evolutionary leap, integrating new skills and knowledge, as well as developing some forms of internal procedures and processes aimed at improving their ability to face the challenges of sustainability.

Involvement, education, support and consultancy on sustainable finance are needed so that SMEs acquire the skills and competencies to exploit the opportunities available to them

### 4. Standardised and tailored KPIs are needed to measure the environmental and social impacts and risks of SMEs, to provide the tools to evaluate these companies against ESG criteria

The pathway set out by the EU with the ESG Taxonomy goes in the desired direction and is due to be completed by defining the technical screening criteria for all six environmental objectives. The issue of KPIs and methodology aimed at qualifying environmentally sustainable activities according to the Taxonomy, including SMEs, has been widely investigated by the European Banking Authority (EBA), which recently provided advice to the Commission on transparency with regard to institutions' environmentally sustainable activities<sup>103</sup>.

**When it comes to SMEs, the ESG metrics must be adapted to the capabilities and conditions of these companies, making them compatible with their needs and resources.** Findings suggest that dedicated initiatives should include some characteristics to allow their diffusion and application by SMEs, such as: relevance with regard to SMEs' needs and expectations; simplicity and user-friendliness, in terms of implementation and maintenance; cost-effectiveness, in relation to SME's time and cost constraints; adaptability and flexibility, taking into consideration the informal business environment in which SMEs operate; and company customisation, addressing each company's individual needs<sup>104</sup>.

ESG technical criteria for SMEs must be developed or adapted in light of the characteristics, the resources and the capabilities of these companies

103. EBA REPORT (2021), Advice to the Commission on KPIs and methodology for disclosure by credit institutions and investment firms under the NFRD on how and to what extent their activities qualify as environmentally sustainable according to the EU taxonomy regulation EBA/rep/2021/03 [https://www.eba.europa.eu/sites/default/documents/files/document\\_library/About%20Us/Missions%20and%20Tasks/Call%20for%20Advice/2021/CFRA%20on%20KPIs%20and%20methodology%20for%20disclosures%20under%20Article%208%20of%20the%20Taxonomy%20Regulation/963616/Report%20-%20Advice%20to%20COM\\_Disclosure%20Article%208%20Taxonomy.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20Tasks/Call%20for%20Advice/2021/CFRA%20on%20KPIs%20and%20methodology%20for%20disclosures%20under%20Article%208%20of%20the%20Taxonomy%20Regulation/963616/Report%20-%20Advice%20to%20COM_Disclosure%20Article%208%20Taxonomy.pdf)

104. Johnson, Matthew P.; Schallegger, Stefan (2016), Two Decades of Sustainability Management Tools for SMEs: How Far Have We Come? Journal of Small Business Management, 2, pp. 481-506

## 5. Instruments to support the demand for environmentally and socially friendly products and services have existed for a long time, and can be further leveraged to meet the needs of SMEs

Public buyers are major consumers in Europe, and European public procurement directives allow Member States to introduce environmental, social and labour criteria in public tenders. Since Member States do not fully leverage all their capabilities in this regard, **there is space to further involve sustainable SMEs**.

In the SME strategy, the Commission mentioned the launch of the Big Buyers and Networks Initiative, aimed at facilitating joint purchases of innovative and sustainable products by big public buyers (e.g. central purchasing bodies, municipalities, and other major public procurers) and at implementing strategic and sustainable public procurement. In November 2020, the Initiative assumed a new name: The Big Buyers for Climate and Environment, linking the purpose of the initiative even more closely to environmental issues<sup>105</sup>.

On a related note, similar considerations were presented in the UN Economic and Social Council recommendation aimed at promoting the development and adoption of minimal common sustainability criteria for sustainable procurement processes to select micro, small and medium-sized enterprise suppliers<sup>106</sup>. Analogously, ESG criteria in private procurement can be further leveraged by companies, especially larger ones, in favour of sustainable SMEs in their supply chains.

## 6. Tailored, standardised and simplified tools to enhance SMEs' assessment and disclosure on material issues, are also needed

As already mentioned, tailored, standardised and simplified tools aimed at providing SMEs with the instruments to report and disclose their ESG performances on material issues still need to be developed and mainstreamed. **The attention towards standardisation, simplification and convergence, however, has been raised and a discussion on this topic is taking place in the most advanced fora**. The World Economic Forum (WEF) recently published recommended Stakeholder Capitalism Metrics and disclosures, developed by a task force of experts from the four largest accounting firms, as well as other institutions, including financial organisations<sup>107</sup>. The result consists of 21 core and 34 expanded metrics and disclosures, related to 4 pillars: Principles of Governance, Planet, People and Prosperity. Although not specifically tailored to SMEs, this set of metrics represents an advanced, standardised and simplified means of assessing, measuring and reporting sustainable value creation.

Public and private demand for sustainable products and services can be further leveraged to provide SMEs with additional opportunities

The standardisation, simplification and convergence of assessment and disclosure tools for SMEs need to be addressed to foster just sustainable transition for SMEs

105. <https://bigbuyers.eu/>

106. United Nations Economic and Social Council Economic Commission for Europe Executive Committee (2019). Recommendation N°43: Sustainable Procurement Minimal common sustainability criteria for Sustainable Procurement processes to select Micro, Small and Medium sized Enterprise suppliers [https://sustainable-procurement.org/fileadmin/templates/sp\\_platform/lib/sp\\_platform\\_resources/tools/push\\_resource\\_file.php?id=849aab58](https://sustainable-procurement.org/fileadmin/templates/sp_platform/lib/sp_platform_resources/tools/push_resource_file.php?id=849aab58)

107. World Economic Forum (2020) Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation [http://www3.weforum.org/docs/WEF\\_IBC\\_Measuring\\_Stakeholder\\_Capitalism\\_Report\\_2020.pdf](http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf)

## 7. Based on our analyses, the challenge of fostering sustainability in Small and Medium-sized Enterprises can be overcome through the activation of all the relevant players

International and national institutions and policy makers, large companies, the world of finance, academia and research, are all called upon to contribute to the creation of an "ecosystem" of public and private players, acting in a coordinated way and in collaboration, starting from education and capacity building, and continuing with sustainable finance, thriving in a clear and established policy framework favourable to SMEs. Additional instruments aimed at promoting the public and private demand for sustainable products and services, as well as tailored disclosure on materiality and assessment initiatives are expected to enhance and foster the involvement of SMEs in the sustainability agenda.

This White Paper provides a first, updated and comprehensive representation of the strategic and operational approach of SMEs towards sustainability, including the opportunities presented by the sustainability transition, the barriers that still prevent SMEs from full activation, and the tools and initiatives that can be adopted. We believe it can act as a starting point for a progressive refinement of knowledge, through further thematic and vertical investigations, including in the form of a permanent observatory, to monitor and anticipate trends in the different industrial ecosystems and international and national supply chains.



## A quick guide on how SMEs can get started on the sustainability agenda

For SMEs, addressing the multiple issues of sustainability can represent a difficult and discouraging exercise. The international and national regulatory and technical frameworks, require, in fact, a gradual approach to sustainability, based on relevance, concreteness, and proportionality.

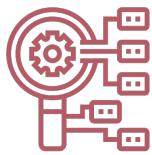
European SMEs are not starting from scratch, since many of them have already developed more initiatives in the field of sustainability (e.g. employee welfare, natural environment protection, and community engagement), than they are able to communicate and report. It is therefore paramount to understand the essential elements of a strategic approach to these issues and bring together the initiatives already being carried out.

The following steps can help SMEs to get started on the sustainability agenda.



### 1. Become familiar with the concepts

Sustainability, like all disciplines, has a specific jargon that could, at least initially, be difficult to understand for non-professionals. Becoming familiar with the jargon, taking good practices developed by other companies as a reference, especially other small and medium-sized enterprises, will link theoretical and empirical knowledge, thus connecting technical language to practices that are recognised by entrepreneurs.



## 2. Identify and select the relevant issues to address

As highlighted, each company is different, characterised by specific impacts on social and environmental aspects. This is even more true for SMEs. In order to develop a sustainability strategy consistent with the company's characteristics, it is necessary to identify, case by case, the **relevant aspects for each company**, i.e. those that "matter the most", and are therefore significant for the company and for the various stakeholders. From this point of view, it is possible to identify what the **legislation** requires, for example with respect to the minimum environmental criteria to participate in tenders and public offers, or what **customers** require to enter certified value chains, or what **credit institutions** ask to access funding from sustainable finance.

**Examples may concern specific aspects and KPIs** related to the reduction of greenhouse gas emissions, the level of efficiency in the use of energy and raw materials, the use of recycled materials, initiatives in favour of employees, including welfare-related initiatives and others concerning diversity and equal opportunities, or respect for workers' rights, and initiatives relating to the community.



## 3. Define a plan to start addressing the most relevant issues

Considering the typical limited competencies and skills, as well as economic, financial and time constraints on SMEs, addressing the relevant sustainability aspects may require the adoption of a **modular approach, based on a simplified action plan**, which highlights objectives, commitments, and the timeline to achieve certain results. Relevant topics should be prioritised, seizing opportunities and maximising the positive impacts on the environment and society, while minimising the negative ones. Some forms of **governance of sustainability** could help to define the most significant steps, such as the formalisation of the founding principles and values of the company, the adoption of a sustainability policy, the development of a charter of commitments towards stakeholders, and the identification of a first set of KPIs against which to report on the company's commitments.



#### 4. Network with other companies and relevant parties

Networking with other companies on sustainability issues, in particular for SMEs, can represent a winning approach in identifying new solutions, adopting innovative business models, developing new products and services, for example in the field of the circular economy, allowing individual companies to overcome the technical, knowledge and economic barriers typical of SMEs. In order to proceed on the path to sustainability, SMEs can also engage with trade associations, local chambers of commerce, industrial and crafts organisations, which can provide entrepreneurs with relevant information. Often, the very same associations organise training and skills development courses, financed with national and EU funds, for example, from the European Social Fund.



#### 5. Assess, measure, monitor, report, and continuously improve

Assessing the social and environmental aspects of each company, measuring the degree of achievement of sustainability objectives, monitoring performance over time, and reporting and communicating internally and externally on non-financial information relating to the achievement of sustainability targets, allows SMEs to improve their profile and demonstrate their commitment to these aspects. In addition, the establishment of an approach devoted to excellence also requires the continuous improvement of performance.

## Methodology

The White Paper leverages data, figures and insights based on the most relevant academic literature, as well as on international reports and studies, and national sources of information from eight selected countries: Austria, Czech Republic, France, Germany, Hungary, Italy, Spain and Switzerland.

More specifically, the data collection and analysis followed a three-step approach:

- First, an unprecedentedly broad and in-depth Systematic Literature Review (SLR) of a sample of 3,000+ academic papers, narrowed down to 124 articles published in top academic journals on the topics of sustainability and SMEs, was carried out. The SLR provided valuable insights on three main topics: a) SMEs' strategic approach to sustainability; b) Obstacles limiting the adoption of sustainability strategies by SMEs, and c) Benefits of sustainability for SMEs
- Second, the analysis was extended to relevant international "grey literature", i.e. documents and reports from leading institutions, organisations, think tanks, national statistics offices, consulting firms, public and private research centres, etc. which added valuable insights for the development of the overall research framework
- Third, a thorough refinement was carried out at national level, collecting data and information provided by national statistical offices, non-academic studies, surveys and studies published by business associations, chambers of commerce, public and private research centres and institutions. Additional checks were performed through interviews with knowledgeable sources and leading experts, including representatives of SMEs

A pervasive investigation and comparative analysis of the main topics was carried out involving partner universities in the eight selected countries.

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