

# 5 REASONS WHY SUSTAINABILITY MATTERS FOR SMES

**VIEWS**

**NOVEMBER 2023**

## HIGHLIGHTS

The sustainable transition is a collective effort and a matter for society as a whole. SMEs, as the backbone of Europe's economy, also have a key role to play. The transition poses challenges, but also offers opportunities. However, it can feel daunting to get started and to imagine how the sustainable transition affects the business, even before being fully informed.

This paper details 5 reasons for why SMEs should not wait to start transitioning to more sustainable business models.

## INTRODUCTION

Small and medium-sized enterprises (SMEs) are facing growing pressures and expectations to make their business more sustainable<sup>1</sup> and start reporting on their sustainability performance. Simultaneously, they are presented with new prospects, such as green finance and meeting consumer demands, which can bring about businesses opportunities.


Some SMEs are aware of this and proactively take steps to adapt their businesses. At the same time, many SMEs and their advisors are unsure about the expectations to meet and what standards or criteria to follow. Moreover, some sustainability matters may be more relevant for certain SMEs than others.

This paper aims to present to SMEs and their advisors how and why the sustainability transition is vital for them, providing risks and opportunities. It has been issued in collaboration with [Accountancy Europe](#), [Ecopreneur.eu](#) – the European Sustainable Business Federation, and the [European Association of Cooperative Banks \(EACB\)](#). It has also been informed by interviews with small and medium-sized accountancy practitioners (SMPs) from around Europe, offering sustainability services to SME clients.

## 5 REASONS WHY SMES SHOULD CARE ABOUT SUSTAINABILITY NOW

EU and national legislation on sustainability reporting and due diligence obligations is often designed to shelter SMEs from onerous and disproportionate requirements. This is because policymakers recognise that many SMEs have limited resources and must prioritise their business survival.

<sup>1</sup> Sustainability means meeting the needs of the present without compromising the ability of future generations to meet theirs. It is often broken down into three overarching topics or areas: environmental, social and governance (ESG).



However, many SMEs will still be impacted even if they are not directly included in the scope of various EU and national legislation. These legislations' impacts will eventually 'trickle down' on SMEs. For example, banks lending to SMEs or larger companies whose value chains include SMEs may demand specific information on the SME's sustainability performance because they need this to meet their ESG requirements. Moreover, customers', employees' and business partners' expectations are increasingly focused on good sustainability performance, whether climate and environmental issues, social matters such as working conditions and modern slavery, or governance that is more aware of the company's impact on its surroundings.

Luckily, SMEs' small size, their simpler and more flexible organisation, as well as their proximity to the local economic sectors can be advantages over larger entities for integrating sustainability into the business. SMEs may have fewer financial resources and less time to devote to the sustainable transition. Still, their small size and generally lesser complexity can offer benefits.

The SME 'segment' in itself is very diverse. Medium-sized businesses' realities and capacities differ significantly from those of small businesses, let alone microenterprises. When it comes to sustainability specifically, Ecopreneur.eu – the European association for sustainability-oriented companies – points out how different SMEs can be at varying stages of 'sustainability maturity'. First, there are 'ecopreneurs', which are leading, innovative SMEs whose business model concentrates on sustainable products, production and services. Then, there are "proactive SMEs" that closely follow the ecopreneurs and proactively adapt to sustainable practices. Finally, most "reactive SMEs" have not yet started implementing sustainable solutions. This last segment requires strong reasons to take sustainability seriously.

Below are listed 5 reasons in no particular order of importance, that highlight how sustainability topics will impact all SMEs and why they – especially the 'reactive SMEs' – should start considering their own business' sustainability now rather than later.

### **REASON 1: ACCESS TO FINANCE**

By embracing sustainability, SMEs can enhance their environmental and social impact, bolster their financial standing and open doors to diverse and abundant financing resources. Conversely, a lack of action on sustainability can limit the available financing options.

SMEs that prioritise sustainability and demonstrate a commitment to environmentally and socially responsible practices can unlock many financing opportunities. Financial institutions, investors, and stakeholders increasingly recognise the long-term value of sustainable businesses. By integrating sustainable practices into their operations, SMEs showcase resilience, innovation, and risk management capabilities, making them more attractive to lenders and investors.

As such, sustainable SMEs can access various financing options, including loans, impact investments, and grants earmarked explicitly for sustainable initiatives. Additionally, governments, the EU and international organisations actively support sustainable SMEs through funding programs and incentives, further expanding their potential access to capital.

Apart from the positive access to finance outcomes, there is a growing risk of even less finance being available for businesses that do not work towards improved

sustainability. For example, European banks, and those in other jurisdictions, increasingly have to fulfil sustainability criteria in their loan portfolios. SMEs must provide their banks with sustainability information to help them meet regulatory requirements. Many banks are also becoming better aware of the long-term impacts of unsustainable business practices. They may hesitate to provide loans for activities that have medium to long-term negative effects on the ecosystem, or premium interest rates may be applicable when they do so.

In several European countries, bank representatives, SMEs and their accountants have flagged that banks are already sending sustainability questionnaires to SME clients. This is the first step towards bank loans and facilities becoming contingent on sustainability performance and entities having to make related disclosures.

In parallel, in the capital markets, requirements on listed entities and investors' evolving expectations are placing sustainability performance and disclosure obligations on listed SMEs that want to access equity financing. For example, the recently approved Corporate Sustainability Reporting Directive (CSRD) obliges such SMEs to start reporting on their sustainability performance from the financial year 2026 onwards. Proportionate sustainability reporting standards are currently being developed for this purpose.

SMEs that fail to prepare for these trends will not only miss out on new financing opportunities but also face the risk of suddenly having to improve their business sustainability and inform stakeholders about their performance with insufficient or no time to adjust. At that point, they will have to manage many parallel changes taking away valuable time and resources from the day-to-day running of the business itself.

## REASON 2: REQUIREMENTS FROM VALUE CHAIN PARTNERS

Large businesses are signing up for climate initiatives and corporate social responsibility (CSR) commitments. In parallel, EU legislation such as the CSRD and the Corporate Sustainability Due Diligence Directive (CS3D) impose sustainability disclosure and performance obligations on them.

Large businesses must ensure their value chains align with sustainability objectives set on them. They are also more aware of the potential reputational risks of doing business with companies whose working practices or operations are detrimental to sustainability. This, inevitably, also means SMEs that are part of large businesses' value chains – as service and goods providers – might be required by their larger supply chain partners to demonstrate their sustainability credentials.

There is the risk that larger businesses will increasingly favour doing business with SMEs already at a higher stage of 'maturity' regarding their sustainability performance and disclosure readiness. Thus, SMEs should prepare early to maximise B2B business opportunities and not compromise any competitive advantages they currently benefit from.

Large companies and clients requesting sustainability information from SMEs should be encouraged to provide guidance and support. Whilst SMEs are willing to comply and provide requested information, many may also require assistance to set up the processes and systems to identify, collect, analyse and report accordingly.

### REASON 3: EXPECTATIONS FROM CONSUMERS, EMPLOYEES AND NEW GENERATIONS

SMEs that take a proactive approach to their business' sustainability can gain a competitive advantage and attract new clients, employees and secure the long-term future of their business.

Consumers are increasingly considering sustainability impacts and price when making purchasing decisions. They expect companies to act responsibly and sustainably and be held accountable.

Eurobarometer surveys, for example, show that 94% of citizens in all EU Member States believe protecting the environment is vital. 91% of citizens stated that climate change is a serious problem. In comparison, 83% believe European legislation is necessary to protect the environment.

A similar tendency is visible among employees. Many of the accountants we interviewed indicated that SMEs' employees – especially the younger generations – increasingly demand high environmental and sustainability standards from their employers. Attracting new talent by delivering meaningful and positive change through work is more important than ever.

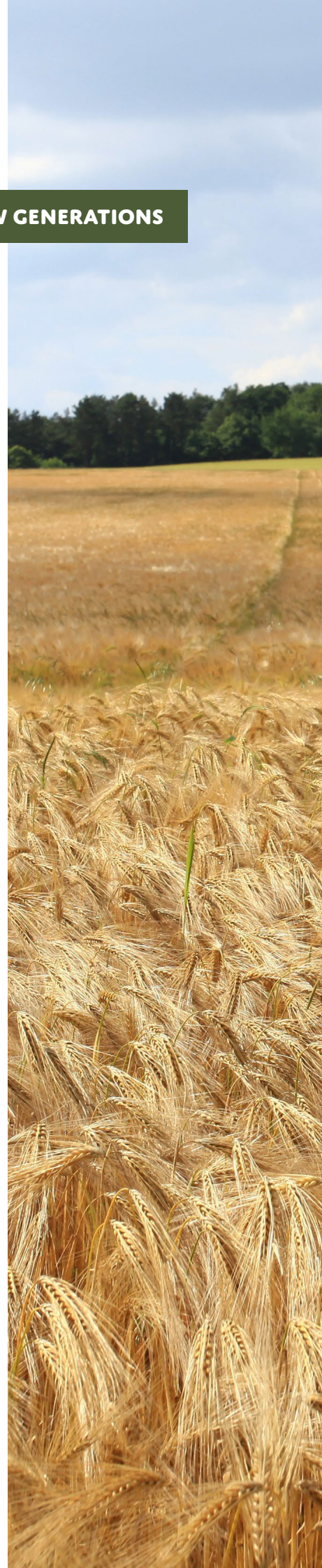
Finally, some accountants interviewed underlined that new generations of family businesses are much more environmentally conscious, with a stronger community mindset. The next generation might be less willing to take up the business if the SME is misaligned with society's sustainability priorities. Additionally, a business with a potentially unsustainable business model or stranded assets will have a lower value for investors or acquirers. Ultimately, it may lack sufficient resilience causing it to fail in the longer term.


### REASON 4: LEGISLATION

EU legislation, such as the CSRD and CS3D, usually attempts to shelter most SMEs from their direct obligations, except for listed SMEs, who will be required to report CSRD disclosures from 2026. As described above, other SMEs will still be affected by 'trickle-down effects'. However, specific legislative trends will directly affect SMEs.

For example, some EU countries' governments are introducing CO2 taxes. In Denmark, a so-called "[corporate carbon tax](#)" was introduced in 2022 and will impose on companies – SMEs included – a cost of 1,125 Danish crowns (EUR 150) per tonne of emitted carbon dioxide. A similar initiative was [introduced](#) in Austria in 2022, with other countries in the EU going along this path. With such measures, companies will then have a solid incentive to calculate and reduce their carbon emissions to minimise the related tax liability.

Another example is in public procurement. The Swedish government plans to [introduce](#) new compulsory sustainability-related criteria for companies participating in public procurement tendering processes. Under the Swedish proposals, public authorities would also need to consider climate, environmental, human health, animal safety, and social and labour law aspects in public procurement. The UK has likewise [introduced](#) carbon reduction as one of the considerations for "major government contracts".





These measures will add to other sustainability-related standards and requirements – water, hygiene, animal welfare, energy efficiency, health and safety, and working conditions – SMEs already deal with. Such legislation can only be expected to grow in the future.

## REASON 5: CLIMATE CHANGE IMPACTS

The United Nations (UN) Intergovernmental Panel on Climate Change (IPCC) [reports](#) give an urgent and dire warning in stating that greenhouse gas emissions will need to start falling from 2025 onward, before the climate reaches a catastrophic point of no return. Society will need to adapt and contribute to a sustainable future. This also applies to businesses of all sizes. SMEs are individually small, but as they are so numerous, they form the backbone of most economies – action by SMEs is imperative.

Climate change can pose significant physical risks to SMEs, which may necessitate adaptation and present challenges and opportunities. Rising temperatures, extreme weather events, and sea-level rise can directly impact SMEs through infrastructure damage, supply chain disruptions, and increased operational costs. SMEs must consider their vulnerability to physical risks, such as floods, heatwaves, or hurricanes, and may have to develop resilience strategies to protect their assets and ensure business continuity.

All SMEs will need to adapt and even transform their current business as economies at large go through significant restructuring to better account for the climate catastrophe and new expectations on social and governance issues. Whilst especially the ‘ecopreneurs’ and a growing number of ‘proactive SMEs’ already take the climate urgency seriously, the almost 23 million ‘reactive SMEs’ will only respond to a changing business environment resulting from the 4 reasons mentioned before – or after being impacted by a major sustainability incident.

For SMEs, starting to act now will pay off – not least because business survival is inevitably impacted by how a business addresses its transition to more sustainable practices. Technological changes driven by climate change mitigation efforts, such as transitioning to renewable energy sources and sustainable practices, can challenge SMEs. They may need to invest in new technologies, upgrade equipment, or adjust production processes to align with changing regulatory frameworks and consumer demands. While these changes require financial and operational adjustments, they also offer opportunities for innovation, cost savings, and market differentiation, for example through decentralising the energy sector towards regional renewable energy production. SMEs that proactively address physical risks and adapt to technological changes can navigate the challenges and position themselves for long-term sustainability and growth in a changing climate.

Early, proactive planning and preparation make businesses better prepared for further adaptation and improve their business resilience in the face of new emerging sustainability-related risks and expectations.

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