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Non-Financial Reporting impacts SMEs – Sustainability reporting practices for Small and Medium Enterprises.

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Introduction

The imperative for sustainable business practices has been underscored by a complex interplay of environmental, social, and governance (ESG) challenges confronting the global economy. Despite the absence of mandatory reporting requirements for SMEs, there is a growing acknowledgment of their crucial role in advancing sustainability. This study is premised on the hypothesis that a deep understanding of the normative frameworks and stakeholder expectations can catalyse more effective and strategic sustainability reporting practices among SMEs.

The discourse on sustainability reporting is anchored in several theoretical frameworks, including institutional theory, stakeholder theory, and legitimacy theory. Institutional theory suggests that the practices of organizations, including sustainability reporting, are influenced by the formal and informal rules of the society in which they operate. Stakeholder theory (Freeman, 1984) posits that organizations must consider the interests and influences of all stakeholders, not just shareholders, in their decision-making processes. Legitimacy theory (Suchman, 1995 and Deegan 2022) argues that organizations engage in sustainability reporting to gain or maintain legitimacy in the eyes of their stakeholders.

Empirical studies have further enriched our understanding of sustainability reporting. For instance, research has demonstrated a positive relationship between sustainability reporting and corporate financial performance, suggesting that beyond compliance, there are strategic advantages to be gained. However, the application of these findings to SMEs is less straightforward. Studies focusing on SMEs have identified barriers to sustainability reporting, including resource constraints, lack of expertise, and perceived irrelevance. Yet, there is evidence to suggest that when SMEs do engage in sustainability reporting, they often realize benefits such as improved stakeholder relationships, enhanced brand value, and better risk management (Spence, 2007).

The landscape of sustainability reporting is shaped by various normative frameworks and standards, such as the Global Reporting Initiative (GRI), the European Sustainability Reporting Standards (ESRS), and the International Sustainability Standards Board (ISSB). These frameworks aim to standardize and improve the quality of sustainability reporting. However, the extent to which these standards are adopted by SMEs varies significantly.

The thesis will critically analyse these standards, considering their applicability and utility for SMEs, with a focus on how they can be adapted to meet the unique needs and constraints of smaller enterprises.

To empirically investigate SMEs' awareness and engagement with sustainability reporting in Northern Italy, the thesis will employ a mixed-methods approach, combining quantitative surveys with qualitative interviews. This methodological framework will enable a comprehensive analysis of the motivations, challenges, and strategies related to sustainability reporting among SMEs.

This thesis aims to make significant contributions to the field of sustainability reporting by bridging the gap between theoretical insights and practical applications for SMEs.

Additionally, a case study of a SME that has integrated sustainability reporting into its business strategy will offer practical insights and validate the proposed tailor-made approach for enhancing SME participation in sustainability reporting.

1 A JUNGLE OF STANDARDS IN CONTINUOS UPDATING

As the global business landscape evolves, an increasing emphasis on sustainability and ethical governance has led to a significant transformation in corporate reporting practices. In recent years, the surge in non-financial and sustainability reporting reflects a broader recognition of the critical role that businesses play in addressing environmental, social, and governance (ESG) issues. This evolution is not confined to multinational corporations but extends across various levels of the business spectrum, including small and medium-sized enterprises (SMEs) that are increasingly required to adopt these practices to enhance their market position, mitigate risks, and capitalize on new opportunities.

Amid this transformative era, one of the most relevant challenges confronting companies and stakeholders alike is the proliferation of reporting standards and guidelines. These frameworks are designed to provide structure and comparability to non-financial disclosures, offering a lens through which the impact of business activities on society and the environment can be assessed. However, the landscape of sustainability reporting standards is characterized by a diversity of approaches, each with its unique set of principles, metrics, and disclosure requirements. This peculiarity reflects the dynamic nature of sustainability issues and the varying needs of report users but also poses significant challenges in terms of consistency, comparability, and clarity.

Moreover, the sustainability reporting standards and guidelines are in a state of constant evolution. As global awareness of sustainability issues deepens and as the regulatory environment becomes increasingly stringent, these frameworks are regularly updated to reflect new scientific findings, societal expectations, and best practices.

This chapter delves into the complexities of this standards' jungle. It aims to provide an overview of the current state of reporting frameworks, explore the challenges and opportunities they present, and examine the implications for companies striving to navigate this dynamic terrain. By shedding light on the diversity and evolution of reporting standards, it seeks to equip readers with the knowledge and insights needed to understand the significance of sustainability reporting in today's business world and to anticipate future developments.

1.1 ONU AGENDA 2030

The adoption of the United Nations Agenda 2030[1] in September 2015 marked a groundbreaking moment in global development policy, building upon the Millennium Development Goals (MDGs)[2] which guided international development from 2000 to 2015. The Agenda 2030 emerged from a complex process of international negotiations, reflecting a consensus among member states on a broad and ambitious development agenda. This historical context is vital for understanding the Agenda's comprehensive nature, aiming to address the laced aspects of sustainable development: social inclusion, environmental sustainability, and economic growth.

The vision of the Agenda 2030 is grounded in the principle of "leaving no one behind," aiming to ensure that progress in achieving the sustainable development goals benefits all segments of society, including the most vulnerable. This vision reflects a shift in global development thinking towards more inclusive, fair, and sustainable approaches. The principles of the Agenda—universality, indivisibility, and inclusiveness—emphasize the importance of integrated action across all sectors and actors. The academic discourse on these principles highlights their role in guiding the implementation and monitoring of the SDGs[3], emphasizing the need for approaches that recognize the interconnectedness of goals and targets.

According to the Agenda sustainability involves balancing economic development with environmental protection and social equity, recognizing the finite nature of natural resources. Equity pertains to the commitment to fairness and justice within and among countries, addressing inequalities that hinder development while global partnership

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[1] Signed on 25 September 2015 by the governments of the 193 member countries of the United Nations, and approved by the UN General Assembly, UN Agenda 2030 consists of 17 Sustainable Development Goals.

[2] MDGs arise from the ONU Millennium Declaration, and they are eight goals underwrite by all the 193 members and they include:

1. eradicate extreme poverty and hunger in the world;
2. make primary education universal;
3. promote gender equality and women's autonomy;
4. reduce infant mortality;
5. improve maternal health;
6. fight HIV/AIDS, malaria and other diseases;
7. ensure environmental sustainability;
8. develop a global partnership for development.

[3] SDG (Sustainable Development Goals) as explained in the following pages are the 17 goals set up in the ONU Agenda 2030.

underscores the importance of collaboration across countries, sectors, and stakeholders, reflecting the global nature of many challenges addressed by the SDGs.

The core objectives of the Agenda 2030 aim to transform the world by addressing its most pressing challenges through an integrated approach to sustainable development. This involves not only promoting economic growth and addressing social needs such as education, health, social protection, and job opportunities but also tackling climate change and environmental protection. They reflect an understanding of the complexities and interdependencies that characterize global development challenges. Theoretical perspectives on sustainable development emphasize the importance of such an integrated approach, arguing that addressing environmental, social, and economic dimensions jointly is key to achieving sustainable outcomes.

The achievement of the Agenda 2030's objectives is predicated on unprecedented levels of global cooperation and partnership, this necessitates effective engagement not just among governments but also between public and private sectors, civil society, and international organizations. Theoretical discussions on global governance and international relations highlight the challenges and opportunities in bringing up such cooperation, pointing to the importance of shared values, mutual accountability, and equitable participation in global development efforts.

The Agenda 2030 for Sustainable Development is anchored in 17 Sustainable Development Goals (SDGs), designed as an integrated and indivisible set of global priorities that embody economic, social, and environmental dimensions of sustainable development. Each goal is supported by specific targets and indicators to guide and measure progress. The SDGs offer a comprehensive framework to address the most pressing global challenges, emphasizing the interconnections between goals and the importance of balancing economic growth with social inclusion and environmental protection.

Goal 1 pursues poverty eradication, is the foremost objective, addressing not just financial poverty but also the need to ensure access to basic services, ownership, and control over land and other forms of property, inheritance, natural resources, appropriate new technology, and financial services.

Goal 2 aims to end hunger, achieve food security, improve nutrition, and promote sustainable agriculture. It is critical to increase agricultural productivity, sustainable food production systems, and resilient agricultural practices that maintain ecosystems, strengthen capacity for adaptation to climate change, extreme weather, drought, flooding, and other disasters.

Goal 3 to 17 set out the foundations for the standards in ESG strategy and reporting, each subsequent goal focuses on specific areas ranging from health and well-being, education, gender equality, clean water and sanitation, economic growth, industry innovation, reduced inequalities, sustainable cities, responsible consumption, climate action, life below water, life on land, peace and justice, and partnerships. Analysing each goal involves understanding the intricacies of targets, the interdependencies among goals, and the specific challenges and progress indicators pertinent to each domain.

Figure 1 SDG Table, source: https://sdgs.un.org/goals

The path to achieving the SDGs by 2030 is full of challenges, including the persistent gap in financial resources, technological disparities, and the need for intensified data and indicators for measuring progress. Climate change, environmental degradation, and the recent COVID-19 pandemic further exacerbate these challenges, threatening to reverse decades of progress in sustainable development.

However, these challenges also present opportunities for innovation, technology, and policy reforms. The digital revolution, for instance, offers new avenues for accelerating progress across the SDGs, from enhancing access to education through e-learning platforms to leveraging renewable energy technologies. There is also a growing recognition of the role of sustainable finance in supporting the SDGs, emphasizing the need for innovative financing solutions that mobilize public and private resources.

Achieving the SDGs requires a joint effort from all sectors of society:

- Governments play a crucial role in creating enabling environments through policy reforms, investments in public goods, and the implementation of SDG-aligned national development plans.
- The private sector is essential for driving innovation, creating sustainable business models, and mobilizing resources. SMEs, in particular, are pivotal in this landscape, given their economic significance and agility. Integrating sustainability reporting within SMEs not only supports the SDGs but also enhances business resilience, opens up new markets, and builds trust with consumers and investors.
- Civil society and non-governmental organizations (NGOs) act as watchdogs, advocates, and implementers, ensuring that the voices of the most vulnerable are heard and that progress is made in a just and equitable manner.
- Individuals have the power to effect change through their consumption choices, support, and by holding governments and businesses accountable.

It is evident that the journey towards 2030 demands more than just incremental progress; it calls for a transformative shift in how societies operate, business's function, and individuals live their lives.

1.2 EUROPEAN GREEN DEAL

The European Green Deal (EGD) serves as a critical roadmap for ensuring the sustainability of the EU's economy through transforming climate and environmental challenges into opportunities across all policy areas. This initiative, grounded in the vision of achieving carbon neutrality[4] by 2050, defines a holistic approach to economic transformation that integrates sustainability with economic growth, resource efficiency, and social equity.

The European Green Deal was set up by the European Commission under the leadership of Ursula Von der Leyen, who took office as President of the European Commission on December 1, 2019, and it aims to reshape the European Union's economy into a sustainable model, characterized by low greenhouse gas emissions, high efficiency in resource use, and a competitive circular economy. Kazak (2022) underscores the Deal's objective to turn environmental challenges into growth opportunities by promoting a just and inclusive transition across sectors, including energy, transportation, and agriculture. The Deal's ambition extends beyond environmental sustainability, targeting economic revitalization through green technology and innovation, aiming to establish the EU as a leader in the global green economy.

The Green Deal outlines a comprehensive policy framework encompassing a wide range of initiatives designed to achieve its sustainability goals.

A cornerstone of the European Green Deal is the mobilization of significant investments in green technologies. This encompasses funding for research, development, and deployment of innovative technologies that reduce carbon emissions and add to energy efficiency not only to mitigate climate change but also about driving economic growth through the creation of new markets and job opportunities.

The Deal emphasizes the need for industries to innovate towards more sustainable practices and this involves developing new business models that prioritize circular economy principles, reducing waste, and increasing the lifecycle of products. Support for industry innovation is crucial for sectors heavily reliant on carbon-intensive processes, such as manufacturing and construction, encouraging them to adopt cleaner and more sustainable operational methods.

A significant aspect of the Green Deal is the transformation of transport systems to make them cleaner, cheaper, and healthier with investments in electric mobility, enhancing public transportation networks, and promoting cycling and walking as viable alternatives

[4] Carbon Neutrality consist in reaching an equilibrium between the CO_2 issued by human activities and the CO_2 absorbed by the so-called natural sink (i.e. soil, forests and oceans.)

to car use. By shifting towards more sustainable modes of transport, the EU aims to reduce greenhouse gas emissions significantly while improving air quality and public health.

The decarbonization of the energy sector is another crucial element of the Green Deal, this involves transitioning from fossil fuel-based energy production to renewable sources such as wind, solar, and hydroelectric power, improving energy efficiency in buildings and infrastructure appears also as a key feature, aiming to reduce overall energy consumption and emissions as well as improving the efficiency of buildings is critical to achieving the Deal's sustainability goals, renovating existing structures and ensuring new constructions. These measures not only contribute to reducing emissions but also lower energy costs for consumers and enhance living conditions.

While the European Green Deal sets forth a vision for a sustainable future, it also recognizes the importance of ensuring a just and inclusive transition. The critique by Pianta and Lucchese sheds light on the perceived deficiencies of the Deal in addressing social justice and economic fairness. They argue that the transition to a green economy must be equitable, taking into account the needs of all segments of society, including those most vulnerable to the economic impacts of such a transformation.

To address these concerns, the Deal proposes mechanisms such as the Just Transition Fund[5], aimed at supporting regions and communities that are heavily dependent on fossil fuel industries aiming to mitigate the socio-economic impacts of the transition by supporting job creation in new, sustainable sectors and facilitating re-skilling and up-skilling of workers.

The European Green Deal also has significant geopolitical and economic implications. Leonard et al. in 2021 discuss how the Green Deal will affect the EU's energy balance, global trade patterns, and relationships with key global and neighboring countries. The transition to a green economy forecast by the Deal will necessitate a substantial shift in energy sources, impacting global markets and necessitating new strategies for energy security and international cooperation.

[5] The Just Transition Fund as one of the pillars of the EU Just Transition Mechanism is equipped with a budget of 17.5 billion to be addressed to the regions in which the transition costs associated with the EU Green Deal provision could significantly and negatively impact the local economies and equilibrium in order to limit the negative externalities of the process.

While the European Green Deal presents a visionary path towards a sustainable and prosperous future, it is not without challenges. The transition to a green economy requires massive investment, innovation, and societal support. As noted by Simionescu, Păuna and Diaconescu in 2020, the successful implementation of the Deal's objectives will depend on the effective mobilization of resources, which as we will see represent a crucial problem at all levels of the transformation, the engagement of stakeholders, and the adaptability of industries and economies to new norms of environmental and economic performance.

The European Green Deal comprehensive approach to tackling climate change, promoting economic growth through green innovation, and ensuring a just transition for all sectors of society sets a global standard for sustainable development.

1.3 EUROPEAN UNION'S DIRECTIVES

In the evolving landscape of global business, the emphasis on sustainability and corporate social responsibility (CSR)[6] has taken central stage as seen in the previous lines. This shift is not merely a trend but a fundamental change in how companies operate, driven by increasing awareness of environmental issues, social justice, and governance ethics. Within this context, the European Union has been at the forefront of legislative efforts to foster transparency and accountability through the Non-Financial Reporting Directive (NFRD)[7], the Corporate Sustainability Reporting Directive (CSRD)[8] and lastly with the Corporate Sustainability Due Diligence Directives (CSDDD)[9].

The NFRD, established as a pioneering initiative, mandates large companies to disclose information on how they manage social and environmental challenges. This move towards transparency aims to encourage companies to develop a more sustainable

[6] The concept of Corporate Social Responsibility enlightens the integration into companies' strategy of ethic themes and attention to social impacts of their activities.

[7] Non-Financial Reporting Directive: Directive 2014/95/EU of the European Parliament of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

[8] Corporate Sustainability Reporting Directive: Directive 2022/2464/EU of the European Parliament of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

[9] Corporate Sustainability Due Diligence Directive: The European Council the 15 March 2024 approved the CSDDD or CS3D Directives regulating the Sustainability Due Diligence Processes.

approach to business, considering their impact on the world. Following the NFRD, the CSRD represents a significant expansion of these requirements, intending to address some of the initial directive's limitations and to ensure that sustainability reports across the EU are more consistent, comparable, and reliable (European Parliament, 2021).

The concept of Corporate Social Responsibility (CSR) has evolved significantly over the years, in the late 20th century, as the negative impacts of industrialization became more apparent, stakeholders began to demand that companies go beyond profit maximization and contribute positively to societal and environmental outcomes. This shift marked the beginning of the modern CSR movement, emphasizing the need for corporations to address the triple bottom line of economic, environmental, and social performance.

In response to these challenges, the European Union introduced the Non-Financial Reporting Directive (NFRD) in 2014, aiming to standardize non-financial reporting practices among large companies and enhance the relevance, consistency, and comparability of non-financial information. The NFRD requires large public-interest entities[10] with more than 500 employees to disclose information on how they manage social and environmental challenges, including details on policies, outcomes, and risks related to environmental protection, social responsibility, and treatment of employees.

Building on the foundations laid by the NFRD, the Corporate Sustainability Reporting Directive (CSRD) was proposed to further strengthen and expand the range of non-financial reporting. The CSRD aims to address gaps in the NFRD, including the lack of detailed reporting standards and limited assurance requirements, by improving these aspects for reported sustainability information. This directive represents a significant step towards integrated reporting, combining financial and non-financial information to provide a comprehensive view of a company's performance.

While the NFRD encourages entities to use national, European, or international frameworks for their sustainability disclosures, it does not mandate a specific reporting standard. Companies can choose from frameworks such as the Global Reporting Initiative (GRI), the UN Global Compact, or the OECD guidelines for multinational enterprises.

[10] Entities of Public interest with more than 500 employees and at least one of the two following criteria:

- at least EUR 20 million balance sheet
- at least EUR 40 million net revenues

The directive mandates the disclosure of non-financial information that is necessary for understanding a company's development, performance, position, and impact of its activities. Specifically, it covers environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery matters, and diversity in the company's board of directors.

The NFRD allows companies significant flexibility in how they report non-financial information, encouraging them to disclose relevant information in the way that best suits their operations. The concept of materiality plays a central role, with companies expected to report on issues that are significant to their business and stakeholders.

Building on the NFRD's foundation, the CSRD aims to broaden the scope and improve the quality of non-financial reporting.

The CSRD significantly expands the scope of companies required to disclose sustainability information, including all large companies and all companies listed on regulated markets in the EU, with the exception of listed micro-enterprises. This expands the directive's reach to nearly 50,000 companies[11].

[11] Here a list of the involved entities by deadline of compliance:

- From 2024 (published in 2025) Listed companies, banks and insurance companies that had an average number of employees > 500 during the financial year and exceeded at least one of the following size limits on the balance sheet date:
    - EUR 20 million balance sheet
    - EUR 40 million net revenue

- From 2025 (published in 2026) Large unlisted companies which, on the balance sheet date, including on a consolidated basis, have exceeded at least two of the following size criteria:
    - 250 employees on average
    - EUR 20 million balance sheet
    - EUR 40 million net revenue
    -
- From 2026 (published in 2027) Listed small and medium-sized enterprises (excluding micro enterprises), small non-complex credit institutions and insurance and reinsurance companies dependent on a group which, on the balance sheet date, including on a consolidated basis, exceeded at least two of the following size criteria

    - 10 - 250 employees on average
    - 350 thousand - 20-million-euro balance sheet
    - 700 thousand - 40 million in net revenues
    -
- From 2028 (published in 2029) Parent companies based in non-EU countries that have generated net revenues in the EU of more than €150 million for each of the last two consecutive financial years and have at least:

    - a subsidiary that meets the size requirements of the CSRD or
    - a branch that generated net revenues in excess of EUR 40 million in the previous financial year.

Unlike the NFRD, the CSRD introduces mandatory European sustainability reporting standards, developed by the European Financial Reporting Advisory Group (EFRAG)[12]. These standards aim to ensure that sustainability information is reported in a consistent, comparable, and reliable manner across all sectors and EU countries.

The CSRD mandates that companies report their sustainability information in a digital format to enhance accessibility and usability. Additionally, it introduces the requirement for the assurance of sustainability information, aiming to increase the reliability of the disclosures.

A key innovation of the CSRD is the emphasis on double materiality, requiring companies to report not just on how sustainability issues affect their business, but also on their impact on people and the environment. This approach aims to provide a more comprehensive view of a company's sustainability performance and impacts.

The transition from the NFRD to the CSRD marks a significant step forward in the EU's sustainability reporting framework. The CSRD's expansion of the scope, the introduction of mandatory reporting standards, and the emphasis on digital reporting and assurance are all aimed at addressing the gaps identified in the NFRD's implementation.

The requirement for assurance under the CSRD is particularly noteworthy, as it aims to enhance stakeholder confidence in the reported sustainability information. The digital format requirement is also expected to facilitate better access to and analysis of sustainability data, thereby enhancing transparency and accountability.

Furthermore, the CSRD's emphasis on double materiality reflects a broader shift towards recognizing the dual impacts of business operations not only on the financial bottom line but also on society and the environment. This aligns with the growing global consensus on the importance of sustainable development and responsible business practices.

In summary, while the NFRD laid the groundwork for sustainability reporting in the EU, the CSRD aims to elevate the practice to new heights of rigor, standardization, and transparency. These enhancements are crucial for stakeholders, including investors,

[12] EFRAG is a private association established in 2001 with the encouragement of the European Commission to serve the public interest. EFRAG extended its mission in 2022 following the new role assigned to EFRAG in the CSRD.

consumers, and society at large, to make informed decisions based on comprehensive and reliable sustainability information.

The Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) represent significant strides toward integrating sustainability into corporate governance frameworks within the European Union. However, despite their noble intentions and potential benefits, these directives also face challenges and criticisms from various stakeholders.

One of the primary challenges facing companies, especially small and medium-sized enterprises (SMEs), is the complexity and cost associated with complying with the NFRD and the upcoming CSRD. The requirement for detailed reporting on a wide range of non-financial issues necessitates significant resources, including specialized knowledge and systems for data collection, analysis, and reporting.

While the CSRD aims to address the issue of standardization in sustainability reporting, the NFRD has been criticized for allowing too much flexibility in reporting frameworks and standards. This has led to inconsistencies in reporting practices, making it difficult for stakeholders to compare and evaluate companies' sustainability performances effectively.

Ensuring the quality and reliability of reported data remains a challenge. Despite the CSRD's introduction of assurance requirements, there are concerns about the varying quality of assurance services and the potential for "greenwashing"[13] where companies may overstate their sustainability efforts.

Critics also argue that mandatory reporting alone may not be sufficient to drive significant changes in corporate behaviours towards more sustainable practices. There is a debate on whether the directives focus too much on reporting and transparency at the expense of actual performance improvements in environmental, social, and governance aspects.

The directives' broad applicability has raised concerns about a one-size-fits-all approach that may not adequately account for the diverse contexts and challenges faced by companies in different industries and regions. Indeed, critics suggest that more tailored

[13] Strategic communication to stakeholders of non-real information on ESG themes in order to obtain economic and reputational advantages.

requirements might be necessary to effectively address sector-specific sustainability issues.

There are concerns that the directives may not go far enough in promoting meaningful engagement with stakeholders, including local communities, employees, and customers. Effective sustainability reporting should not only be about disclosure but also about dialogue and collaboration with stakeholders to identify and address sustainability challenges collaboratively.

Last but not least the European Parliament the 15th of March 2024 approved the Corporate Sustainability Due Diligence Directives (CSDDD) as part of the European Union's broader initiative to ensure that companies operating within its jurisdiction adhere to human rights and environmental standards. This legislative move aims at sustainable economic and social development by making corporate due diligence mandatory. It targets large companies, affecting their operations, subsidiaries, and value chains, ensuring a focus on transparency and accountability in respect to human rights and the environment.

The directive applies to large EU companies and non-EU companies with significant operations in the EU. It aims to bring about a shift from voluntary to mandatory due diligence processes, enhancing supply chain transparency and promoting a uniform standard across the EU to prevent fragmentation in the single market (Pyun, Kim, & Rha, 2023)

Companies are required to identify, prevent, mitigate, and account for their impact on human rights and the environment. This involves thorough risk assessments and impact analyses, coupled with strategies to address identified risks. The CSDDD outlines a detailed due diligence process that companies must follow, including stakeholder engagement and remediation strategies for adverse impacts.

Firms must publicly report their due diligence activities, findings, and effectiveness of measures implemented. This increases corporate transparency and holds companies accountable to their stakeholders. Adjusting to the CSDDD will necessitate changes across business operations, particularly in supply chain management and internal policy development. Companies must adopt more rigorous oversight mechanisms to ensure compliance and mitigate risks. (Poiedynok, 2023)

The directive introduces potential costs related to compliance efforts, such as conducting assessments and modifying operations to reduce adverse impacts. However, these costs could be offset by the financial benefits of improved sustainability performance and risk management, moreover, compliance with the CSDDD can enhance a company's reputation and competitive positioning, attracting investors and consumers interested in sustainable and responsible business practices.

The directive faces criticism for potentially placing a significant burden on SMEs which even if not directly involved will face the repercussion due to the DD process of their stakeholders involved (i.e. clients) and for the effectiveness of measures in driving meaningful change. Some stakeholders argue for more robust provisions, especially regarding liability and enforcement mechanisms (Perrone, 2023)

The CSDDD represents a significant step towards integrating sustainability and responsible business conduct into the core operations of companies within the EU. By fostering transparency, accountability, and proactive management of human rights and environmental impacts, the directive not only aims to mitigate risks but also to drive positive change across global value chains.

1.4 ESRS ‘STANDARDS

The role of the European Financial Reporting Advisory Group (EFRAG) in the development of the European Sustainability Reporting Standards (ESRS) is essential in shaping the sustainability reporting landscape in the European Union. EFRAG, established to advise on the development of financial reporting standards, has expanded its mandate to include sustainability reporting, marking a significant step towards integrating sustainability considerations into corporate reporting and plays a crucial role in developing ESRS, aiming to provide a comprehensive framework for sustainability reporting that aligns with European sustainability goals and priorities. These standards are designed to enhance the relevance, consistency, and comparability of sustainability information, which is critical for stakeholders, including investors, to make informed decisions.

EFRAG's involvement in sustainability reporting standard-setting introduces a broader perspective on key reporting aspects, such as target audience, materiality, and reporting boundary, compared to other institutions like the IFRS, EFRAG takes a holistic view, recognizing the diverse needs of stakeholders in sustainability information this inclusivity and breadth of perspective are crucial for capturing the multifaceted nature of sustainability issues.

The standards are expected to cover a wide range of ESG (Environmental, Social, and Governance) topics, tailored to the European context but also considering global sustainability challenges.

The involvement of EFRAG in sustainability reporting presents both challenges and opportunities. One challenge is harmonizing ESRS with global sustainability reporting standards, given the different approaches and focuses of various standard-setting bodies. However, this also presents an opportunity for EFRAG to lead in creating comprehensive, globally relevant standards that address the specific sustainability concerns and priorities of the European Union and its stakeholders (Afolabi, Ram, & Rimmel, 2023).

The significance of the European Sustainability Reporting Standards (ESRS), specifically ESRS 1 and ESRS 2: can be articulated through several key dimensions: first of all with these two standards we are looking for cross cutting standards setting up the first general framework in sustainability reporting, these standards, part of the European Union's strategy to integrate sustainability into corporate governance, offer a structured framework for reporting sustainability practices and impacts. For SMEs, navigating the complexities of sustainability reporting can be challenging by the way the implementation of ESRS 1 and ESRS 2 provides a clear path to disclose sustainability performance in a manner that is both standardized and comparable across the industry.

Adhering to ESRS 1 and ESRS 2 enables companies to sufficiently communicate their sustainability efforts in a transparent and standardized manner, fostering trust among stakeholders, including investors, customers, employees, and regulatory bodies. Transparency in sustainability practices not only enhances corporate reputation but also strengthens stakeholder relationships, which are crucial for business resilience and growth.

Compliance with ESRS 1 and ESRS 2 may positively influence financial performance and access to capital as far as Investors and in particular credit institutions are increasingly incorporating ESG criteria into their investment decisions, and companies that demonstrate robust sustainability practices are often viewed as lower-risk investments thus increasing their credit rating or perceived value attracting ESG-focused investments and potentially secure more favorable financing conditions. Moreover, sustainability practices can lead to operational efficiencies and cost savings, contributing to improved financial performance (Nielsen, 2023).

The process of aligning with ESRS 1 and ESRS 2 encourages enterprises to conduct thorough sustainability assessments, leading to the identification and mitigation of environmental and social risks consequently mitigating also the risk of non-compliance, which can lead to financial penalties and reputational damage. Furthermore, as sustainability regulations continue to evolve, SMEs that have already integrated these reporting standards into their operations will be better positioned to adapt to new requirements with minimal disruption. The European Sustainability Reporting Standards (ESRS) approach to sustainability reporting categorizes the standards into cross-cutting, topical (E, S, G), and sector-specific standards:

- Cross-Cutting Standards (ESRS 1 and ESRS 2):

These standards provide the overarching principles and requirements that apply across all other ESRS. They set the groundwork for consistency, comparability, and transparency in sustainability reporting, ensuring that entities can report on their sustainability performance in a unified manner, this includes general requirements for sustainability reporting, such as the principles of materiality, stakeholder engagement, reporting scope, and boundary. It encompasses the foundational aspects of sustainability reporting that are relevant regardless of the specific environmental, social, or governance issues being reported.

- Topical Standards (Environmental, Social, Governance)

  - Environmental (E) These standards focus on the entity's impact on the natural environment. Topics covered might include climate change, biodiversity, water use, and pollution, addressing both the direct and indirect environmental impacts of the entity's operations.

  - Social (S): Social standards examine the entity's impact on people, including employment practices, human rights, community relations, and consumer protection. These standards aim to highlight how entities affect their workforce, the communities in which they operate, and broader societal well-being.

  - Governance (G): Governance standards delve into the internal policies, practices, and structures that govern the entity's approach to sustainability. This includes board composition and diversity, ethical conduct, compliance mechanisms, and how sustainability is integrated into corporate strategy and risk management.

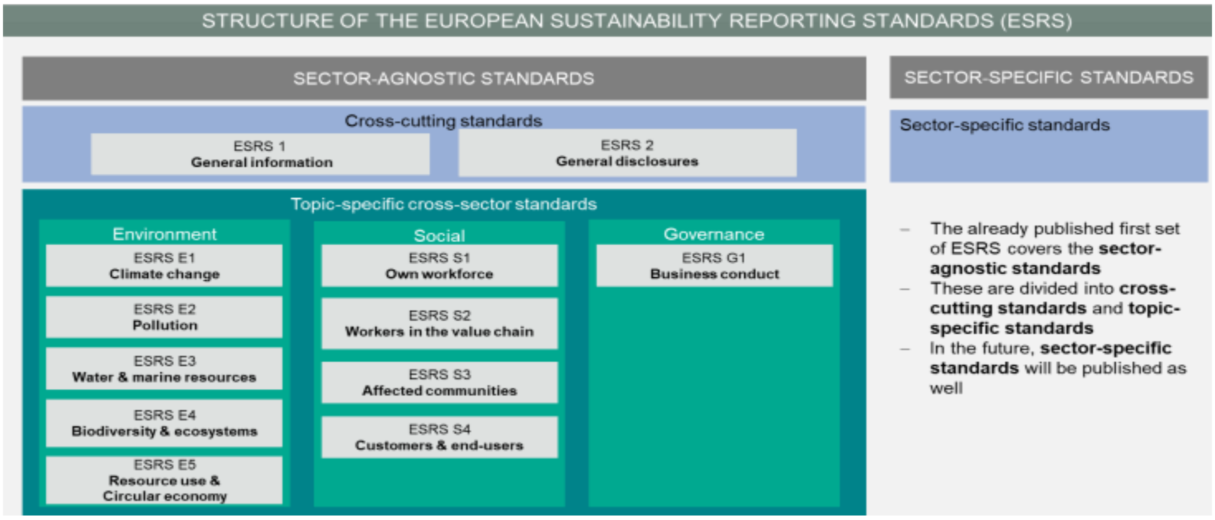

Figure 2 ESRS structure, source: https://www.roedl.com/insights/esg-news/2023-4/esrs-1-and-2-materiality-reporting-structure-disclosure-requirements

1.4.1 ESRS1 – General Requirements

The requirements of the European Sustainability Reporting Standards (ESRS) 1 play a critical role in the way entities report their sustainability efforts. ESRS 1, particularly, emphasizes the need to provide a comprehensive overview of their organizational profile, strategy, governance, and risk management in relation to sustainability issues. These disclosures are foundational for understanding the approach to integrate sustainability into operations and strategic planning.

Under ESRS 1, companies are required to disclose their organizational profile, which includes information about their operations, products, and services, as well as their sustainability context. The organizational profile sets the stage for stakeholders to understand the size, structure, and scope of the business and its impact on sustainability aspects including activities, primary brands, locations of operations, and the markets they serve, this foundational disclosure helps stakeholders assess the relevance and scale of a company sustainability impacts and initiatives.

The objective is at the heart of enhancing the quality and scope of sustainability reporting across entities operating within the EU specifying the sustainability information that entities must disclose under the EU Directive 2013/34/EU[14], ESRS 1 plays a crucial role in standardizing reporting practices around environmental, social, and governance (ESG) considerations.

Entities are required to report on their impact on natural environments, including but not limited to climate change, biodiversity, water usage, and pollution. This encompasses both the direct and indirect environmental footprint of their operations.

This includes the entity's impact on its workforce, communities, human rights, and consumer protection. Social metrics highlight how entities contribute to or detract from the well-being of their stakeholders.

[14] This directive lays down the legal framework for financial reporting across the EU, aiming to ensure comparability and transparency of annual financial statements and reports. ESRS 1 extends this directive's reach into the sustainability domain, necessitating that entities not only disclose their financial performance but also how they fare against ESG impacts, risks, and opportunities.

Governance reporting focuses on the entity's internal practices and policies that govern its activities and strategies concerning sustainability. This includes board structures, ethics policies, compliance mechanisms, and risk management practices related to sustainability.

ESRS 1 outlines the structured approach entities should follow in their sustainability reporting, integrating ESG considerations into their corporate reporting framework systematically. The standard provides guidelines on the use of terminology, ensuring that the language used in sustainability reports is consistent, precise, and universally understandable. This includes clear definitions of what constitutes impacts, risks, and opportunities in the context of ESG.

Moreover, it lays down the basic principles for sustainability reporting, such as the principle of double materiality.

The concept of double materiality is a cornerstone of the European Sustainability Reporting Standards (ESRS), particularly highlighted in ESRS 1. It underscores the need for entities to evaluate and report on sustainability matters from two distinct but interconnected perspectives: impact materiality and financial materiality. This principle reflects a holistic view of materiality that captures the full spectrum of an entity's sustainability impacts.

- Impact Materiality (Outside-In): This dimension focuses on the entity's impacts on people and the environment. It considers how the operations, products, or services of an entity affect external stakeholders, including communities, ecosystems, and the broader society. Impact materiality encourages entities to identify and manage their sustainability footprint, covering both negative impacts that need mitigation and positive impacts that can be enhanced.

- Financial Materiality (Inside-Out): In contrast, financial materiality concentrates on how sustainability matters affect the entity's financial condition, performance, and prospects. This includes evaluating how environmental, social, and governance (ESG) issues might pose risks or offer opportunities that could influence the entity's value, profitability, or investment attractiveness.

Entities are guided to perform an integrated assessment that identifies material issues from both the impact and financial perspectives. This involves engaging with stakeholders to understand their concerns and priorities, analyzing potential sustainability risks and opportunities, and assessing the significance of these factors in terms of their potential financial implications and societal impacts.

Once material issues are identified through the double materiality lens, entities must report on these matters comprehensively. This includes disclosing the strategies and actions taken to address material sustainability issues, the outcomes of these efforts, and the future outlook. Reporting should provide a clear narrative that links the entity's sustainability performance with its overall strategy, operational practices, and financial planning.

The application of double materiality in sustainability reporting ensures that entities account for their broader societal responsibilities alongside their financial goals. It enhances transparency by providing stakeholders with a clearer understanding of how entities are addressing critical sustainability challenges and leveraging opportunities for sustainable development.

By reporting on sustainability matters from both impact and financial perspectives, entities provide valuable information that supports the decision-making of various stakeholders, including investors, customers, regulators, and the community at large. This information can influence investment decisions, consumer choices, regulatory actions, and community relations, reflecting the broader significance of sustainability in today's business environment.

The adoption of ESRS 1 signifies a shift towards integrated reporting, where financial performance and sustainability performance are seen as interconnected facets of an entity's overall impact. Entities will need to: develop robust mechanisms for identifying, evaluating, and reporting ESG impacts, risks, and opportunities, ensure transparency and accountability in their sustainability practices and engage with stakeholders to identify material sustainability matters that should be reported, the presentation of the information about sustainability matters must be prepared in compliance with Articles 19A and 29A of Directive 2013/34/EU.

The structured approach to categorizing ESRS standards enhances the relevance and specificity of sustainability reporting. Entities are guided to report not only on the broad principles that underpin sustainability but also on the specific issues that are most material to their operations and sector. This structure ensures that cross-cutting and topical standards provide a broad framework applicable to all entities, ensuring that fundamental sustainability issues are consistently addressed.

The reporting areas are designed to encompass the full spectrum of sustainability considerations that entities need to address. They include:

- Governance (GOV): This area focuses on the governance structures, policies, and practices that an entity uses to oversee and manage sustainability issues. It requires entities to disclose how sustainability is integrated into corporate governance, including the roles and responsibilities of governing bodies and how these contribute to sustainability objectives.
- Strategy and Business Model (SBM): Entities are required to explain how their strategy and business model interact with sustainability aspects. This includes disclosing how the entity identifies and responds to sustainability-related risks and opportunities, and how these considerations impact long-term strategy and business model viability.
- Impact, Risk, and Opportunity Management (IRO): This reporting area demands disclosure on how the entity identifies, assesses, and manages its sustainability-related impacts, risks, and opportunities. It covers the processes for determining materiality, the strategies for managing identified risks and opportunities, and the actions taken to mitigate negative impacts or enhance positive outcomes.
- Metrics and Targets (MT): Entities must provide specific metrics and targets that track their sustainability performance. This includes the disclosure of key performance indicators (KPIs), progress against previously set targets, and future targets aimed at improving sustainability performance.

Drafting conventions in ESRS 1 ensure the clarity, consistency, and comparability of sustainability reports across different entities.

ESRS 1 defines critical terms such as "impacts," "risks," and "opportunities" to ensure a common understanding and application. "Impacts" refer to the positive and negative effects an entity has on environmental, social, and governance factors. "Risks and opportunities" relate to potential future events that could impact the entity's financial performance or sustainability outcomes.

The structure for reporting is clearly outlined, with each reporting area comprising specific Disclosure Requirements. Entities are guided on what information to disclose to meet these requirements, ensuring that reports are comprehensive and address all relevant sustainability aspects.

The use of consistent terminology and structured reporting requirements enhances the clarity and comparability of sustainability reports. Entities are encouraged to provide clear, understandable, and relevant information that meets the needs of stakeholders.

The standards emphasize the principle of double materiality, guiding entities to report on both the impact of sustainability issues on their operations and their impact on society and the environment.

This guidance ensures that the information provided in sustainability reports is not only accurate and timely but also relevant and easily understandable, facilitating informed decision-making.

Sustainability information must be relevant to the decision-making needs of users. This means it should have the capacity to influence the decisions by helping users assess past, present, or future events or confirming, or correcting their past evaluations. This involves reporting on material aspects of sustainability that affect the entity’s ability to create value over the short, medium, and long term.

Reported information must faithfully represent the phenomena it purports to depict. This includes being complete, neutral, and free from material error. Faithful representation ensures that users can trust the information to accurately reflect the sustainability performance and impacts of the entity.

As we know for the financial statement, ESRS set out key principles to be followed in the sustainability reporting in order to enhance qualitative characteristics:

- Comparability: users must be able to compare the sustainability information of an entity over time and with other entities to identify and understand similarities and differences. Comparability does not mean uniformity; rather, it emphasizes the need for information to be reported consistently across periods and entities, with clear explanations provided for any discrepancies or changes in reporting methods.

- Verifiability: information should be verifiable, allowing different knowledgeable and independent observers to reach a consensus that it is faithfully represented. Verifiability supports the credibility of the sustainability information, providing assurance to users that the information accurately reflects the entity's sustainability performance.

- Timeliness: timeliness refers to providing information to decision-makers in time to be capable of influencing their decisions. Delayed reporting can render information less useful or even irrelevant. Therefore, entities must strive to disclose sustainability information promptly within a timeframe that adds value to users.

- Understandability: sustainability information should be presented clearly and concisely, making it understandable to users with a reasonable knowledge of business and economic activities. This involves organizing information in a way that is accessible and easy to interpret, avoiding technical jargon or complex explanations that could obscure essential facts or insights.

The qualitative characteristics outlined in ESRS 1 serve as guiding principles to ensure that sustainability reports are not only compliant with regulatory requirements but also meaningful and useful to stakeholders. By adhering to these characteristics, entities can enhance the transparency, accountability, and overall quality of their sustainability reporting. This, in turn, helps stakeholders make more informed decisions regarding the environmental, social, and governance aspects of the entity, reinforcing the role of sustainability reporting as a critical tool for communication and engagement in the pursuit of sustainable development.

Being the comparability a key aspect the framework emphasizes the significance of addressing different time horizons—short, medium, and long-term—in sustainability reporting. This approach acknowledges that sustainability challenges and opportunities can have varying impacts over time, and that effective management and reporting of these issues require a forward-looking perspective as well as a reflection on past and present performances.

- Short-Term Time Horizon: Typically aligns with the entity's financial reporting period, usually one year. It focuses on immediate actions and impacts related to sustainability matters. Entities are expected to report on current sustainability initiatives, immediate risks and opportunities, and short-term targets. This includes actions taken within the reporting period to address material sustainability issues and their direct outcomes.

- Medium-Term Time Horizon Extends from the end of the short-term period up to five years. This horizon considers the sustainability strategy's evolution and its integration into broader business planning. Entities should disclose their medium-term sustainability strategies, including planned initiatives, expected impacts, and targets set for this period. This might cover the development of new products or services with lower environmental impacts, engagement strategies with stakeholders, or adjustments in response to anticipated regulatory changes.

- Long-Term Time Horizon: Encompasses a period beyond five years. This horizon is crucial for addressing sustainability challenges that unfold over extended periods, such as climate change, resource depletion, and long-term societal shifts. The focus is on the entity's vision and long-term goals for sustainability, reflecting on its role in contributing to global sustainability agendas like the United Nations Sustainable Development Goals (SDGs). Entities should discuss how they anticipate future trends and uncertainties, including how they plan to innovate and adapt their business models, products, and services for sustainable growth.

Considering multiple time horizons enables entities to develop more comprehensive sustainability strategies that are resilient to short-term shocks and aligned with long-term objectives for sustainable development.

By providing insights into actions and strategies across different time horizons, entities can better inform stakeholders, including investors, customers, and policymakers, about their commitment to sustainability and their preparedness for future challenges.

Reflecting on different time horizons helps entities identify, assess, and manage sustainability-related risks that may arise in the short, medium, or long term, enhancing their overall risk management approach, emphasizing future performance and strategies encourages entities to think beyond immediate sustainability achievements, focusing on continuous improvement and long-term value creation.

Entities are encouraged to present comparative information for all disclosures, allowing stakeholders to assess changes and trends over time. This includes quantitative metrics and, where relevant, qualitative narratives.

When changes occur in the data or methods used, entities should clearly explain these changes and, if possible, restate prior periods to maintain comparability.

Errors identified in previously reported sustainability information should be corrected. Material errors should be openly disclosed and corrected in the current report, including an explanation of the nature of the error and the impact of its correction.

For errors that are deemed non-material, entities still need to consider their potential cumulative impact on the report's integrity and stakeholder trust.

The guideline advises on the appropriate level of data aggregation to ensure clarity without losing critical detail. When disaggregating data, entities should consider the significance of the information to different stakeholders and the potential for the information to influence decision-making and where relevant, entities might disaggregate data by sector or geography, especially when impacts, risks, or opportunities vary significantly across different areas of operation.

ESRS 1 acknowledges the need to balance transparency with the protection of sensitive information that could potentially harm the entity's competitive position if disclosed when opting not to disclose certain information due to its sensitivity, entities are encouraged to provide a general explanation of the omission and its potential impact on understanding the entity's sustainability performance.

Reports should be presented in a format that is both human-readable and machine-readable, facilitating wider accessibility and analysis, the layout, language, and structure of the report should be designed to enhance understandability, including the use of summaries, visual aids, and clear headings.

Entities are permitted to incorporate by reference, linking to where detailed sustainability information is provided in other reports or documents, as long as these references are clear, precise, and easily accessible to report users. Entities should maintain robust documentation and audit trails that support the verifiability of their sustainability disclosures, enabling stakeholders to trust the reported information, audit trials will result as a fundamental aspect in the process of strategy design and report build up in order to gather stakeholders with clear and trustful information.

ESRS 1 highlights the importance of establishing clear linkages between sustainability reporting and other parts of corporate reporting ensuring that an entity’s sustainability efforts are not viewed in isolation but as integral to its overall strategy, operations, and financial performance. Entities are encouraged to adopt a unified approach to reporting, where sustainability information complements financial and operational data to ensure a holistic view of the entity's performance and strategy, highlighting how sustainability is embedded in its core business practices.

Moreover, the information presented in sustainability reports should be consistent with that in financial statements, management reports, and other corporate disclosures. This consistency supports a coherent narrative across all reporting, aiding stakeholders in understanding the entity's comprehensive performance and strategy and where sustainability initiatives have a direct financial impact, these should be clearly articulated within the sustainability report, with references to corresponding entries or disclosures in the financial statements, this could include capital investments in sustainable technologies, costs associated with environmental compliance, or financial benefits derived from efficiency improvements.

Recognizing the complexity of fully implementing the ESRS, the transitional provisions may offer entities a grace period during which they can gradually ramp up their reporting practices to meet the full scope of the standards.

Certain disclosure requirements may be phased in, allowing entities to prioritize the development of reporting capabilities for core sustainability matters before addressing more complex or detailed disclosures.

They are encouraged to initially focus on reporting material sustainability matters that are most significant to their operations and stakeholders. This approach allows entities to concentrate their efforts on areas where they can provide the most meaningful and impactful disclosures.

Entities may initially focus on reporting sustainability matters within their direct operations before extending disclosures to cover their entire value chain, as data availability and quality improve over time.

Acknowledging the difficulties in obtaining comprehensive sustainability data across the value chain, transitional provisions may offer guidance on how to estimate or approximate certain disclosures until more accurate data can be gathered.

ESRS 1 mandates that entities report on material sustainability matters not only within their direct operations but also across their entire value chain. This includes upstream suppliers and downstream customers, reflecting the broader impacts of the entity's activities and its interconnectedness with other actors in the economy.

Reporting on the value chain introduces complexities, especially in obtaining reliable data from across a diverse network of suppliers and partners. Entities may need to rely on estimates, sector averages, or proxies when direct data are not available.

Considering the value chain is crucial for a comprehensive understanding of an entity's sustainability impact. Many significant environmental and social impacts occur at the raw material extraction stage or in the product use phase, which may be outside the entity's direct control but within its sphere of influence.

Entities are encouraged to work collaboratively with their value chain partners to improve sustainability performance collectively. This might involve setting shared goals, providing support for capacity building, or leveraging purchasing power to encourage better practices among suppliers.

ESRS 1 also introduces comprehensive guidelines for entities to conduct sustainability due diligence and to consider the entire value chain in their sustainability reporting. These elements are pivotal for a thorough understanding and management of sustainability impacts, risks, and opportunities, extending the scope of responsibility and transparency beyond the immediate boundaries of the entity.

The due diligence process is designed to identify, prevent, and mitigate negative impacts on sustainability as it extends to assessing risks and opportunities that could affect the entity's ability to create, preserve, or erode economic, environmental, and social value.

This involves a systematic review of the entity's operations, products, services, and business relationships to uncover actual and potential negative impacts on environmental, social, and governance (ESG) matters.

1.4.2 ESRS2 – General disclosures

ESRS 2 is specifically focused on General Disclosures, it outlines the disclosure requirements related to governance, strategy, impacts, risks and opportunity management, metrics, and targets, irrespective of the materiality assessment. This standard mandates that companies disclose their governance structures, strategies for addressing sustainability issues, and how these strategies are integrated into their overall business model and risk management processes. Furthermore, ESRS 2 requires companies to report on their sustainability targets, performance metrics, and the outcomes of their sustainability initiatives.

The standard is designed to apply across all sectors, providing a uniform framework for sustainability reporting. This aims to ensure that all relevant companies, regardless of their specific industry, report on a comprehensive set of sustainability issues in a consistent manner. This approach facilitates comparability and transparency, enabling stakeholders to understand and assess the sustainability performance of companies more effectively.

In addition to the specific requirements of ESRS 2, it's also important to consider the broader context of the ESRS framework, which includes topical standards addressing specific environmental, social, and governance (ESG) issues, and sector-specific standards tailored to the unique impacts, risks, and opportunities of different industries.

ESRS 2 aims to provide a detailed framework for companies to report on several critical areas of sustainability

- Bias for preparation (BP 1 and 2)

The objective of disclosures is to provide information on how the company prepares its sustainability statement and its extent (i.e. the extent of Value chain coverage (ESRS 1 section 5.1), other than disclosures in relation to specific circumstances.

- Governance (Disclosure Requirement GOV 1-5)

Governance disclosures require companies to report on their governance structures and practices, specifically how these practices relate to sustainability this includes detailing the roles and responsibilities of the board and its committees concerning sustainability issues, tansparency about decision-making processes, the involvement of stakeholders in governance, and how governance structures support sustainability goals and risk management.

- Strategy (Disclosure Requirement SBM 1-3)

This section focuses on how an organization's strategy aligns with sustainability principles here the companies must describe how sustainability is integrated into their business model, strategy, and decision-making processes, the long-term sustainability vision, the integration of sustainability into business planning, and how sustainability-related risks and opportunities are considered in strategic planning.

- Impacts, risk and opportunity management (Disclosure Requirement IRO 1 and 2 other than Minimum disclosure requirements MDR-P MDR-A)

Organizations are expected to report on their sustainability impacts, including both positive and negative outcomes of their operations on the environment, society, and economy.

Assessment and measurement of significant sustainability impacts, steps taken to mitigate negative impacts, and efforts to enhance positive outcomes, this area requires companies to disclose how they identify, assess, and manage sustainability-related risks and opportunities, the process for risk identification and assessment, how risks are managed or mitigated, and how opportunities are identified and pursued to achieve sustainability objectives.

- Metrics and Targets (Minimum Disclosure Requirements MDR-M MDR-T)

Companies need to provide specific metrics and targets that quantify their sustainability performance and ambitions, the selection of relevant sustainability metrics, baseline data, targets set for future performance, and progress made toward these targets.

A unique aspect of ESRS 2 is its application irrespective of materiality assessments, this means that the disclosures it requires are considered universally applicable to all reporting entities, regardless of the specific materiality of each disclosure to the company. This approach ensures a baseline level of transparency across all companies, facilitating comparability and ensuring that stakeholders have access to a comprehensive set of information about each company's governance, strategy, impacts, risk management, and performance metrics related to sustainability.

The purpose behind these detailed disclosure requirements is to provide stakeholders, including investors, customers, and regulators, with a clear, comprehensive understanding of a company's sustainability performance and strategic direction. This transparency is crucial for assessing the sustainability risks and opportunities a company faces and its readiness to tackle sustainability challenges. By requiring disclosures on governance, strategy, impacts, risk and opportunity management, and metrics and targets, ESRS 2 aims to encourage companies to integrate sustainability deeply into their core operations and strategic vision. This not only enhances accountability but also promotes a shift towards more sustainable, resilient business practices.

2 SMEs AWARENESS ON SUSTAINABILITY REPORTING

In a time when sustainability and corporate responsibility are more prominent than ever, the global economy is at a critical turning point. Small and Medium-sized Enterprises (SMEs), frequently recognized as the foundation of economies globally, are at the centre of this change. These organizations are not just responsible for promoting innovation and creating jobs, but also have the capacity to make a significant impact by following Environmental, Social, and Governance (ESG) principles. Nevertheless, the path to incorporating ESG frameworks into the everyday practices of small and medium enterprises is filled with obstacles, intricacies, and, notably, unexplored possibilities. This chapter explores the complex significance of SMEs in the worldwide economy, their changing understanding of ESG reporting topics, and the importance of manoeuvring through this transformative era with strategic skill and forward-thinking leadership. By combining empirical analysis and theoretical insights, this chapter aims to highlight the important role that SMEs play in promoting sustainability, emphasizing the connections between economic prosperity and environmental protection.

2.1 SMEs ENVIRONMENT IN EUROPE

An enterprise can be defined as SME an enterprise with less than 250 employees and less than 50 million euros in revenues or 43 million euros total balance sheet (Recommendation 2003/361/EC). Small and medium enterprises can be into three main groups depending on predefined parameters: micro-enterprises are those who have less than ten employees and then 2million euro of revenues, small enterprises have between 10 to 49 employees and revenues for less than 10million euro and finally medium-sized enterprises are those with maximum 250 employees and 50 million euros in revenues (Recommendation 2003/361/EC). Moreover, the European commission in its Recommendation sets out total balance sheet ceilings respectively at 2, 10 and 43 million euros.

SMEs in Italy represent 99,9% of the total companies operating there and 67,7% of the country's total added value covering around 78,6% of employment (Eurostat, national statistical offices, DIW econ., 2020 Data).

Italian case acquire relevancy looking at the employment data and looking at the added value produced by SMEs with more than 10 percentage points of difference and higher exposure on the numbers related to micro enterprises which by the way will be less impacted by the implementation of the non-financial reporting.

Class size	Number of enterprises			Number of persons employed			Value added		
	Italy		*EU*	Italy		*EU*	Italy		*EU*
	Number	Share	*Share*	Number	Share	*Share*	Billion €	Share	*Share*
Micro	3 551 239	94,8 %	*93,5 %*	6 531 886	42,7 %	*29,4 %*	203,4	25,5 %	*18,6 %*
Small	171 814	4,6 %	*5,5 %*	3 060 609	20,0 %	*19,4 %*	152,3	19,1 %	*16,5 %*
Medium-sized	20 597	0,5 %	*0,8 %*	1 992 123	13,0 %	*15,5 %*	145,6	18,3 %	*16,6 %*
SMEs	**3 743 650**	**99,9 %**	***99,8 %***	**11 584 618**	**75,7 %**	***64,4 %***	**501,4**	**62,9 %**	***51,8 %***
Large	3 789	0,1 %	*0,2 %*	3 716 277	24,3 %	*35,6 %*	296,2	37,1 %	*48,2 %*
Total	**3 747 439**	**100,0 %**	***100,0 %***	**15 300 895**	**100,0 %**	***100,0 %***	**797,6**	**100,0 %**	***100,0 %***

Figure 3 SMEs Presence in Italy and Europe. Source: Eurostat, national statistical offices, DIW econ.

Therefore, it is evident key role of these companies in pursuing the European Green Deal objectives. In the early stages of small and medium enterprises (SMEs), corporate governance is often closely tied to the roles of the entrepreneur and their family, as many of these businesses begin as individual or micro enterprises. As they evolve, they encounter increasingly complex environments requiring specialized knowledge and preparation.

The role of professionals is more than ever crucial in this transition phase, they will be in charge of following the process towards sustainability reporting not only as external figures to help in the reporting phase, professionals in the SMEs environment will be crucial figures to define and implement ESG strategies maintaining a fundamental equilibrium in the resource allocation in order to not compromise the companies' ability to growth and innovate being profitable both on short and long term.

In fact, even though SMEs are not directly involved in sustainability reporting in a short-term horizon as said in Chapter 1, they are facing this issue as well as bigger companies involved by the directives.

Though these directives do not directly bind SMEs, the legislative framework indirectly influences them through what can be described as a "ripple effect." Large companies are required to disclose information about their entire value chain. This requirement extends to how their suppliers and partners manage environmental and social issues, thereby indirectly enforcing a form of compliance down the supply chain. Consequently, SMEs, serving as suppliers or partners to larger corporations, find themselves needing to adopt similar sustainability practices to maintain business relationships and contracts.

2.2 SMEs AWARENESS ON SUSTAINABILITY REPORTING

In recent years, there has been a marked increase in awareness among Italian SMEs regarding the importance of sustainability and ESG reporting. This awareness is driven by the European Union's stringent regulations and guidelines, as reported before, furthermore, the rise of global movements advocating for sustainability has also influenced Italian SMEs to consider their environmental and social responsibilities more seriously. The trend is also reflected in the market demand for greater transparency and ethical business practices if we look at business to costumer operation. Consumers and investors are increasingly favoring companies that demonstrate a commitment to sustainability. As a result, Italian SMEs are beginning to recognize that sustainability is not just a regulatory requirement but also a strategic imperative that can enhance their competitiveness and brand reputation.

Despite the increasing awareness, the extent of involvement in sustainability reporting among Italian SMEs varies significantly. Larger SMEs, particularly those with international operations or those that are part of larger supply chains, tend to be more advanced in their sustainability reporting efforts. These companies often have more resources and greater access to expertise, allowing them to implement comprehensive ESG strategies and reporting mechanisms.

For example, some Italian SMEs have adopted standardized reporting frameworks such as the Global Reporting Initiative (GRI)[15] or the Integrated Reporting (IR)[16] framework. These frameworks provide a structured approach to reporting on sustainability performance, covering a wide range of indicators related to environmental impact, social responsibility, and governance practices. By adhering to these frameworks, SMEs can enhance the credibility and comparability of their sustainability reports, making it easier for stakeholders to assess their performance.

However, many smaller Italian SMEs are still in the early stages of their sustainability journey. For these companies, the primary barriers to comprehensive sustainability reporting include limited financial resources, a lack of expertise, and the perception that sustainability initiatives are burdensome and costly. Consequently, their involvement in sustainability reporting tends to be less formalized, often limited to basic disclosures or ad hoc initiatives rather than systematic and ongoing reporting.

Several key drivers are motivating Italian SMEs to integrate ESG themes into their business models. One of the primary drivers is the increasing pressure from regulatory bodies. As mentioned earlier, the EU has implemented a range of policies aimed at promoting sustainable business practices. Therefore, regulatory compliance is not directly requested to those enterprises, market dynamics play a crucial role. As consumer awareness of environmental and social issues grows, there is a corresponding demand for products and services that are produced sustainably. SMEs that can demonstrate their commitment to sustainability are better positioned to attract and retain customers. Similarly, investors are increasingly considering ESG factors in their investment decisions, favouring companies that exhibit strong sustainability performance. This trend is particularly relevant for SMEs seeking to attract external funding, as demonstrating ESG commitment can enhance their attractiveness to investors. Additionally, the potential for operational efficiencies and cost savings is another important driver. Sustainable practices often lead to more efficient use of resources, reduced waste, and lower energy consumption, all of which can result in significant cost savings. For example, SMEs that

[15] Global Reporting Initiative (GRI) is a global and autonomous entity established in 1997 in Boston, now headquartered in Amsterdam as of 2002, with the purpose of assisting businesses and organizations in assessing and disclosing their sustainability impact.
[16] The IR Framework sets out the purpose of an integrated report with the primary purpose to explain to providers of financial capital how an organisation creates, preserves or erodes value over time. It therefore contains relevant information, both financial and other.

invest in energy-efficient technologies or adopt circular economy principles can reduce their operational costs while also minimizing their environmental footprint.

Despite the evident benefits, Italian SMEs face several challenges in their efforts to integrate sustainability and ESG themes into their operations. One of the most significant challenges is the resource constraint. Many SMEs operate with limited financial and human resources, making it difficult for them to invest in the necessary tools, technologies, and expertise required for effective sustainability reporting. Moreover, the lack of expertise and knowledge about sustainability practices and reporting standards poses a significant barrier. SMEs may struggle to identify the relevant ESG metrics, collect the necessary data, and compile comprehensive reports that meet stakeholder expectations. This knowledge gap can lead to hesitation and delays in adopting sustainability initiatives. Another challenge is the perceived complexity and cost of implementing sustainable practices. For smaller SMEs, the upfront investment required for sustainability initiatives can be daunting, especially when the financial returns may not be immediately apparent. This perception can discourage SMEs from embarking on their sustainability journey, leading to a slower rate of adoption.

To overcome these challenges, several support mechanisms are available to assist Italian SMEs in their sustainability efforts. Government agencies, industry associations, and non-governmental organizations (NGOs) offer various forms of support, including financial incentives, training programs, and technical assistance. These include grants and subsidies for energy-efficient technologies, tax incentives for environmentally friendly practices, and support for research and development in sustainable innovations. Additionally, industry associations provide resources and guidance to help SMEs navigate the complexities of sustainability reporting and ESG integration.

This analysis draws upon data collected by Dintec[17], utilizing their assessment of 1,036 enterprises that voluntarily participated in the survey. Dintec, a well-recognized research organization known for its comprehensive evaluations, conducted this assessment to gain insights into various aspects of these enterprises' operations, strategies, and performance. The use of a randomized sample of 1,000 enterprises ensures a broad representation of different industries, sizes, and geographic locations, enhancing the

[17] Dintec is an in-house agency of Unioncamere, chamber of commerce and ENEA.

robustness and reliability of the findings. By employing a randomized sampling approach, Dintec aimed to minimize bias and ensure that the survey results are reflective of the broader population of enterprises. Random sampling helps to mitigate the risk of over-representation or under-representation of certain types of businesses, thus providing a more accurate depiction of the overall landscape. This approach also allows for statistical analysis and generalization of the findings to the larger population of enterprises, increasing the study's external validity.

The sample include 1035 enterprises which participate to the survey until March 2024. The enterprises participating in the survey did so voluntarily, indicating a baseline level of interest or concern regarding the topics under investigation. This voluntary participation is important to consider when interpreting the results, as it may introduce a self-selection bias. Enterprises that choose to participate may differ systematically from those that opt out, potentially leading to an overestimation of certain attitudes or behaviours among the surveyed population. However, by clearly documenting the methodology and acknowledging the limitations associated with voluntary participation, Dintec enhances the transparency and credibility of the analysis.

2.2.1 Target companies.

The companies targeted for this survey are entities associated with the Camera di Commercio (Chamber of Commerce) network. This network consists of a diverse range of businesses across various sectors and sizes. When analyzing the survey results, it is crucial to account for several factors that could influence the findings, including the absence of specific regional or dimensional targets and the likelihood that participants already have a baseline interest in sustainability topics. These factors can skew the results, potentially portraying a higher level of awareness and engagement with sustainability and ESG (Environmental, Social, and Governance) themes than what might be present across the entire population of Italian SMEs.

The Camera di Commercio is an organization that includes a wide set of companies from different regions and industries in Italy. The companies surveyed may range from small family-owned businesses in rural areas to large ones in urban centers. This diversity presents both opportunities and challenges for analysis.

Since there is no specific target in terms of regional or company size, the survey captures a broad set of business experiences. This inclusiveness can provide a comprehensive overview of the state of sustainability awareness and ESG integration across the Italian SME sector. However, it also means that the results need to be interpreted with an understanding of the varied contexts these companies operate within. The challenges and priorities of a small agricultural business in southern Italy may differ significantly from those of a medium-sized manufacturing firm in the industrial north.

Company size is a critical variable in the evaluation path of the survey results. SMEs can differ vastly in their capacity to implement and report on sustainability initiatives based on their size. Larger SMEs have more resources, both financial and human, to dedicate to sustainability practices and ESG reporting. They may have dedicated staff or departments for managing sustainability, which may lead to more structured reporting.

Smaller SMEs often operate with limited resources, making it challenging to prioritize sustainability. These smaller firms may engage in sustainable practices out of necessity, as reducing waste to cut costs, and, at the same time, they may lack the formalized processes and reporting structures seen in larger companies. When evaluating survey results, it is essential to disaggregate the data by company size to understand better the differing levels of engagement and capability among the various business segments.

2.2.2 Structure of the pool

To implement the analysis, the data from SUSTAINability were used. SUSTAINability stands as an online questionnaire developed to depict the positioning of enterprises across the three dimensions of sustainability: environmental, social, and governance. It starts with an assessment of the level of technological innovation as a facilitator for the sustainable transition of a company. This comprehensive tool creates businesses across all economic sectors, offering utility to small-scale enterprises and those embarking on the journey towards more sustainable production models or commencing sustainability reporting processes.

SUSTAINability extends its reach to public organizations for understanding their stance concerning sustainability themes, aiming to foster more productive dialogues with stakeholders. Serving as a foundational service, SUSTAINability guides companies and organizations in identifying development strategies tied to Environmental, Social, and Governance (ESG) objectives and initiates activities in non-financial reporting.

SUSTAINability facilitates companies with:

- Understanding Sustainability Levels: companies may gain insights into the sustainability of their processes and production activities.
- Identifying Intervention Priorities: SUSTAINability makes companies understand how to exercise greater control over their business risks.
- Enhancing External Communication: the tool assists in communicating actions taken towards achieving more sustainable production processes to clients and stakeholders, fostering transparency and trust.
- Commencing ESG Reporting Activities: through the initiation of reporting activities within the ESG framework, SUSTAINability opens doors to enhanced access to credit, financial markets, and procurement bids.

The survey encapsulated a meticulous exploration into the dynamic realms of business leadership, environmental consciousness, and corporate responsibility. Designed to glean insights from companies across Europe through the Chamber of Commerce network, this survey unfolds as a multifaceted journey, traversing through distinct categories meticulously crafted to unveil the intricate tapestry of modern-day entrepreneurship.

At its core, the survey delves into the landscape of female entrepreneurship, probing the question of gender representation at the helm of enterprises. Company size emerges as a critical metric, painting a vivid picture of organizational scale and operational capacity. Ranging from nimble startups to industry behemoths, the spectrum of responses encapsulates the diverse ecosystems fostering entrepreneurial endeavors. Likewise, the annual turnover segment provides nuanced insights into the financial health and growth trajectories of participating companies, offering glimpses into revenue milestones and economic resilience.

The survey navigates through the labyrinth of business sectors, delineating the varied landscapes of agriculture, industry, and services. Within each sector, specific nuances are unraveled through detailed sector codes, offering a granular understanding of industry-specific challenges and opportunities. Certifications emerge, signifying a commitment to excellence and adherence to industry standards. The dichotomy of "yes" or "no" reflects the strategic choices made by companies in aligning with recognized benchmarks of quality and compliance. As the survey transitions into the realm of sustainability, a panoramic vista of environmental stewardship and social responsibility unfolds. Participants are invited to select from an array of evaluation themes, ranging from environmental impact to governance practices, reflecting a holistic approach towards sustainable business practices.

Within each theme, a matrix of performance metrics awaits exploration, spanning energy consumption, waste management, human capital, and innovation. Through ratings on a scale from 0% to 100%, companies may expand their commitments towards sustainable growth, shedding light on areas of excellence and opportunities for improvement. The survey finishes in a reflection on digitalization. Against the backdrop of a rapidly digitalizing world, companies assess their digital prowess across environmental, social, and governance dimensions.

In sum, the survey investigated:

1. Female Entrepreneurship: participants indicate whether their company is led or owned by women, with options for "yes" or "no";
2. Company Location: companies specify the main headquarters location, choosing between "Italy" or "Netherlands";
3. Company Size: participants report the number of employees in their company, with options including "0-9", "10-49", "50-249", "250-499", or "over 500";
4. Annual Turnover: companies provide their annual revenue bracket, selecting from options such as "less than €499,000", "between €1 million and €1.9 million", "between €10 million and €24.9 million", "over €100 million", etc;
5. Business Sector: companies indicate the primary industry their company operates in, choosing from categories like "agriculture", "industry", or "services".
6. Specific Sector: studied with specific Italian sector codes which identify the industry;

7. Certifications: participants state whether their company holds any certifications, selecting either "yes" or "no".
8. Evaluation Theme: companies choose the sustainability theme they wish to evaluate, selecting from options like "environmental", "social", "governance", or combinations thereof.
9. Energy Consumption, Water Usage, Circular Economy: participants rate their company's performance in these sustainability areas on a scale from 0% to 100%;
10. Environmental Impact: companies evaluate their emissions and environmental impact on a scale from 0% to 100%;
11. Waste Management, Mobility, Product/Service Responsibility: participants assess their company's performance in these sustainability aspects, also on a scale from 0% to 100%;
12. Supply Chain, Human Capital, Social Capital, Customers, Innovation: ratings are provided for various components of sustainability and corporate social responsibility, from 0% to 100%;
13. Sustainability Strategy and Governance: companies evaluate their sustainability strategy and governance practices, providing a rating from 0% to 100%;
14. Values, Ethics, Transparency, Training, Communication: ratings are given for these aspects, ranging from 0% to 100%;
15. UNI PDR 134:2022 Compatibility: participants rate their company's compliance with this standard, choosing from options like "excellent", "good", "sufficient", or "insufficient";
16. GRI Reporting: companies report their performance in environmental, social, and governance aspects according to GRI standards, on a scale from 0% to 100%;
17. Planning, Implementation, Measurement: ratings are provided for sustainability activities in general, as well as specific to environmental, social, and governance dimensions, from 0% to 100%;
18. Digitization: participants assess their company's digitization efforts in environmental, social, and governance areas, providing ratings from 0% to 100%;

19. Completion Date: the period during which the survey was completed is recorded, with a range from October 31, 2023, to February 1, 2024.

2.2.3 The results

The survey provides valuable insights into the state of sustainability awareness and ESG engagement among Italian SMEs. To correctly interpret the results, it is crucial to consider the diverse nature of the target companies, the company size, and the inherent participation bias. This comprehensive approach will contribute to a more sustainable and resilient business landscape in Italy where stakeholders may better understand how companies are able to develop sustainability-based practices.

To accurately interpret the survey results, several methodological considerations should be considered. It is essential to segment the results based on company size. It is possible to identify distinct patterns and challenges faced by micro, small, and medium-sized enterprises. For example, while larger SMEs might report higher levels of structured sustainability reporting, smaller firms might highlight innovative, yet informal, practices driven by resource constraints. Financial incentives and support programs can help alleviate the resource constraints faced by smaller SMEs. Grants, subsidies, or tax incentives for adopting sustainable practices can make it more feasible to invest in necessary technologies and processes. Technical assistance programs, such as consultancy services or workshops on sustainability management, can equip SMEs with the knowledge and skills needed to implement effective ESG strategies.

The results will be described in detail in the following paragraph.

2.2.4 Results analysis and implication

Among the 1035 participants, the 96,33% are SMEs (96,33% of the sample has less than 50 million euro in revenue and 98,07% of the sample has less than 250 employees) (Figure 4).

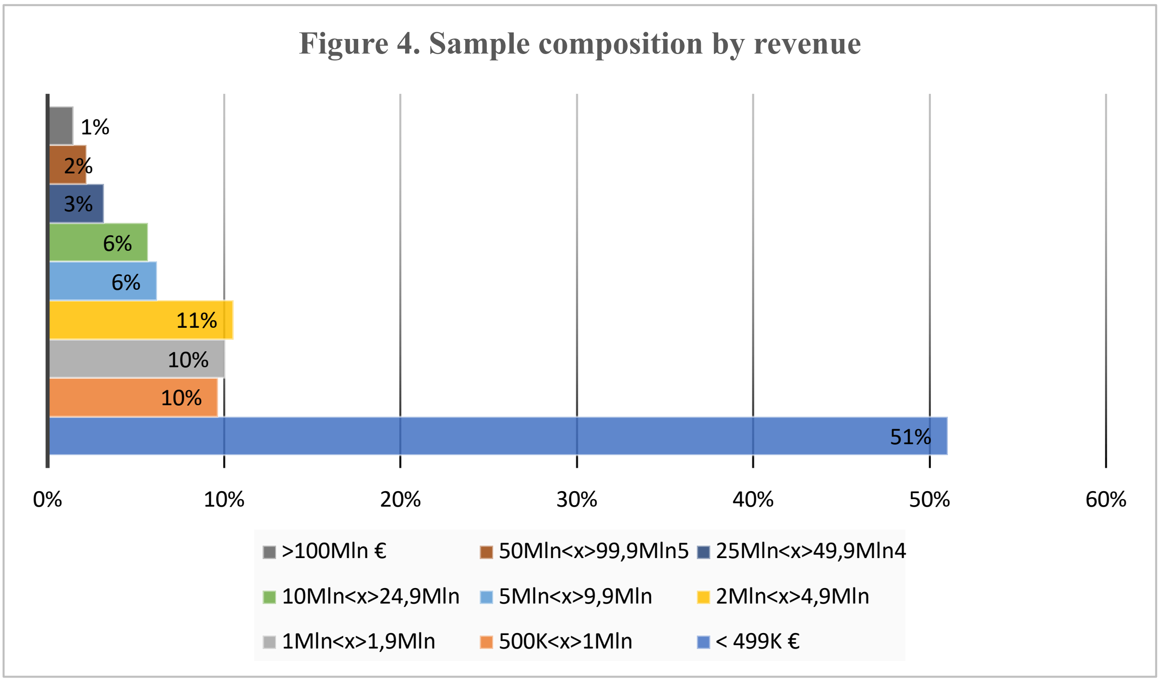

Figure 4: Sample composition by revenue

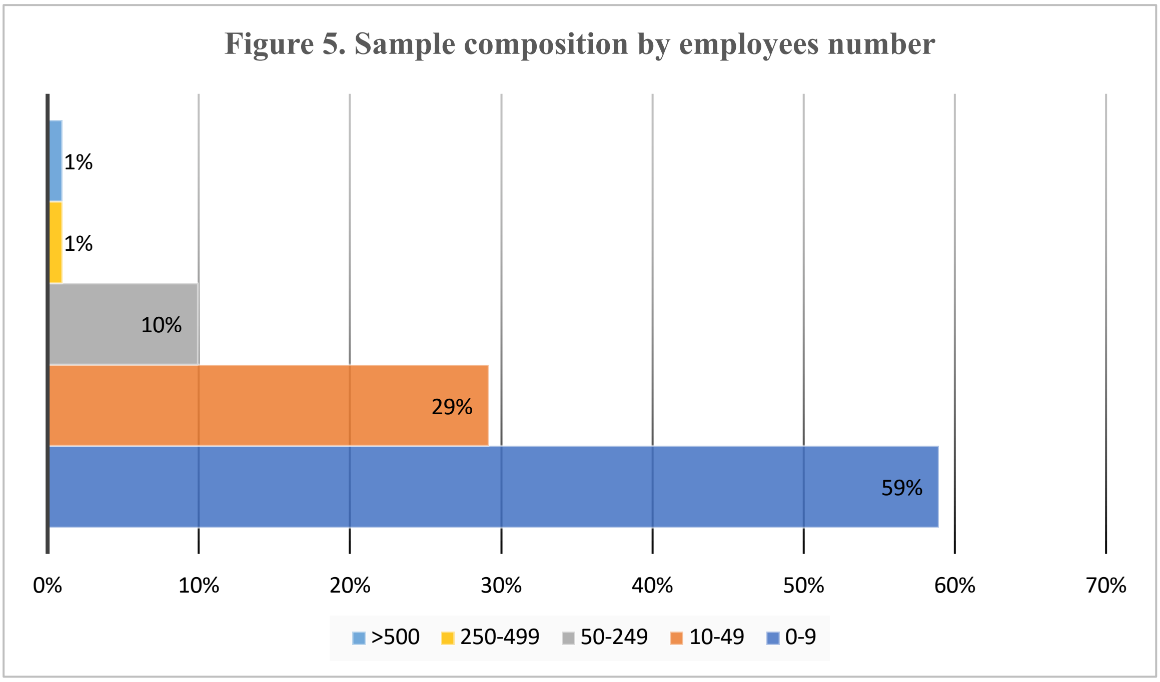

Figure 5 Sample composition by employees'number

The following figures show that the 46,86% of the participants are based in the Nord of Italy followed by the southern region with the 33,14% (Figure 6) and prevalently operates in the services' sector (51,30%) (Figure 7).

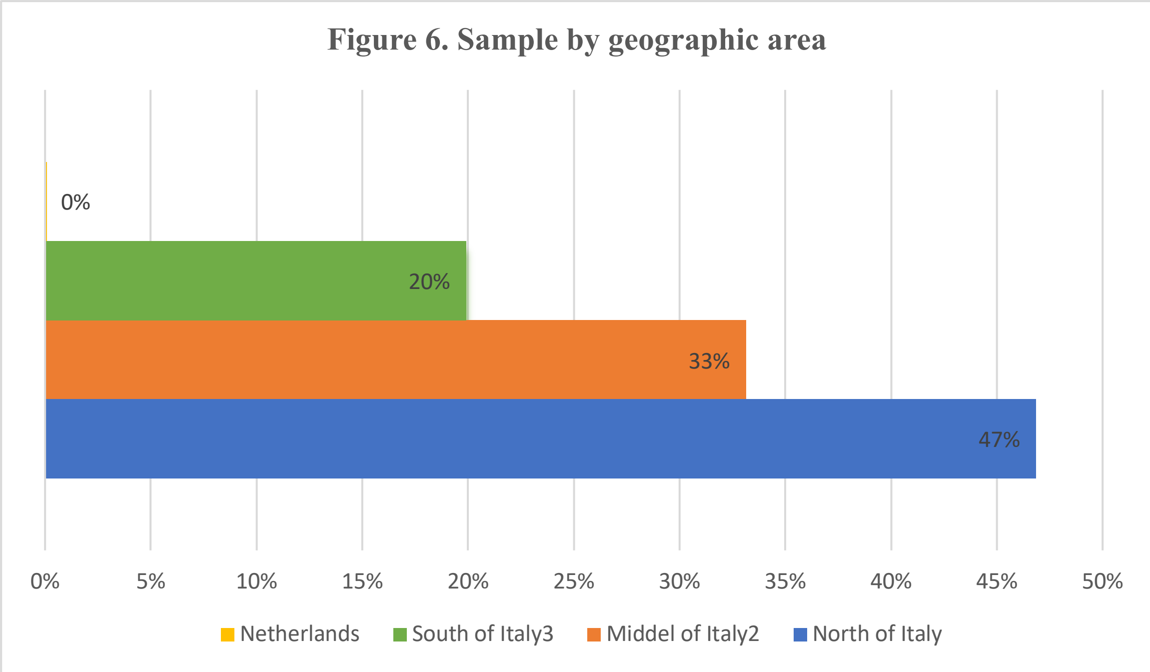

Figure 6 Sample by Geographic area

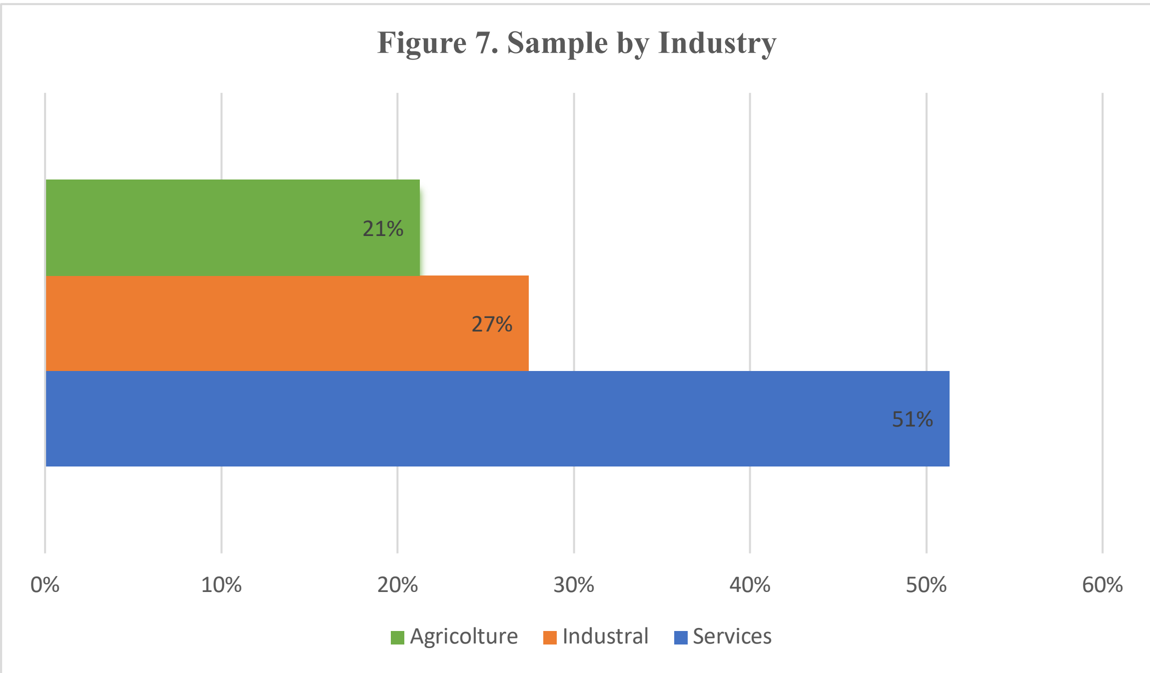

Figure 7 Sample by Sector

First, the results were analysed thanks to the surveys with respect environmental, social and governance sustainability (Figure 8, 9 and 10) and the results are the following:

In governance sustainability, the achieved percentages reflect varying strengths and areas for improvement. Governance sustainability scored at 37%, indicating a solid foundation but room for enhancement. Innovation achieved 27%, suggesting potential innovation strategies require development. Sustainability strategy and governance attained 28%, indicating moderate alignment with sustainability goals. Values, ethics, and transparency scored at 29%, indicating a commendable commitment to ethical practices. Training and updating achieved 23%, signaling a need for increased investment in skill development. Communication scored 27%, indicating potential for clearer dissemination of sustainability efforts. These results outline a diverse landscape with opportunities for targeted improvement. Across the spectrum of environmental sustainability indicators, the organization demonstrates a diverse performance, with percentages ranging from 15% to 38%. Notably, energy consumption (38%) and mobility (15%) display the highest and lowest scores, respectively, suggesting both areas of strength and areas for improvement. Additionally, circularity (27%), emissions and environmental impact (20%), and waste management (37%) present varying levels of achievement, indicating specific focal points for sustainability efforts. Moreover, governance sustainability reflects a similar pattern, with achieved percentages highlighting both strengths and opportunities for enhancement. This comprehensive assessment underscores the need for targeted strategies to optimize resource efficiency, reduce environmental impact, and strengthen governance frameworks in alignment with sustainability goals.

In the realm of social sustainability, the organization's performance spans a range of percentages, from 17% to 36%. Notably, social sustainability achieved a high score of 36%, indicating a commendable commitment to social responsibility. However, scores fluctuate across product and service responsibility, supply chain, human capital, social capital, and client relationships, reflecting varying levels of attention and success in these areas. This diversity underscores the importance of holistic approaches to social sustainability, addressing the needs of both internal and external stakeholders. Strategic initiatives aimed at strengthening relationships, fostering inclusivity, and promoting ethical practices across these categories can further enhance social sustainability outcomes.

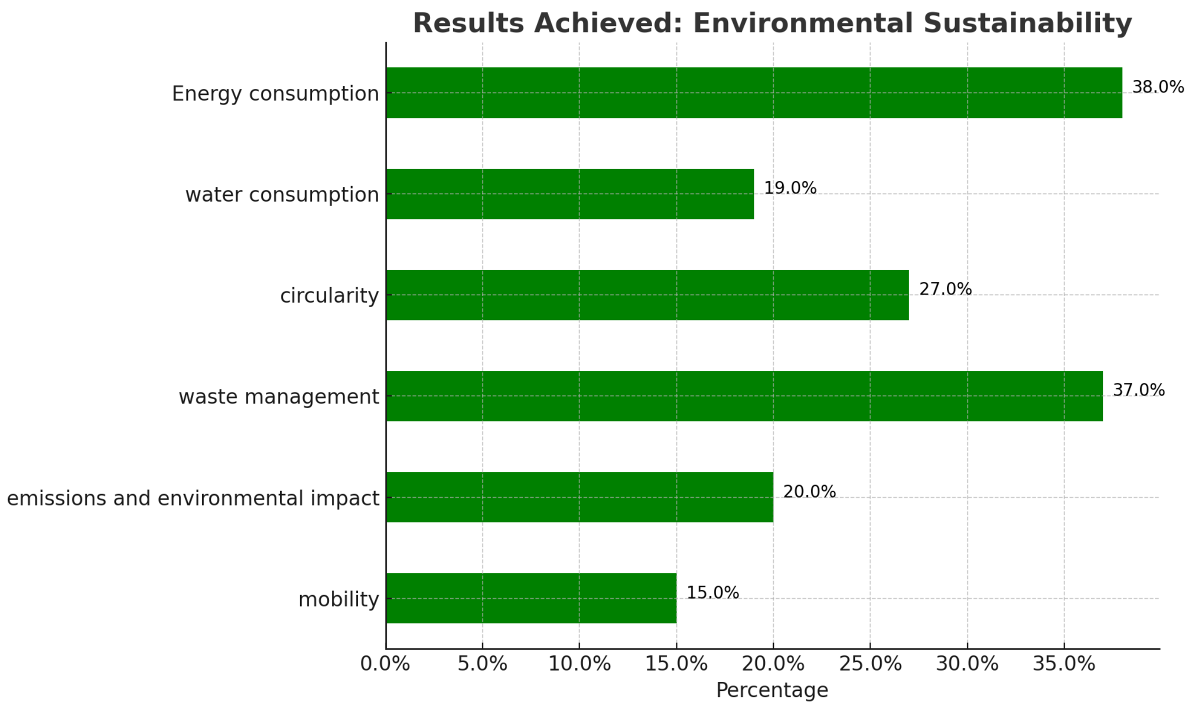

Figure 8 Result achieved: Environmental Sustainability

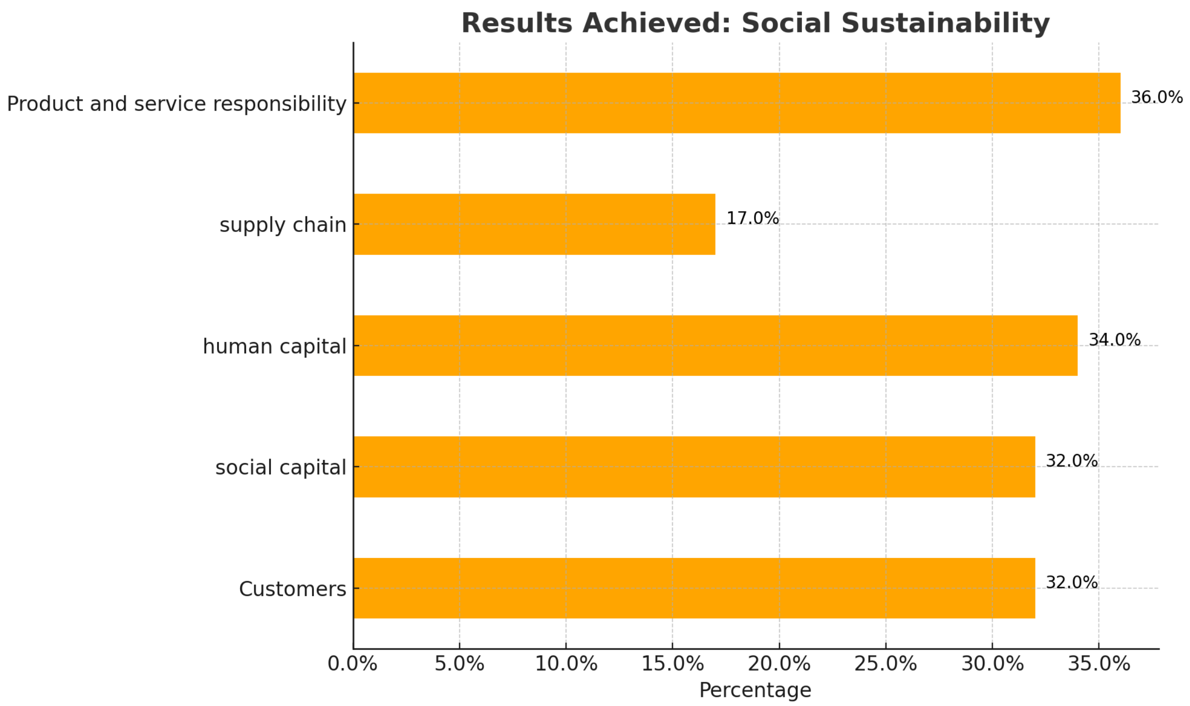

Figure 9 Result achieved: Social Sustainability

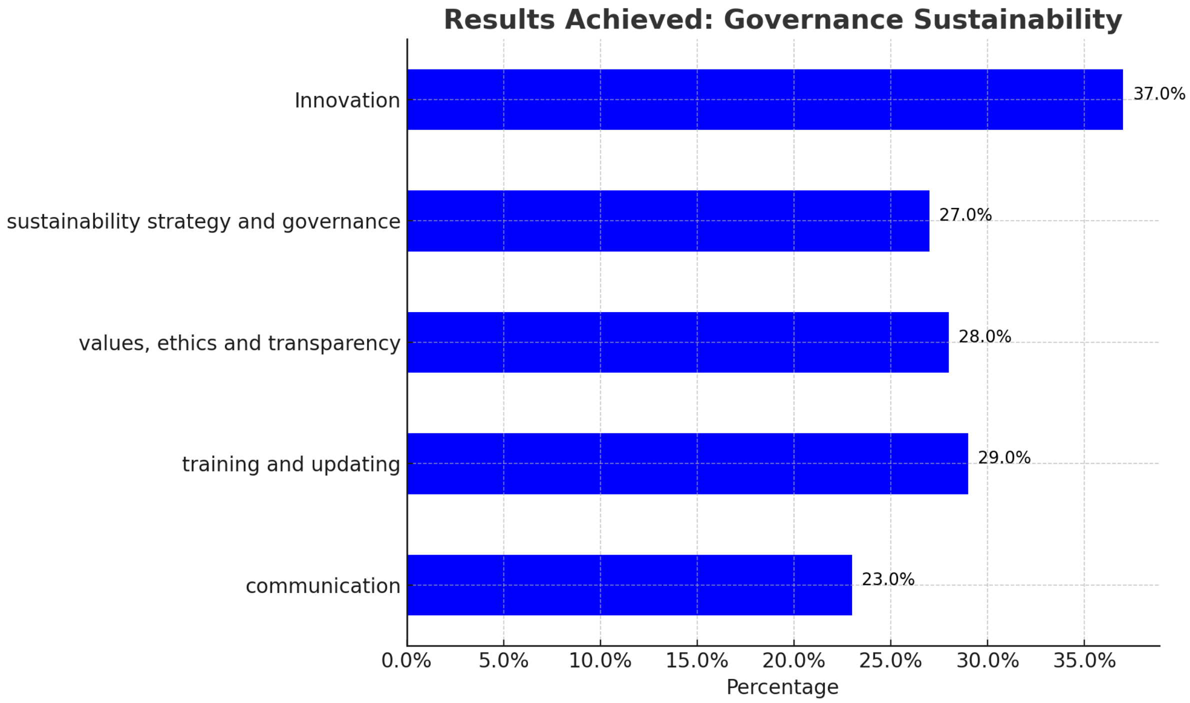

Figure 10 Result achieved: Governance Sustainability

It is important to remember that all the results are based in a scale from 0% to 100% and thus it is remarkable that the participants still shows low engagement levels in ESG.

Then, the compliance with UNI PDR 134/2022[18] was analysed thanks to the survey. The provided graph (Figure 9) depicts the compliance levels of small businesses with the UNI PDR 134:2022 guideline, which focuses on sustainability ratings through a self-assessment model. The data is categorized into five levels based on the number of affirmative responses given by the enterprises. The distribution of compliance levels is as follows:

- Insufficient: 18% of businesses, with 26 or fewer affirmative responses.
- Sufficient: 16% of businesses, with 27 to 32 affirmative responses.
- Good: 39% of businesses, with 33 to 42 affirmative responses.
- Excellent: 26% of businesses, with 43 to 48 affirmative responses.

[18] UNI PdR 134:2022 is a guideline published by the Italian Organization for Standardization (UNI) that provides a framework for evaluating the sustainability of SMEs in Italy. It provide practical tools and methodologies for self-assessment, enabling companies to identify areas for improvement and track their progress over time.

- Outstanding: 1% of businesses, with 49 to 52 affirmative responses.

This distribution indicates that the majority of businesses fall into the "Good" category, suggesting a moderate level of awareness and action towards sustainability. A smaller percentage of businesses achieve "Excellent" or "Outstanding" compliance, highlighting the potential for improvement in sustainability practices among small enterprises.

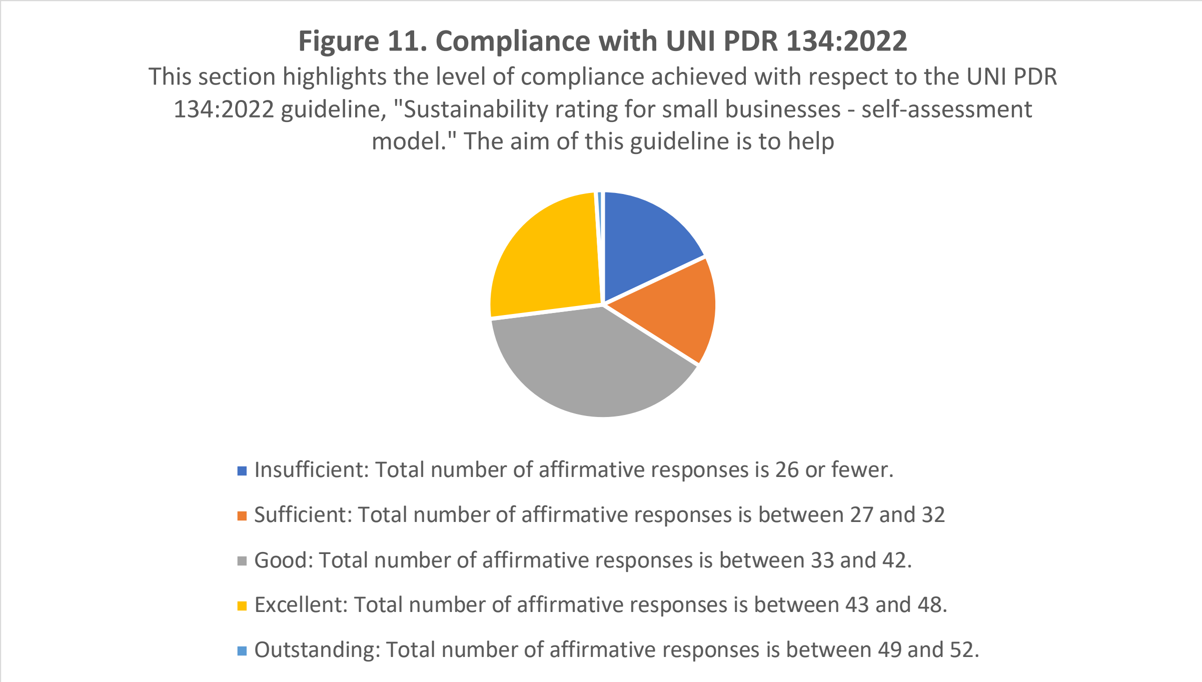

Figure 11 Compliance with UNI PDR 134:2022

In addition, Figure 3 reports the company's alignment with the international benchmarks of the Global Reporting Initiative (GRI), providing insights into its adherence to sustainability standards. Through meticulous examination of the themes evaluated via the test questions, the company's performance in critical areas such as environmental sustainability, social responsibility, and governance practices is evaluated. The results, showcased in graphical format, offer a clear indication of the company's relative positioning vis-à-vis GRI standards. Specifically, the GRI environmental sustainability score of 41% highlights the company's efforts and areas needing improvement in environmental impact mitigation, resource conservation, and sustainable practices. On the social sustainability front, achieving a commendable 65% under the GRI standard signifies a strong commitment to fostering positive societal impacts, community engagement, and stakeholder relations. Moreover, the GRI governance sustainability score of 57% underscores the company's dedication to robust governance frameworks, ethical practices, and transparency. These scores, derived from the company's responses, serve as valuable insights into its sustainability reporting indicators, potentially informing the crafting of a comprehensive sustainability report aligned with industry standards and best practices.

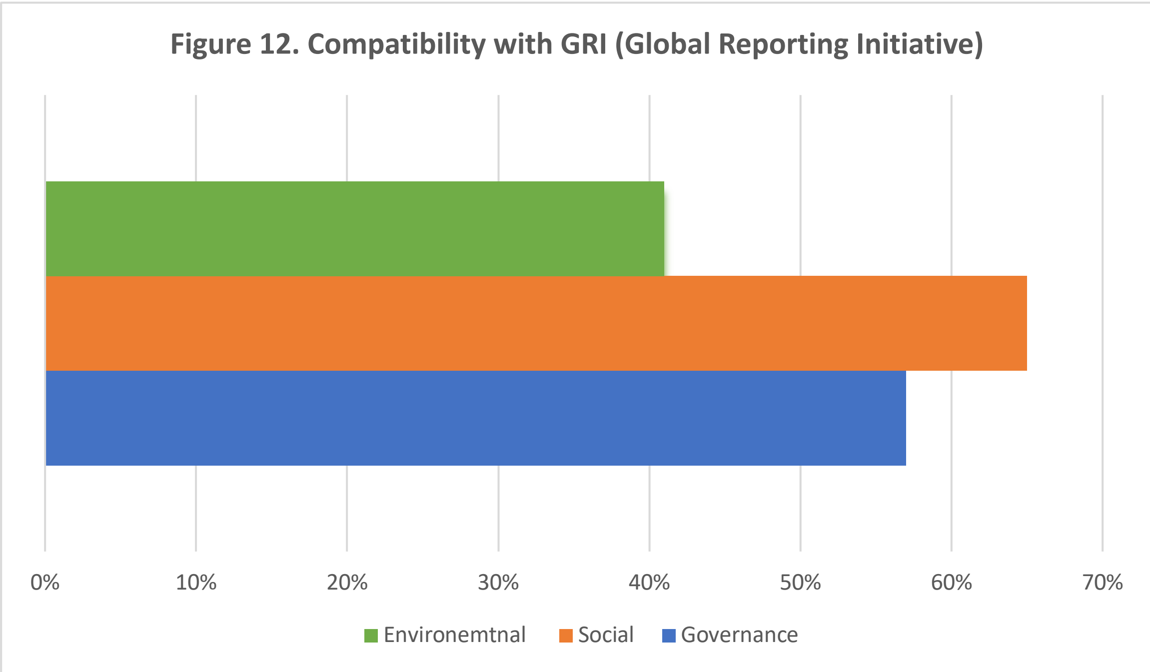

Figure 12 Compatibility with GRI

Figure 4 assesses the management capacity of processes within the evaluated sustainability themes: a nuanced picture emerges, reflecting the company's approach and performance across key areas. Within the realm of environmental sustainability, the breakdown reveals a multifaceted approach with varying degrees of emphasis. While the planning aspect receives a modest score of 35%, indicating a foundation for environmental initiatives, the implementation and measurement components lag behind, scoring at 26% and 18%, respectively. This suggests a potential gap between strategic intent and operational execution, highlighting areas where targeted interventions may be required to bridge the divide and enhance overall environmental performance. Similarly, within the domain of social sustainability, the company demonstrates a balanced yet evolving strategy. The planning phase garners a moderate score of 31%, signalling a conscientious effort in laying the groundwork for social initiatives. Notably, the implementation and measurement phases exhibit slightly higher scores of 32% and 33%, respectively, suggesting a more robust execution and monitoring framework in place. This indicates a proactive approach to addressing social challenges, with a focus on tangible outcomes and accountability. Turning to governance sustainability, the assessment reveals a comparable pattern albeit with distinct nuances. The planning stage achieves a commendable score of 33%, indicative of thoughtful deliberation and strategic foresight in governance matters. However, the implementation phase mirrors the environmental sustainability score at 26%, suggesting potential hurdles in translating plans into tangible actions. The measurement component registers a modest improvement at 29%, underscoring a nascent but evolving framework for evaluating governance practices. Overall, the breakdown of management capacity across the sustainability themes provides valuable insights into the company's strengths and areas for improvement. By identifying specific stages within the process continuum, it facilitates targeted interventions to enhance performance, drive meaningful change, and foster a culture of sustainability throughout the organization.

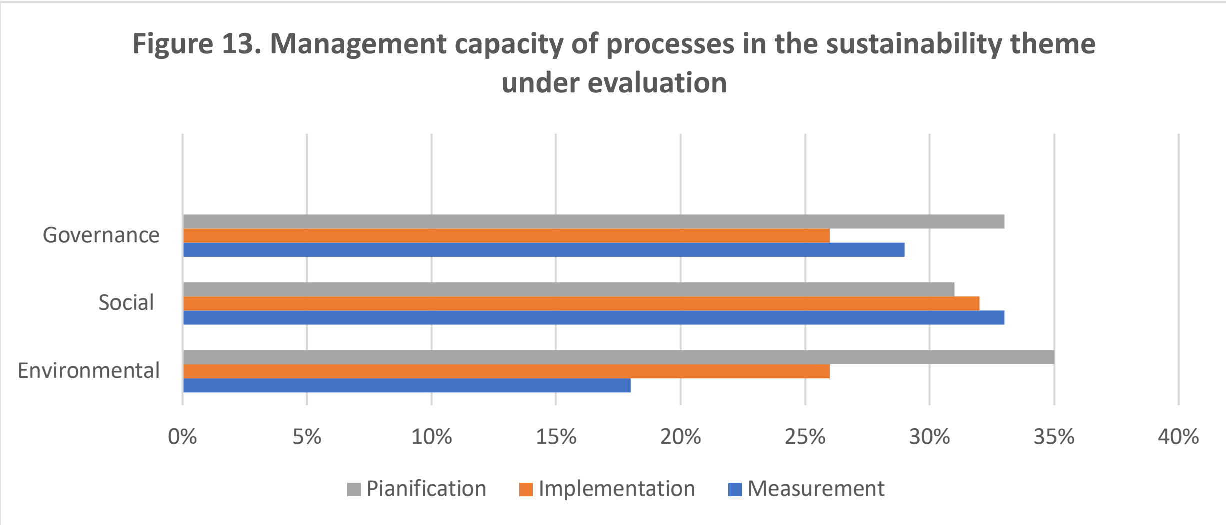

Figure 13 Management capacity on processes

The overall results achieved by the company across the sustainability themes are presented lastly in Figure 5 offering a comprehensive view of its performance. The overall assessment reveals an environmental sustainability score of 27%, indicating initial efforts but substantial room for improvement in areas such as resource conservation, emissions reduction, and sustainable practices. This score suggests that while foundational initiatives may be in place, more robust strategies and implementations are needed to enhance environmental outcomes. Social sustainability fares slightly better with a score of 32%. This indicates a moderate level of success in fostering positive social impacts, community engagement, and stakeholder relations. The score reflects a proactive stance in addressing social issues yet highlights the need for continuous improvement and deeper integration of social sustainability into the company's core operations. Governance sustainability, scoring 29%, underscores the company's commitment to ethical practices, transparency, and robust governance frameworks. While this score demonstrates a reasonable foundation in governance, it also points to areas where governance structures and practices can be strengthened to ensure greater accountability and effectiveness. Overall, the company's sustainability performance shows a balanced yet evolving approach, with particular strengths in social aspects but notable areas for improvement in environmental and governance practices. These results serve as a roadmap for targeted strategies to drive sustainability efforts forward and achieve more comprehensive and impactful outcomes.

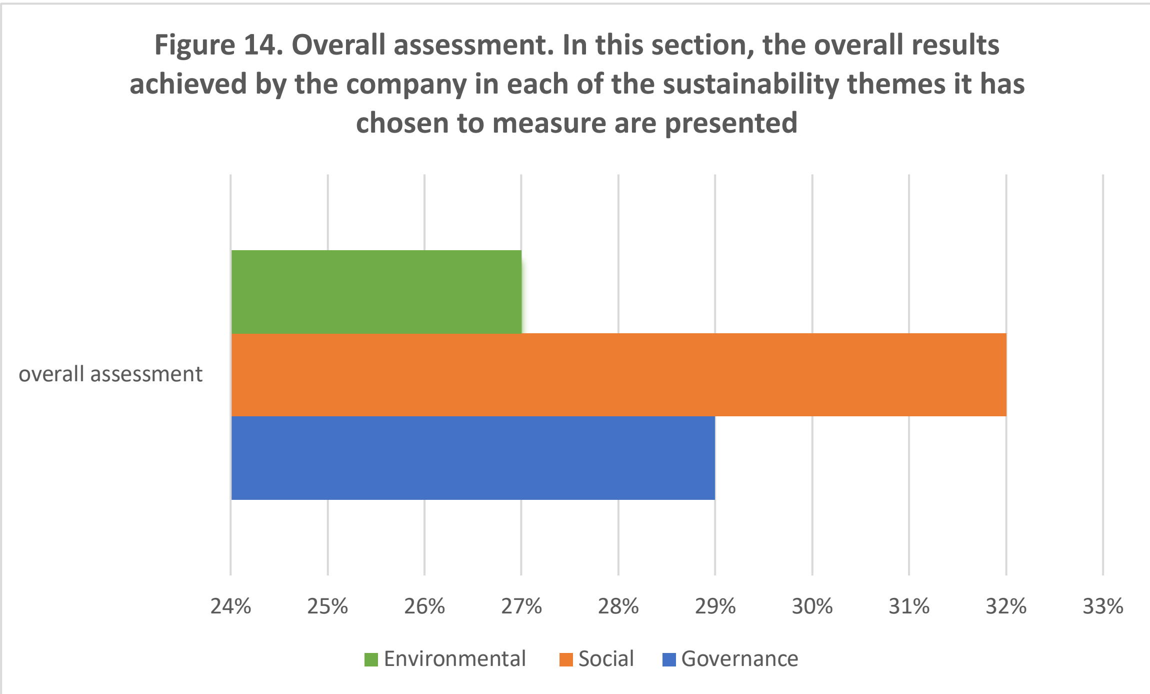

Figure 14 Overall assessment

2.3 POSITIVE IMPLICATION OF INTEGRATING ESG STRATEGY AND REPORTING INTO BUSINESS CONDUCT

Integrating Environmental, Social, and Governance (ESG) strategy and reporting into the business conduct of SMEs holds profound positive implications, shifting towards sustainable and responsible business practices. By addressing environmental risks, as resource scarcity and climate change impacts, SMEs can future-proof their operations, ensuring continued viability amidst shifting market dynamics. Likewise, prioritizing social factors, including fair labour practices and community engagement, not only enhances employee morale and retention but also cultivates strong relationships with customers and stakeholders, bolstering brand reputation and loyalty. Moreover, robust governance frameworks promote transparency, accountability, and ethical decision-making, mitigating legal and reputational risks while instilling investor confidence and attracting capital for sustainable growth.

Integrating ESG strategy and reporting into SME business conduct serves as a catalyst for innovation and efficiency gains. By embracing sustainability as a driver of innovation, SMEs can unlock new market opportunities, differentiate their products and services, and gain a competitive edge in an increasingly sustainability-conscious marketplace. Whether through the development of eco-friendly products, adoption of renewable energy solutions, or implementation of circular economy practices, SMEs can leverage sustainability initiatives to drive business growth while reducing costs and resource dependencies. Moreover, ESG integration fosters operational efficiencies by optimizing resource utilization, minimizing waste generation, and streamlining processes, ultimately enhancing productivity and profitability.

Thirdly, embracing ESG principles enhances SME access to capital and market opportunities, positioning them for long-term success and growth. As investors and financial institutions increasingly integrate ESG criteria into their decision-making processes, SMEs that demonstrate strong ESG performance are more likely to attract investment and secure favourable financing terms. By communicating their ESG commitments and achievements through transparent reporting, SMEs can enhance their credibility and trustworthiness, in addition to face the transition risk connected to the new regulations just developed.

2.3.1 Credit access and M&A operation

Credit access for SMEs stands as a cornerstone of economic vitality, driving innovation, job creation, and sustainable growth. In the European context, ensuring equitable and accessible credit for SMEs is paramount to fostering a dynamic entrepreneurial ecosystem and fuelling economic resilience. The guidelines delineated by regulatory bodies and financial institutions play a pivotal role in shaping the credit landscape for SMEs, offering a framework that balances risk management, financial inclusion, and support for SME development (OECD, Financing SMEs and Entrepreneurs 2024)

At the heart of credit access for SMEs lies the imperative of financial inclusion, ensuring that businesses of all sizes and sectors have equitable opportunities to access the capital needed to thrive and expand. Financial institutions, guided by regulatory frameworks and industry standards, are tasked with assessing creditworthiness, managing risks, and extending credit facilities to SMEs in a responsible and sustainable manner. This entails evaluating factors such as business viability, cash flow stability, and collateral availability, while also considering the unique needs and challenges faced by SMEs across different industries and growth stages.

The guidelines governing credit access for SMEs emphasize the importance of risk management practices that strike a balance between prudence and support for entrepreneurship. Financial institutions are encouraged to adopt robust credit risk assessment frameworks, incorporating both quantitative and qualitative criteria to evaluate SME credit applications. By leveraging data analytics, credit scoring models, and industry benchmarks, lenders can enhance the accuracy of credit decisions, mitigate default risks, and optimize lending portfolios to better serve the diverse needs of SMEs.

As emerged from an interview to Mr. Domenico Conte, wealth advisor for Generali Private Bank, lenders and credit rating agencies now incorporates ESG criteria into their evaluations, recognizing that ESG performance can significantly impact a company’s long-term viability and risk profile.

Credit rating agencies have increasingly integrated ESG factors into their rating methodologies. In fact, agencies recognize that ESG risks can materially affect a company’s financial health as positive ESG profile can lead to higher credit ratings, which in turn lowers borrowing costs and expands access to capital.

Companies with robust environmental practices are perceived as less risky by lenders with effective management of environmental risks, such as reducing carbon emissions, minimizing waste, and ensuring resource efficiency, demonstrates proactive risk management.

Social factors, including labour practices, community engagement, and customer relations, influence a company's reputation and thus its operational stability. For these reasons firms that prioritize social responsibility often enjoy stronger relationships with stakeholders, including employees, customers, and local communities.

Moreover, governance practices are crucial in maintaining transparency, accountability, and ethical conduct leading to a strong governance framework reducing the risk of fraud, mismanagement, and legal issues. Consequently, lenders are more inclined to extend credit to companies with clear governance structures and ethical leadership, as these attributes signal reliability and integrity.

Mr. Conte spread his consideration also on the fact that ESG factors have become central to the strategic considerations of companies engaged in Mergers and Acquisitions (M&A) as stakeholders increasingly prioritize sustainability and ethical practices.

The increasing importance of ESG factors in corporate strategies reflects broader societal shifts towards sustainability and ethical governance and consequently investors, regulators, and consumers are demanding greater transparency and accountability from businesses, prompting companies to integrate ESG considerations into their core operations.

As ESG reporting provides critical insights into a company's performance on environmental sustainability, social responsibility, and governance practices.

These insights can significantly impact M&A decision-making processes in several ways: other than the ones previously mentioned for the credit access point of view, incorporating ESG criteria into due diligence processes allows acquirers to identify potential risks and opportunities that may not be evident through traditional financial analysis (Baduino A.,2022).

ESG due diligence helps in identifying regulatory compliance issues, environmental liabilities, and social risks that could impact the transaction’s success and acquirers can mitigate potential post-deal challenges and ensure smoother integration.

As well as including ESG-linked clauses in deal agreements, such as commitments to sustainability targets or governance improvements, can align the interests of both parties and ensure long-term value creation seeking to protect their brand value and this can lead to more strategic and synergistic deal structures, enhancing overall transaction value.

Companies with strong ESG performance often command higher valuations. Investors and acquirers are willing to pay a premium for targets that demonstrate robust ESG practices, viewing them as lower-risk and more sustainable investments. This premium reflects the perceived long-term benefits and reduced risks associated with superior ESG performance.

On the other hand, companies with poor ESG performance may face discounts on their valuation as acquirers' factor in the potential costs of addressing ESG deficiencies, such as environmental clean-up, improving labour practices, or enhancing governance structures.

3 BUILDING UP A TAILOR-MADE STRATEGY TOWARDS SME'S SUSTAINABILITY REPORTING

Companies beginning the path towards sustainability reporting first need to be conscious of the prospective changes which come along with it. Comparing it with the production of financial reports they are obliged to publish, the differences with sustainability reporting are way more than the thematic ones. The reporting phase represent the last step of the process which begin earlier, involvement in this means embrace a new way in conducting business.

Let's think about of a 5-year industrial plan[19], which are rarely drafted too by this category of enterprises, it requires the development of a strategy and then a follow up process of implementation and monitoring, with the sustainability report the method is the same.

The change in subject reported from the financial reporting led who is in charge to focus on matters which are not at the centre of their core functions and capabilities rising issues in the process and making it longer.

The "voluntariness" under a legal point of view of this fulfilment comes in help gathering more time and flexibility in its adoption.

The drafting of the strategy as follow uses an integration between the ESRS 1 and 2, cross cutting standards analysed in chapter 1, and the VSME draft provision in order to provide a soft-lending path in the implementation process of sustainability reporting for SMEs which is able to fulfil the requirements of their stakeholders other than shaping their cultures and business strategies.

3.1 MATERIAL MATTERS ASSESSMENT

At first it is crucial to find out the material matters to be disclosed in the report which are going to be also the ones over with the strategy need to be developed.

[19] A 5-year industrial plan is usually identified as an intent declaration in which management set up trough budget and strategy disclosures the path to follow in the future in order to reach identified objectives.

As seen according to the introduction of ESRS standards we are assessing double materiality[20] so analysing both the impact of the companies on the society and the environment and their potential impact on the companies itself, combining impact and financial materiality.

Understanding the context in which the company operates help in defining the IROs related to sustainability matters, but it is not enough, the assessment needs to be more complete and go over the company's boundaries.

Materiality assessment can be difficult to implement but it is fundamental, so the process can be integrated in the ordinary business conduct where possible, it aims to find out the matters which are relevant for the companies' stakeholders[21] in order to not waste time.

The process can be in this case partially informal thus integrating the assessment during usual meeting with the stakeholders (es. Clients and suppliers) keeping track of their answers and standardizing them to allow their workability, more it is useful to develop pool to be shared and collect data in anonymous way in order to implement the accuracies

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[20] A sustainability matter is material from:

a) "an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short- , medium- and long-term. Impacts include those connected with the undertaking's own operations and the upstream and downstream value chain, including through its products and services, as well as through its business relationships." (ESRS 1 paragraph 43)

b) "a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term." (ESRS 1 paragraph 49). "The financial materiality assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. Information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement" (ESRS 1 paragraph 48).

[21]

and trust ability of the information collected. Anyway, it would be helpful to consider the topic presented in ESRS1 par. AR16 which is mandatory in the materiality assessment under the CSRD and thus under the ESRS standards and use as a guide the par. 42 to 57 of the VSME proposal draft in which materiality assessment is required by PAT module.

Here an example of a survey to be submitted to stakeholders across different channel as the company website, via email or physically.

"Dear stakeholder we welcome you to our Materiality Assessment Survey. As part of our commitment to sustainable development, we seek your feedback to better understand which environmental, social, and governance (ESG) topics you find most significant. This feedback will help shape our strategy and reporting.

Part 1: Respondent Information

1. Your Relationship to the Company:

- [ ] Employee

- [ ] Customer

- [ ] Supplier

- [ ] Investor

- [ ] Community Member

- [ ] Regulator

- [ ] Other: ________

Part 2: Relevance of ESG Topics

For each of the following ESG topics, please rate how relevant you think it is for our company to address them. Use a scale from 1 (Not Important) to 5 (Very Important).

1. Environmental Issues:

- Climate change impacts and greenhouse gas emissions	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Resource depletion (water, minerals, etc.)	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Waste management and recycling	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Energy efficiency and renewable energy sources	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Biodiversity and ecosystem preservation	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*

2. Social Issues:

- Employee health and safety	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Diversity and inclusion	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Fair labour practices and human rights	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Community engagement and development	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Customer privacy and data security	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*

3. Governance Issues:

- Ethical business practices and corruption prevention	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Transparent financial reporting	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Board diversity and effectiveness	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Stakeholder engagement in governance	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*
- Executive compensation	*1[ ] 2[ ] 3[ ] 4[ ] 5[ ]*

Part 3: Impact on Decision Making

Please indicate how much you agree or disagree with the following statements regarding the company's ESG practices impacting your relationship with us. Use a scale from 1 (Strongly Disagree) to 5 (Strongly Agree).

1. *I would prefer to engage with a company that has a strong ESG record.*
   1[ ] 2[ ] 3[ ] 4[ ] 5[ ]
2. *I consider a company's ESG practices when making purchasing/investment decisions.*
   1[ ] 2[ ] 3[ ] 4[ ] 5[ ]
3. *I believe that good ESG practices can improve a company's performance and reputation.*
   1[ ] 2[ ] 3[ ] 4[ ] 5[ ]

Part 4: Open Feedback

Please share any additional thoughts or concerns regarding our ESG practices and reporting:

[Open text field]

Thank you for participating in our Materiality Assessment Survey. Your feedback is invaluable to us. We are committed to continuously improving our sustainability efforts and keeping our stakeholders informed and engaged."

Once assessed the material matters with the information collected the process continues with their evaluation and categorization in a matrix, as far as the ESRS 1 does not define threshold for the assessment, scale, scope and irremediability of the impact must be evaluated in order to define a proper measure to be paired with the likelihood of occurrence and the potential magnitude of its financial effects.

The fact that the production of the report does not have to follow a specific standard being voluntary helps in this stage gathering flexibility in the process and on the completeness of this analysis to simplify it.

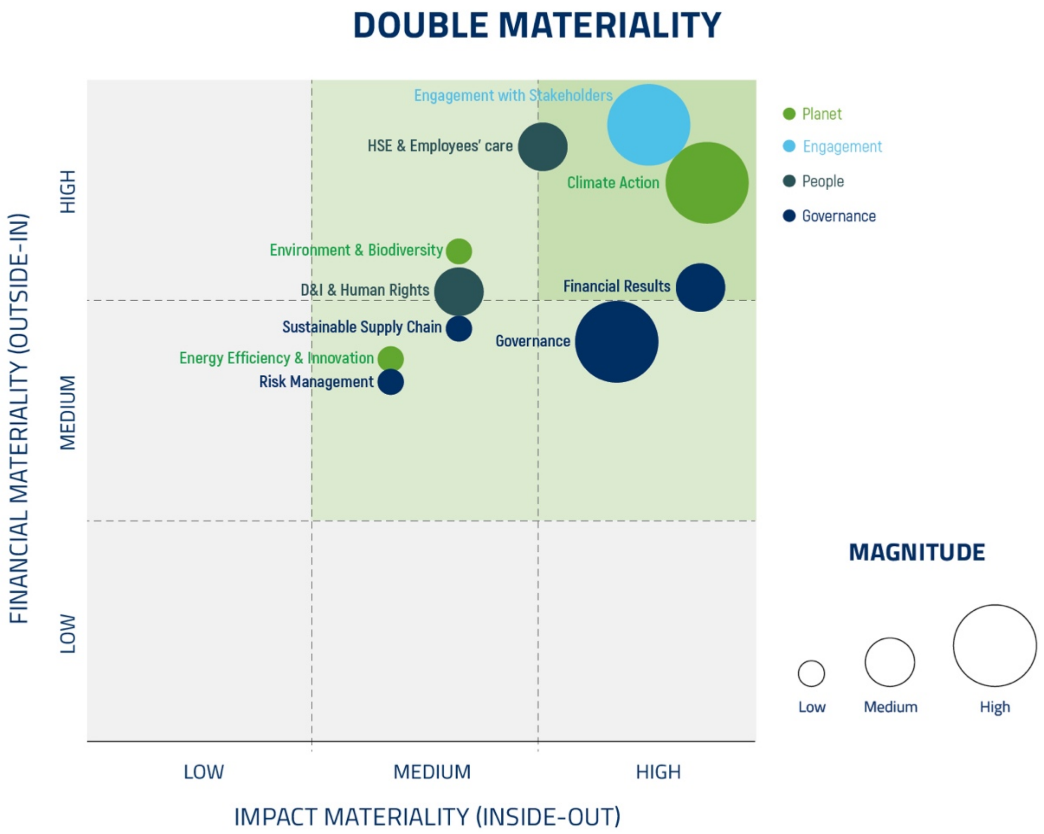

Figure 15 Double Materiality Matrix Source erg.eu

This final analysis will guide the following stages of the process enlightening the themes to work on in order of importance.

It is crucial to note that as far as the voluntary disclosure standards for SMEs has not yet been published, SMEs are not obliged to justify the choices of non-relevant matters and probably it will not be required also in the VSMEs[22] which seems to not even require a materiality assessment in its lower level of disclosure, the Base Module.

3.2 METRICS IDENTIFICATION AND POINT-ZERO DATA COLLECTION

Once assessed the material matters, they are to be evaluated at their pre-action stage as the evaluation assume relevance as starting point to set up the strategy 's objectives.

As previously defined the material IROs has to be measured and described clearly in order to be comparable and here the draft EFRAG IG 3[23] support the process helping in the datapoints[24] identification related to the selected topic of interest.

Being identified the datapoints of interest, metrics must be set up for the ones which require numerical and seminarrative information according to their format, metrics represent the base line for the data collection and for the KPIs development. For example, let's think about the use of equivalent CO2[25] in the representation of the impact of energy consumption.

The process of data collection can require lot of times and the auxilium of professional in order to obtain useful and trustful information, this is valid in particular for environmental related information which are not easy to be quantified and most of the times are not under the direct control of the companies' relatives. This phase result easier speaking on social and governance matters where the company control and awareness is higher, and professionals are already involved.

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[22] VSME is the EFRAG Standard in public consultation until May 24th, 2024, it is the voluntary standard specifically designed for the SMEs which divided into 3 modules (Base, PAT and Business Partners) aims to give a simplified path towards sustainability reporting.
[23] The EFRAG IG3 is an explanatory note in Excel format listing the datapoints required by the ESRS Standards
[24] Datapoints are defined the points of interest to disclose in accordance with the ESRS standards
[25] Equivalents CO2 is a measurement unit needed to identify the impact on climate of the different Greenhouse Gasses

As said the data collected build up the foundation for the strategy and report development but they must be assessed trough predefine metrics in order to implement comparability in time and space.

In the next lines examples of metrics are presented divided by themes in order to give a concrete view of what mentioned before, all data mentioned are purely examples.

- *Energy consumption reporting (Metrics B3 VSME Base Module, ESRS E1):*

For the correct data collection, it is fundamental to follow strict steps in the conversion process in order to obtain precise data for energy consumption from fuels, a trustable source is the "CDP Technical Note: Conversion of fuel data to MWh".

Source	**Energy consumption (MWh)**		**Delta**
	2022	**2023**	**%**
Fossil fuels	100	90	-10%
Electric energy	20	15	-25%

Source	**Energy consumption (MWh)**		**Delta**
	2022	**2023**	**%**
Renewable sources	5	8	60%
Non-Renewable sources	15	7	-53%

Source	**Energy consumption (MWh)**		**Delta**
	2022	**2023**	**%**
Purchased	19	7	-63%
Self-produced	1	8	700%

- *Greenhouse Gas Emission (GHG) reporting:*

The GHG emission require further steps for calculation reported below in order to obtain GHG emission in tons of CO2 equivalent derived both from the fuel's combustion and energy consumption.

$$EmissionGHG, Fuel = ActivitiData, Fuel * EFGHG, Fuel * GWPGHG$$

The conversion formula presented above represent the milestone for calculation in which ActivityDataFuel (Volumes) is multiplied by the Emission Factor [26]*(EFGHG) of the fuel and again by the Global Warming Potential (GWPGHG).*
This is valid in calculating the GHG emission from fuel's combustion while the following one refers to the GHG emission from electricity consumption in which Activity Data (MWh) is multiplied times Emission Factor[27]*.*

$$EmissionGHG = ActivityData * EF$$

Fuel Emission	
ActivityData	100
Emission Factor	2,68
GWP	1

Energy Emission	
ActivityData	282
Emission Factor	0,073

Type	**GHG Emission (tCO2eq)**		**delta**
	2022	**2023**	**%**
1	268	240	-10%
2	20,59	20,59	0%
TOTAL	288,59	260,59	-10%

Data collected before should be represented also under an economic point of view through specific KPI or more for GHG Emission the pricing policy of tons of equivalent CO2.

[26] Data sources: ADEME – Bilan Carbonne; IPCC- Emission Factor Database; IPCC – Global Warming Potential p.16
[27] Data Sources: AIB – Residual Mix Grid Emission Factors; USEPA GHG Emission Factors Hub

This KPI table serve as a standard also for the future metrics with particular regard to the Environment related aspects.

KPI	**Consumption Values**		**Delta**
	2022	**2023**	**%**
Revenues / Consumption	1	1	0%
Price / MWh Purchase	1	1	0%
Revenues / Cons. Costs	1	1	0%
Revenues / GHG Emission	1	1	0%

- <u>*Pollution of water, air and land reporting (Metrics B4 VSME, ESRS E2):*</u>

Should be reported the emission of polluting in KG divided by way of emission, as seen before the emission can be tracked through KPI in order to link the to the company's production level and revenues (KPI=Revenues/Polluting).

Polluting	**Emission (KG)**		**Delta**
	2022	**2023**	**%**
Air			
1	10	8	-20%
2	20	21	5%
Land			
1	3	2	-33%
2	1	1	0%
Water			
1	3	4	33%
2	5	5	0%

- *Biodiversity and Land use (Metrics B5 VSME, ESRS E4)*

These metrics should indicate the plants situated in sensible Area such as natural reserve, Key Biodiversity Areas or UNESCO ones, more over as shown in the following table the land usage should be disclosed and as for the previous section preferably linked to KPI in order to provide more comparable information. Key information in land use should be the proportion between waterproof land in use and revenues and between waterproof land in use and land nature oriented.

Type of land use	Surface (mq)		%	%	Delta
	2022	2023	2022	2023	%
Waterproof Surface	5000	6000	71%	50%	20%
In site sur. to nature	1000	1000	14%	8%	0%
Off-site sur. to nature	1000	5000	14%	42%	400%
TOTAL SURFACE	7000	12000	100%	100%	71%

- *Water consumption reporting (Metrics B6 VSME, ESRS E3)*

Water consumption and water withdrawn should be divided according to the location of the plant involved in order to gather the right importance to the characteristics of the area involved by the processes and the withdrawal. As for the previous matrix it would be useful to present also the data in relationship to revenues and/or unit produced.

Location	Water withdrawn (m3)		Water consumption (m3)		Delta WW	Delta WC
	2022	2023	2022	2023	%	%
Neutral area	100	110	50	55	10%	10%
Hydro-stressed area	100	90	50	40	-10%	-20%
TOTAL	200	200	100	95	0%	-5%

- *Waste management reporting (Metrics B7 VSME, ESRS E5)*

Waste management reporting include both the use of recycled raw material and both the management of waste produced the following table present the raw data and should be developed also the one relative to the economic data association (development of KPI related);

	Raw materials (KG)		**%**	**%**	**Delta**
	2022	**2023**	**2022**	**2023**	**%**
Recycled	100000	150000	67%	88%	50%
Non-Recycled	50000	20000	33%	12%	-60%
TOTAL	150000	170000	100%	100%	13%

Material based products	**Revenues from (.000€)**		**%**	**%**	**Delta**
	2022	**2023**	**2022**	**2023**	**%**
Recycled	1000	1800	59%	86%	80%
Non-Recycled	700	300	41%	14%	-57%
TOTAL	1700	2100	100%	100%	24%

	Waste (KG)		**%**	**%**	**Delta**
	2022	**2023**	**2022**	**2023**	**%**
Neutral	10000	15000	91%	92%	50%
Dangerous	1000	1300	9%	8%	30%
TOTAL	11000	16300	100%	100%	48%

	Neutral Waste (KG)		**%**	**%**	**Delta**
	2022	**2023**	**2022**	**2023**	**%**
To be recycled	5000	10000	50%	67%	100%
Not to be recycled	5000	5000	50%	33%	0%
TOTAL	10000	15000	100%	100%	50%

Type	Dangerous Waste (KG)		Delta
	2022	**2023**	**%**
1	700	1000	43%
2	300	300	0%

- *<u>Workforce analysis (Metrics B 8, BP10 VSME, ESRS S1, S2)</u>*

These metrics aim to describe the workforce situation viewing its composition and the relationships with the undertaking, welfare, work-life balance and human right should be considerate.

a) *Workforce composition and compensation*

Contract	Employees (unit)		%		Delta
	2022	**2023**	**2022**	**2023**	%
Full Time	10	12	56%	67%	20%
Part-time 65%	5	3	28%	17%	-40%
Part-time 50%	3	3	17%	17%	0%
TOTAL	18	18	100%	100%	0%

Contract	Employees (unit)		%		Delta
	2022	**2023**	**2022**	**2023**	%
Collective bargaining	16	16	89%	89%	0%
Above CB	1	2	6%	11%	100%
Not covered by CB	1	0	6%	0%	-100%
TOTAL	18	18	100%	100%	0%

Entry Salary / Minimum Salary		Delta
2022	**2023**	**%**
1,10	1,25	14%

Gender	Employees (unit)		%		Delta
	2022	**2023**	**2022**	**2023**	%
Male	10	9	56%	50%	-10%
Female	7	8	39%	44%	14%
Not defined	1	1	6%	6%	0%
TOTAL	18	18	100%	100%	0%

Gender pay-gap is calculated as follow:

$$GPG = \frac{Avg\ pay\ per\ hour\ for\ male\ employees - Avg\ pay\ per\ hour\ for\ female\ emp.}{Avg\ pay\ per\ hour\ for\ male\ employees}$$

Gender Pay Gap		Delta
2022	**2023**	**%**
17,50%	15,40%	-12%

b) *Welfare and employees' well being*

Welfare policies	Employees (unit)		%		Delta
	2022	**2023**	**2022**	**2023**	%
Covered	16	18	84%	100%	13%
Not covered	3	0	16%	0%	-100%
TOTAL	19	18	100%	100%	-5%

Welfare policies	Average Cost/emp. (€)		Delta
	2022	**2023**	%
Cost	1000	1300	30%
Employee	16	18	13%
TOTAL	16000	23400	46%

Training hours	Average h/emp.		Delta
	2022	**2023**	%
Training hours	40	60	50%
Employee	18	18	0%
TOTAL	720	1080	50%

Work-life balance	Average hours/emp.		%		Delta
Holidays and leave	**2022**	**2023**	**2022**	**2023**	%
Taken	200	250	64%	80%	25%
Not Taken	112	62	36%	20%	-45%
TOTAL	312	312	100%	100%	0%

c) *Employees' Health and Safety*

Recordable accidents at work rates:

$$RAWR = \frac{N.\,accidents\ at\ work\ for\ the\ period}{Total\ worked\ hours\ of\ the\ period} x\ 200.000$$

RAWR		Delta
2022	**2023**	**%**
8,02	7,50	-6%

Emp. Health and Safety	Events (u)		Delta
	2022	**2023**	%
Accidents	1	0	-100%
Professional diseases	1	1	0%
TOTAL	2	1	-50%

- *<u>Impacts to communities and financial repercussion for the undertaking (ESRS S3, S4)</u>*

The following metrics example will deal with the impacts of the undertakings to the local communities and their financial repercussion.

Damage to stakeholders	Events (u)		Delta
from	**2022**	**2023**	%
Products	1	1	0%
Processes	2	0	-100%
TOTAL	3	1	-67%

		Revenues	10000	12000	
Financial repercussion	**Euro (.000€)**		**Euro/Rev.**	**Euro/Rev.**	**Delta**
from	**2022**	**2023**	**2022**	**2023**	%
Employees' H&S	20	10	0,20%	0,08%	-50%
Stakeholders' Damages	280	50	2,80%	0,42%	-82%
TOTAL	300	60	3,00%	0,50%	-80%

		Revenues	10000	12000	
Contribution to Society	**Euro (.000€)**		**Euro/Rev.**	**Euro/Rev.**	**Delta**
from	**2022**	**2023**	**2022**	**2023**	%
Donation	10	12	0,10%	0,10%	20%
Public events/project	50	300	0,50%	2,50%	500%
TOTAL	60	312	0,60%	2,60%	420%

3.3 POLICIES DEVELOPMENT

Upon these two pillars and on the data collected start the strategy planning, time horizon and resources allocation are the fundamental points of this process that must be disclosed in the report too as set by ESRS 2.

It would be useful to set up medium-long term goals (5-8 years' time horizon) in order to not distract too many resources from the core business and in this situation with small-medium enterprises it is crucial to consider human resources constraints as stricter than economic ones.

Strategy development is case specific and difficult to be set up in a standard procedure, key aspect in the process are the fucus on material matters, the outcome valuation in choosing between alternatives and the most important, the setting of stimulating and balance objectives which can reasonably be achieved, the goals setting is probably the most important part of this stage and having them periodical and linked with a reward strategy could help in the employee motivation on the theme, fostering both performances and awareness.[28]

In the SMEs environment the first steps should be taken on the social thematic: improving safety, work condition and benefit for the company workforce and having great impact in the society in which they operate can be a soft entry in the mindset change required by this perspective change requiring overall lower costs for the company than other measures environmental related and moreover it require the use of labour consultants which already collaborate with the company.

The governance aspects may follow this first focus being less resource-consumer than the environmental ones, SMEs governance is strictly linked with the role of the entrepreneur and its family members and this strategy could be useful in strengthening the corporate governance and formalizing it for the first time, a redefinition of responsibility, the board enlargement with an opening to non-family and trusted members with experience, the adoption of anti-corruption and anti-bribery policies and more, policies on ethic business conduct are good step to the growth of the companies and their increased compliance on sustainable business conduct.

Eventually, environmental topics related strategy is the one with higher costs and time consumption, being industry related require even more a tailored approach based on the material matters and their implication. Waste management, water consumption, land usage and GHG emission are some examples of the most likely considered topic but goals and related actions for the achievement are strictly related with industrial process carried on by the company. This area requires expert consultants (SMEs often do not have prepared managers to evaluate and improve efficiency and effectiveness on these thematic) and considerable amount of resources to show off relevant results and it is the reason behind the long-term time horizon in the strategy set up.

[28] Norm ISO 26000 set up a guideline which can help in defining and implementing strategy on social responsibility

3.4 SUSTAINABILITY REPORT DRAFTING

Eventually the undertaking should report on the previous steps and produce a comprehensive statement to be disclosed towards stakeholders.

The report designed as follow incorporate provision from the ESRS standards (cross cutting standards integrated with key elements of thematic ones which compliance results easily achievable) and from elements reported in the preliminary draft of the VSME standards which is now in public consultation.

It is important to remember that this report's design is a standard format which should be adapted to the specific case in order to meet the undertakings' needs and their evidence from the materiality assessment. The report is designed for undertakers which are not obliged to compliance with CSRD.

Report design:

I. *Introduction with normative references and explanation of the meaningfulness of the report, the undertaking should expose why the report is produced and its objectives.*
   In this section it would be useful to present the company itself and its history and results and more its business models and strategies as far it is possible in accordance with informative N1 PAT module of VSME proposal draft.
   Here the industries in which the undertaking is operating must be disclosed according with its revenues in compliance with VSME informative BP1 and ESRS 2 SBM 1 par. From 40 b to 40 d.
   It would be appropriate also the presentation of a Financial Statement to show off the retained value and the distributed one over the produced value.

II. *This section should deal with the materiality assessment, the undertaking explains the process through which material topics have been identified, a matrix should be produced in order to give a graphical representation of the results obtained. As set by the informative N2 of PAT module of VSME standard the company should disclose in this section also on how the material topic have impact on people and planet and its* *impact on company's performance and strategy. It could be integrated with ESRS 2 SBM2, SBM3 and IRO 1 in order to give a clear view of the process of identification of material impact, risk and opportunities.*

Since this stage for a clear visualisation the report should follow the ESG scheme disclosing for each topic found out material the actual data and the policies the undertaking wants to implement in order to reach the objectives set up in its strategy. In the report design as follow are shown the topics treated in the VSME base module but according to the results of the materiality assessment they should be integrated. Each section could be integrated with the certification achieved explaining the processes adopted and the results obtained, moreover, the policies adopted could be aimed to achieve a certification and thus, again, the process and the intrinsic goals must be disclosed.

A. *In this section the undertaking discloses the environment related topic in accordance with the ESRS E1, E2, E3, E4, E5 and with the metrics B3-B7 from base module (and relative informative from Business Partner module) of the VSME. Each topic treated should be linked with the corresponding standard. Metrics B3-B7 should be considered the minimum disclosure level to be implemented in order to obtain a meaningful report, they treated themes which almost every business activity affect and upon which consideration can be made.*
   Each of the aspects treated should be described (for example: "why do we use so much energy or water?") and policies, if they exist, should be exposed presenting their effect both in term of impacts and both financially presenting the capital expenditure for the implementation and cash inflow/outflow generated or reduced thanks to these (for example: buying a more energy efficient machinery led both impact reduction and cost savings from the energy purchase).

B. *In this section will be disclosed the social related topics as set by ESRS S1-S4 and by the metrics B8, B9, B10 and B11 (and relative informative from Business Partner module) of the Voluntary Standard for SME proposal draft.*
   In this section more than numerical data which is easily collectible policies on welfare, safety improvement for workers and stakeholder and the other measures

implemented should be accurately described, the outputs of this measures should be as far as possible identified and reported.

C. *The last section of the report deals with the governance aspects, metrics B12 of the base module VSME should be integrated with the informative N5 from the PAT module and the ESRS standard G1. In this stage it is particularly important to integrate provision set up by ESRS G1 in order to gather an exhaustive view of the corporate governance and how policies are to be implemented in order to reach a more adequate level according to what the market expect aiming to guarantee both law respectful business conduct but also business continuity over time. Integrating an adequate framework analysis*[29] *represent an important step towards the sustainability of the undertaking.*

Eventually, the process towards sustainability reporting can be sum up in the following steps:

I. Spreading awareness on sustainability matters among stakeholders through an engagement process.
II. Assess material topics.
III. Develop metrics and collect data at time-zero (before strategies implementation).
IV. Define strategies on material topic and implement them.
V. Periodically report company performances in a trustable and comparable manner.

[29] According with art.2086 c.c. companies must adopt adequate administrative, organizational, and accounting framework other than assure on their going concern with the aim of preventing business crisis.

As said before the journey of sustainability reporting take months or even years before the publishing of the first report, in the next pages it is presented a work-in-progress sustainability report in which the method developed in this thesis is used.

4 CASE STUDY

In this last chapter it is presented a concrete case in which it is applicable what presented in the previous pages, the developed methodology has been used to produce the report presented and it will be used for the sustainability reporting of the company for the next years.

In order to respect the privacy willingness of the company it will be called “S Logistic s.r.l.” or “SL” or “the company”.

S Logistic s.r.l. is a medium enterprise based in Veneto (IT) providing transport and logistic services for the furniture industry. Once discovered the implication of the CSRD the management noticed the indirect involvement of the company in it, in fact SL’s main client results engaged by the directive and thus in the next years should report also on its value chain.

Consequently, the company decide not to risk its market share and increase its attention to the sustainability of its business, ultimately with the decision of begin with the process leading to sustainability reporting.

At the date of June 14th, 2024, the process is still in progress, but the main features have been defined following the method developed in this thesis. In the next pages is presented the draft of Sustainability Report of S Logistic s.r.l. presenting the data collected and the policies defined at the date.

The final report will be presented with the Financial Statement y2024 in the spring of 2025, so the data collected for y2023 represent a point-zero reference for comparison.

4.1 S LOGISTIC S.R.L. SUSTAINABILITY REPORT DRAFT

S LOGISTIC SRL

SUSTAINABILITY REPORT AT 31 12 2024

P.I. XXXXXXXXX

Equity: Euro 20.000 entierly subscribed

Juridic form: Società a Responsabilità Limitata – Limited Liability Company

Address: Street, City, postal code

I) SUSTAINABILITY REPORT, GENERAL DISCLOSURES

PREFACE

The company operates in the Transport and Logistic Industry.

The company is not subjected to the Corporate Sustainability Reporting Directive (CSRD).

The report is prepared on a voluntary base aiming to provide the company stakeholders with the information useful for their legitim purposes.

The report aims to provide the required information in the process of value chain sustainable disclosure made by its stakeholders, moreover, it provides the required information to evaluate the company risks during the rating process for credit purposes and in the company valuation.

The report is prepared in consideration with the ESRS Standard and the VSME standard draft, in public audit, issued by EFRAG.

THE COMPANY

S logistics operates in the logistic industry since 1999, it provides complete logistic services to the furniture industry dispatching goods across the North of Italy. Its services begin collecting the furniture directly from the clients' production plants and storing them on its own warehouse from where they will initiate their journey towards the destination according to the order received by the producers.

The keys of S Logistic success are its efficiency and the quality of the services provided, relieving the customer from the burden of logistic management.

REVENUES SOURCES

The main source of revenues is represented by the transport services provision.

REVENUES BY ESRS SECTOR				
Sector group	**Sector**	**Code**	**Revenues (€)**	
			2023	**2024**
Transport	**Road Transport**	**TRO**	3.483.426	

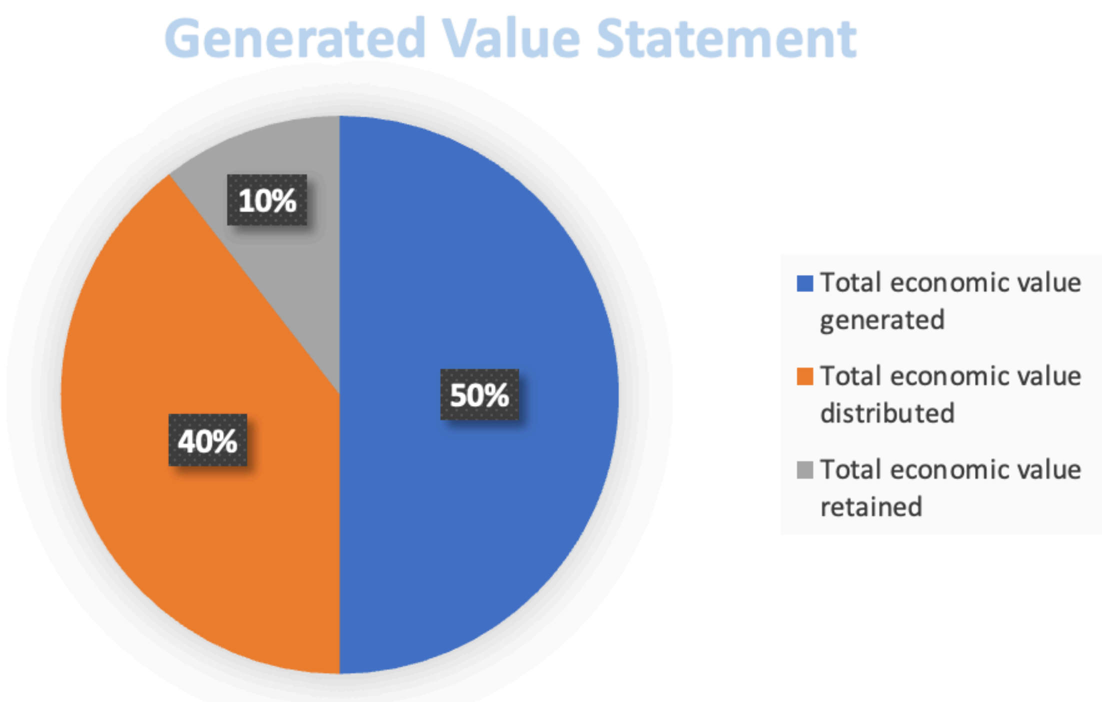
GENERATION AND DISTRUBITION OF VALUE

The presented value creation statement shows the value generation and distribution insight of the company during the analysed periods.

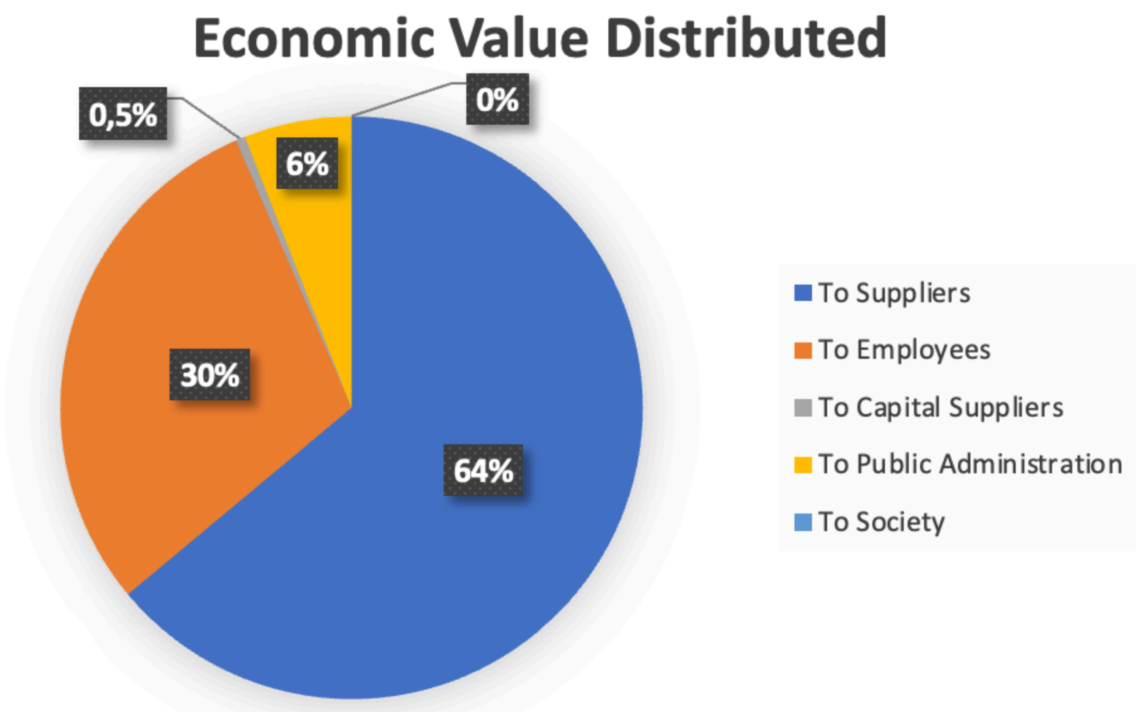
The value indicated does not take into consideration the dividend policies as they did not follow a year-result-related scheme, but they are subordinated to the company's operation needs. The graphs show the results relative to y2023.

Generated Value Statement			
	2023	**2024**	**%**
Revenues from operations	3.483.426		
Financial income	1.374		
Other revenues	54.313		
Total economic value generated	**3.539.113**		
Operational costs	1.861.552		
Employees remuneration	860.791		
Payment for cost of capital	15.269		
Payment to public administration	173.926		
Investment to society	0		
Adjustments	-115.129		
Total economic value distributed	**2.796.409**		
Total economic value retained	**742.704**		

Adjustments refer to collateral costs for the society generated by the economic activity, for instance the cost relative to the tons of equivalent CO2 issued have been valued at the market price of the CO2 quotas and collateral damages to stakeholders have been accounted.



During year 2023 the company did not set up any payment for donation or project aimed to directly benefit the society in which they operate but for year 2024 some projects are under development process.



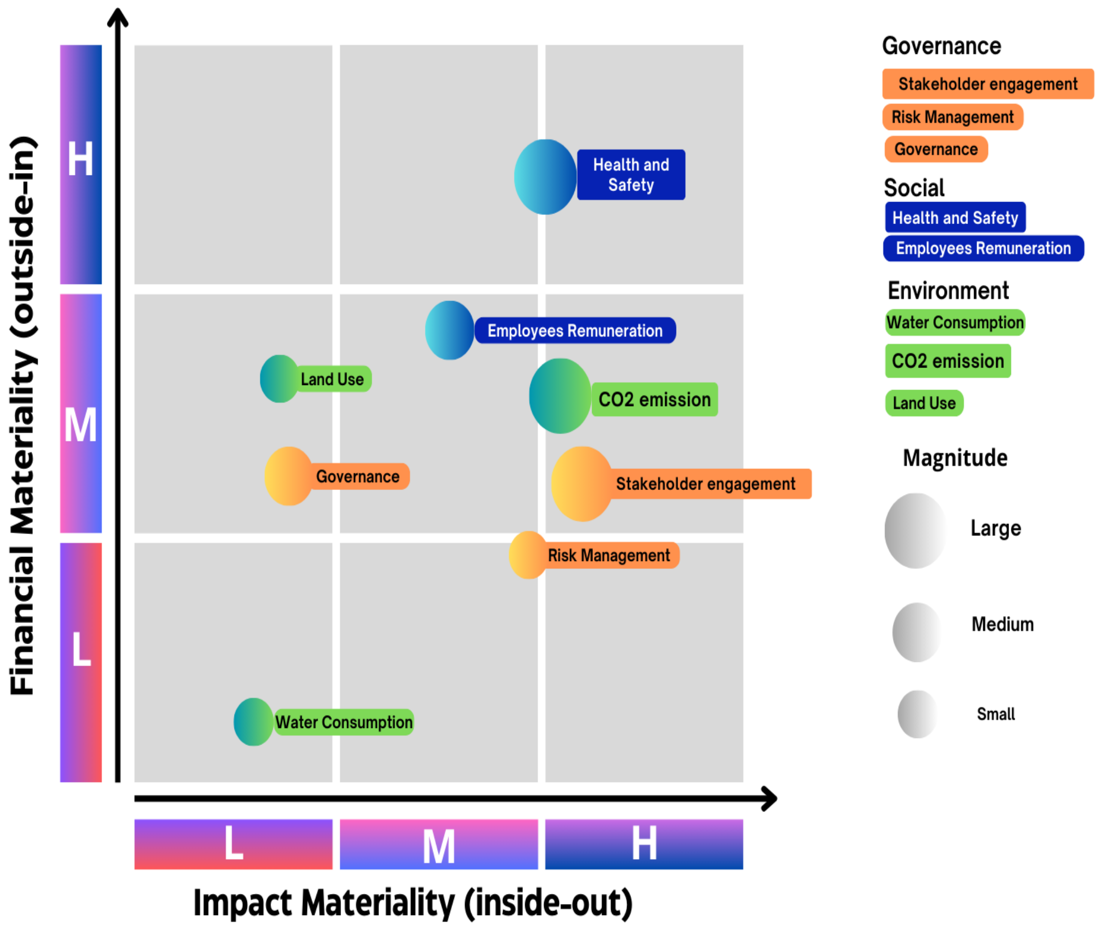
II) STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESMENT

The process of stakeholder engagement taken up until now base its foundation on the need of understanding the stakeholders' willingness and interest on sustainability related topics.

Clients and employees, being the prevalent company stakeholders, have been actively involved thorough ad hoc surveys and meetings in which the importance of a sustainable approach to business were properly treated.

Stakeholders involved for us is an ongoing priority to grant them the expected consideration on the business conduct.

Material matters assessed through the stakeholders' engagement are presented in the following table as a unicum with the undertaking priority which substantially coincide.



III) TOPICAL DISCLOSURES

E) ENVIRONMENT

i. Energy consumption

The following data shows the SL results in terms of environmentally relevant aspects, the company's core business does not entail high energy consumption, but it depends on the fuel combustion which generates the highest impact on the environment.

The Energy consumption disclosures are not comprehensive of the fuel consumption.

Source	Energy consumption (MWh)		Delta
	2023	2024	%
Fossil fuels	43,88		
Electric energy	44,42		

Source	Electric Energy (MWh)		delta
	2023	2024	%
Renewable sources	19,83		
Non-Renewable sources	24,59		

Source	Electric Energy (MWh)		delta
	2023	2024	%
Purchased	44,42		
Self-produced	0		

The energy source "fossil fuels" refers to the energy produced through combustion for the heating service of the plants.

Type	GHG Emission (tCO2eq)		delta
	2023	2024	%
Fuel combustion	852,20		
Electricity	15,98		
TOTAL	868,18		

The fuel combustion for heating services (12,33 tCO_2eq) represents the 1,42% of the total CO_2eq emission and combined with those from use of electricity from non-renewable resources they reach the 3,26%.

The 96,74% of the emission is generated by the transportation.

Equivalent CO_2 emissions from Fuel combustion comes from the harmonisation of the following data of polluting emission in the air showing the elements released during the business activities (CH_4 Methane, N_2O Nitrous Oxide, CO_2 Carbon Dioxide):

Polluting	**Emission (KG)**		**Delta**
	2023	**2024**	**%**
Air			
CH4	3606		
N2O	169		
CO2	762715		

In order to reduce its impacts SL is developing strategies to mitigate this aspect.

The strategies under development include:

- To increase the rate of electricity purchased from renewable sources.
- To increase its plant energy efficiency through the adoption of modern heating system avoiding as far as possible the use of fuel-based heating system.
- To renovate the vehicle fleet aiming to cut consumption and thus emission exploiting the technological advances of the engines.

Keeping stable the production level these policies should let at least to a 10% decrease in GHG emissions.

To obtain the correct adjustment to the previously shown Value Generation Statement we use a CO_2 cost evaluation at 70,41 € as at the market closing the 11th June 2024. So we obtain an emission costs of 61.129 €.

ii. Land use

SL's land use is strictly linked with the operational needs being represented by its head quarter and warehouses which are properly dimensioned according to the company's needs.

Type of land use	Surface (sf)		%	%	delta
	2023	2024	2023	2024	%
Waterproof Surface	3.720		85%		
In site sur. to nature	660		15%		
Off site sur. to nature	0		0%		
TOTAL SURFACE	4.380		100%		

The company is taking into consideration a redesign of the parking area in order to increase efficiency of waterproof surfaces and to increase the area dedicated to nature of 200 square foot.

iii. Water consumption

The water consumption does not represent a priority in the sustainable strategies of the company because of its features.

SL water withdrawal depends on the ordinary use for cleaning and service to employees.

The following table shows a consumption of 10% calculated at a flat rate for dispersion.

Location	Water withdrawn (m3)		Water consumption (m3)		Delta WW	Delta WC
	2023	2024	2023	2024	%	%
Neutral area	290		29			
Hydro-stressed area	0		0			
TOTAL	290		29			

iv. Waste management

SL waste refers to packaging waste and oily waters from the vehicle maintenance, while the firsts are going to be recycled the latter are considered dangerous waste and are treated by specialized company with no dispersion in the environment.

Non dangerous waste which are not going to be recycled are sent to accredited companies for their disposal.

	Waste (KG)		%	%	delta
	2023	2024	2023	2024	%
Neutral	12790		67%		
Dangerous	6393		33%		
TOTAL	19183		100%		

	Neutral Waste (KG)		%	%	delta
	2023	2024	2023	2024	%
To be recycled	12440		97%		
Not to be recycled	350		3%		
TOTAL	12790		100%		

Type	Dangerous Waste (KG)		delta
	2023	2024	%
Oily Waters	6393		

v. KPI

In this section the previously mentioned data are linked with the production levels of the company identifies with revenues to provide increased comparability of the information.

KPI	Consumption Values		delta
	2023	2024	%
Revenues / Consumption	39449,90		
Revenues / Dangerous Waste	544,88		
Revenues / Waterproof Land Used	936,53		
Revenues / GHG Emission	4012,32		

S) SOCIAL

i. Workforce composition and well-being.

SL workforce in composed by 17 individual and all the contracts are regulated by the CCNL for the Industry.

Contract	Employees (unit)		%		Delta
	2023	2024	2023	2024	%
Full Time	15		88%		
Part-time 65%	1		6%		
At call	1		6%		
TOTAL	17		100%		

Contract	Employees (unit)		%		Delta
	2023	2024	2023	2024	%
Collective bargaining	17		100%		
Above CB	0		0%		
Not covered by CB	0		0%		
TOTAL	17		100%		

Gender	Employees (unit)		%		Delta
	2023	2024	2023	2024	%
Male	15		88%		
Female	2		12%		
Not defined	0		0%		
TOTAL	17		100%		

The high concentration of male employees is strictly linked with the core business and does not depend on specific company's policies which guarantees equitable employment condition in its selection process.

Gender Pay Gap		Delta
2023	**2024**	**%**
25,00%		

The gender pay gap is driven by the different nature of tasks allocated in the current organizational chart.

Welfare policies	Employees (unit)		%		Delta
	2023	**2024**	**2023**	**2024**	%
Covered	0		0%		
Not covered	0		0%		
TOTAL	0		0%		

Welfare policies	Average Cost/emp.(€)		Delta
	2023	**2024**	%
Cost	0		
Employee	0		
TOTAL	0		

The company during the year 2023 did not implement any welfare policies. A structured welfare strategy is now under development to guarantee adequate benefits for the company's employee. The company focus on its employee health and safety will be part of this ambitious policy for sure and the appropriate instrument are under valuation.

Training hours	Average h/emp.		Delta
	2023	**2024**	%
Training hours	32		
Employee	17		
TOTAL	544		

SL is in compliance with the normative provision dealing with the required training hours, moreover for the year 2024 the intentions are to increase the training hours focusing on the professional growth of employees but also providing employees with skills to benefit the society as a whole, such as with an advanced first rescue training programme.

Work-life balance	Average hours/empl.		%		Delta
Holidays and leave	**2023**	**2024**	**2023**	**2024**	%
Taken	4249		76%		
Not Taken	1335		24%		
TOTAL	5584		100%		

The company is developing an accurate planification in order to guarantee each employee to freely benefit of its leaves and holidays trough the hiring of extra stuff.

ii. Health and Safety

The SL core focus on health and safety is shown in the following tables. In 2023 there were not any injury in the workplace or professional disease and there were only 2 accidents related to the business conduct (during transportation) with limited damages.

Moreover, the company and every single part of it are covered by insurances.

Emp. Health and Safety	Events (u)		Delta
	2023	**2024**	%
Accidents	0		
Professional diseases	0		
TOTAL	0		

Damage to stakeholders	Events (u)		Delta
from	**2023**	**2024**	%
Products	0		
Processes	2		
TOTAL	2		

Financial repercussion	Euro (.000€)		Euro/Rev.	Euro/Rev.	Delta
from	2023	2024	2023	2024	%
Employees' H&S	0		0,00%		
Stakeholders' Damages	54		0,54%		
TOTAL	54		0,54%		

The 2 accidents previously mentioned generated damages for around 54.000€ which has been partially covered by the company's insurance for 53.000€. 53.000€ is the adjustment amount in the Value Generation Statement.

G) GOVERNANCE

Company governance is represented by one only administrator. SL undertake the adequate framework analysis in compliance with the Art.2086 C.C. and assure its going concern. The company is valuing the adoption of a more formal corporate governance with the composition of a board, the formalization of the company mission and ethics code. S Logistic s.r.l. has not been convicted or prosecuted for bribery-corruption.

CONCLUSION

The previous pages highlight an environment in which the theme of sustainability is gaining an always more prominent position.

Through the presented survey and thanks to the expertise derived from the close relationships with business environment emerged two main drivers of this increasing interest on sustainability integration in business conduct and thus in its reporting.

Certainly, a crucial role is played by the regulation in particular the CSRD and the forecasted introduction of the CSDD, but also the increasing awareness on the theme is shaping the characteristic of market demand both in B2B and B2C operation creating.

These two drivers combined generate the potential risk and opportunities for the involved companies.

For companies directly involved by the regulation the risks are related to potential sanctions from the non-compliance, compromitted brand reputation and the potential loss in market share while opportunities arise from the increased control on the operation driven by the reporting process and the recognition and mitigation of risks.

Dealing with the category of SMEs, not directly involved by the EU Directives the situation become more challenging but potentially even more growth driver.

SMEs which join the journey of sustainability in this early stage may dramatically increase their market share penetrating the markets and reaching the costumers demand for goods and services with strong sustainable features. Growth in brand reputation generated by strong ESG results generates the potentials for long lasting business and increase the attractiveness in credit and capital markets.

On the side of B2B trades the outcomes are aligned, those enterprises which will be ready on time to fulfil their clients' disclosure requirements on sustainability matters, , will benefit of a huge competitive edge potentially increasing their profits and market share, showing strong performance and control over the business conduct also under this aspects.

For the SMEs the path is not free of obstacles, their resources constraint requires a meticulous planification in order to not subtract critical resources from the business operations. As emerged trough the survey analysis, the awareness on the thematic set at low levels specially for the high technical matters showing the signs of this constrain and getting the situation even more challenging.

The approach towards sustainability reporting developed in this thesis aim to be an efficient work method providing the undertakings' stakeholders the needed information and absorbing the least possible resources.

Nevertheless, the normative framework is constantly evolving, so it leaves space for integration in order to answer the future compliance needs.

To prove the efficiency of the method, the last part of this thesis shows the outcome of the strategy developed in chapter 3. During the deployment phase with S Logistic srl the easy implementation emerges as a key figure for the management involved and for the professionals which collaborate. Moreover, emerge also a learning by doing features through which the involved actors gain practical knowledge and expertise on the matters with an exponential learning curve.

The last set of positive feedbacks comes from the S Logistics main stakeholders such as clients and employees. The firsts demonstrate interest in the methodologies adopted and appreciate the obtained outcomes, the latter show appreciation for the undertaking attention to their health and safety other than to their satisfaction. These feedbacks give a first, but fundamental recognition of the efficiency reached and eventually indicates the firsts positive implication such as the increase in retaining factor for undertaking's employees.

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