

5-STEP STARTING GUIDE TO A SUSTAINABLE TRANSITION FOR SMES

IEWS

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HIGHLIGHTS

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

This paper presents 5 first steps an SME can take to begin their sustainable journey. It is vital to initiate the process, even with small steps, and gradually start preparing the business for what lies ahead.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are facing growing pressures and expectations to make their businesses more sustainable¹, and start reporting on their sustainability performance. Simultaneously, they are presented with new prospects, such as green finance and meeting consumer demands, which can bring about favourable business opportunities.

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

This paper suggests to SMEs and their advisors 5 initial steps any SME can take to begin their sustainability journey. It also describes general stages of the sustainable transition journey to enable SME owners to assess where they currently stand regarding sustainability.

The paper has been prepared in collaboration with [Accountancy Europe](#), [Ecopreneur.eu](#) – the European Sustainable Business Federation, and supported by the [European Association of Cooperative Banks](#) (EACB). It has also been informed by interviews with small and medium-sized accountancy practitioners (SMPs) from around Europe, offering sustainability services for SME clients.

SMES' SUSTAINABLE TRANSITION STAGES

Some SMEs are already more sustainable than large companies operating across the globe. Yet their full participation in the collective sustainable transition effort is pivotal.

Preparing for a sustainable transition can be a demanding task for many SMEs. Even businesses aware of the need to transition and plan to act early on can wonder where to begin. Sustainability needs to become central to how an SME thinks about every aspect of the business (often referred to as “integrated thinking”). That is why this section outlines 5 general stages of sustainable transition. This should enable businesses to assess where they stand and where they should start.

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



AWARENESS

The first stage is knowing why the business should consider its sustainability. This includes how the business will be impacted by the:

- climate crisis, and natural gas crisis in Europe
- reinforced focus on good social practices and governance
- legislation or stakeholders' information needs and broader expectations

SMEs also need to consider of how the business impacts the surrounding environment and society, and the 'opportunity costs' of inaction.

DEVELOPMENT

The second step is to assess the sustainability of one's business model, and develop a sustainable vision and strategic targets for the future. It includes obtaining information about the business' sustainability impacts, which allows to determine a starting point for sustainability improvements.

This step can be particularly burdensome, as it involves assessing the businesses' current business model value chain and key sustainability matters (including, potentially, a materiality analysis). It also includes developing and planning the move to a more sustainable model.

DELIVERY

The sustainable transition's main point is adjusting one's business to become sustainable. This third stage involves a sustainable business vision development through key goals and objectives and to identify the vital sustainability-related strategic targets and actions necessary to achieve them.

INFORMATION

Sustainability disclosures – especially to outside stakeholders – become meaningful only once there are sustainability performance measures and improvements to disclose. Sustainability disclosures remain voluntary for SMEs, except for listed ones. However, SMEs' business partners may ask for specific sustainability data points or more comprehensive reports. Smaller businesses must be ready if such requests come their way.

This step involves preparing and disclosing the business' sustainability metrics and improvements – whether to finance providers, business partners, suppliers, regulators or consumers.

DEMONSTRATION

As a final step, and if requested by business partners, the SMEs could be asked to demonstrate that the information they provide is a truthful, fair and substantive reflection of their sustainability efforts. This is required for listed SMEs under the Corporate Sustainability Reporting Directive (CSRD) and may be a growing demand from the SMEs' business partners who need to have confidence in the sustainability information disclosed.

This could in any case be an asset for the business. A best practice would be to use an independent external assurance service provider – such as an auditor – to perform an assurance engagement, and this could even be an objective SMEs set for themselves.

5 STEPS THAT ANY SME CAN TAKE NOW TO PREPARE

This section outlines the initial essential steps an SME can take to begin its sustainable journey. These steps focus on the developing and delivering stages described above.

An SME aware of the need to transition can feel overwhelmed about where to start. It is not easy to identify what benchmarks should be targeted, especially without clear, coherent and common sustainability reporting standards for SMEs. Moreover, depending on the SME's type, sector and business model, some sustainability matters may be more relevant than others.

To carry out the sustainable transition is a restructuring project affecting all SME levels and requiring everyone's support. It involves rethinking the internal organisation and the role of each person, whether managers or employees.

These 5 steps practically any SME can take. They constitute an important first effort towards making the business more sustainable. There is no particular 'sequence' to undertake the steps below, as this depends on business conditions and 'sustainability maturity' level (see [Ecopreneur.eu's publication](#)).

1. REACH OUT TO EXPERTS, PEERS, INFORMATION POINTS AND OTHER STAKEHOLDERS

SMEs are not alone when starting to plan for a sustainable transition. Support is already available and can be provided by national contact points. The following links provide helpful contact points at national and pan-European levels.

NATIONAL LEVEL

- [chambers of commerce](#) are aware of prevalent business trends and play a key role in informing businesses about their impacts. They have strong connections with other SME ecosystem actors, such as banking and finance organisations, education institutes and policymakers
- [SME associations](#) have similar roles to the chambers of commerce but with an explicit focus on the SME segment. This makes them particularly useful for providing peer-to-peer contacts and insights
 - [some countries](#) have National SME associations specialised in sustainable businesses
- [Cooperative banks](#) and [ethical banks](#) are close to SMEs and among their key finance providers. They can help SMEs understand and prepare for sustainability-related conditions and requirements
- [accountancy institutes](#) can help SMEs reach out to a local professional accountant specialising in providing sustainability-related assistance

EU-SUPPORTED BODIES

- [Enterprise Europe Network \(EEN\)](#) has offices in each EU member state and recently began to assist companies in finding solutions for making their business models aligned with circular economy principles
 - All EU Member States have specific national circular economy points of contact that can be found [here](#)
- [Climate-KIC](#) brings together partners from business, academia, and the public and non-profit sectors to create networks of expertise through which innovative products, services and systems can be developed, brought to market and scaled up for impact



- [European Circular Economy Stakeholder Platform \(ECESP\)](#) provides resources, tools and examples of good practices on circular business practices
- [Covenant of Companies for Climate and Energy \(CCCE\)](#) is a pilot initiative that encourages and supports companies to step up their contribution to a clean energy transition, energy savings and related climate objectives. The initiative aims to provide practical, step-by-step guidelines and technical assistance to European companies to help them take concrete actions resulting in the decarbonisation of their businesses

Additionally, an SME's existing professional services providers can provide further help. Most European SMEs, for example, have a professional accountant providing key business services and advice. Their accounting practice might offer sustainability-related services or know a peer who does.

This first step will allow the SME to understand better:

- how and why sustainability will impact the business' resilience and why inaction is not a viable option
- what external stakeholders, e.g. as explained above, but also supply chain partners and not least society as a whole, view as crucial sustainability issues for the business
- how the business model impacts its surrounding environment and society, and how SMEs can best make use of these experts and information points to help with the steps below

2. REFLECT ON YOUR BUSINESS' FUTURE VISION

The SME owner should familiarise themselves with key sustainability topics, for example, using the [17 UN Sustainable Development Goals \(SDGs\)](#) or the Global Reporting Initiative's (GRI) [set of sustainability standards](#) as a reference point. On that basis, the owner should develop integrated thinking about their business, combining sustainability with the 'conventional' financial aspects, and reflect on:

- relevant sustainability topics, for example, using ACCA's [toolkit](#) to map one's business with the UN SDGs, and which of them the business could either:
 - contribute positively to and/or
 - be at risk of undermining
- their business vision in 5, 10 and 20 years' time in relation to the identified key sustainability topics.

On this basis, the SME can develop a high-level vision document outlining the:

- most relevant environmental, social and governance (ESG) topics, considering the business sector and model.
- ways how the business will improve in these key topics.
- general business risks and opportunities from the identified ESG topics

This reflection would enable the SME to develop a first comprehensive corporate social responsibility (CSR) strategy and vision.

In the process, the SME owner should seek help from the SME support sources outlined in step 1 and communicate with their staff. This is essential to get their buy-in for the business' sustainability efforts and insights.

3. MAP AND PRIORITISE YOUR SUSTAINABILITY INFORMATION

Many SMEs already have sustainability information they are unaware of. The SME should map out what sustainability information they already have or could relatively easily obtain – especially those relevant to the key sustainability topics for the business identified in step 2. The SME should try prioritising which data points might be most appropriate for their business model and sector.

Starting points can include:

- gas and electricity consumption
- material used in products and packaging
- vehicle usage (including the type of vehicle – electricity vs petrol etc.)
- water usage (on what/where) and consumption (how much)
- waste management and recycling
- gender diversity
- accidents at work
- remuneration policies
- structure and leadership
- alignment with the EU's General Data Protection Regulation (GDPR)

This enables the SME to identify where and what information is missing and how it should be obtained. The examples below are indicators SMEs might not immediately have at their disposal but could realistically get:

- greenhouse gas emissions and carbon footprint: this clarifies how a company's day-to-day operations affect the environment. It helps identify where it uses large amounts of energy, improves business operations, and provides valuable sustainability data for stakeholders. Many free-to-use carbon footprint calculators are available in local languages, e.g. the [Danish government's Climate Compass](#). There are free-to-use carbon footprint calculators in English, e.g. the Carbon Trust's [SME Carbon Footprint Calculator](#) and the SME Climate Hub's [Business Carbon Calculator](#).
- employee satisfaction: this is relatively easy for 1-2 people businesses. For 10+ employees businesses simple and free online survey tools such as [SurveyMonkey](#) are available.
- electricity source: checking one's provider's website or directly contacting them to obtain more information on how their electricity is produced.

With the identified data, the SME should then work to:

- set up internal systems and means to enable the sustainability information's regular (e.g. annually or bi-annually) collection and monitoring. This would help prepare and adapt for future reporting obligations and assist in management decisions conducive to a more sustainable, integrated way of thinking. It would support the SME in integrating sustainability into and throughout the business planning
- assess in what specific areas the SME might have opportunities, for example, for efficiency gains or savings, be at the highest risk of causing sustainability-related harm, or be most at risk of being affected by sustainability risks like a warmer climate. Tools such as the [B Impact Assessment questionnaire](#) – will help get a holistic picture of the company's sustainability performance. It can help to identify further areas where the SME either already has sustainability information available or is in obvious need of obtaining that information. Additionally, Ecopreneur.eu's [Circularity Check](#) provides a self-assessment of the circularity of a product or service

4. ANALYSE, PRIORITISE AND REACH OUT TO YOUR IMMEDIATE VALUE CHAIN

Information collection about one's own business is naturally essential. It is, however, pertinent to be aware of the value chain in which the SME operates. This enables the SME to be mindful of and mitigate potential supply chain risks and to provide a holistic picture of the business' sustainability impacts.

The SME should therefore map its key suppliers and, if proportionate, key customers and do a high-level assessment of any immediate obvious sustainability risks.

In doing so, the SME does not need to be comprehensive but should strive to prioritise the most immediate risks emerging from its value chain. To help with this, the SME should consider aspects such as:

- suppliers or customers from/related to countries in conflict, subject to sanctions, from unstable political regions or known to have corruption, human rights, transparency and the rule of law issues.
- suppliers' ESG disclosures or otherwise if they can provide their ESG performance data
- major suppliers from environmentally high-risk sectors, including mining, chemicals, forestry, oil and gas, agribusiness, general manufacturing, and construction
- over-reliance on a small set of suppliers or customers and especially ones that do not perform well on the 3 points above

There are some risks to not doing so, including:

- clients (both B2B and B2C), service and finance providers unsatisfied about unsustainable suppliers or service providers in the SME's value chain, resulting in potential reputational harm for the business
- risk of fines and penalties from using suppliers that either do not match regulatory requirements or result in false sustainability claims by the SME, even if the business itself has a high standard of sustainability performance

The SME should then contact its relevant supply chain partners and initiate a dialogue for improvements. This enables the SME to know what expectations its partners may have for it and vice versa. The SME's accountant, for example, is well-placed to facilitate this dialogue.

5. DEVELOP TRANSFORMATION TARGETS AND MEASURES

Based on the previous steps, the SME should develop realistic targets and key performance indicators (KPIs) to transform the business' sustainability and regularly monitor progress in attaining these KPIs.

HELPFUL TOOLS CAN SUPPORT: e.g., the [Science Based Targets Initiative \(SBTi\)](#) helps organisations set science-based emissions reduction targets.

START SMALL, THINK BIG: start with something even as basic as changing to more energy efficient lamps in the office or cutting down paper and water usage, conducting employee satisfaction surveys and reviewing the leadership structure, but eventually leading up to re-designing products or service lines. For any high-risk suppliers identified in Step 4, start looking for potential alternative providers and/or diversifying where possible.

CONSIDER THE ECONOMIC BENEFITS: as an additional benefit, cutting down on wasteful practices, energy consumption, and non-essential travel expenses would also generate financial savings.

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