Report

Path for growth: Making sustainability reporting work for SMEs

In partnership with

Table of contents

Foreword by Steve Hare, CEO of Sage

As the world gathers in Dubai for COP28, the need to tackle the climate crisis is more urgent than ever. We know that participation from small and mid-sized enterprises (SMEs) is crucial for a credible path to net zero.

SMEs are the backbone of the global economy and play a vital role in creating jobs and driving growth. As our existing research shows, this means they are also responsible for a significant proportion of global carbon emissions, but less likely than larger companies to have the resources to measure and reduce those emissions.

At Sage, we are committed to knocking down barriers for SMEs, and enabling them to progress on their sustainability journey, while continuing to drive growth.

This new study, building on our contributions to COP26 and COP27, provides fresh insights from SMEs about their motivations, goals, and challenges. It also sets out the steps needed to create more effective sustainability reporting standards for SMEs that will help them better measure their sustainability impacts, including taking action to reduce their environmental impact.

We're proud to have partnered on this study with PwC and the International Chamber of Commerce, who represent SMEs at COP. And we will continue to work with our customers, partners, governments, and other stakeholders to advocate for actions that help SMEs become more sustainable and realise their ambitions to help the world reach net zero.

Foreword by Lynne Baber, sustainability practice leader at PwC UK

The critical contribution SMEs will make to how the world meets sustainability goals must be grounded in clear, reliable reporting. At PwC, we see a close link between accurate reporting and effective action.

This study highlights that many SMEs are facing increasing pressures to report, particularly from large enterprises they supply to or service. Failure to measure and report impact is excluding some from winning business where sustainability is embedded into procurement strategies. Just 7.7% of global SMEs say that they are undertaking sustainability reporting, indicating the need for support in navigating a complex and expensive process.

This report explores these challenges and proposes practical solutions for industry leaders, governments, and standard setters. Our review highlights:

- A complex and fast-evolving regulatory landscape, driven by limited consistency in language, methodology, and interoperability between standards and regulation.
- A unique challenge for SMEs to determine what is material for reporting and access accurate information.
- Opportunities to support SMEs at a systemic level in gathering data and communicating their ESG performance accurately to stakeholders.

PwC is committed to helping SMEs become more sustainable. We are working with industry leaders, governments, and other stakeholders to develop tech-powered solutions to make sustainability reporting more accessible. We are particularly focused on building infrastructure that enables SMEs to manage and report on their sustainability data.

This requires market-wide collaboration. By bringing together diverse perspectives and capabilities, PwC plans to facilitate a move towards solutions that enable early adoption of sustainability regulations and greater transparency around global progress on sustainability goals.

Our hope is that what gets measured gets managed, thereby driving sustainability action from SMEs, ensuring they can win business, attract and retain talent, access funding, and meet customer expectations.

We are grateful to Sage and the ICC for partnering with us on this important report. By raising awareness around the challenges and opportunities facing SMEs we can work together with policy makers and industry stakeholders to drive action.

Foreword by John W.H. Denton AO, secretary general of the International Chamber of Commerce

We see every day the potential of SMEs to lead the way in creating a more sustainable future. This report provides new evidence to recognise the increased action SMEs are already taking, but also the untapped potential for them to go further.

Bold action is needed to ensure that SMEs can tackle the obstacles in their way to understanding, managing, and ultimately improving their sustainability performance. Chiefly, this report identifies the complexity and cost associated with sustainability reporting.

While we firmly endorse the many benefits of sustainability reporting for SMEs, it's evident that they need appropriate tools to navigate this landscape effectively. There are 3 main things this report reveals that are needed to help SMEs:

First, we encourage standard setters to create reporting standards which make sustainability reporting both achievable and beneficial for SMEs. This study goes into some detail on what that reporting could look like and how we can make it easier and less time-consuming for SMEs to report on their impact.

Second, we must build more automated tools and infrastructure to support SMEs in their sustainability reporting. SMEs need more affordable and user-friendly tools to help them to collect and report on their data.

Third, we must raise awareness among SMEs of the importance and benefits of reporting. This can help SMEs to understand how they will benefit from reporting and to see it as a valuable investment.

Delivering fully on the promise of a more sustainable and prosperous future for all requires providing SMEs the right policies and incentives, effective tools, and most importantly, a collaborative effort to transform business practices. This report is a significant step in identifying what SMEs need to further advance this agenda.

The ICC is committed to playing a key role in advancing this debate and more broadly to accelerating action to ensure a sustainable and prosperous future for all.

Executive summary

There is rising concern that the world is not on track to meet its crucial 1.5°C target[1] nor its Sustainable Development Goals (SDGs), with only 15% on track to be achieved by 2030.[2]

This is a stark reminder of the increased urgency for sustainability action across all organisations, big and small. Building on the insights from our COP26 and COP27 reports, this study has found:

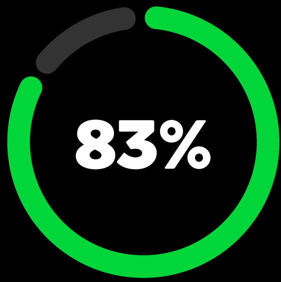
- **2023 has been an important year for SME sustainability action.** In comparison to last year's survey, more SMEs describe sustainability as being important to their business and report having sustainability policies in place. Over 6 in 10 SMEs say that they are currently taking steps to become more sustainable, especially through their products and services (51%), reducing energy use (48%), and through the circular economy (16%).

- **There is a strong connection between an SME's ability to report on its sustainability performance and its capacity and willingness to take meaningful action.** By strengthening their reporting, SMEs will access a huge range of benefits, from being able to better attract new customers to accessing green finance and sustainability conscious employees.

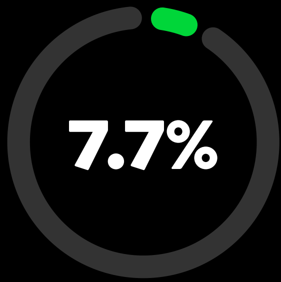
- **SMEs are increasingly being asked by stakeholders to demonstrate their sustainability performance.** 58% SMEs said that they are already making statements and commitments to their key stakeholders about their sustainability performance. Our analysis of reporting frameworks demonstrates that sustainability requests to SMEs are increasing in frequency and complexity.

- **Yet, this study shows that most SMEs find it hard to evidence their commitments and progress with appropriate data.** The lack of time, expertise, and budget means that many SMEs are not able to measure and track their sustainability performance appropriately. This report sets out concrete recommendations which will enable millions more SMEs to more effectively report on their sustainability performance and unlock the associated benefits of doing so.

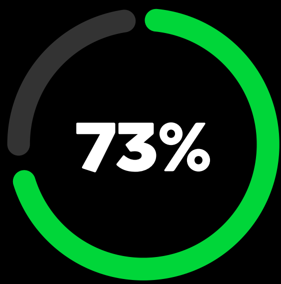
Key findings from our global survey of SMEs



Over 8 in 10 SMEs (83%) say that **sustainability is important** to their business, up from 76% among those surveyed in 2022, and just **over half** (58%) are making commitments about their sustainability.



Just 7.7% of SMEs **say that they are undertaking sustainability reporting**.



of SMEs are concerned about the **upfront costs** of reporting and 65% of SMEs describe the current reporting standards as **complex**. These present the 2 key "upfront" barriers to sustainability reporting.

1 in 5 SMEs are highly engaged with the sustainability agenda—including talking about their sustainability impacts externally—but are not yet reporting on them.

70%

Digital technologies could play a key role in helping these SMEs to report, 70% identified them as having the potential to make reporting easier.

51 million

We see the potential to triple the number of SMEs who report in the coming years. Globally, this could represent 51 million extra SMEs proactively taking measured and effective action on sustainability challenges.

Note: Across the report we use technical sustainability reporting terms which we have defined on page 33.

[1] *IPCC Special Report, "Global Warming of 1.5c"* Global Warming of 1.5 °C—(ipcc.ch)
[2] https://unstats.un.org/sdgs/report/2023/progress-chart/

Executive summary recommendations

Standard setters

Proportionality
Ensure the number and type of data requests being made of an SME are proportionate. All requests need to be realistic for a business with limited resources to comply with.

Consistency
Establish consistent sustainability terminology. It is important to clearly define and simplify key terms, topics, and metrics across the reporting landscape.

Materiality
Provide clear rules to easily determine material topics and metrics for SME reporting. Reporting requirements should enable SMEs to prioritise the most relevant and essential topics, so that SMEs with limited capacity can focus their data collection, processing, and reporting efforts on what matters most.

Convergence
Continue to ensure that there is convergence of standards. There must be more convergence across standards and greater clarity on how the requirements of one standard meets the requirements of selected other standards.

Accessibility
Ensure standards are user-friendly and easy to understand. Reporting requirements should be accompanied by supporting visuals and examples. Accessible standards paired with industry led digital solutions will be key to efficient reporting.

Accuracy
Prioritise data accuracy in reporting guidance. There is a critical need to guide SMEs on how to report "actual" sustainability data on their performance rather than relying on proxies and sector averages.

Industry and government

Build data infrastructure to support SMEs with sustainability reporting
Create collaboration between government and industry leaders to support the development of robust and trusted data. This will enable companies, both large and small, to transition to report on actual data instead of using proxies and sector-averages. This could include developing shared tools and datasets, establishing common and accessible data models, and leveraging existing data repositories.

Raise awareness of the importance of sustainability reporting among SMEs
Industry organisations, businesses, and governments should showcase the potential benefits of reporting, such as access to markets, funding, and cost efficiencies.

Promote the use of digital technologies for sustainability reporting
Companies should develop and promote the use of affordable and user-friendly digital technologies to help SMEs automate reporting.

Incentivise SMEs to invest in their sustainability reporting
Further financial incentives are necessary to encourage SMEs to invest in their sustainability reporting, especially given the upfront costs associated with collecting and reporting on this data.

Sustainability reporting for SMEs: Key challenges and opportunities

Our existing research has found that on aggregate, the opportunity for SMEs to take meaningful action on sustainability is huge.

For example, our previous study in the UK found that SMEs are contributing 160 million tonnes of non-household Greenhouse Gas (Scope 1), equating to 44% of total UK non-household emissions. Meanwhile, their contribution to Gross Domestic Product (GDP) is estimated at £1 trillion, or 50% of the UK's total GDP (Sage, 2022).

However, SMEs report facing key barriers in their ability to understand, measure, and ultimately report on their sustainability performance. For example, less than 2% reported having a designated employee who is responsible for this reporting. This may limit their ability to track and demonstrate their progress to stakeholders and understand which actions will be most effective.

While the opportunity for SMEs to take effective action towards net zero and wider sustainability goals is significant, this report recognises the challenges they face.

Key challenges and opportunities of sustainability reporting for SMEs

Challenges	Opportunities
• Limited resources and expertise • Complex and inconsistent sustainability reporting frameworks • Difficulty in collecting and analysing data • Cost of reporting	• Improved access to finance and investment • Improved access to customer supply chains • Increased eligibility and preference in public sector contracts • Enhance innovation and competitiveness • Reduced operational costs and risks • Attract and retain top talent

Who is asking SMEs about their sustainability performance and why?

As the correlation between sustainability and business resilience and performance continues to strengthen, SMEs are making more commitments on their impacts to internal (e.g. employees) and external (e.g. customers) stakeholders. Increasingly diverse stakeholders are requesting evidence of sustainability from SMEs. These include:

Regulators
Governments around the world are increasingly passing regulations that require private and public enterprises to report on their sustainability impact. Although a relatively small proportion of SMEs will initially fall in the scope of regulations such as the EU Corporate Sustainability Reporting Directive (CSRD) and many standards such as the International Sustainability Standards Board (ISSB) are currently only voluntary, there is a drive for transparency and pressure for companies to increase disclosures, which tends to trickle down to smaller organisations.

Large customers
Many large companies are requiring their suppliers to report on their sustainability performance. This is, in part, because they are under pressure from their own regulatory obligations as well as their customers and investors to improve sustainability impact across their value chain.

Financial institutions
Financial institutions are taking sustainability factors into account more often, when making lending and investment decisions. They are under pressure from their own investors and regulators to reduce their exposure to sustainability risks and showcase sustainability action to access more capital.

SMEs
Many SMEs are choosing to report on their sustainability performance in order to communicate company values, improve their reputation, attract and retain customers and employees, and obtain financing.

The public
As awareness about sustainability continues to grow, consumers are increasingly prioritising businesses that operate sustainably and ethically. They often seek transparency about the sustainability performance of the businesses they purchase from, putting pressure on companies, including SMEs, to demonstrate responsible practices and contribute to positive societal change.

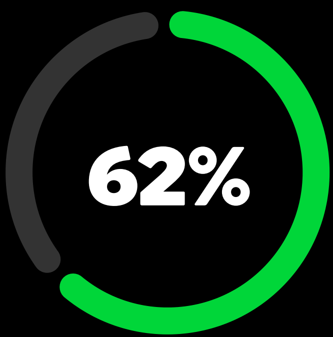
Colleagues
Employees are expecting and encouraging their employers to take effective action.

SME interest and action on sustainability is rising rapidly

The number of SMEs interested in and engaged with the sustainability agenda is rising rapidly, as shown in the results of our studies of SMEs in 2022 and in 2023.

Today:

have made a public commitment on their sustainability performance, up from 53% in 2022.



are currently taking steps to improve their environmental performance.

Furthermore:

are taking sustainability actions.

have a sustainability-related policy.

Compared to last year, more SMEs say that they have sustainability-related policies in place and more describe sustainability as being important to their business. A majority are now trying to reduce their environmental impact.

For SMEs, their sustainability performance was increasingly important to attracting and retaining customers. 65% of SMEs said that they are feeling more pressure from customers to reduce their environmental impacts. Although interest in the topic is rising, few SMEs are currently reporting on their sustainability performance in their own operations, let alone broader sustainability impacts in their supply chain.

Only **7.7% of SMEs** currently report on their sustainability impacts and only 0.7% report on their Social and Governance (ESG) impacts, leaving SMEs at risk of being perceived as not taking the necessary actions. This study finds that a further 21% of SMEs are “ready and willing” to report. With the right frameworks and support in place, there is potential to dramatically increase the number of SMEs reporting in the coming years.

Beyond the listed benefits, there is the broader advantage of increasing fairness and transparency in markets and enabling better capital allocation towards a more sustainable and resilient global economy.

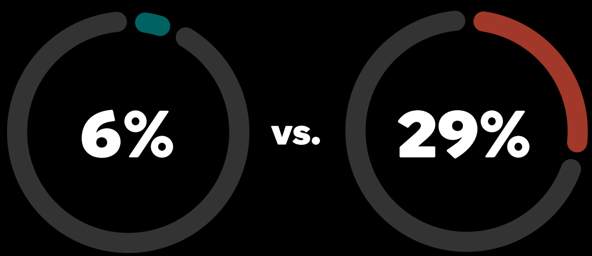
A profile of the 1 in 5 “ready and willing to report” SMEs

This study has identified a clear group of SMEs (21% of SMEs surveyed globally) who are highly engaged with the sustainability agenda—including talking about their performance externally—but are not yet reporting on their impacts.

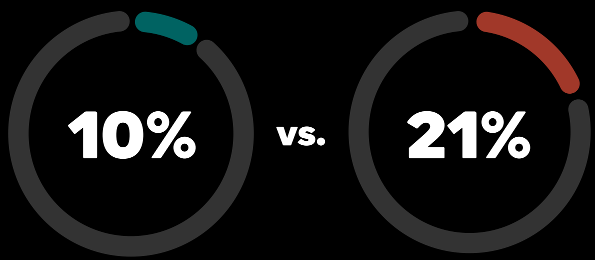
Typically, SMEs that are “ready and willing” to report said that they:

- Believe that sustainability is important to their business.
- Have at least some sustainability policies in place.
- Have made an external commitment (e.g. to customers) about their environmental impact.
- Have heard of sustainability reporting but haven’t yet begun it.
- Currently take other measures to improve their environmental impact, e.g. have mapped the environmental impact of different business processes.

On their readiness and skills, they were also:

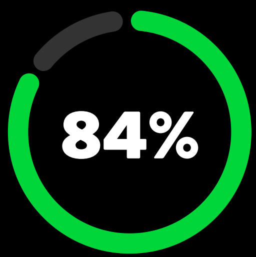


Much less likely to say that they don’t have management buy-in (6% “ready and willing” versus 29% overall).



Much less likely to say that they lack the skills or knowledge (10% versus 21%).

say that they have a strong knowledge of the environmental impact of their operations.



say that they have a strong knowledge of the environmental impact of their products.

And they were more likely to say that they are already taking action:

84% vs. **65%**

said that their business has taken measures to learn more about climate change (versus 65% overall).

67% vs. **51%**

Were much more likely to say that they are currently cutting their businesses' environmental impact (67% versus 51% overall).

79% vs. **58%**

Were more likely to say that they are encouraging their customers to use their products more sustainably (79% versus 58% overall).

Key barriers for "ready and willing" SMEs:

66%

believe that upfront costs are **too high**

71%

believe that it is **too complex**

The size of the prize

This study illustrates the significant number of SMEs who could report on their sustainability impacts with the right tools and regulatory environment. If we could triple the number of SMEs reporting on their sustainability performance globally, from **7.7% to 23.1%**, it would represent **51 million more SMEs** reporting on their sustainability performance.[3] Based on our survey insights:

51 million

51 million additional businesses could accurately report on their sustainability performance.

$789 billion

We **could unlock $789 billion** in green finance opportunities for these SMEs.[4]

[3] Global SMEs 2021 | Statista

[4] Natwest, "Springboard to Sustainable Recovery" *report, which includes economic modelling on the value of climate and sustainable finance to SMEs.*

Reporting challenges

The sustainability requests being made of SMEs are increasing in volume and complexity.

This **complexity** is the primary barrier to SMEs' reporting, leading to **upfront costs**, which can be insurmountable for a small organisation with limited cash flow. These costs include upskilling, collecting data, and developing and implementing a reporting system.

- **73% of SMEs are concerned about the upfront costs of reporting**
  This includes costs to upskill, reallocate, or hire staff, purchase technology solutions, and engage with third-party vendors. This suggests that there is a need to simplify reporting standards and tailor them to the needs of SMEs.

The key reporting challenges leading to increased upfront costs include:

- **Complexity of reporting standards**
  Reporting standards can be complex and difficult to understand. SMEs are navigating a wide range of inconsistent and technically challenging data requests from multiple stakeholders. They are trying to determine what topics are relevant and applicable to their business. 65% of SMEs state current reporting standards are too complex and that they would be more likely to engage if standards were tailored and simpler.
- **Lack of capability or knowledge**
  The vast majority of SMEs lack sustainability specialists within the organisation. This means they may struggle to understand or respond accurately to requests for data.
- **High volume of data requests and lack of capacity**
  SMEs are often restricted in their capacity and capability because of their size, meaning they can lack the internal resources necessary to meet data demands. They often miss the tools and resources needed to collect the large quantities of sustainability data in order to meet requirements and develop and implement a reporting system.

The “Green Finance” opportunity

Financial institutions and investors across various global partnerships have made commitments to reduce their financed emissions.

This means that investor funds are increasingly tied to sustainability performance. Measuring and reporting of accurate sustainability data will thus be essential for SMEs to continue securing funds as the sector moves towards green finance.

There is increasing institutional investor interest in businesses demonstrating ESG performance

- “Environmental, Social, and Governance (ESG) outcomes appeared among investors’ top 5 priorities for business: Data security and privacy rank third (51%), effective corporate governance is fourth (49%), and reducing greenhouse gas emissions (44%) rounds out the top 5.” (PwC Global investor survey 2022) .

There is pressure on businesses to publicly report on ESG and balance the necessary investment to showcase returns while minimising regulatory risks for investors and increasing client appeal

- “A key factor driving investor interest in sustainability is regulatory risk. More than three-quarters (78%) of investors say that managing regulatory risks is an important factor in including sustainability in their investing decisions, second only to client demands that their portfolios have an ESG lens (82%).” (PwC Global investor survey 2022).
- “81% of investors say they would accept only 1% or less reduction in overall returns for companies in their portfolios that take sustainability actions.” (PwC Global investor survey 2022).

Institutional investors are seeing greater returns from ESG investing

- A majority of institutional investors, 60%, reported that ESG investing has already resulted in higher performance yields, compared to non-ESG equivalents. (PwC Global investor survey 2022).

There are increasing funds focussed on sustainability outcomes. SMEs that report on ESG action will have greater access to them

- “Asset managers globally are expected to increase their ESG-related Assets under Management (AuM) to US$33.9tn by 2026, from US$18.4tn in 2021. With a projected compound annual growth rate (CAGR) of 12.9%, ESG assets are on pace to constitute 21.5% of total global AuM in less than 5 years.” (PwC Asset and Wealth Management Revolution 2022).

SMEs that report on ESG action will have more access to green finance in general

- “Global sustainable finance product issuance totalled $717bn in the first half of 2023” led by issuance of green bonds, followed by sustainability-linked loans. (ING 2023).
- “Direct funding available through government agencies is also significant” with around $82bn for grants and $40bn for loans. (ING 2023).

The financial services industry’s collective influence over global capital has an enormous impact on the economy. It therefore has a pivotal role in driving change to ESG reporting and thereby performance. Industry leaders are uniquely positioned to not only incentivise SMEs sustainability journey through opportunities in green finance and ESG investing but also support efforts to report and manage their sustainability impacts.

Case study
NatWest Carbon Planner powered by Sage Earth

The financial services sector is stepping up to support SMEs in a range of ways, especially in encouraging proportionate and effective requests for data, and in providing tools to make it easier and more cost effective to report.

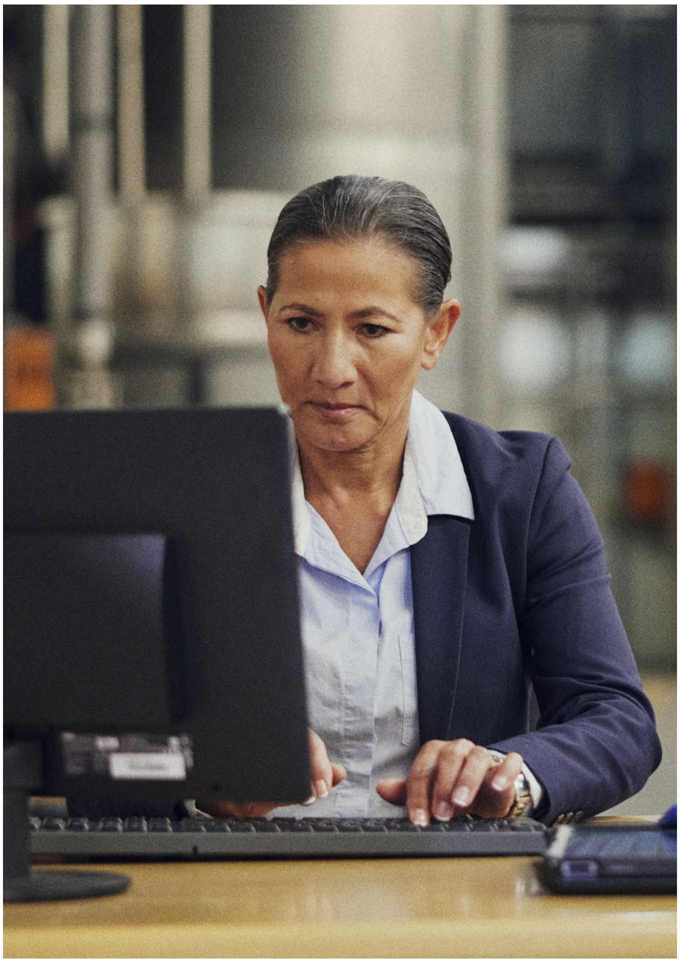
NatWest's Carbon Planner is automating a key part of the process of calculating a company's greenhouse gas emissions. It does this by processing data from a company's accounting software and matching transactions to emission factors in order to create an estimate of the climate impact of those purchases. The software then guides the business to refine their emissions estimate by submitting additional data (e.g. energy usage, employee commuting patterns).

The NatWest Carbon Planner, powered by Sage Earth, is a free tailored solution that provides personalised actions based on customer data designed to help UK businesses manage their future fuel and operational costs and reduce their carbon footprint more quickly. As well as cutting emissions, the platform has the potential to reduce inefficiencies, save time and money, and help businesses become more competitive.

The NatWest Carbon Planner also provides information and useful resources to help businesses on their journey to net zero. The planner is available online to all UK businesses and is not limited to NatWest customers. This example demonstrates how collaboration across sectors can make it possible to reduce the burden of reporting for SMEs.

Developing better standards for SMEs

The sustainability landscape is complex and overwhelming for many SMEs, who are constrained by lack of time, funding, and resources.



Sage and PwC conducted a detailed review of the sustainability regulatory landscape to identify guidelines for standard setters to make sustainability reporting accessible and beneficial for SMEs.

We reviewed over 50 global cross-sector standards and frameworks that would affect SMEs, whether directly or indirectly, such as through value-chain requests from larger entities.

Below are our key guidelines with illustrative examples and initial key topics that policy makers and regulatory authorities should take into consideration so that they can simplify and standardise reporting requirements directed towards SMEs.

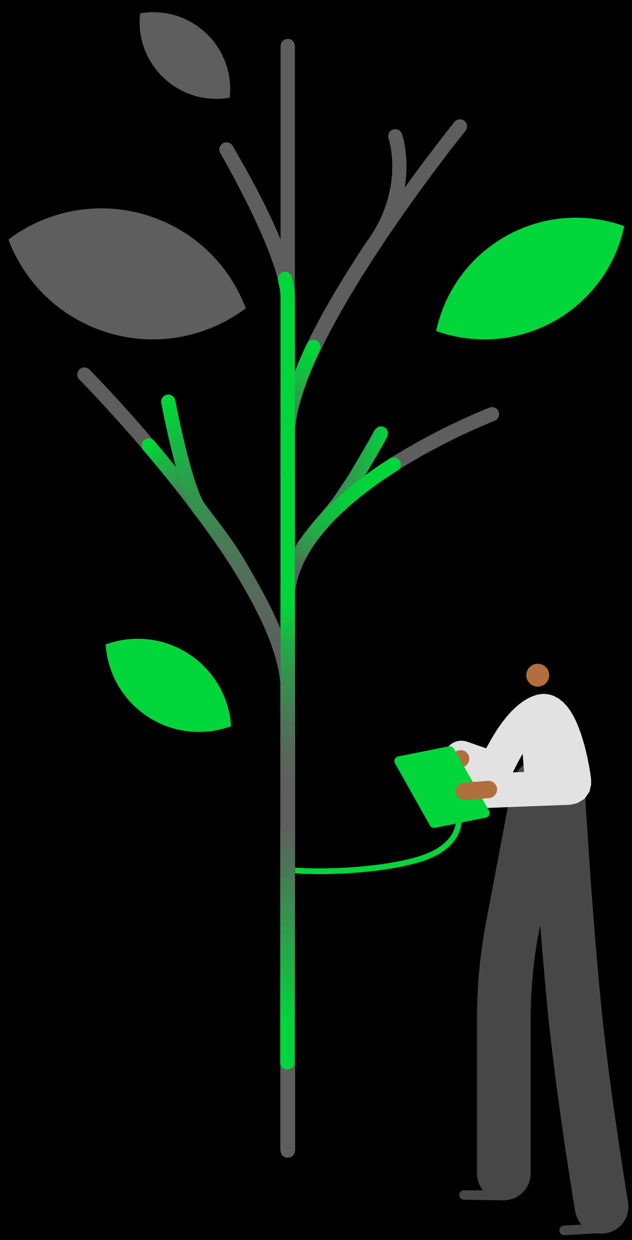
We hope this provides input to the ongoing market-wide collaboration to establish the most appropriate reporting standard for SMEs, building on the work done by ISSB and the European Financial Reporting Advisory Group (EFRAG).

We have identified 6 guidelines and 7 key topics for standard setters to consider, aiming to:

- Enable policymakers to standardise and simplify sustainability regulations.
- Drive early adoption of voluntary standards by SMEs.
- Accelerate sustainability action by focusing SMEs' reporting efforts and providing practical guidance beyond commitments.
- Support progress towards global sustainability goals by increasing accuracy and comparability in reported sustainability data.

Guidelines for SME-friendly sustainability reporting

1. Proportionality
2. Consistency
3. Materiality
4. Convergence
5. Accessibility
6. Accuracy



Below is a summary of our reporting guidelines.

1. Ensure the number and type of data requests being made of an SME are proportionate
Even within the SME category, one size doesn't fit all, and requests need to be proportionate. There is a significant difference in the reporting capabilities of a business with over 200 employees and significant turnover compared to a micro-enterprise.

Key question: Does this disclosure requirement consider the feasibility of reporting for varying types and sizes of SMEs, offering practical options for SMEs to meet requirements?

Potential implementation steps	Illustrative examples in the market[4]
Staggered reporting requirements	ISSB recommends a transition relief allowing companies to report only against the Climate-related Disclosures Standard and the climate components of the General Sustainability-related Disclosures Standard in the first year of application (**IFRS S1, Appendix E, E4**)
Flexibility on the boundaries covered within a disclosure topic for smaller SMEs (e.g. focus on own operations only)	The ISSB recommends exemptions for specific sectors on Scope 3 emissions disclosure in the first year (**IFRS S2, Appendix C, C4**)
Scaled reporting requirements and allowances from basic to advanced based on company resources	The ISSB has considered what requirements can be reasonably met. For example, qualitative disclosures will be allowed where an entity is unable to provide quantitative information. 3 key areas where such allowances are appropriate: Identifying sustainability-related risks and opportunities (SROs); considering the current and anticipated effects of these SROs; and determining the scope of the value chain. (**IFRS S1, B6 onwards**)

2. Establish consistent sustainability terminology
It is important to clearly define and simplify key terms, topics, and metrics across the sustainability reporting requirements. This reduces the burden and potential for SMEs to misinterpret disclosure requirements and strengthens comparability and understanding of metrics in the market.

Key question: Is the language detailed within this disclosure requirement driving consistency across the voluntary and mandatory sustainability standards?

Potential implementation steps	Illustrative examples in the market[4]
Alignment of sustainability terms and language between standards	CSRD and the GRI "In keeping with the requirement formulated in the CSRD to adopt a double materiality approach and to take account of existing standards, the ESRS have adopted the same definition for impact materiality as GRI and have leveraged GRI's expertise." (**EFRAG-GRI joint statement of interoperability**)

3. Consider how SMEs can practically determine material topics and metrics
Materiality is a fundamental concept for all sustainability reporting. It can be complex and time consuming. SMEs need clear rules on how to prioritise the most relevant and essential sustainability topics and would benefit from flexible timelines to accommodate their limited resources.

Key question: Does the standard assist SMEs to prioritise business activities that have material sustainability impacts?

Potential implementation steps	Illustrative examples in the market[4]
Staggered reporting requirements that consider what are minimum mandatory requirements in the first year of reporting	The ISSB Standards require entities to only report on the sustainability-related risks and opportunities that are considered to be material to that specific entity. (**IFRS S1, B13 - B37, "Materiality"**) The European Sustainability Reporting Standards (ESRS) for Listed SMEs also considers the diversity of target groups and proposes to take a sector-agnostic approach for SMEs in the first phase and move simplified requirements to the sector-specific layer of ESRS. (**ESRS for Listed SMEs—Issues Paper**)
Guidance on how to identify material sustainability topics with underlying criteria that can be used to assess materiality and examples of what might be deemed high versus low materiality	GRI provides easy user-friendly guidance to determine material topics broken down into "understand, assess, identify, & prioritise." (**GRI 3: Material Topics 2021**)
Flexibility for omission of topics that are not deemed material to an SME	ESRS allows companies to omit disclosure requirements of a topical standard if the assessed topic is deemed immaterial. (**ESRS, Appendix E**) GRI allows organisations to provide a permitted set of reasons for omission over most commitments. (**GRI 1: Foundation 2021**)

4. Continue to ensure there is convergence of standards
Regulatory bodies need to consider opportunities for convergence, highlighting within the standard where meeting disclosure requirements will enable an SME to satisfy the requirements of another standard, reducing an SME's burden to make this assessment themselves and potentially duplicate reporting efforts.

Key question: Does this standard allow an organisation to disclose against other standards using similar information?

Potential implementation steps	Illustrative examples in the market[4]
Alignment of scoping and calculation methodologies of a disclosure metric against leading market disclosures	EFRAG has created a linear table detailing the level of interoperability between ESRS and ISSB requirements (**ESRS Mapping table: Climate change**). Additional joint guidance is expected

5. Ensure that standards are user-friendly and easy to understand

Reporting requirements should be displayed in an easy-to-digest format and accompanied by supporting visuals such as examples for methodology calculations and "best practice" disclosures. An accessible standard paired with market-led automation solutions will enable SMEs to better report.

Key question: Is the standard as easy to follow as possible for SMEs with varying knowledge levels?

Potential implementation steps	Illustrative examples in the market[4]
Create "How to" guides to facilitate navigation of an SME standard	The GRI Universal Standard clearly outlines the structuring of the System of GRI Standards and how to navigate. (**GRI 1 Foundation 2021**)
Tools and pro-forma templates for SMEs to input information into or model disclosures after	The Science Based Targets initiative (SBTi) provides tools for companies to develop appropriate emissions reductions targets. (**SBTi-target-setting-tool**)
Illustrate examples of calculations in practice	The GHG protocol provides illustrative examples of how to calculate each category of emissions included in its guidance with separate examples by methodology (**GHG protocol, Category 1**)

6. Prioritise data accuracy in reporting guidance

There is a critical need for SMEs to report "actual" sustainability data rather than relying on proxies and sector averages. Their ability to provide more accurate information to key stakeholders will contribute to increased transparency on sustainability data and enable better capital allocation and competitive advantage. Standards should enable this accuracy of reporting by providing clear guidance that supports SMEs.

Key question: Does this standard provide practical guidance for an SME to report the most accurate data available?

Potential implementation steps	Illustrative examples in the market[4]
Clear guidance on what data inputs qualify as accurate information	GRI lays out a number of "Accuracy Principles" for users to apply. (**GRI 1: Foundation 2021**)
Positive language prioritising actual data for an SMEs' material ESG reporting topics	The GHG protocol's Scope 3 standard highlights how companies should "prioritise data quality improvement for activities that have relatively low data quality and relatively high emissions." (**Corporate Value Chain (Scope 3) Accounting and Reporting Standard**)
Requiring transparency over modelled calculations, highlighting uncertainty levels and where actual data versus estimated data is used	The GHG protocols Scope 3 Standard Appendix B provides guidance on uncertainty. (**Corporate Value Chain (Scope 3) Accounting and Reporting Standard**)

Key topics

Existing reporting standards highlight what key topics policy makers can direct their focus to.

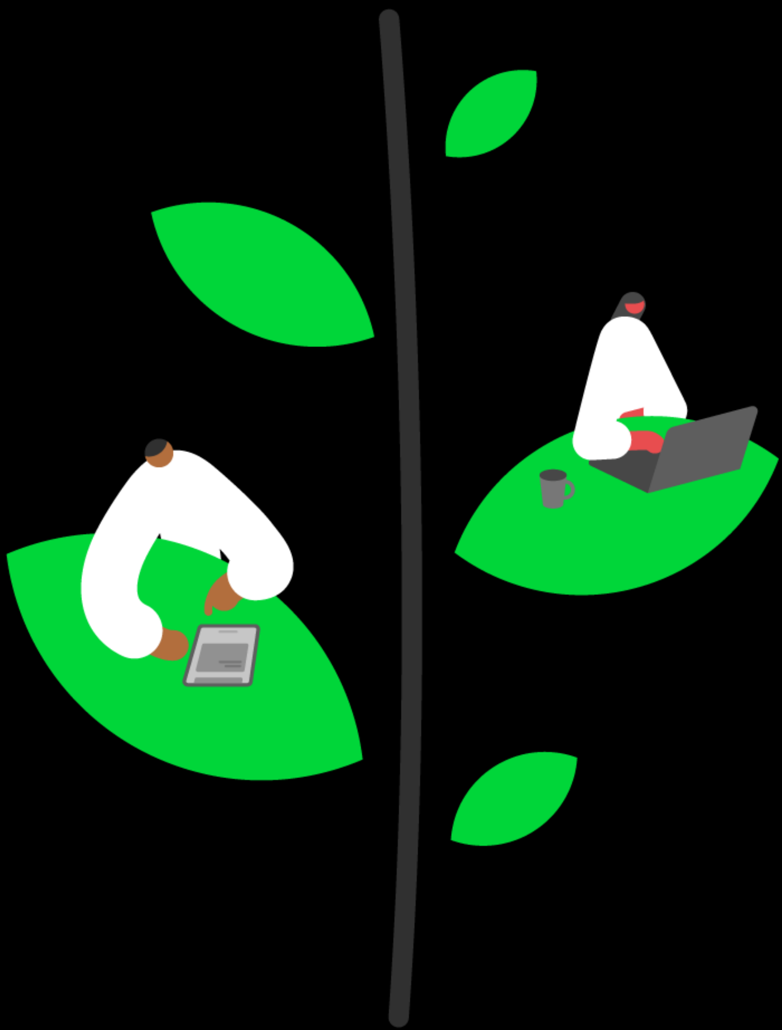
We have identified a series of cross-sector sustainability topics that are covered most frequently in the current reporting landscape. This paints a picture of what the market has already deemed significant for SMEs to act on and report against.

A sector-specific view on material topics requires collaboration between policy makers and industry leaders. While this has not been done as part of this review, it is a critical and a natural next step after establishing a baseline of cross-sector disclosures.

Key topics[3]	Example disclosure sub-topics[1]	Why are these topics key?
ESG strategy 5% SMEs are reporting water usage and conservation efforts whilst 4% are reporting waste generation and management strategies	• Business model • Environmental policies & conditions • Key Performance Indicators (KPIs) on material ESG topics (non-emissions)	• An ESG strategy and a plan in place help companies to focus and operationalise action • Clarity and transparency about a company's ESG strategy also helps build confidence and trust with stakeholders (internally and externally)
Net zero strategy 6% SMEs are reporting energy consumption and efficiency measures	• Net zero targets • GHG reduction strategy	• Achieving net zero requires a plan and a strategy in place to guide action, allocate resources, monitor progress, and identify areas where technology can support
Roles, responsibilities, and accountability 1% SMEs are reporting corporate governance and ethical business practices	• Stakeholder engagement • Stakeholder management • Ownership • Engage with industry	• Being clear on roles and responsibilities is critical for delivering on the company's ESG strategy. Externally, it demonstrates commitment while internally, it drives accountability and ownership
ESG risk management[2]	• Risks from climate change and transition to low carbon economy • Quantitative indicators with respect to targets, risks, and opportunities • Risks from human rights issues • Biodiversity	• Investors and lenders consider it crucial for a company to understand the risks associated with environmental, social, and governance (ESG) factors, foresee how these could affect the business in the future, and develop strategies to enhance resilience against such risks
Supply chain management and responsible procurement 3% SMEs are reporting supply chain sustainability	• Diverse supply chain • Internal carbon prices • Sustainability accreditation • Sustainable procurement policy	• Awareness and consideration of the subject is essential for improving business's resilience to climate change
Ethical labour practices 1% SMEs are reporting corporate governance and ethical business practices	• Diversity, Equity, & Inclusion (DEI) • Executive pay • Pay equity • Protection of rights of vulnerable groups • Health & safety • Ethical code of conduct	• Key topic for investors and other stakeholders such as customers • These topics are also closely linked to the broader United Nations Sustainable Development Goals (UN SDGs) • Transparency over organisational policies and practices to meet social requirements is critical to deliver progress against the UN SDGs

Key topics[3]	Example disclosure sub-topics[1]	Why are these topics key?
GHG emissions 6% of SMEs are reporting GHG emissions	• Absolute emissions & emissions intensity • GHG methodology • GHG assurance	• Understanding and mapping a company's GHG emissions is an important step towards managing these and delivering on net zero commitments. This is an area where innovation and technology can help streamline and simplify reporting further

[1]These metrics are not all inclusive and are intended to provide examples of the kinds of metrics that may be included.
[2]This topic was not included as an option for SMEs when asked what they were already reporting, however, it was the second most frequently occurring topic across the ESG regulatory review. This suggests an emphasis for SMEs to consider risks associated with ESG.
[3]Key topics are defined as topics or subject matters that represents an organisation's most significant impacts on the economy, environment, and people as generally defined by GRI.
[4]These examples are not prescriptive or all inclusive. They are intended to highlight examples in the market that illustrate our identified guidelines. Standard specific examples may be subject to additional sectoral or regulatory considerations.



Detailed recommendations for industry leaders and government

Successfully encouraging millions of SMEs to start reporting on their sustainability impacts will require concerted effort from governments, industry, and standard setters. Industry leaders and government need to create the right environment for SMEs to accurately and efficiently report on sustainability.

Case study
Bankers for Net Zero (B4NZ) is an initiative working to create a "nexus of industry commitments, policy development, regulation, business, and civil society". Through Project Perseus, B4NZ alongside Icebreaker One has identified how inaccurate and incomplete data is a major challenge for SME reporting, which it aims to tackle by developing market solutions to ease the flow of accurate data through cross-sectoral collaboration.

Banks are already supporting this effort, as it directly benefits them by providing a level of certainty on energy data they don't currently have. The coalition is working with energy and smart meter providers to streamline the process and is establishing a leading example of best practice for the rest of the market.

They can do this by building the data infrastructure needed to support SMEs with reporting, raising awareness of the benefits of reporting including financial incentives, and promoting the use of digital solutions. More details on each recommendation are included in the sections below.

Build data infrastructure to support SMEs with environmental reporting
Given the limited data-gathering capacities and capabilities many SMEs have, there is a critical need for data infrastructure at a systemic level to enable SMEs' access to accurate data instead of relying on proxies and sector averages. This will not only enable SMEs to practically meet sustainability reporting demands but also aid in de-risking businesses by providing more accurate information with which to make decisions.

Creating open-source sustainability databases that interact with existing data repositories will be critical to enabling a seamless flow of data to businesses. This may look similar to open banking platforms where there is a common data repository that communicates with, energy providers, stock exchanges, or data analytics firms to obtain real-time sustainability data. We need to find greater harmony between existing systems with simple, open, and transparent data models.

By creating market infrastructure to capture actual Scope 2 energy and emission data, such as smart meters for energy use with easily accessible usage information, there will be a trickle-down effect for companies submitting this data to stakeholders within their supply chain.

Raise awareness of the importance of sustainability reporting among SMEs
Governments, businesses, and industry organisations can work together to raise awareness of the importance of sustainability reporting among SMEs. This can help SMEs to understand the benefits of reporting and to see it as a valuable investment. Industry needs to showcase the potential benefits that sustainability reporting can provide. These benefits are diverse, and will come not only from cost efficiencies (e.g. due to reduced energy consumption) but also from access to markets (e.g. green certification) and access to additional funding if they are seen to be aligned with sustainability and ESG agendas.

For example:

- SMEs can decide to publish sustainability information to make themselves more appealing to investors and showcase ESG action e.g. SMEs reporting against the Global Reporting Initiative.
- The benefits of certifications like the internationally recognised specification for carbon neutrality PAS2060, are available to SMEs to certify carbon neutrality in operations or products.

Promote the use of digital technologies for sustainability reporting
SMEs are trying to address a growing amount of complex data demands despite restrictions in capacity and capability. To address this data challenge, it is important to build affordable and user-friendly tools to help SMEs collect and report on their sustainability data. This should also involve providing training and support to SMEs.

Digital technologies can automate the data collection and reporting process, making it easier and less time-consuming for SMEs to produce reports.

There are also a number of software programs available that can help businesses to track their environmental performance. These programs can generate reports that can be used to comply with environmental reporting requirements.

63% of SMEs report that digital technologies are important for making the environmental reporting process easier for them. This suggests that there is a need to promote the use of digital technologies to help SMEs.

Incentivise SMEs to invest in their sustainability reporting
Financial incentives are necessary to reduce the impact of upfront costs associated with the infrastructure necessary to report. Some of these include:

- **Government**
  Tax incentives: Governments and businesses can provide financial assistance to SMEs to help them with the costs of sustainability reporting. This could include grants, loans, or tax breaks.
- **Private institutions**
  Supply chain opportunities: Large businesses can encourage companies in their supply chain to report on sustainability. They can offer support and resources as well as new revenue opportunities for compliance with procurement criteria. Large businesses should highlight the value creation opportunities for SMEs that demonstrate progress in sustainability and remain a part of their supply chain.
- **Access to funds via financial institutions e.g. loans**
  Financial institutions can provide clear incentives, such as better terms on loans or financing to invest in reporting, to motivate SMEs to report on their sustainability impact.

Conclusion

Our study underlines the huge opportunities for SMEs to play a pivotal role creating a sustainable world. The positive shift in SMEs recognising the importance of sustainability and implementing related policies in 2023 is a testament to their growing commitment.

However, while SMEs are increasingly integrating sustainability into their operations and are eager to communicate their progress to stakeholders, they often lack the resources and expertise to effectively measure and report their actions.

The challenges facing SMEs in sustainability reporting are substantial. Our report has detailed both the potential benefits of effective reporting—such as attracting new customers, gaining access to green finance, and recruiting employees—as well as the significant barriers that must be overcome. To break these barriers, we have set out a series of guidelines for standard setters to ensure that standards are SME friendly.

Unlocking these opportunities requires collaboration from governments, industry leaders, and standard setters. This report has also detailed the specific actions each of the above stakeholders can take, from industry promoting digital reporting solutions for reporting to standard setters ensuring that reporting requirements are proportional for SMEs.

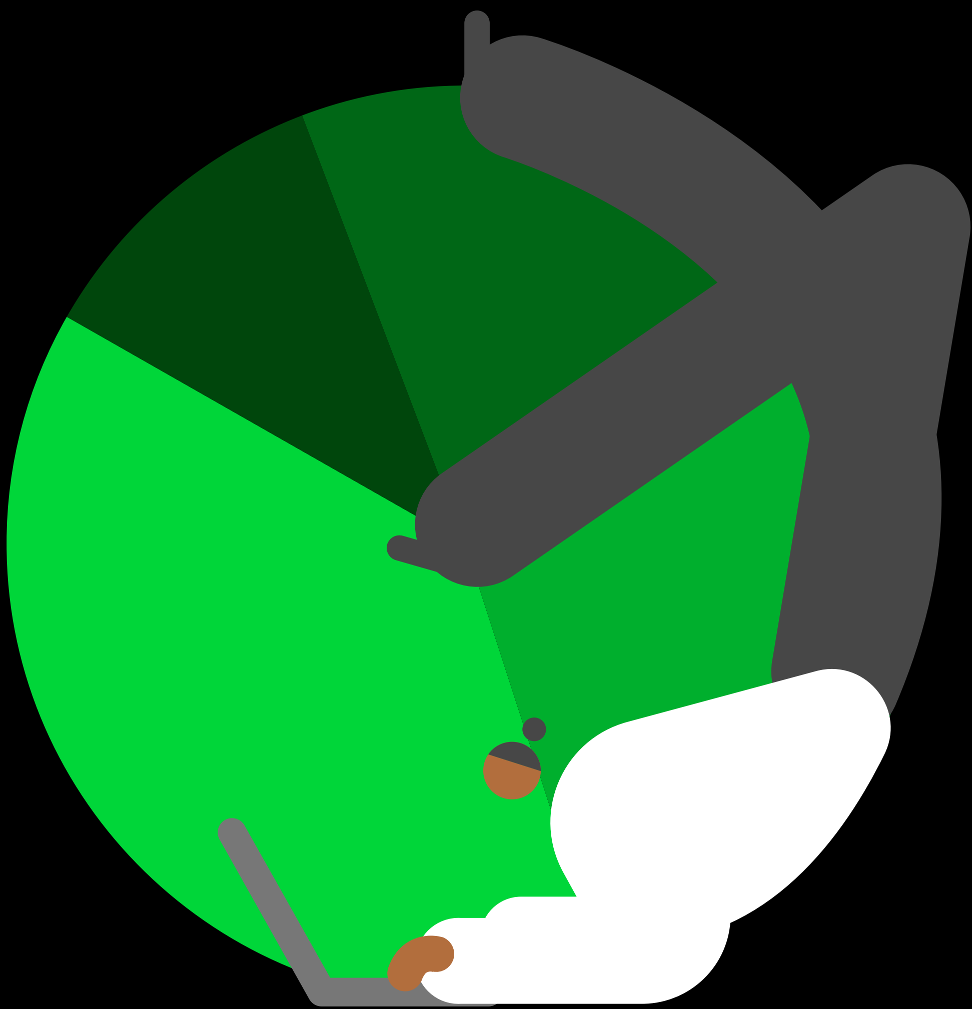
Beyond this, it is essential to raise awareness of the importance of sustainability reporting, from how it benefits SMEs to how it helps to drive progress on sustainable action.

We call on governments, industry leaders, and standard setters to work together to address the challenges and opportunities of sustainability reporting for SMEs. We need to make it easier for SMEs to report on their sustainability performance and most importantly, to enable them to benefit from doing so.

By acting on these recommendations, we can help to harness the full potential of SMEs in achieving our shared sustainability goals.

Sage

Appendix



Survey methodology

Strand Partners' specialist research team surveyed 16,423 SMEs in 16 markets between 01.09.2023 and 07.09.2023, capturing all major business demographics (from size to sector) as well as detailed information about geography (Nomenclature of Territorial Units for Statistics—NUTS 1 region). With these results, we were able to analyse data by sector and geography.

SMEs were defined as those employing less than 250 people in the UK, US, Germany, France, Italy, Spain, Poland, Romania, Netherlands, Belgium, Brazil, South Africa, Thailand, Canada, Australia, and Kenya.

The survey was 21 minutes long. Only 12% of respondents described the survey as being "difficult" to take. Responses were targeted by quota groups to achieve representativeness. Poor quality responses were removed.

Sampling
The survey was conducted using a stratified random sampling method. SMEs were stratified by size, sector, and geography. A random sample of SMEs was then selected from each stratum.

Survey
The survey was designed to measure SMEs' attitudes and perceptions towards a variety of topics, including sustainability reporting, innovation, research and development, and access to finance. The survey was pilot-tested with a small group of SMEs to ensure that it was clear and easy to understand.

Response rate
The response rate for the survey was 35%. This is comparable to other surveys of SMEs.

Data analysis
The data was analysed using IBM SPSS statistical software. A variety of statistical tests were used to analyse the data, including chi-square tests, t-tests, and analysis of variance (ANOVA).

Regulatory research methodology

PwC and Sage teams conducted a review of cross-sector sustainability reporting standards (see Table C) and frameworks to understand the character and depth of reporting requirements SMEs are facing.

A list of relevant global ESG reporting standards and frameworks was generated. Relevancy was determined by assessing the subject matter addressed within the standard, its significance in the global reporting landscape, and its applicability to SMEs.

Then each standard was reviewed through the lens of 4 reporting drivers: Regulatory requirements, value chain requests, access to funds, and voluntary reporting (see Table A) to determine the ways in which the requirements of a particular standard may trickle down to an SME. For example, while parts of a standard may be directly applicable to an SME (regulatory requirements driver), other reporting requirements within a standard might reach an SME through large enterprises within an SMEs value chain (value chain requests driver).

Standards were tagged to 1 or more drivers, detailing the scope of how an SME triggers reporting requirements and/or what stakeholders are requesting information from an SME.

Key topics which an SME would have to provide data points on were documented for each standard (see Table B). The sustainability reporting standard or framework was then assessed for additional unique aspects impacting an SME. Once this was all considered the standard was then assessed to determine key challenges that would be relevant to an SME when considering the standard.

Table A: Reporting driver definitions

Reporting driver[1]	Opportunities[2]	Parties expected to request data[3]
Regulatory requirements	Mandatory or expected mandatory reporting requirements for small and medium sized enterprises (SMEs) on ESG information as enforced by regulatory bodies	1. Local or national regulatory bodies (i.e. independent and/or executive governmental agencies, financial agencies)
Value chain requests	Requests for ESG related information by upstream and downstream value chain parties	1. Large entities (LE) that have mandatory (regulatory) or voluntary supply chain reporting rules that trickle down ESG data requests to SMEs 2. LEs that have Scope 3 targets and are requesting SME ESG data in order to manage and externally report their supply chain decarbonisation 3. Entities with procurement strategies that make SME ESG data requests to qualify as a supplier 4. Government bodies requesting SME ESG data to qualify for government contracts

Reporting driver[1]	Opportunities[2]	Parties expected to request data[3]
Access to funds	Financial institutions requesting ESG information as part of the lending and investment process	1. Banks that require SME ESG data in order to qualify for lending options 2. Asset managers (i.e. private equity) that have built in ESG indicators into their screening and due diligence process to meet regulatory requirements, fund classification requirements, or internal strategic goals. This may require reporting of data during both pre-deal and holding period phases of the investment cycle
Voluntary reporting	Voluntary collection and external reporting of ESG information by the SME; that is the SME is primarily motivated by internal factors	1. SME (self) having identified value creation opportunities in the market to differentiate against competitors and/or meet consumer demands 2. SME (self) with internal value system and/or mission around sustainability 3. SME (self) that has committed to an ESG target and/or policy (i.e. SBTi) 4. National or public policies that are driving a sustainable agenda

[1]The following categories are intended to broadly capture how the market is driving SMEs to collect and report on ESG data. Drivers are not mutually exclusive and more than one may be applicable to an SME.
"Reporting" relates to the collection and external publication of Environmental, Social, and/or Governance (ESG) related information upon which a third party has reliance.
[3]The following list of parties are intended to broadly capture stakeholders who are interested in data from an SME in order to guide identification of relevant reporting metrics. This list may not be all inclusive. "SME ESG data requests" will include: submission of ESG data to rating agencies (i.e. Ecovadis) or third party disclosure platforms (i.e. CDP) or direct provision of information by requesting party (i.e. bespoke data request forms).

Table B: Key topics and their definitions

Key topics	Broad definition
Air quality	How an entity addresses the effects and management of air quality impacts resulting from stationary (e.g., factories, power plants) and mobile sources (e.g., trucks, delivery vehicles, planes) as well as industrial emissions
Behaving ethically and legally	How an entity implements policies surrounding compliant and lawful corporate conduct and competition in the marketplace including meeting regulatory requirements
Biodiversity	How an entity implements policies to sustainably manage impacts on ecosystems and biodiversity through activities including, but not limited to, land use for exploration, natural resource extraction, and cultivation, as well as project development, construction, and siting

Key topics	Broad definition
Carbon reduction activities	Efforts made to reduce carbon impact including carbon capture, reduction, and credits outside of a net zero commitment. This can include efforts to meet a carbon neutral commitment
Circular economy	How an entity manages its model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible
Climate change adaptation and resilience	How an entity manages the physical and transitional risks arising from climate change
Diversity, Equity, and Inclusion (DEI)	How an entity ensures that the company's culture, hiring, and promotion practices embrace workforce differences and promote actions and behaviours that deliver a diverse, inclusive, and supportive work environment that is reflective of local talent pools and customer base. Includes the measurement and management of employee diversity metrics
Energy management	How an entity is proactive and systematic in monitoring, controlling, and optimising its energy consumption to conserve use and decrease energy costs
ESG risk management	The continual assessment and management of ESG risks, and assurance through internal controls
ESG strategy and commitments	The strategy used by an entity to demonstrate the environmental, social, and governance factors that the entity believes to be intrinsically important to consider within their current and future business operations. This also includes externally communicated ESG commitments (outside of quantitative GHG targets)
Ethical labour practices	Policies and procedures to increase transparency and fair and ethical treatment of employees and contractors within the business and its supply chain
Executive pay	How an entity is transparent and fair in the setting of remuneration packages specifically designed for business leaders, senior management, and executive-level employees of a company
Finance planning	Processes an entity is taking to assess their current and future financial situation, goals, and impacts, and how to achieve them as it relates to ESG issues
GHG emissions	How an entity measures and manages its direct and indirect emissions of greenhouse gases across business operations and the value chain. This does not include targets and reductions
Net zero strategy	The strategy used by entities to eliminate carbon emissions across its business operations and value chain with a goal towards net zero and related metrics to measure and manage strategy
Packaging material and waste	How an entity approaches waste reduction and waste management through the reduction of total waste arisings, diversion of waste from disposal (through preparation for re-use, recycling and other recovery activities), and regulatory compliance

Key topics	Broad definition
Pay equity	Disclosure under various policies to increase gender equality and inclusion of minority groups through equal and fair pay practices
Roles, responsibilities, and accountability	How an entity clearly defines its roles and responsibilities on its sustainability journey and increasing transparency and traceability across its business operations and value chain
Stakeholder engagement	How an entity identifies, involves, and communicates with certain groups of people who may impact or be impacted by business activities, and building trust-based relationships
Supply chain management	How an entity addresses issues associated with environmental and social externalities created by suppliers through their operational activities including business conduct
Sustainable product design and life-cycle management	How an entity manages its life-cycle impacts of products and services, such as those related to distribution, use-phase resource intensity, and other environmental and social externalities that may occur during their use-phase or at the end of life
Sustainable supply chain	How an entity sets policies, controls, and market incentives throughout its value chain to procure goods, raw materials, and services that have been produced respecting the environment, workers, and communities. Includes efforts to have a positive impact and ensure alignment by suppliers and distributors with ESG policies
Target setting	How an entity makes commitments internally or externally to reach specific targets and goals around environmental and social metrics
Training and education	How an entity ensures all colleagues have opportunities to develop their skills and reach their full potential. Engaging a productive and talented workforce through engagement programmes, development opportunities, and promoting a culture that fosters learning and development and empowers employees
Water conservation and stewardship	How an entity reduces water use and practices responsible water stewardship, particularly in water-stressed regions, ensuring clean water access for local communities

Table C: Regulations assessed
In total 60 regulations were assessed, including:

Driver	Regulation
Regulatory requirements	Basic Law of Governance, Article No 32
Regulatory requirements	CBAM
Value chain requests	CSDDD
Regulatory requirements / value chain requests	CSRD
Value chain requests	EU Deforestation Act
Regulatory requirements	EU Pay Transparency Directive 2023
Value chain requests	German Supply Chain DD Act
Value chain requests	GHG protocol
Voluntary reporting	GRI
Voluntary reporting	Indian Business Responsibility and Sustainability Report (BRSR)
Access to funds	Indonesia Green Taxonomy Edition 1.0-2022
Voluntary reporting	Integrated reporting
Voluntary reporting	ISAE 3410
Voluntary reporting	ISO Certifications (i.e. ISO 26000, ISO 50001)
Access to funds / voluntary reporting	ISSB S1 and S2
Access to funds	JSE Sustainability Disclosure Guidance
Voluntary reporting	PAS2060
Access to funds	PCAF
Value chain requests / access to funds	Rating agencies (i.e CDP Sustainalytics)
Voluntary reporting	SASB
Value chain requests and voluntary reporting	SBTi Near-Term and Net-Zero
Regulatory requirements / access to funds	SDR
Voluntary reporting	SECR
Regulatory requirements / access to funds	SFDR
Regulatory requirements / voluntary reporting	TCFD
Voluntary reporting	TPT
Regulatory requirements	UK FCA TCFD
Regulatory requirements	UK MCD
Regulatory requirements	USA SEC
Value chain requests	USFLPA

Key terms used in this study

For the purpose of this research, we have used the following terminology and definitions:

What is sustainability reporting?
Sustainability reporting refers to environmental, socio-economic, and governance (ESG) disclosures made in response to regulatory or voluntary frameworks and standards. It enables companies to track progress and engage with stakeholders. It further informs strategy by identifying the sustainability impacts, risks, and opportunities associated with the business's operations and relationships. A well-crafted sustainability report can help enhance reputation, meet investor and supply chain expectations, and continually motivate organisations and their employees to improve sustainability performance.

ESG—ESG reporting is often used interchangeably with the term sustainability reporting. In its entirety it represents environmental, social, and governance impacts, risks, and opportunities to the business. Among stakeholders, it is often used by rating agencies and investors, particularly within the financial sector, to evaluate and screen businesses' ESG performance.

Supply chain—A "supply chain" refers to the system and resources required to create and move a product or service from supplier to customer (i.e. cradle to gate).

Value chain—The "value chain" considers the activities, resources, and relationships an enterprise uses and relies on to create its products or services. This ranges from conception of a product or service, to its delivery, to its disposal (i.e. cradle-to-grave). From a sustainability perspective, "value chain" has more appeal than "supply chain", since it explicitly references internal and external stakeholders and relationships in the value-creation process. The "value chain" concept is inclusive of a "supply chain".

Disclosures—qualitative statements and quantitative metrics about the sustainability performance of an SME or its products and service. Our survey has found that these disclosures are broad and may often be informal. Disclosures may cover a range of topics from the environmental impacts of their products to the social impact of their business to net-zero commitments.

SMEs—SMEs are defined in this study as any organisation with <250 employees.

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