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Unlocked value

ESG maturity assessments for small and medium-sized enterprises (SMEs)

SMEs contribute around 50% of European GDP (European Commission, 2020) and play a vital part in both the economic stability and the transition to sustainability within the European Union. While large corporations are no strangers to ESG reporting, it is likely to pose challenges and lost potential for the majority of SMEs. That said, addressing company-specific ESG issues can also add value for businesses in various ways as well as acting as a catalyst for spill-over effects – provided they implement a forward-looking, integrated ESG strategy to optimize value generation.

MAKING AN IMPACT THAT MATTERS since 1845

As disclosure requirements increase and the regulatory framework expands, we are seeing increased momentum in this area. Implementing sustainability measures pose some challenges yet also offer companies far-reaching opportunities to generate value.

Status quo

With the inclusion of SMEs in the scope of the Corporate Social Responsibility Directive (CSRD), the number of companies subject to sustainability reporting mandates is growing.

The disclosure requirement will take effect for many SMEs as of the 2026 financial year, which means they must define ESG targets, develop a strategy for achieving them and track the associated key performance indicators. The first disclosures are legally due at the beginning of 2027 and henceforth in each subsequent year.

Even though the current global crisis dwarfs the future regulatory, there is a lot of benefit to addressing sustainability issues early on and taking the relevant regulatory issues into account.

Challenges for SMEs

The first task is to develop business strategies over multiple time horizons, in terms of assessing and managing risks, addressing governance issues, tracking sustainability metrics and adapting the business model to achieve climate neutrality by 2050. To see this through, companies will have to invest substantial human and financial resources and secure the necessary sector-specific knowledge.

Naturally, there will also be a number of tasks involved in addressing these sustainability issues that SMEs will not have sufficient resources to manage. Collecting the large amount of data required for systematic sustainability reporting requires significant internal effort in terms of developing and integrating new processes and possibly new software. Drawing meaningful conclusions from ESG metrics is a new and unfamiliar task for many SMEs, particularly as the correct interpretation and classification of relevant key figures is so vital.

Our approach

To help companies gain a deeper understanding of sustainability as a concept, of the requirements they must comply with and of the effectiveness of various implementation methods, we have come up with a two-step solution:

1. ESG Maturity Assessment

Our ESG Maturity Assessment gives companies an accurate understanding of their status quo in terms of sustainability, identifying the company's core issues and ambitions as well as assessing any urgent matters.

Considering the present and future regulatory framework, this assessment defines a company's position on the sustainability continuum, its key opportunities for improvement and the areas and structures where sustainability measures will generate the most added value. We perform the assessment based on several time horizons, looking at the most immediate and urgent optimization issues, but also how best to manage key performance indicators over the long term. The key questions are: Where does the company stand right now? And where can we add value most effectively?

Once the ESG Maturity Assessment is complete, the company must decide how to address these findings, ideally with a structured strategy.

2. Sustainability strategy

When developing sustainability strategies, companies must pay particular attention to the issues that generate value for the company itself as well as its stakeholders. They can use stakeholder expectations in addition to reporting frameworks and future regulatory requirements to derive the most relevant issues.

The next step is to define medium and long-term goals for the issues that have been identified as critical, but to do so with the company's level of ambition in mind.

Companies will also need to define the appropriate sustainability measures and a corresponding governance structure to ensure that sustainability is adequately embedded within the organization and that they are capable of implementing the strategy.

CSRD explained

Under the CSRD, which has replaced the Non-Financial Reporting Directive, EU-based companies are obliged to report on their non-financial sustainability performance.

The CSRD will apply to large, listed companies as of the 2024 fiscal year, to all non-listed companies as of 2025 and to all SMEs as of 2026, with the first disclosures issued early in the following fiscal year.

For more information visit: Berichtspflichten der Corporate Sustainability Reporting Directive: Auswirkungen für das ESG-Reporting

Your added value

We are seeing dynamic development at all levels when it comes to reporting on sustainability performance, particularly in terms of social, governance and the more unfamiliar environmental metrics – yet another reason why the potential added value for early adopters is substantial.

ESG monetization

The demand for sustainable companies continues to grow at pace, and companies will need a robust sustainability and ESG disclosure strategy to capture and monetize the current trend.

This is relevant, for example, for those SMEs that need capital, or for those investors, private equity funds, end users and entities that are trying to increase their appeal as an M&A target. For these players, full transparency should be seen as a key asset.

Process optimization

A better and more comprehensive understanding of non-financial performance metrics will enable companies to optimize their production and business processes as well as their product portfolio.

Collecting and tracking non-financial data may at first glance appear as yet another burden for some companies, but the efforts will pay off in the long run. After all, if a company has previously unknown and unused synergies or if outdated governance structures have led to the loss of a company's talent pool – and these issues remain unaddressed – the impact on process efficiency could be significant.

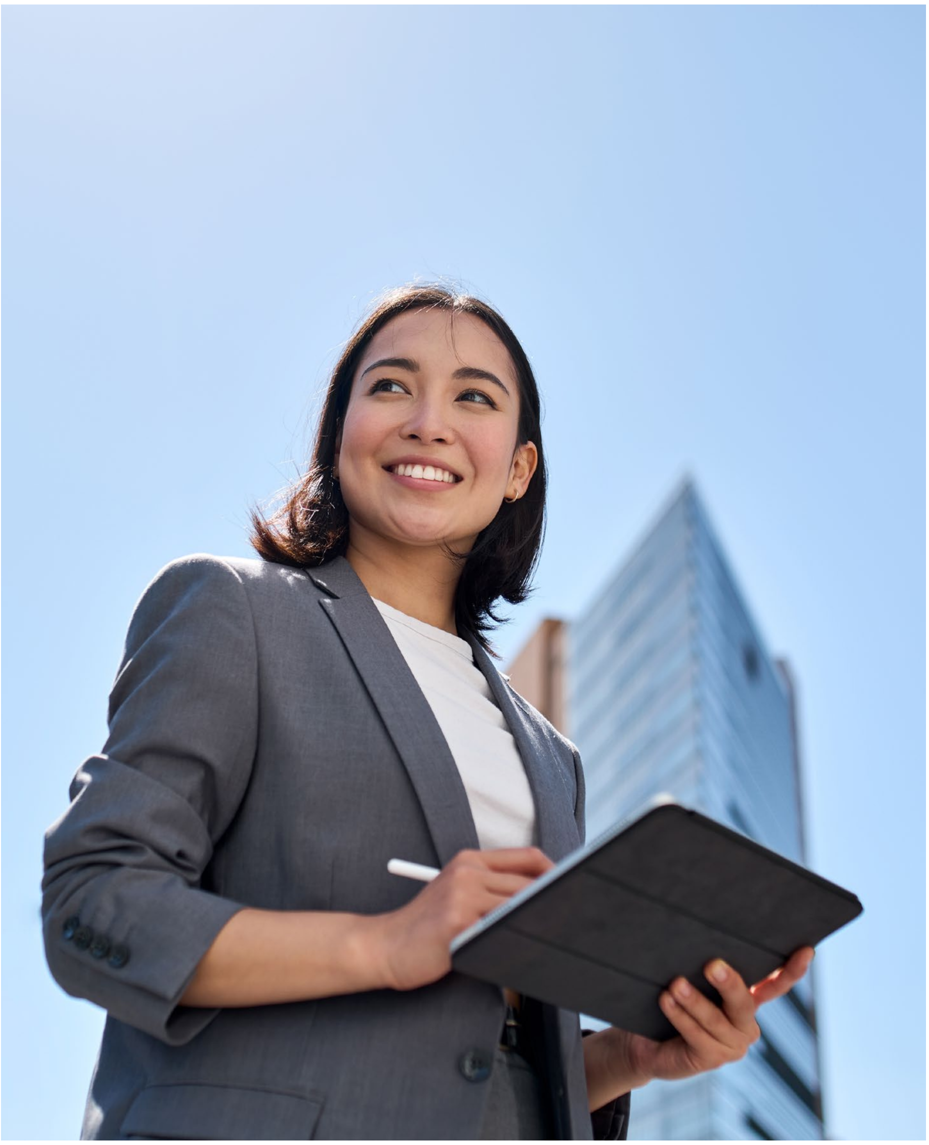
Spill-over effects

Thanks to spill-over effects, those companies that develop an effective sustainability strategy early on will also be in a position to address other challenges. These may include:

- Better integration of stakeholder expectations in company strategy

- Better management of climate and energy transition risks, which in turn will make forecasting more reliable and the company more competitive

- The ability to save internal resources through early implementation of CSRD and to minimize the risk of future overload



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