

**Louvain School of Management
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Drivers, needs, advantages, and barriers to reporting on sustainability in small and medium enterprises in Italy, given the impact of the Corporate Sustainability Reporting Directive.

A qualitative research.

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Abstract

This thesis researches the drivers, needs, benefits, and challenges of sustainability reporting in Italian SMEs, with a specific focus on the impact of the CSRD. 695 actors in the field have been involved and through 37 interviews with listed and non-listed SMEs, and experts, it identifies challenges and opportunities for SMEs. Limited awareness and understanding of sustainability, coupled with the need for tailored guidance and frameworks, are highlighted. The research sheds light on the implications of the CSRD for SMEs, aiding policymakers in developing strategies to support SMEs in meeting reporting requirements and harnessing the benefits of sustainability practices.

Keywords

CSRD, SMEs in Italy, Sustainability reporting, European Union, NFRD

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INTRODUCTION

Reporting on sustainability has become increasingly important for companies worldwide, driven by the need to disclose their environmental, social, and governance (ESG) performance and shape their long-term vision (Bebbington, Unerman, and O'Dwyer 2014). This trend applies not only to large multinational corporations but also to Small and Medium-sized Enterprises (SMEs), which can leverage their sustainable commitment as a competitive advantage (Lopez-Torres 2022). The European Union has been progressively imposing normative obligations and policies on companies to report their sustainability performance. The recent Corporate Sustainability Reporting Directive (CSRD) (European Union 2022a) expands reporting requirements for a wider range of companies, including listed SMEs, while offering voluntary reporting options for others. Notably, the CSRD will necessitate reporting on the entire supply chain, potentially impacting SMEs (European Union 2022a).

This Work Project focuses on exploring the drivers, needs, advantages, and barriers to sustainability reporting in Italian SMEs, taking into account the direct and indirect impact of the CSRD on these businesses. The selection of SMEs in Italy as the target of this study is purposeful. Italy is home to the largest number of SMEs in Europe, which constitute a critical component of the country's economy, accounting for approximately 90% of businesses, employing about two-thirds of the workforce, and generating over half of the national Gross Domestic Product (GDP) (Confindustria 2022). SMEs face unique challenges in sustainability reporting, including limited resources, expertise, and experience. The current tools and frameworks available are primarily designed for larger companies and do not adequately address the specific needs of SMEs (Das, Rangarajan, and Dutta 2019).

The impact of the CSRD on SMEs is significant yet underestimated in academia. SMEs within larger supply chains face the risk of being excluded from the market if they fail to provide the required Key Performance Indicators (KPIs). Moreover, companies compelled to report for

the first time under the directive will encounter substantial structural changes and associated costs.

To provide a comprehensive understanding of the topic, this research employs a qualitative research method and involved over 695 participants, including SMEs and experts. Out of the 695 actors in the field invited to participate, only 37 have accepted to be engaged in an interview. The sample selection adopts maximum variation sampling, and semi-structured interviews have been conducted with non-listed SMEs, SMEs listed in the secondary market, companies subject to CSRD reporting obligations, and experts in the field.

This work project aims to contribute to the existing literature by examining the drivers, needs, benefits, and challenges of sustainability reporting in Italian SMEs, with a specific focus on the impact of the CSRD. In my opinion, this research will shed light on the unique challenges and opportunities faced by SMEs in this context, filling a gap in the current knowledge. By exploring the effects of the CSRD on SMEs, including those not legally obliged to report, it will provide valuable insights for future policy decisions and support the development of tailored guidance and frameworks for these businesses.

LITERATURE REVIEW

This literature review aims to provide a comprehensive understanding of the context that led to the analysis of drivers, needs, advantages, and barriers associated with sustainability reporting in SMEs in Italy, along with the relevant legislative framework. To achieve this, the review is structured into three interrelated macro sections, i.e., contextual foundation, the legislative framework in the European Union and in Italy on sustainability reporting, and the current situation of SMEs in Europe and in Italy as far as sustainability reporting is involved

1.1 CONTEXTUAL KEY ELEMENTS

This section explores the key contextual element for the understanding of this work project's topic. It delves into the evolution of business role in society, shifting from profit maximization to a focus on sustainability reporting. The relevance of the Environmental, Social, and Governance (ESG) framework in business sustainability is discussed, highlighting its role in risk management, credit access, reputation, and regulatory compliance. The significance of materiality and double materiality in sustainability reporting is explored, emphasizing the comprehensive approach to disclosure. Finally, the section touches on the standards, certifications, and motivations for sustainability reporting.

1.1.1 *The evolution of business's role in society*

The role of business in society has undergone a significant evolution over the years. Traditionally, businesses operated with the primary goal of maximizing profits and increasing shareholder wealth. However, external events, global challenges, and changing societal expectations have brought forth a paradigm shift (Sachs 2012), emphasizing the importance of businesses considering their broader impacts on society (Freeman 1984).

This section examines the evolution of businesses' role, starting from profit maximization to the present-day emphasis on reporting on sustainability.

Dating back to the mid-20th century, businesses were primarily focused on profit maximization and increasing shareholder value. This narrow perspective regarded shareholders as the sole beneficiaries and the primary stakeholders of a company. Under this paradigm, the business's success was measured primarily by financial metrics, such as revenue growth and profitability.

In the 1970s and 1980s, several external factors began reshaping the business landscape. Growing concerns over social issues, such as human rights, labour practices, and environmental degradation, led to increased pressure on businesses to take responsibility for their impacts beyond financial considerations (Carroll 1991). This shift in perspective started recognizing that businesses have a broader set of responsibilities towards various stakeholders, including employees, customers, local communities, and the environment.

One pivotal moment in the evolution of business's role in society was the introduction of the concept of sustainable development. The Brundtland Report, published in 1987, defined sustainable development as “*meeting the needs of the present generation without compromising the ability of future generations to meet their own needs*” (G. H. Brundtland 1987). This concept highlighted the necessity of balancing economic, social, and environmental considerations for long-term societal well-being.

The application of the principles of the Brundtland Report to the business world was theorized by John Elkington in his Triple Bottom Line (TBL) framework (Elkington 1997).

The TBL framework paved the way for integrating economic, social, and environmental considerations into business practices.

However, as sustainability gained prominence, the business community recognized the limits of the TBL framework, which was only focusing on the strategic decision process. It appeared the need for a more standardized and comprehensive approach to measuring and reporting on sustainability.

In the late 1990s sustainability reporting frameworks and guidelines were introduced. They provided companies with a structured approach to disclosing their sustainability-related information, ensuring comparability, transparency, and accountability in response to the growing demand for reliable data from stakeholders.

Today, businesses are expected to go beyond financial performance, consider their impacts on society and the environment, and report on sustainability. This is true not only if we consider company reputation or the societal push, but also other key elements such as access to capital.

1.1.2 The Relevance of the ESG Framework in Business Sustainability

Among the various reporting frameworks and guidelines introduced, the Environmental, Social, and Governance (ESG) framework has gained recognition and prominence since the early 2000s, playing a crucial role in shaping business sustainability practices today. Originating from the finance world, this framework emerged in response to the realization that a company's environmental and social performance, along with its governance practices, can significantly impact its financial performance and long-term sustainability.

The rise of sustainable finance has further amplified the importance of the ESG framework. Sustainable finance integrates environmental, social, and governance considerations into investment decisions and capital allocation processes, with the aim of promoting sustainable development. Key data highlights the growing significance of sustainable finance, as sustainable investment funds reached a record \$1.7 trillion in 2020, reflecting a shift in investor preferences towards companies that prioritize sustainability and embrace ESG factors in their operations (Global Sustainable Investment Alliance 2021).

With the ESG framework becoming the preferred choice among investors, companies now recognize the need to adopt it in their business practices and reporting to access credit and meet

stakeholder expectations. By integrating ESG factors into their practices, companies can derive various benefits.

Firstly, implementing ESG principles facilitates risk management and enhances long-term viability. By considering a wide range of factors beyond financial performance, companies can identify and address potential risks and opportunities that may not be immediately apparent (Friede, Bassen, and Busch 2015).

Secondly, incorporating ESG factors into a company's plan improves its reputation and attractiveness to investors and customers. Stakeholders, including investors, increasingly seek companies that demonstrate a commitment to sustainability. By incorporating ESG considerations into decision-making processes, companies can effectively signal this commitment. Notably, a survey by McKinsey & Company found that 83% of global investors have already incorporated ESG factors into their investment process (KPMG 2020).

Moreover, regulatory compliance has become increasingly critical, making the ESG framework essential for businesses. Many countries have implemented laws and regulations mandating businesses to disclose their sustainability performance. Failure to comply with these requirements can expose companies to legal and reputational risks (Serafeim and Yoon 2022).

1.1.3 *The significance of Materiality and Double Materiality in sustainability reporting*

According to the Global Reporting Initiative (GRI), sustainability reporting is defined as *"the practice of disclosing, measuring, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development."* ('GRI - About GRI' n.d.).

As companies navigate sustainability reporting, the ESG frameworks serve as valuable tools. However, selecting the appropriate elements to include in these reports is crucial to ensure transparency and accountability. This is where the concept of materiality comes into play.

Materiality is a fundamental *“accounting principle which states that all items that are reasonably likely to impact investors’ decision-making must be recorded or reported in detail in a business’s financial statements”* (‘What Is Materiality in Accounting? | HBS Online’ 2016). In the context of sustainability reporting, materiality plays a crucial role in determining which ESG issues are significant and should be disclosed to stakeholders (GRI, 2022).

Building upon materiality, the concept of double materiality recognizes that companies need to report not only the financial risks associated with sustainability issues (financial materiality) but also their impacts on people and the environment (impact materiality) (FISMA - Sustainable Finance n.d.). This concept highlights the interconnectedness between financial materiality, which examines the impact of ESG factors on a company's financial performance, and sustainability materiality, which examines the impact of a company's financial performance on the environment and society (European Commission, 2019).

By embracing the principles of double materiality, companies adopt a comprehensive approach to sustainability reporting, considering both financial consequences and the environmental and social impacts of their decisions. This fosters transparency, accountability, and a deeper understanding of the range of material risks and opportunities associated with ESG factors (GRI, 2022).

1.1.4 Standards, certifications, and motivations for sustainability reporting in companies

As a result of an increasing requirement for firms to be transparent about their ESG performance, sustainability reporting standards, ratings, and certifications are emerging. This demand has been fueled by increased awareness of businesses' influence on society and the environment, as well as the growing importance of sustainability concerns to stakeholders like investors, customers, employees, and regulators (Barker, Eccles, and Serafeim 2020).

The most relevant standards on sustainability reporting are the GRI Standards ('GRI - About GRI' n.d.), the Sustainability Accounting Standards Board (SASB) standards (SASB 2023), the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (TCFD n.d.), the International Integrated Reporting Council (IIRC) standards (IIRC n.d.) and the Carbon Disclosure Project (CDP) recommendations (CDP n.d.). Companies can use as well the SDGs for guidance in their sustainability reporting by aligning their actions with the goals and reporting on their progress toward attaining them through the SDG Action Manager.

It is relevant as well to point out that companies put beside the usage of reporting to communicate their sustainable practice certification and relevant international standards. Among the many, the most relevant and used are the B Corporation Certificate for companies meeting high standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials ('B Corp Certification Demonstrates a Company's Entire Social and Environmental Impact.' n.d.), and the ISO standards, among which the most relevant for companies are standards 140001 for environmental management systems that help companies identify and manage environmental risks and impacts and 26000 that provides guidance on how organizations can operate in an ethical and transparent manner, taking into account their impact on society and the environment ('ISO - Standards' n.d.)

The reasons why companies decide to do a sustainability report are variegated.

First, as stated before, it represents a disclosure mechanism of their ESG performance to stakeholders, including investors, customers, employees, and the public demonstrating transparency and accountability for their impacts, risks, and opportunities. Among the different stakeholders, investors still maintain a relevant position considering that they are willing to exclude from financing those companies with poor non-financial performance.

Furthermore, by highlighting their dedication to sustainability and stakeholder engagement, sustainability reporting can improve companies' reputation, and brand value and foster trust and loyalty. At the same time reporting non-financial related information, through the process of identification and mitigation of ESG risks, enhances risk management and performance improvement (Bebbington, Unerman, and O'Dwyer 2014).

The main reason, however, is still the strong regulatory push, particularly as far as European companies are involved.

1.2 THE REGULATORY FRAMEWORK IN THE EU AND IN ITALY

This second section delves into the legislative framework that governs sustainability reporting, focusing specifically on the European and Italian contexts. It examines the CSRD and the Non-Financial Reporting Directive (NFRD), shedding light on the regulatory framework within which SMEs in Italy must operate.

1.2.1 EU's commitment to sustainability: the European Green Deal

Operating in the European Union (EU) as a business means awareness and respect of its aims, values, and legislative instruments ('Aims and Values | European Union' n.d.). Furthermore, in the last decade, the European Union as a geo-political actor has decided to establish itself as the global leader in climate and environmental measures and it's necessary the involvement of companies in this process (European Union 2021).

In December 2019 the European Commission introduced a comprehensive project to achieve carbon neutrality by 2050 named *European Green Deal*. This plan entails different policies tackling different areas such as:

- Climate Law, with a legally binding target of net-zero greenhouse gas emissions by 2050.
- Circular Economy, to minimize waste and use resources more efficiently.

- Biodiversity, to protect at least 30% of land and sea areas by 2030.
- Farm to Fork, that sets out a vision for a more sustainable food system.
- Energy, to achieve a 55% reduction in greenhouse gas emissions by 2030.
- Transport: to reduce greenhouse gas emissions from transport by 90% by 2050 (European Commission 2019).

1.2.2 EU Taxonomy

To meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal it was vital for the EU to direct investments toward sustainable projects and activities ('EU Taxonomy for Sustainable Activities' n.d.). To meet these goals was released the EU Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment also known as EU Taxonomy (European Commission 2020).

The EU Taxonomy is a classification system used to examine whether a company's activities and/or investments are compatible with the EU's environmental goals. This standard primarily seeks two goals, i.e. combating the phenomenon of greenwashing and guiding investments toward activities/sectors deemed sustainable while assisting economic operators in their search for additional capital.

According to these criteria, an economic activity is considered environmentally sustainable if it helps the attainment of the EU's objectives in this field, fulfills a set of minimal social safeguards, and meets specific performance benchmarks known as technical screening criteria (or TSCs).

The Taxonomy serves as a guide that focuses on three different "actors" in the economic system:

Businesses: it enables these actors to evaluate their activities before moving on to develop business strategies that are more oriented toward environmental sustainability, as well as supporting them in the development of environmental reporting processes that allow them to provide their stakeholders with complete information that is comparable to that produced by their competitors.

Investors: the goal is to integrate sustainability problems into investors' decision-making processes, raising knowledge of the repercussions, both positive and negative, that could have an impact on the environment.

Public institutions: these entities can use the Taxonomy to specify the policies they will implement to support and realize the transition of economic systems to more decarbonized models.

The Taxonomy can be considered a useful tool for assisting businesses in directing their business strategy and model toward more sustainable models. Adopting this approach encourages businesses to collect and measure data related to the environmental impact of business processes in a structured manner, establishing the eco-compatibility of business activities through a standardized evaluation process, and thus stimulating a process of continuous improvement of the processes themselves from an environmental standpoint.

1.2.3 EU policies on sustainability reporting

Another relevant regulatory push done by the EU is the set of policies regarding sustainability reporting. The EU, acknowledging its role as a public authority in supporting and encouraging companies in their effort to conduct their business responsibly, had to define policies that monitor how companies act and that support them in disclosing sustainability-related information (Policy Department for Citizen's Rights and Constitutional Affairs 2020).

At the same time, regulating how many companies must report on sustainability and which information are relevant to be included represents an effective strategy in influencing companies' performance measurement, and strategic decisions, and enhancing a long-term view aligned with EU Green Deal's goals (European Commission 2019).

In terms of non-financial reporting standards, while the EU's legislative intervention in the early twenty-first century was primarily based on soft law instruments, hard law legislative instruments have been introduced since 2006 (European Union 2006). The two most relevant are the European Union Directive on Non-Financial Reporting (NFRD) (2014/95/EU) (European Union 2014) amended in 2017 and the newly adopted CSRD (2022/2464/EU) (European Union 2022).

1.2.4 The Non-Financial Reporting Directive (NFRD)

The NFRD established mandatory reporting on non-financial information “*for large public-interest entities with an average number of employees over 500, and to public-interest entities that are parent companies of a large group with an average number of employees in excess of 500 on a consolidated basis*” (European Union 2014). The objective of the directive is to improve uniformity and comparability of non-financial information disclosed in the EU, with a focus on social and environmental information. The directive guides the contents of non-financial statements, which should include information on social and environmental aspects, human rights, and combating active and passive corruption.

The directive was supposed to be transposed into law by member states by December 6, 2016, and the provisions of the directive itself were supposed to apply to all subject companies as of the fiscal year beginning on 1st January 2017 or during the year 2017.

Even if the NFRD represents the first establishment of mandatory reporting requirements for certain types of companies, it has faced several criticisms over the years (Tsagas and Villiers 2020).

These criticisms include the lack of specificity, resulting in discrepancies and variations in reporting across organizations and making it challenging for investors and stakeholders to compare and analyze non-financial data. The limited scope of the NFRD, applying only to select types of major corporations, excludes many entities that have a significant influence on the environment and society. Another criticism is the absence of enforcement, as there are no consequences or penalties for noncompliance. Additionally, the NFRD lacks a mandate for companies to report on material non-financial issues, which may limit the relevance and utility of the report. It also does not provide specific requirements for supply chain reporting, despite its importance in evaluating a company's environmental and social effects. Lastly, the NFRD does not mandate compulsory external assurance of the non-financial report.

1.2.4 The Corporate Sustainability Reporting Directive (CSRD)

Based on the limitations of the previous directive, the CSRD, as the most recent and relevant directive on non-financial reporting in the EU, aims to enhance and standardize sustainability reporting as part of the European Green Deal and the Sustainable Finance Agenda. The Press Release of the Council of the EU in November 2022 states that *the CSRD will fill the gaps in the existing rules on sustainability information. Financial markets need access to environmental, social, and governance information that is reliable, relevant, and comparable if private capital is to be channeled into financing the green and social transition* ('Council Gives Final Green Light to Corporate Sustainability Reporting Directive' n.d.).

The European Commission proposed the directive for the first time in April 2021. EU member states unanimously agreed on the Council's stance on the CSRD proposal on February

24, 2022. On 21 June 2022, the Council and the European Parliament reached a provisional agreement on the CSRD, which was endorsed by EU member states' representatives on 30 June 2022. Finally, on the 28th of November 2022, the directive was approved by the Council. On the 14th of December 2022, after being signed by the President of the European Parliament and the President of the Council, the CSRD was published in the Official Journal of the European Union and entered into force 20 days afterward. The new rules will need to be implemented by member states 18 months later.

The novelties brought by this new directive are various.

First, the CSRD increases the number of companies that will be required to report from the previous 11,600 of the NFRD to about 49,000 companies, corresponding to 75% of total European turnover (compared to the previous 47%) (Deloitte 2022).

This enlargement is mainly due to the enlargement of the definition of a large company with the inclusion of many companies considered medium by the NFRD¹, European listed companies (including listed SMEs), and non-EU companies and their respective branches operating in Europe (except where the parent established in a non-EU country prepares the reporting according to European standards). As far as non-listed SMEs are concerned, the Directive provides for less stringent rules, allowing them to choose whether to draw up a sustainability report if they are not listed (European Union 2022a).

Second, all companies will be required as well to report their sustainability information in a digital format that is easily accessible, machine-readable, and published in a publicly accessible database of all non-financial statements filed by corporations in the EU. To guarantee external assurance, all the sustainability reports will have to be audited by independent auditors(European Union 2022a).

¹ As in the CSRD, a large company is now “undertaking which, on its balance sheet date, exceeds at least two of the three following thresholds: (a) a balance sheet total of twenty million euros; (b) a net turnover of forty million euros; (c) an average number of two hundred and fifty employees during the financial year.” (European Union 2022a).

Third, to uniform sustainability reporting standards across Europe the European Financial Reporting Advisory Group (EFRAG) has been mandated to develop the EU sustainability reporting standards, in consultation with various stakeholders. The new proposed standards are intended to align with already existing sustainability reporting frameworks, such as the GRI and the TCFD while increasing the stringency of the supply chain control (European Union 2022a).

These standards will undergo the proportionality principle, with the proposal of a simplified version for SMEs. The CSRD proposes the creation of a European Sustainability Reporting Standards Board as well, which will be in charge of defining and maintaining sustainability reporting standards that businesses would follow when presenting their non-financial statements.

Forth, the directive requires the application of the principle of double materiality in reporting, that as reported above means that companies will *have to report not only on how sustainability issues might create financial risks for the company (financial materiality) but also on the company's own impacts on people and the environment (impact materiality)* (European Union 2019).

Finally, to guarantee better harmonization with other EU regulations, the directive would be aligned with other EU legislation, such as the Taxonomy and the Sustainable Finance Disclosure Regulation, to ensure consistency and coherence.

The application of the regulation will take place in four stages:

- Reporting in 2025 on the financial year 2024 for companies already subject to the NFRD.
- Reporting in 2026 on the financial year 2025 for large companies that are not currently subject to the NFRD.

- Reporting in 2027 on the financial year 2026 for listed SMEs (except micro undertakings), small and non-complex credit institutions, and captive insurance undertakings.
- Reporting in 2029 on the financial year 2028 for third-country undertakings with net turnover above 150 million in the EU if they have at least one subsidiary or branch in the EU exceeding certain thresholds ('Council Gives Final Green Light to Corporate Sustainability Reporting Directive' n.d.).

While bringing relevant improvements in comparison to the NFRD, some elements of criticism have been raised.

For Baumüller et al. the lack of clarity in the definition of materiality, the scope of reporting, and the requirements for external assurance could lead to inconsistencies in reporting practices across companies and member states. Furthermore, the authors claim that the CSRD proposal does not fully integrate sustainability reporting with financial reporting, which could limit investors' and other stakeholders' capacity to assess a company's overall performance (Baumüller and Grbenic 2021).

A more systemic critic is moved by Ringe and Gözlügöl that argue that the EU's efforts in regulating EU policymaking on sustainable corporate governance and finance have been piecemeal and not sufficiently ambitious, resulting in a fragmented regulatory landscape that fails to address the systemic issues driving the unsustainability of current business models (Ringe and Gözlügöl 2022).

Luc Hendrickx, that is the director of Enterprise Policy and External Relations at SMEunited², appointed plural critics as far as the application of the CSRD to SMEs is involved. In his opinion, the CSRD fails to adequately consider the challenges faced by SMEs in

² SMEunited is the European employer's organization representing the interests of crafts and SMEs at EU level ('Luc Hendrickx - EFRAG' n.d.).

complying with the reporting requirements. The proposed entry into force of the SME reporting standard creates issues as SMEs will be required to report to large enterprises from day one, likely based on the large enterprise standards. This places a significant burden on SMEs, as they are often part of the value chain of different large enterprises in various sectors and will be obliged to draft multiple sectorial reports.

Additionally, the development and implementation of new software to deal with the new obligations will require time and resources, which SMEs may not have. These challenges may result in SMEs being unable to comply with the reporting requirements, ultimately hindering the Commission's objective of reducing the number of information requests to companies. Therefore, there is a real risk that large companies will cancel their contracts with SMEs as they are not able to report, further exacerbating the challenges faced by SMEs (SMEunited 2023)

Despite any criticisms or points of improvement, to date, CSRD represents the most comprehensive and structured policy attempt on sustainability reporting issues at the international level. This is particularly evident if one also considers the attention that the new Directive places on all kinds of companies, from large companies to SMEs.

1.2.5 The transposition of the EU legislation in the Italian legislative panorama.

As sustainability reporting regulations gained momentum at the EU level, the transposition of these directives into national legislation became a critical step in ensuring their effective implementation and enforcement.

As my thesis delves into the drivers, needs, advantages, and barriers to reporting on sustainability in Small and Medium Enterprises (SMEs) in Italy, understanding the transposition of the EU legislation within the Italian legislative panorama is crucial to comprehending the regulatory landscape that influences sustainability reporting practices in the country.

However, it is important to note that while the NFRD has been successfully transposed into Italian law, the CSRD is a relatively new development at the EU level and has not yet been incorporated into local legislation.

This NFRD was transposed into Italian law by Legislative Decree No. 254 of Dec. 30, 2016, which came into effect the following 25th January 2017 (Parlamento Italiano 2016). This decree required companies that meet certain criteria to prepare and publish, starting in 2018, non-financial disclosure on environmental, social, human resources management, human rights, and anti-corruption issues.

Specifically, the legislative decree requires the submission of an individual non-financial disclosure statement for relevant public interest undertakings, namely Italian companies issuing securities listed on an Italian or EU-regulated market, banks, insurance, and reinsurance undertakings as well as the companies issuing financial instruments, which, although not listed on regulated markets, are widely materially distributed to the public, entities that had an average number of employees during the fiscal year of more than 500 and, as of the balance sheet date, exceeded at least one among total balance sheet over 20,000,000 euros or total net revenues from sales and services over 40,000,000 euros.

1.3 REPORTING ON SUSTAINABILITY IN SMEs AND THE ITALIAN CONTEXT

This third part of the literature review delves deeper into the status of SMEs in Europe, highlighting their significance and the challenges they face in terms of sustainability reporting. It also sheds light on the importance of Italian SMEs within the European Union, emphasizing their substantial presence and contributions to the national economy. By exploring these aspects, we aim to identify the reasons behind selecting the research question and shed light on the existing research gap pertaining to sustainability reporting practices among Italian SMEs.

1.3.1 The crucial role of SMEs in Europe's economy and limits for sustainability reporting

The EU counts 23 million SMEs, employing around 100 million people, representing 99% of registered companies in the European Union, and accounting for more than half of Europe's GDP (European Commission 2022). They are considered the backbone of national economies and of crucial importance for the supply chain of larger companies (GRI and IOE 2017).

However, at the European level, their share in total emissions is high, at 63% of all CO₂ emissions by companies, so a collective effort to monitor and limit their emission is needed (European Commission 2022).

In fact, in general, their understanding of the ESG concept, benefits, and application for their business is less developed than in large corporations (European Commission. Joint Research Centre. 2022).

As of today, there exist mainly four different important concepts for reporting on companies' sustainability performance: non-financial reporting, sustainability reporting, integrated reporting, and climate reporting (Baumüller and Sopp 2021). While at the international level, different institutions have created standards and frameworks to report sustainability-related business information³ that approach all four concepts, it's limited the number of standards that directly targets the needs of SMEs. At the same time, the complexity that sustainability reporting entails could result in even large increases in operating costs not offset by adequate benefits.

³ Relevant examples are Eco-Management and Audit Scheme (EMAS), United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative (European Union 2022a)

1.3.2 The Significance of Italian SMEs in the European Union

Among the different EU countries, Italy is the country with the largest number of SMEs (European Commission 2022). The country has around 160 thousand SMEs that fall into the definition of the European Union, which includes under this umbrella term all those companies between 10 and 249 employees with a turnover between 2 and 50 million euros, and they represent about 90% of all businesses, employ about two-thirds of the workforce, and generate over half of the country's Gross Domestic Product (GDP) (Confindustria 2022). While being the backbone of the Italian economy, these companies over the years have become drivers of regional development in particular in the Lombardy, Veneto, and Emilia Romagna regions.

1.4 CONCLUSIONS

The requirement for European-listed SMEs to report on sustainability-related matters represents a significant development in advancing sustainability reporting practices.

The recent expansion of the CSRD to include SMEs underscores the European Union's commitment to driving sustainable business practices.

Understanding the drivers, needs, advantages, and barriers associated with sustainability reporting for SMEs is crucial to ensure that the reporting requirements do not impose excessive financial burdens.

However, there exists a literature gap in examining the challenges and opportunities faced by Italian SMEs in complying with sustainability reporting requirements.

Addressing this gap will support Italian SMEs, unlock business advantages, and provide valuable insights for policymakers and practitioners in enhancing sustainability reporting practices among Italian SMEs.

METHODOLOGY

The research question for this study focuses on drivers, needs, advantages, and barriers to reporting on sustainability in SMEs in Italy considering the direct and indirect impacts that the newly adopted CSRD will have on them (European Union 2022a). The Work Projects focuses on three different categories of actors: non-listed SMEs and SMEs listed in the secondary market, that were not classified as large under the NFRD but will be considered large under the CSRD, and Experts in the field.

2.1 RESEARCH DESIGN

This Work Project's research design is qualitative with an inductive interpretivist approach.

This approach was chosen to understand the subjective experiences and perspectives of the participants to identify themes, patterns, and meanings that emerge from the data (Cortese, Rainero, and Cantino 2020). Rather than evaluating a pre-determined hypothesis, the study seeks to research and evaluate the SMEs' experiences in combination with experts' opinions to have a holistic view of the researched topic.

To obtain data, semi-structured interviews with representatives of a variegated sample of companies will be conducted as well as with experts in the field. Interviews are selected as the best data-gathering approach because they allow for an in-depth study of human experiences, perceptions, and motives while maintaining the right degree of freedom that valorize individual practices and experiences as well as their expertise.

Thematic analysis will be used to analyze the data for this investigation. This method entails recognizing patterns and themes in the interview data and categorizing them into meaningful groups. This strategy enables the investigation of the potentially rich and complex data that will emerge from the interviews.

This study design has the advantage of providing rich and thorough data that can inform a sophisticated understanding of the research issue. Furthermore, the inductive technique enables

the emergence of previously unconsidered discoveries and ideas. However, one potential weakness of this methodology is that the sample size may be limited, limiting the generalizability of the results. Furthermore, data interpretation might be subjective, which may result in some researcher bias.

The qualitative research approach is suitable for this study because it allows for a thorough grasp of the experiences and viewpoints of Italian SMEs. The inductive interpretivist approach is especially beneficial since it allows for the investigation of new insights and ideas that emerge from data rather than relying on pre-existing hypotheses. Interviews are the best data collection strategy for this study since they allow for a deep analysis of perceptions and beliefs.

2.2 SAMPLING

The European definition of SMEs as far as reporting on sustainability is involved has evolved over the years and with the different EU directives. At the same time, SMEs themselves represent a variegated group. To guarantee a holistic approach to the research question three different categories have been defined. The companies' characterization is based on the different CSRD reporting requirements:

- Companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market. SMEs listed in the principal market are subject to sustainability reporting in 2027 on the financial year 2026, and companies that become large with the enlargement of the definition of large company done by the CSRD⁴ are subjected to sustainability reporting in 2026 on the financial year 2025.
- Non-listed SMEs and SMEs listed not in the principal market.

⁴ As in the CSRD, a large company is now “undertaking which, on its balance sheet date, exceeds at least two of the three following thresholds: (a) a balance sheet total of twenty million euros; (b) a net turnover of forty million euros; (c) an average number of two hundred and fifty employees during the financial year.” (European Union 2022a).

- Opinions of experts i.e., sustainability managers of large companies already subject to the NFRD that will have to report on their supply chain that includes SMEs and consulting firms providing sustainability reporting consulting to SMEs.

2.2.1 Sample selection criteria

The sample selection criteria for this research study include the following conditions: the company must be located in Italy, fall within the previously presented categories, be listed on Euronext Milano or Euronext Milano Growth, which are the main stock exchange markets in Italy, and be willing to participate in an interview for the research.

2.2.2 Sampling technique

This study will employ purposive sampling, specifically maximum variation sampling. This technique of sampling was chosen because it allows for the selection of a diversified range of companies that match the requirements and can provide a wide range of opinions on the research question.

2.2.3 Sample size and characteristics

To ensure an unbiased sample selection, a comprehensive approach was adopted.

A total of 554 SMEs in Italy were contacted, out of which 43 were listed SMEs at Euronext Milano (primary market) or at Euronext Milano Growth (secondary market). Among the sampled companies, 15% were actively engaged in performing a sustainability report, aligning with national data on sustainability reporting practices. In fact, the most recent data on SMEs reporting on sustainability matters in Italy, dating to 2019, reports that only 16% of Italian SMEs publish a sustainability report (Italian Association of Chartered Accountants and Accounting Experts 2019)

To gather insights from experts in the field, four distinct categories were approached. Firstly, sustainability managers from the top 100 Italian companies, based on turnover, were contacted. Additionally, representatives from the 20 regional branches of Confindustria, the Confederation of Italian Industry, were included. 15 consulting firms focusing on sustainability reporting in SMEs have been contacted. Finally, sustainability managers from SMEs whose sustainability reports had received national recognition, specifically the prestigious *Corriere della Sera*'s⁵ Sustainability Reporting Price 2023, were also invited to participate.

From this extensive pool of 695 potential participants, 36 companies accepted to take part in the study, ultimately resulting in 28 scheduled interviews. Furthermore, 9 experts replied and took part in interviews.

The interviews' sample consists so of 28 companies and 9 experts in the field. The sample will be selected using the criteria and sampling technique outlined above.

It has been decided to include in the study also 7 micro enterprises whose turnover is under 2 million euros decided by the EU as the minimum target for being considered an SME. The reason for doing so is that these companies are all newly born start-ups whose turnover is rapidly increasing, and they are all expecting of overcoming the 2 million euros target in the next 3 years maximum. Furthermore, they all have a number of employees that is equal to or superior to the minimum of 10 established by the EU.

2.3 DATA COLLECTION

Representatives from the selected companies were interviewed. The same applies to experts in the field.

⁵ *Corriere della Sera* is an Italian daily newspaper with a long-standing history, founded in 1876. It is one of the most prominent and widely circulated newspapers in Italy, covering a range of topics including politics, economy, culture, and sports. Known for its authoritative journalism, *Corriere della Sera* maintains a strong presence in the Italian media landscape

Companies and experts were contacted via email and asked to participate in interviews. The email included a consent form for confirmation. After confirming participation, interview schedules were set and procedures shared in advance. The interviews, conducted in Italian, took place either in person or via video call and lasted 15 to 55 minutes.

To allow for a thorough study of the research issue, the semi-structured interview approach included open-ended questions that are reported in Appendix A divided by company category. Some questions have been formulated so that the answer could be either positive or negative and then aggregated with the answer of the other companies involved in the study. The aggregated results of the answers to these questions are reported in Appendix C.

All interviews were audio-recorded with the participant's permission. The audio recordings were verbatim transcribed and reviewed for accuracy. All identifying information was deleted from the transcripts to protect the participants' confidentiality and anonymity. The data were kept on a password-protected computer that only the researcher had access to.

2.4 DATA ANALYSIS

The data analysis process included four different stages: transcription check, coding, theme identification, and data verification.

2.4.1 Transcription check

With the permission of the participants, all interviews were audio-recorded and transcribed verbatim. The transcriptions were completed by a professional transcription service, and the researcher double-checked the transcripts for correctness.

2.4.2 Coding

The coding process involved a systematic and iterative analysis of the interview transcripts. Initially, a deductive coding approach was used, guided by the research questions and categories

defined in the sampling design. An inductive coding approach, on the other hand, was applied as well to uncover themes and patterns that arose from the data.

2.4.3 Theme identification

A method of ongoing comparison and pattern recognition was used to identify the themes. The researchers went over the codes and looked for reoccurring patterns and themes in the data. To provide a full comprehension of the data, these topics were then organized into bigger themes and sub-themes.

2.4.4 Data verification

Several procedures were made to ensure the data's accuracy and reliability. First, the researchers used numerous data sources, including interviews, company documents, and industry publications, to triangulate the data. Second, as previously stated, the researchers used a rigorous coding method to verify the consistency and accuracy of the classification.

2.5 CONCLUSIONS

This qualitative study investigates sustainability reporting in Italian SMEs, examining drivers, needs, advantages, and barriers, considering the impact of the CSRD.

Using maximum variation sampling, data is collected through semi-structured interviews, transcribed, and thematically analyzed.

The study adopts an inductive, interpretivist approach to uncover new insights. Confidentiality and anonymity are maintained throughout the research.

Thematic analysis facilitates a rigorous examination of the rich interview data, enhancing understanding of sustainability reporting in Italian SMEs.

FINDINGS

The scope of the qualitative research methodology used was the assessment of drivers, needs, advantages, and barriers to reporting on sustainability in SMEs in Italy considering the direct and indirect impacts that the newly adopted CSRD will have on them.

The first part of these findings focuses on the thematic presentation of interviews. The results have been divided into the same three categories of stakeholders that have been identified previously, i.e., non-listed SMEs or SMEs listed in the secondary market, companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market and expert opinion.

The final paragraph of this findings section has been dedicated to the definition of the elements of competitive advantage that characterize SMEs in Italy, which have been identified through interviews and are crucial to understanding the further discussion on findings and the policy implications of the study.

3.1 NON-LISTED SMEs AND SMEs LISTED IN THE SECONDARY MARKET

This category includes 21 companies whose participant identifier, sector of operations, turnover, and number of employees in 2022 are reported in Appendix B. To guarantee homogeneity in the sample it has been involved enterprises of different sizes; graphs representing the distribution on the base of turnover and number of employees have been reported in Appendix E.

All the companies involved have shown awareness of the ESG framework, even if only 7 of them had a team or person dedicated exclusively to sustainability; 19 companies are actively collecting data on their ESG performance, even if 2 of them are limiting the collection only to certain ESG dimensions (absence of the governance dimension). All the 19 companies collecting data are reporting them in a sustainability or impact report whose level of elaboration varies hugely in the sample; 8 companies decided to use for their report the GRIs international

standards that in some cases have been placed beside the usage of SDGs-based reporting; in three case histories, the use of external assurance is appreciated. It is relevant to highlight that 12 companies are using certifications to communicate their sustainable commitment, such as ISO standards 14001 and 9001, and the Life Cycle Assessment (LCA) of their products.

3.1.1 Drivers for sustainability reporting

It has been identified two categories of companies that are not reporting on sustainability, i.e. PM and AM.

As PM stated, *“While being on the table of the board, sustainability is not considered a priority”*. The company does not perform any type of sustainability report, as well as data collection, or KPIs tracking. Sustainability is not considered an element of competitiveness and the absence of sustainable strategies is not perceived as a medium-long-term risk of being out of the market.

AM represents, on the other hand, an interesting case record. As PM, they are formally not doing a sustainability report and they don't have any data collection process ongoing. But, on the other hand, the company is performing virtuous behaviors both in the Environmental and Social sphere. As stated by the Chief Executive Officer (CEO), *“we are very careful in the selection of the materials; all the leather that we use is tanned without the use of chromium or similar heavy metals. We are implementing as much as possible circular economy practices: we use the production leftovers of shoes to do belts, and our customers can ask for the renewal of the sole or the upper of their shoes. When it's not possible to renovate a pair of shoes, we take care of its recycling, and we recognize our customers a discount on their new shoes. All people working for us have flexible working hours, the lunch break is adapted to their needs and for us is crucial that they have an excellent work-life balance”*. All these practices are

communicated only verbally by the CEO to its customers and to the responsible for the direct resale spaces.

The remaining interviewed companies are all performing a sustainability report, whose main reasons to do so, which will be clarified later, are:

- Connection with the territory
- Company's Culture
- Reputation
- Supply chain push
- Formalization of what was already done

A strong connection with the territory where the company was born and a strong need of giving back has been highlighted by those companies located in the provincial areas or by companies whose final product value and legitimization are related to the production area, like FUM. PW stated that they are *“interconnected with the territory in which they operate”* while O *“needed to structure their local philanthropic actions in a report”*.

Some companies, on the other hand, have a company culture that is sustainable and careful towards the ESG indicators, and communicating how they were acting towards sustainability was perceived as a matter of transparency. As I stated, *“we are a company born sustainable and this push is part of our culture since the beginning”*. For EZ, *“our sustainable commitment was driven by a structural culture change in the company”*. For AS *“For us being careful toward the social and environmental sphere was an integral part of our company culture, we have always been doing it. It was not a matter of “doing something good for having a benefit”, but it is something that is part of our DNA.”*.

The attempt to rehabilitate its reputation because of the industry in which they operate and to show how it changed the way they operate to impact less is shown by FUM, which states *“The sector in which we operate is highly criticized for its damage to the territory. We wanted*

to show that we care about the environment, and we are doing our best to have the lowest possible impact”.

At the same time, FUM tried to involve its supply chain in reporting on sustainability and having a better ESG performance they state *“What we are trying to do is to bring all our supply chain in this sustainable journey with us. To do so we support them in the credit access procedures”*. The push by their supply chain is highlighted by AE saying that *“It was crucial the push and the expertise sharing from two of our customers in the decision of undertaking this journey and producing a sustainability report.”*.

Finally, some companies were driven to report on sustainability by the need of formalizing what was already happening in their reality. For instance, for T *“As a company doing the report was a process of formalization and structuration of what we were already doing”*.

3.1.2 Needs in SMEs journey towards sustainability reporting

While explaining their journey toward the production of a sustainability report, companies have highlighted four kinds of needs.

Many companies have highlighted that as an SME, being sustainable and reporting their efforts has had no advantage from the fiscal and financial point of view. C reported, *“There are not enough financial instruments, grants, and fundings for companies that are sustainable for real.”*. On the other hand, PM, which as of today is not performing any sustainability report, sees this journey as expensive and thinks that *“Investments in sustainability should be considered as tax credit”*. Better support for undertaking a sustainable path and a recognition of their effort from a financial point of view is generally hoped by companies.

The absence of human resources to dedicate to their sustainability report is highlighted by C, which states that *“How well the report is done depends on contingencies. This year, for example, the crisis in our sector did not allow us to allocate enough time and human resources*

to it". For AM, *"The focuses of the management are variegate, and it would not be feasible to allocate someone only to this report"*, so they prefer structuring their sustainability communication only on a verbal basis now.

PW and P highlighted the absence of adequate technological instruments and platforms to properly manage and monitor their sustainability performance. P says that *"Rather than reporting standards, what we would need is the technological development of adequate platforms"*.

Finally, companies are highlighting that the market is still not recognizing the premium price that might come from sustainable practices. In fact, for S *"You can have the best sustainable commitment, but at the end, the main purchasing driver for customers remains the price"*.

3.1.3 Advantages in sustainability reporting

Non-listed SMEs and SMEs listed in the secondary market have highlighted three kinds of advantages in reporting on sustainability.

On one hand, companies saw a steep increase in brand reputation and perception, as well as talent acquisition and retention. For OAS, *"Our sustainability commitment is key to retaining and attracting talents, particularly as far as younger generations are involved."* W said that *"Company reputation has improved since we started our sustainable journey"*. For AS *"Putting people at the center has led to more productivity and better performances in particular in the long term. Furthermore, we are recognized by all our stakeholders as a great company to work for."*

For other companies, their ESG practices have become an element of competitive advantage. EZ directly linked today's existence of the company with their sustainable commitment saying, *"Without the change of our culture and of the products we do, today we would not exist anymore."* The perception of the potential that sustainability can represent for the company is

clear to the Chief Operating Officer (COO) of I, that told *“We want to transform our attention to sustainability into a competitive leverage and we are working towards it.”*.

Finally performing a sustainability report represent the opportunity to track critical KPIs, to check the improvement over a certain period, and to set strategic goals in the long term. As M says *“This report is crucial for us to define which are our future goals and where we want to go.”*. W highlighted the strategic dimension of sustainability saying, *“We use the sustainability report as a key instrument of awareness and strategic planning.”*.

3.1.4 The capacity of sustainability reporting standards to meet the needs of SMEs

It has been researched the perception that non-listed SMEs and SMEs listed in the secondary market had towards sustainability reporting standards currently available.

It has generally been highlighted the incapacity of the standards available of meeting the needs of small and medium realities. For example, PD highlighted the inconsistency of standards in tracking KPIs saying *“The available standards are inadequate for SMES. There is no regulation nor standards that provide insightful KPIs.”*. AE stated that *“The standards available are too complex for our reality. Since we have no normative obligation, we decided not to use them.”*. W, whose sustainability report has been awarded different prizes for its quality at the national level, acknowledges the difficulties encountered in the sustainability reporting path; the CEO reported *“The standards by themselves are too complicated to adapt to the reality of an SME. For me creating this report was possible after committing personally to the topic and after adapting standards that are created for large companies to my reality.”*. It is interesting as well the case of F; one of their sustainability team members said *“It was possible to produce an extensive document with external assurance because we are part of a larger bank group that provided us their big 4 consultants. Without them, it would have not been possible.”*. What they acknowledge is not only the complexity of standards, but as well

that for them producing the report was possible only with the help of an external consultant that they could afford because paid by the larger banking group of which they are part.

Furthermore, in many realities that are performing a sustainability report, it is not the report itself used to guarantee their sustainable commitment to externals. To show what they are doing with a certain form of external assurance, many companies are relying on certifications. S said that *“Rather than a sustainability report, we are doing certifications (e.g. GOTS, LCA) to show that we are really doing what we claim we do.”*. For other companies, such as FUM, the sustainability journey itself started with certifications; they stated *“Our sustainable commitment started with external certifications such as EPD or the LCA of our products.”*.

The generally mostly adopted standards are GRI. This is true in particular for listed companies such as FUM, which said *“It was key for credibility with our investors to provide a sustainability report with external assurance.”* and that *“we are using GRIs as the most recognized international standard. In the future we will adapt to EFRAG’s standards to show that our commitments are not only façade.”*. Companies of smaller size consider GRIs as well too elaborated for them.

Finally, the size of the company influences the standards selected. As S said, *“We are still too small to choose a more complex standard.”*

3.2 COMPANIES THAT WERE NOT CLASSIFIED AS LARGE UNDER THE NFRD BUT WILL BE CONSIDERED LARGE UNDER THE CSRD AND SMES LISTED IN THE PRIMARY MARKET

This category includes 7 companies whose participant identifier, sector of operations, turnover, and number of employees in 2022 are reported in Appendix B.

All the companies involved have shown awareness of the ESG framework, even if only 2 of them had a team or person dedicated exclusively to sustainability; 6 companies are actively collecting data on their ESG performance in all three key dimensions. All 6 companies

collecting data are reporting them in a sustainability or impact report; 3 companies decided to use for their report the GRI's international standards. It is relevant to highlight that 4 companies are using certifications to communicate their sustainable commitment, such as ISO standards 14001 and 9001.

3.2.1 Drivers for sustainability reporting

Six out of seven companies that accepted to be interviewed for this Work Project are already doing a sustainability report even if now they have no legal obligation to do so.

Some of the drivers in reporting on sustainability are like those highlighted by non-listed SMEs and SMEs listed in the secondary market like the company's culture and the connection with the territory. For example, STD talked about the cultural dimension entailed in the company itself reporting *"Sustainability has always been part of the company's culture at 360 degrees it was natural to report what we were doing."* The strong connection with the territory was instead a strong driver for SR that said *"The company is investing for years in sustainability and is holding an extreme relationship with the territory to which we wanted to tell what we are doing."*

One of the elements of novelty is the alignment with competitors as G said, *"The creation of the report before the normative obligation was driven by the need for alignment with the best players in the market."* For CeT, differently, the sustainability report is mandated by one sector-specific certification they want to obtain.

3.2.2 Ongoing strategies to adapt to CSRD obligations

The companies included in this category will be legally required to comply with the CSRD reporting in 2026 on the financial year 2025 (European Union 2022a). It was then crucial to understand which were the steps they are implementing in getting ready for this legal requirement.

Both G and OR are planning on hiring a consulting company to perform the report. G stated, *“We are planning on starting a sustainability report next year. In this direction, we will hire a consulting company.”*. On the other hand, SR goes in the opposite direction shortening the existing sustainability reporting contracts with consultants; their sustainability manager reported *“We have decided to shorter our consulting contracts since they are promising support on standards that, as of now, do not exist.”*.

Those companies already doing a sustainability report are planning on adapting the existing report to the standards that will be required by EFRAG. CeT states *“We are working to transform our impact report into a sustainability report, to start getting ready for next year.”*. SR sustainability manager is restructuring the whole sustainability department procedures and told *“Meeting the standards of the CSRD will represent a complete change of how we do things. Since there is a normative obligation, we are starting to get ready now restructuring what we do.”*. Very peculiar is the case of STD that, other than adapting their current report, is actively collaborating to the sector roundtables done by EFRAG; they said, *“We are taking part to the UN and EFRAG roundtables for our sector to see which is the direction they are taking and bring our experience.”*.

3.2.3 Disadvantages and needs to adapt to CSRD obligations

Some multiple disadvantages and needs have been reported by this companies' category.

First of all, adapting to the CSRD will represent for some of them an important cost. As OR said, *“Meeting the requirements of the CSRD will represent a cost for us.”*. Cost as a driver is instead highlighted by OM that said *“In the end, what our customers consider when they choose our products is their cost. It is better to invest to decrease costs rather than in sustainability.”*. For CeT an uncertain dimension is the Return on the Investments (ROI) done on sustainability. They stated, *“Computing the ROI on sustainability is hard. It's an investment that has no secure*

return. And for now, for us investing in sustainability has been a cost.”. The same problem involves grants or investments for companies performing their sustainability journey that, as for the previous category, are not enough and not valuing their commitment.

The inadequacy of standards is highlighted as well by this company category. In SR they *“are waiting for standards that are definitive.”*. OR said, *“There are no structured standards on sustainability that can be used. Furthermore, we are not supported in implementing them.”*.

Finally, the absence of adequate platforms or technological instruments represents a strong perceived need as far as supply chain reporting and tracking are involved. For STD *“There are still no digital platforms that are adequate to track the whole supply chain as will be required by the CSRD.”*

3.3 EXPERT’S OPINION

To have a holistic view of how SMEs are reporting on sustainability and adapting to the CSRD requirements 9 experts in the field have been interviewed. These experts are of three different categories: consulting companies’ experts in SMEs sustainability reporting, sustainability managers of large companies that have SMEs in their supply chain, and other relevant experts in the field at regional or national level. Their identifiers and brief role description have been reported in Appendix B.

3.3.1 Barriers to sustainability reporting in SMEs

Multiple, sometimes intertwined, barriers to sustainability reporting have been pointed out by the experts. The most recurrent are:

- Limited Human Resources (HR) capacity in SMEs. For PA *“Even if an SME has an amazing business performance, this does not mean that the company has enough human resources to create the report.”*. VS added that *“Companies that are small*

cannot afford to have additional human resources dedicated exclusively to sustainability. It would be too costly for them.”.

- Limited economic resources. PA stated that *“The complex characteristics that the sustainability report starts having often include an economic investment that SMEs might not be able to do.”.*
- Absence of data collection. For ArM *“Companies in Italy do a lot, but they don’t know that many of their activities are ESG compliant. They must learn how to collect data.”.* Furthermore, VS stated, *“SMEs are not collecting data on their ESG performance, so it becomes impossible to produce a report.”.*
- Bureaucratic burden. For FB *“The CSRD will represent an additional bureaucratic burden for SMEs that are already full of obligations.”.*
- Risk of credit crunch and limited access to credit for SMEs. ArM pointed out that *“There must be certain attention given to the Regulation (EU) 2019/2088 that entered into force. There is a huge risk of credit crunch and high-interest rates for loans to companies because they will not be able to provide ESG indicators to banks that will require them.”.*

3.3.2 Adequacy of sustainability reporting standards to the needs of SMEs

All the experts involved in the work project have highlighted different degrees of inadequacy of the available standards for the needs and peculiarities of SMEs.

It has been reported that their excessive complexity and the too-general terms in which ESG dimensions are presented to SMEs are pushing SMEs away from sustainability reporting. For ArM *“All the available assessments are extremely complex and theoretical with the total absence of a down-to-earth approach. After doing them, entrepreneurs have meaningless data that can’t understand how they relate with concrete actions they can do in their business.”.*

This category has as well reported the absence of adequate digital platforms for data reporting. LO pointed out that *“CSRD oblige companies to report on their supply chain and in this direction these companies will ask all the actors in their supply chain to report on their sustainability performance. In this direction, SMEs will have to start tracking some KPIs and they will need adequate platforms to do so.”*. FB added, *“As of today there is an absence of technical and technological conditions to report.”*.

As far as the currently available standards are concerned, experts stated they are not tailored to SMEs' needs. LG pointed out that *“The standards that are currently available for SMEs are the same of large companies, that are way more structured and with different economic capacity. Scaling these standards and adapting them to the needs of an SME is a complex process.”*., as far as the new standards that will be proposed by EFRAG are involved, FB said they *“must be scalable and adequate for the different realities, with a certain degree of agility to adapt to the different needs and sizes of companies.”*.

3.3.3 Other relevant observation

Some large companies involved in the work project are doing activities to support the SMEs in their supply chain to adapt to the new requirement they will make them report on their supply chain as will be required by the CSRD. For instance, CP stated, *“We are starting to do specific training to our suppliers so that they can start getting ready for the huge changes that will be required by the CSRD.”*. AL reported *“We are doing our best to support companies in their path towards sustainability. Crucial is the category table in which they can support each other's and learn from best practices. Furthermore, working with us is an occasion for them to learn more about our practices”*.

Large companies included in the study, while acknowledging the difficulties that SMEs are facing in the process of compliance and data collection, have still pointed out how much

sustainability will become a driver in supplier selection. For example, FB said *“We will provide to the SMEs in our supply chain a platform in which they will have to insert key sustainability-related data. Collecting these data will be their responsibility. Those companies that will not be able to show their data will be excluded by our supply chain.”*

Even more relevant is what has been appointed by AL about the recognition of a premium price for companies providing products with a better ESG score. He stated, *“At price equality, we go for the most sustainable company. But still the price remains the main driver.”*

3.4 FACTORS DRIVING COMPETITIVENESS IN ITALIAN SMEs

The capacity of Italian SMEs to maintain competitiveness is driven by different factors:

- Their family-owned nature: A significant portion of Italian SMEs are run and owned by families. This implies that decisional power is concentrated and with a strong long-term push, which fosters a strong feeling of tradition and loyalty as well inside the organization.
 - High level of specialization: This enables them to stand apart from bigger enterprises and be fiercely competitive in their marketplaces. The same applies to the expertise and craftsmanship brought by companies that make the Italian savoir-faire or *Made in Italy* brand their element of competitiveness (e.g. leather, fashion, or food sectors)
 - Adaptability and flexibility indicate that they can quickly react to market developments and modify their goods and services to satisfy their client's expectations.
 - Innovation: they frequently set the bar for innovation, especially in fields like fashion, design, and technology. They are renowned for their inventiveness, originality, and capacity to create brand-new goods and services that cater to the needs of their clients.
 - Export- focus: numerous businesses export their goods and services to foreign nations.
- Italian SMEs have become a crucial component of the global economy because of this.

DISCUSSION

The above-presented results add to the existing literature by providing a better understanding of the drivers, needs, advantages, and barriers to reporting on sustainability in SMEs in Italy considering the direct and indirect impacts that the newly adopted CSRD will have on them.

The holistic approach to the topic, which has included experts in the field, non-listed SMEs, SMEs listed in the secondary market, and companies that will have the legislative obligation to report by the CSRD, has provided a more complete picture of the steps needed to support Italian SMEs in the CSRD compliance transition.

Although certain findings from the study coincide with prior research, several fresh perspectives on Italian realities have emerged, particularly concerning the barriers and needs for complying with CSRD regulations, which will be explored in the subsequent discussion.

4.1 RESEARCH PROCESS IMPLICATIONS

The findings from the sampling process provide insights into the perception and engagement of Small and Medium-sized Enterprises (SMEs) in sustainability reporting. The study contacted 554 SMEs, but only 28 interviews were scheduled, resulting in a low response rate of 5%. This indicates that sustainability is not considered an urgent concern for many SMEs.

Interestingly, even among listed SMEs both in the primary and secondary market, which are expected to have greater awareness, the response rate was also low. Out of the 43 listed SMEs contacted, only 5 participated in interviews, suggesting a lack of interest or understanding in the importance of sustainability reporting. This perception could be due to sustainability reporting being seen as overly complex and disconnected from the day-to-day business reality of these companies.

Overall, the low response rates from both SMEs and experts, including top companies based on turnover, highlight the limited awareness and interest in sustainability reporting. Addressing this issue requires increased efforts in raising awareness and promoting the value of

sustainability within business operations. Simplifying the reporting process and bridging the gap between sustainability requirements and the practical realities faced by SMEs are essential steps to encourage greater participation.

Although this study did not specifically focus on addressing the awareness gap among industry players, it is crucial to recognize and tackle this issue. Establishing stronger engagement with sustainability practices among established companies is necessary for driving meaningful change and creating a more sustainable business landscape in Italy and beyond.

4.2 THEORETICAL IMPLICATIONS

Different types of sustainability reporting drivers have been identified by academia. In 2017 Caputo et al. reported that internal motivations such as reputation and competitive advantage were playing a crucial role in driving sustainable innovation in Italian SMEs (Caputo, Veltri, and Venturelli 2017). Yadav et al. (2018) highlighted as well internal cultural factors such as management commitment and employee engagement as key elements (Yadav et al. 2018). Similar internal drivers were pointed out by Dinh et al. (2023), De Steur et al. (2020), and Calace (2014) that additionally reported among the cultural drivers the role of a sense of responsibility towards society and the environment (Dinh, Husmann, and Melloni 2023) (De Steur et al. 2020) (Calace 2014). In this research, one additional key driver that has been delineated is the strong relation with the territory and the need of reporting how they are giving back to the local area that allowed their business growth and development. Additionally, the role that the reporting of their whole supply chain for large companies is having in driving better sustainability practices is still not largely researched in academia.

Furthermore, even if the competitive advantage given by sustainability reporting is reported by academia, many interviewed companies pointed out the annual report's role in shaping strategic decisions and having key KPIs to be considered accountable for as advantages of producing the report.

Academia has also approached the main barriers and needs of SMEs in reporting on sustainability. The absence of adequate economic support and the presence of limited human resources in SMEs over which companies can capitalize have been mentioned in the studies by Yadav et al. (2018), Dinh et al. (2023), De Steur et al. (2020) and Mattei et al. (2023) (Yadav et al. 2018) (Dinh, Husmann, and Melloni 2023) (De Steur et al. 2020) (Mattei et al. 2023). Market conditions that do not reward sustainability efforts have been identified by Álvarez Jaramillo et al. (Álvarez Jaramillo, Zarthá Sossa, and Orozco Mendoza 2019). Companies and experts involved in the work project have all highlighted the need for data collection and technological platforms that are flexible and able to support the peculiar needs of SMEs. In this direction, the most relevant study in the Italian context is the one by Neri et al. (2023), even if the focus is on the implementation of circular economy practices and not on sustainability reporting. (Neri et al. n.d.).

Concerns related to the capacity of standards in meeting the needs of SMEs have been raised by the studies of Somoza (2022), Arena and Azzone (2012) and Borga et al. (2009) (Somoza 2023) (Arena and Azzone 2012) (Borga et al. 2009). It is relevant to point out that many of the studies referring to the Italian context are outdated given the fact that in such an evolving topic ten years is a relevant time frame. Additionally, the impact that the new standards created by EFRAG will have on academic research will be relevant and these standards will be released only at the end of June 2023. Companies and experts, while acknowledging the inadequacy of current standards in adapting to the variegate dimensions and realities of SMEs are actively hoping for flexible and adequate standards.

The novelty of the topic and of the directive affects the available literature as well about steps undertaken by the companies that will be subject to the legislative obligation to report on sustainability by the CSRD. The current work project has highlighted that these companies offer to two different categories: some are adapting their already existing sustainability reports while

waiting for EFRAG's standards (sometimes even attending sector roundtables) and others will rely on external consultants to produce their report.

4.3 MANAGERIAL AND OTHER IMPLICATIONS

Based on the research findings from interviews, it becomes evident that the inclusion of voluntary standards for non-listed SMEs in legislation like the CSRD poses potential risks. There is a risk that more SMEs will be compelled to report on sustainability-related matters, leading to increased operating costs without sufficient benefits. Additionally, the complexity of sustainability reporting poses a risk to SMEs, especially considering their involvement in larger companies' value chains. Failing to provide the required data puts SMEs at risk of being excluded from the market. Mitigating these risks requires providing SMEs with necessary tools, resources, and information to navigate the reporting process effectively. The path that SMEs in Italy are running through to adapt to the CSRD is variegate and highly dependent on the size, sector, and scopes the company wants to achieve.

This work project has emphasized two different categories of SMEs on which the CSRD will have major effects: those that will be directly affected by the legislative obligation and SMEs that are part of the supply chain of larger companies that will so be required to report also on their performance, on which the impact of the CSRD is indirect. Furthermore, all the non-listed SMEs and SMEs listed in the secondary markets should consider reporting on sustainability among their medium-term goals, considering the constant enlargement of companies as well required to perform on sustainability by EU directives.

In this direction, some elements have been reported as crucial for companies' management as well as for policymakers to properly support these categories in their reporting path.

Data collection on key KPIs that are sustainability-related is not optional anymore but fundamental to remain competitive or to being able to produce the report that will be legally

required. For SMEs part of larger supply chains, for example, not having these KPIs might turn into a real risk of being cut out from the market.

In this data collection path, a huge part will be played by the capacity of online platforms and technological tools to be flexible enough to meet the needs both of large companies and the SMEs target of this work project while accomplishing the reporting goals that will be established by EFRAG.

The standards that will be created by policymakers and that companies' management will decide to adopt must guarantee a certain degree of simplicity and a down-to-earth approach, particularly for the smaller realities that often present constraints in economic and HR terms. This is particularly true for those large companies that will want to preserve their supply chain made of SMEs.

Allowing small companies to report with adequate platforms and standards will also contract the credit crunch risk that has been highlighted by one of the experts considering the entrance into force of the Regulation (EU) 2019/2088. Furthermore, these platforms can shed light on virtuous actions from the ESG perspective of SMEs in Italy and lighten the bureaucratic burden that reporting on sustainability might become for the target of this study.

4.4 LIMITATIONS

Several limitations to this study should be acknowledged.

First, the sample size is small, consisting of 28 Italian SMEs selected through purposive sampling. This sample may not be representative of all Italian SMEs, and the findings may not be generalizable to other contexts. Furthermore, the study only focuses on SMEs in Italy, and the findings may not apply to other countries or regions.

Second, the study relies on self-reported data from company representatives, which may be subject to biases and inaccuracies. Despite the efforts to ensure confidentiality and anonymity,

the participants may have provided socially desirable answers or may not have fully disclosed their company's sustainability practices and reporting activities.

Third, the study only focuses on the perspectives and experiences of the companies and does not consider the views of other stakeholders, such as customers, investors, or NGOs. This may limit the study's ability to comprehensively understand sustainability reporting practices and their impact.

Fourth, the study's qualitative design and inductive interpretivist approach may limit the study's ability to identify causal relationships and generalize. However, the study aims to provide an in-depth understanding of the experiences and perspectives of Italian SMEs, and the findings may inform future quantitative studies.

Finally, most of the SMEs involved in the study, both in the first and in the second category, are already reporting on sustainability. This is in contrast with the most recent data on SMEs reporting on sustainability matters in Italy, dating to 2019, that reports that only 16% of Italian SMEs publish a sustainability report and can bias the results of this study (Italian Association of Chartered Accountants and Accounting Experts 2019). For this Work Project, 554 different SMEs have been contacted via email requiring them to take part in the study, of which only 15% were performing any sustainability report. Among those that accepted to participate, the percentage of companies performing any sustainability report raised to 88%.

4.5 FUTURE RESEARCH SUGGESTIONS

In addition to the contributions made by this study, several avenues for future research can be identified. Firstly, while this qualitative study provides valuable insights from a specific group of SMEs in Italy, further research should be conducted to investigate the perspectives of SMEs in other European countries regarding the newly adopted CSRD. A comparative analysis would allow for a more comprehensive understanding of the impact of the directive across different national contexts.

Secondly, a longitudinal study could be conducted to track the evolution of sustainability reporting practices among SMEs over time. This would involve examining the changes in reporting behavior, challenges faced, and improvements made by SMEs as they adapt to the CSRD requirements and emerging reporting standards.

Furthermore, future research could explore the role and effectiveness of sustainability reporting platforms and technological tools in supporting SMEs' reporting efforts. This would involve assessing the usability, accessibility, and alignment of these platforms with the specific needs and resource constraints of SMEs, providing valuable insights for their further development and improvement.

The financial and economic implications of sustainability reporting for SMEs also warrant further investigation. Examining the costs and benefits associated with compliance, as well as the impact on SMEs' financial performance, access to credit, and relationships with stakeholders, would provide a deeper understanding of the economic aspects of sustainability reporting and help SMEs make informed decisions regarding their reporting practices.

Lastly, exploring the role of financial institutions and investors in promoting sustainability reporting among SMEs would be valuable. Analyzing the extent to which financial institutions consider sustainability criteria in their lending and investment decisions, and how this influences SMEs' reporting practices, would shed light on the influence of financial actors in driving sustainability reporting adoption among SMEs.

CONCLUSIONS

This thesis provides a comprehensive understanding of sustainability reporting in Italian SMEs, considering the direct and indirect impacts of the newly adopted CSRD. Valuable insights into drivers, needs, advantages, and barriers of sustainability reporting in the Italian context have been revealed through interviews and prior research analysis.

The research highlights the need for greater awareness and support among SMEs with various drivers and barriers identified.

Managerial implications emphasize the risks and complexity faced by SMEs in reporting, emphasizing the importance of tools, resources, and flexible platforms. Future research should focus on comparative analyses, longitudinal studies, and exploring the role of financial institutions in promoting sustainability reporting among SMEs.

In considering the transferability of results to similar EU contexts, it is crucial to recognize country-specific characteristics and challenges. While the drivers, needs, advantages, and barriers identified in this research may apply to SMEs in comparable environments, factors such as legal requirements, cultural norms, and industry practices influence the adoption of sustainability reporting. To enhance transferability, future studies should employ a comparative approach and longitudinal analysis to assess the effectiveness of different approaches and policies over time.

In conclusion, this thesis sheds light on the drivers, needs, advantages, and barriers associated with sustainability reporting in Italian SMEs, considering the impacts of the newly adopted CSRD. By addressing these challenges and supporting SMEs in their reporting efforts, policymakers, academics, and practitioners can foster sustainability and contribute to a more sustainable business landscape in Italy and beyond.

ACRONYMS AND ABBREVIATIONS

CDP Carbon Disclosure Project

CEO Chief Executive Officer

COO Chief Operating Officer

CSA Corporate Social Accounting

CSR Corporate Social Responsibility

CSRD Corporate Sustainability Reporting Directive

EFRAG European Financial Reporting Advisory Group

ESG Environmental, Social, Governance

EU European Union

GDP Gross Domestic Product

GRI Global Reporting Initiative

HR Human Resources

IIRC Integrated Reporting Council Standards

LCA Life Cycle Assessment

NFRD Non-Financial Reporting Directive

ROI Return on Investment

SASB Sustainability Accounting Standards Board

SDGs Sustainable Development Goals

SEC U.S. Securities and Exchange Commission

SMEs Small and Medium Enterprises

TBL Triple Bottom Line

TCFD Task Force on Climate-related Financial Disclosures

APPENDICES

APPENDIX A SEMI-STRUCTURED INTERVIEW PROTOCOL

Non-listed SMEs of SMEs listed in the secondary market:

Are you aware of the ESG framework?

Do you already have a person, or a team dedicated exclusively to sustainability?

Are you already collecting data on your sustainability performance?

Do you perform any type of report on your sustainable performance? Which are the drivers to do/ not to do so?

Which standards or format of sustainability report do you use? (If they report)

Do the available standards match your needs as an SME?

Do you have any additional needs related to sustainability reporting?

Which are the perceived advantages of reporting on sustainability?

Companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market:

Are you aware of the ESG framework?

Do you already have a person, or a team dedicated exclusively to sustainability?

Are you already collecting data on your sustainability performance?

Do you already start performing any type of report on your sustainable performance? If yes, which were the drivers to do so?

Which standards or format of sustainability report do you use? (If they report)

Which steps are you undertaking to get ready for the reporting requirements of the CSRD also considering the redesign of the standard by EFRAG?

Do you see any disadvantage in meeting the directive requirement of reporting on sustainability? Do you have any specific needs they are not able to meet?

Experts' opinion:

Which one do you see are the major problems that SMEs will face in reporting sustainability?

Do you think the available simplified standards meet the needs of SMEs?

Which type of support in your opinion SMEs need?

Does the company provide any type of support to SMEs as part of the supply chain in the sustainability transition process? (if a large company)

APPENDIX B PARTICIPANT CATEGORIZATION

Companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market:

Participant identifier	Type of Participant	Turnover (Dec 2022)	Employees (Dec 2022)
SR	SR produces and sells high-quality woolen yarns and fabrics for fashion applications in the textile manufacturing sector.	107 mln	420
G	G provides digital marketing services on a B2B base.	100 mln	426
CeT	CeT produces and distributes wines and other beverages in the food and beverage sector.	62,5 mln	76
STD	STD designs and sells vegan and eco-friendly outerwear and clothing in the fashion and apparel sector.	62 mln	95
GB	GB produces and sells organic food products, including cereals, flours, and pasta, in the organic food sector.	60 mln	287
OR	OR does the design and production of railway components.	51 mln	256
DCS	Company that produces and processes dried fruits, exporting to more than 30 countries around the world.	47 mln	100

Non-listed SMEs or listed in the secondary market:

Participant identifier	Type of Participant	Turnover (Dec 2022)	Employees (Dec 2022)
FUM	One of the leading companies in the Carrara marble district.	75 mln	45
OAS	Operates in the manufacturing sector and does the design and production of industrial automation systems. Is a listed SME.	38,7 mln	220

O	O is active in the engineering industry specializing in the production of valves and actuators. It is a listed SME.	34,6 mln	110
AE	AE is specialized in the production of labels and self-adhesive products.	32 mln	141
Do	Do is a gold and silk manufacturing company active in the jewelry district of Vicenza	28 mln	25
PM	PM is among the main players in the tableware and household products market. Is a listed SME.	21 mln	26
C	C provides telecommunications and energy solutions for businesses in the respective sectors. Is a listed SME.	18 mln	80
EZ	Company specialized in the production of compostable disposable catering products made from biopolymers or plant fibers.	11 mln	30
I	I is a System Integrator active in the ICT & Audio/Video sectors. Is a listed SME.	9 mln	32
PW	PW produces and distributes wines and other beverages in the food and beverage sector.	6,6 mln	22
AS	Insurance and banking company	3,6 mln	19
W	Translation company active at international level.	3,2 mln	15
AM	AM produces luxury leather products, in particular shoes, belts, and small leather goods.	3 mln	36
EX	EX operates in the Information Technology sector, providing a wide-ranging and specialized set of services.	2 mln	20
M	Women's men's cruelty free accessories company made of alternative food-derived materials.	1,7 mln	10
T	Company designing and creating digital products	1,5 mln	21
P	P, a startup, is the first scalable supply chain in Italy to distribute beef from grazing farms.	1,2 mln	15

KD	Kudu is a consulting company specialized in third sector and NGOs	670 thousand	11
PD	Web agency that develops websites	300 thousand	12
F	F is a banking app that allows people to have an online account with an associated card. Is active in the fintech field.	300 thousand	129
S	Fashion company producing garments only with recycled materials	170 thousand	11

Experts' opinion:

Participant identifier	Type of Participant
PA	Sustainability manager in a fashion and luxury goods company that operates in the retail and wholesale sectors.
LO	Sustainability manager in a group that is a global leader in the construction and engineering sector, specializing in underground works.
CP	CSR responsible for a service company expert in the washing and sterilization of sheets and surgery instruments for public administration.
LG	Small consulting firm (8 employees, 1 mln turnover) focusing on carbon management and sustainability reporting for medium-sized companies that become large with the CSRD.
ArM	Vice president at a provincial branch of the Italian Employers' federation and chamber of commerce - Delegate for Sustainability, Circular Economy, and Environment.
VS	CEO of a company which has been facilitating sustainable innovation solutions for enterprises, networks, policy makers for 20 years.
LG	Certified Chief Value Officer and founder of a B-Corp specialized in translation services that won multiple prizes at the national level for the quality of their sustainability report.
FB	Head of sustainability a group active in the luxury industry with a turnover of 1+ billion. Among their 68 suppliers, 59 are Italian SMEs.

AL	Head of sustainability in the Italian branch a multinational active in the production of food products.
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APPENDIX C YES/NO QUESTIONS

Companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market:

Participant identifier	ESG	Sustainability team	Data collection	Report	Standards used	Other certifications
SR	X	X	X	X	GRI	
G	X		X	X	GRI	
CeT	X		X	X		X (viva, ISO)
STD	X	X	X	X	GRI	X (LCA, ISO)
GB	X		X	X		X (Organic)
OR	X					
DCS	X		X	X		X (Organic)

Non-listed SMEs:

Participant identifier	ESG	Sustainability team	Data collection	Report	Standards used	Other certifications
FUM	X		X	X	GRI, ext. assurance	X (EPD, ISO, LCA)
OAS	X	X	X	X	GRI, ext. assurance	X (ISO, ecovadis)
O	X	X	X	X	GRI	X (ISO)
AE	X	X	X	X		X (ecovadis)
Do	X		X	X		
PM	X					
C	X		X	X	SDGs, GRI	X (ISO)
EZ	X	X	X	X	GRI	X (ISO)

I	X	X	X	X	GRI	X (ISO, CSA star)
PW	X	X	X	X		X (viva)
AS	X		X	X		
W	X		X	X	SDGs, GRI	X (UNI/PDR125)
AM	X					
EX	X		X	X		X (bioagricert)
M	X		X	X		X (LCA)
T	X		X	X		
P	X		X	X		
KD	X		X	X		
PD	X		X	X		
F	X	X	X	X	GRI, ext. assurance	
S	X		X	X		X (LCA)

APPENDIX D OVERVIEW OF THE THEMATIC ANALYSIS OF COLLECTED DATA INTO RESEARCH FINDINGS

Non-listed SMEs or listed in the secondary market:

Topic	Insights from participants	Summarized as
Drivers	<i>Investments on sustainability have a return that is unsure and hard to measure. (PM)</i> <i>While being on the table of the board, sustainability is not considered a priority. (PM)</i>	No sustainability report
	<i>Currently, we are not doing any sustainability report because we are not ready for it, but it's a theme that is daily considered by the management. (AM)</i> <i>As an SME I have capillary control over my supply chain that I communicate verbally to my retailers and customers. (AM)</i>	Good actions but no structured report
	<i>We decided to report our activities to show how we give back to our stakeholders and to the territory that allowed us to grow. (C)</i> <i>We are strongly connected with the territory in which we operate, and we are financing local foundations to impact it as much as possible. (FUM)</i> <i>We are extremely interconnected with the territory we operate in, and we decided to give back. (PW)</i> <i>For O the connection with the territory has always been crucial for the management and we had the need to structure our local philanthropic actions in a report. (O)</i>	Relation and connection with the territory
	<i>We do a sustainability report because we are a company born sustainable and this push is part of our culture since the beginning. (I)</i> <i>The focus of our company is on reparability, circular economy, and sustainability and this is what we want to communicate. (M)</i> <i>It is not only about reporting; our sustainable commitment was driven by a structural culture change in the company. (EZ)</i> <i>For us this journey was compulsory and the occasion to write down our commitments. (W)</i> <i>For us being careful toward the social and environmental sphere was integral part of our company culture, we have always been doing it. It was not a matter of "doing something good for having a benefit", but it is something that is part of our DNA. (AS)</i> <i>We were born with the idea that we wanted to be a company that will exist forever, and sustainability was part of the culture since the beginning. (KD)</i>	Culture in the company

	<i>The sector in which we operate is highly criticized for its damage to the territory. We wanted to show that we care about the environment, and we are doing our best to have the lowest possible impact. (FUM)</i>	Reputation
	<i>What we are trying to do is to bring all our supply chain in this sustainable journey with us. To do so we support them in the credit access procedures. (FUM)</i> <i>It was crucial the push and the expertise sharing from two of our customers in the decision of undertaking this journey and producing a sustainability report. (AE)</i>	Supply chain push
	<i>As far as sustainability is involved, we were already doing a lot. Producing the report was the occasion to structure the data and write down our commitment. (AE)</i> <i>As a company doing the report was a process of formalization and structuration of what we were already doing. (T)</i> <i>Producing the impact report was the occasion of writing down what we are doing. (AS)</i>	Formalization of what was already done

Topic	Insights from participants	Summarized as
Needs	<i>Investments in sustainability should be considered as a tax credit. (PM)</i> <i>There are not enough financial instruments, grants, and funding for companies that are sustainable for real. I</i> <i>Institutional investors pay no attention to our sustainable commitment. (OAS).</i> <i>There is no benefit from the fiscal and financial point of view to being sustainable. (W)</i> <i>There are no fiscal benefits and advantages to being sustainable. Caring about the ESG elements is only a cost. (KD)</i>	More economic support
	<i>How well the report is done depends on contingencies. This year, for example, the crisis in our sector did not allow us to allocate enough time and human resources to it. I</i> <i>The focuses of the management are variegate and it would not be feasible to allocate someone only to this report. (AM)</i>	Human resources
	<i>As of now, we would need technological support and adequate platforms to report what we do. (PW)</i> <i>Rather than reporting standards, what we would need is the technological development of adequate platforms. (P)</i>	Platforms for data collection
	<i>You can have the best sustainable commitment, but at the end the main purchasing driver for customers remains the price. (S)</i>	Premium price recognition

	<i>While our commercial office communicates our sustainable commitment, still the price remains the main driver. (O)</i>	
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Topic	Insights from participants	Summarized as
Advantages	<i>Our sustainability commitment is key to retaining and attracting talents, particularly as far as younger generations are involved. (OAS)</i> <i>Company reputation has improved since we started our sustainable journey. (W)</i> <i>Putting people at the center has led to more productivity and better performances specially in the long term. Furthermore, we are recognized by all our stakeholders as a great company to work for. (AS)</i> <i>Also given the context in which we operate, our sustainability attention has been a key to our reputation and to engage with clients. (KD)</i>	Brand reputation, talent attraction and retention
	<i>I can clearly see the competitive advantage given by sustainability. (P)</i> <i>We want to transform our attention to sustainability into a competitive leverage and we are working towards it. (I)</i> <i>Without the change of our culture and of the products we do today we would not exist anymore. (EZ)</i> <i>It was a key for us to become competitive in an inflationated sector such as ours. (AS)</i>	Competitive advance
	<i>We use our report to see our evolution over time. (OAS)</i> <i>Doing annually the report represents an occasion to see what we do, what we did and what we want to do. (I)</i> <i>This report is crucial for us to define which are our future goals and where we want to go. (M)</i> <i>We use the sustainability report as a key instrument of awareness and strategic planning. (W)</i>	KPIs evolution and improvement

Topic	Insights from participants	Summarized as
Standards appropriate	<i>Rather than a sustainability report, we are doing certifications (e.g., GOTS, LCA) to show that we are really doing what we claim we do. (S)</i> <i>Our sustainable commitment started with external certifications such as EPD or the LCA of our products. (FUM)</i> <i>Sustainability is part of marketing, and we use our certificates to communicate it. (EX)</i>	Use of external certificates

	<i>We decided to use the BIA to guarantee our commitment. We are still too small to choose a more complex standard. (S)</i> <i>Since we are small, we don't feel the need for a specific standard for us. (PW)</i>	Influence of the size on standards selection
	<i>It was key for credibility with our investors to provide a sustainability report with external assurance. (FUM)</i> <i>We are using GRIs as the most recognized international standard. In the future we will adapt to EFRAG's standards to show that our commitments is not only façade. (FUM)</i> <i>GRIs are a good standard once that you have structured an appropriate data collection system. For small realities they still remain too elaborated. (EZ)</i>	GRI's opinion
	<i>The available standards are inadequate for SMES. There is no regulation nor standards that provide insightful KPIs. (PD)</i> <i>As a company operating in China, we have a person monitoring our suppliers there. For the rest, no standard available really match our needs. (M)</i> <i>The standards available are too complex for our reality. Since we have no normative obligation, we decided not to use them. (AE)</i> <i>The standards by themselves are too complicated to adapt to the reality of an SME. For me creating this report was possible after committing personally to the topic and after adapting standards that are creating for large companies to my reality. (W)</i> <i>It was possible to produce an extensive document with external assurance because we are part of a larger bank group that provided us their big 4 consultants. Without them it would have not been possible. (F)</i> <i>For us the support of external consultants for the creation of the report was crucial. The standards are a lot and extremely variegate. It's hard to navigate among them(T)</i> <i>There must be a higher degree of adaptation of standards to the different contexts and needs of SMEs and they must be better declined to small and medium realities. (AS)</i> <i>The available standards are too much theoretical, the practical part is completely missing, and it becomes hard to take practical actions in and SME. (AS)</i>	Complicate and inadequate standards

Companies that were not classified as large under the NFRD but will be considered large under the CSRD and SMEs listed in the primary market:

Topic	Insights from participants	Summarized as
Drivers	<i>Sustainability is a path that is entailed in our everyday decisions. This is the reason why started drafting internally a sustainability report. (G)</i> <i>We wanted to have a document that could tell in an extensive way the value chain of the material. The scope was measuring where we are and where we want to go. This was crucial since the beginning for the management. (SR)</i> <i>Sustainability has always been part of the company's culture at 360 degrees it was natural to report what we were doing. (STD)</i>	Culture in the company
	<i>As a company we have always been strongly connected with the province we come from. So, it was the occasion to tell what we do. (G)</i> <i>The company is investing since years in sustainability and is holding an extreme relation with the territory to which we wanted to tell what we are doing. (SR)</i>	Relation and connection with the territory
	<i>We want to obtain the XXX certification, that requires us to have a sustainability report. (CeT)</i>	Certification
	<i>The creation of the report before the normative obligation was driven by the need of alignment with the best players in the market. (G)</i>	Alignment with competitors

Topic	Insights from participants	Summarized as
CSRD adaptation	<i>We are planning on starting a sustainability report next year. In this direction, we will hire a consulting company. (G)</i> <i>This is a problem we have not tackled for now. We will have to hire a consulting firm to be able to meet this requirement. (OR)</i> <i>We have decided to shorter our consulting contracts since they are promising support on standards that, as of now, do not exist. (SR)</i>	Consulting

	<i>We are working to transform our impact report into a sustainability report, to start getting ready for next years. (CeT)</i> <i>We decided to do the new report with GRIs standards, which are the most recognized at the international level, to start aligning. (G)</i> <i>Meeting the standards of the CSRD will represent a complete change of how we do things. Since there is a normative obligation, we are starting to get ready now restructuring what we do. (SR)</i> <i>We have transformed our impact report into a sustainability report. (DCS)</i>	Adapting the existing practices
	<i>We are taking part to the UN and EFRAG roundtables for our sector to see which is the direction they are taking and bring our experience (STD)</i>	Roundtables participation

Topic	Insights from participants	Summarized as
Disadvantages and needs	<i>Meeting the requirements of the CSRD will represent a cost for us. (OR)</i> <i>In the end, what our customers consider when they choose our products is their cost. It is better to invest to decrease costs rather than in sustainability. (OM)</i> <i>Computing the ROI on sustainability is hard. It's an investment that has no secure return. And for now for us investing on sustainability has been a cost. (CeT)</i> <i>There are no specific grants or investments for companies that show their commitment towards sustainability. (G)</i>	Cost drivers/ investments
	<i>There are no structured standards on sustainability that can be used. Furthermore, we are not supported in implementing them (OR)</i> <i>We are waiting for standards that are definitive. (SR)</i>	Absence of standards
	<i>There are still no digital platforms that are adequate to track the whole supply chain as will be required by the CSRD. (STD)</i>	No platforms

Experts' opinion:

Topic	Insights from participants	Summarized as
Barriers to reporting	<i>Even if a SMEs has an amazing business performance, this does not mean that the company has enough human resources to create the report. (PA)</i> <i>Companies that are small cannot afford to have additional human resources dedicated exclusively to sustainability. It would be too costly for them. (VS)</i>	Absence of HR
	<i>The complex characteristics that the sustainability report starts having often include an economic investment that SMEs might not be able to do. (PA)</i> <i>SMEs that are not ready will have to face important costs to comply with the CSRD requirements given them by large companies. These huge costs cannot be stand by the large companies requiring compliance. (FB)</i>	Absence of economic support
	<i>Companies must start having some key KPIs they track and report. Data collection is the key for remaining competitive. (LO)</i> <i>Companies in Italy do a lot, but they don't know that many of their activities are ESG compliant. They must learn how to collect data. (ArM)</i> <i>SMEs are not collecting data on their ESG performance, so it becomes impossible to produce a report. (VS)</i>	Data collection
	<i>The CSRD will represent an additional bureaucratic burden for SMEs that are already full of obligations. (FB)</i>	Bureaucratic burden
	<i>There must be a certain attention given to the Regulation (EU) 2019/2088 that entered into force. There is huge risk of credit crunch and high interest rates for loans to companies because they will not be able to provide ESG indicators to banks that will require them. (ArM)</i>	Credit Crunch

Topic	Insights from participants	Summarized as
Adequacy of standards	<i>All the assessments that are available are extremely complex and theoretical with the total absence of a down-to-earth approach. After doing them, entrepreneurs have meaningless data that can't understand how they relate with concrete actions that can do in their business. (ArM)</i>	Absence of down to earth approach

	<i>The governance must be the last dimension for small companies. How can you ask to a company with 10 employees to report about gender equality? (ArM)</i>	
	<i>CSRD oblige companies to report on their supply chain and in this direction these companies will ask to all the actors in their supply chain to report on their sustainability performance. In this direction, SMEs will have to start tracking some KPIs and they will need adequate platforms to do so. (LO) As of today, there is an absence of of technical and technological conditions to report. (FB)</i>	Absence of platforms to report data
	<i>The standards proposed by EFRAG must be scalable and adequate for the different realities, with a certain degree of agility to adapt to the different needs and sizes of companies. (FB) The standards that are currently available for SMEs are the same of large companies, that are way more structured and with different economic capacity. Scaling these standards and adapting them to the needs of a SME is a complex process. (LG)</i>	Need of scalability of standards

Topic	Insights from participants	Summarized as
Other relevant observations	<i>We are doing our best to support companies in their path towards sustainability. Crucial are the category table in which they can support each other's and learn from best practices. Furthermore, working with us is an occasion for them to learn more about our practices. (AL) We are starting to do specific training to our suppliers so that they can start getting ready to the huge changes that will be required by the CSRD. (CP)</i>	Direct support to SMEs
	<i>We will provide to the SMEs in our supply chain a platform in which they will have to insert key sustainability related data. Collecting these data will be their responsibility. Those companies that will not be able to show their data will be excluded by our supply chain. (FB) We select our suppliers based on their attention to people, planet and governance. (AL)</i>	SMEs excluded by the supply chain
	<i>At price equality we go for the most sustainable company. But still the price remains the main driver. (AL)</i>	

APPENDIX E CHARACTERIZATION OF SMES BY TURNOVER AND NUMBER OF EMPLOYEES

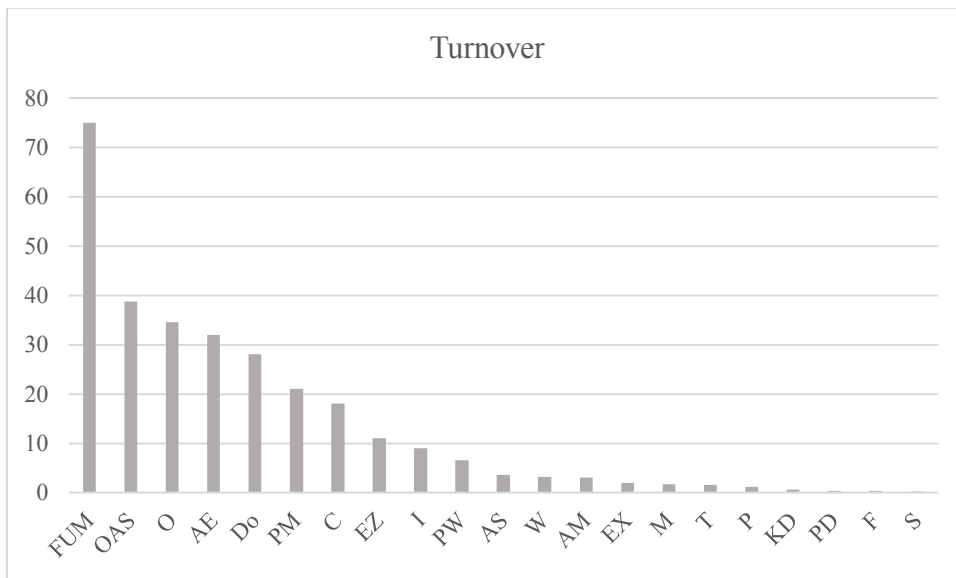


Table 1: SMEs distribution by turnover

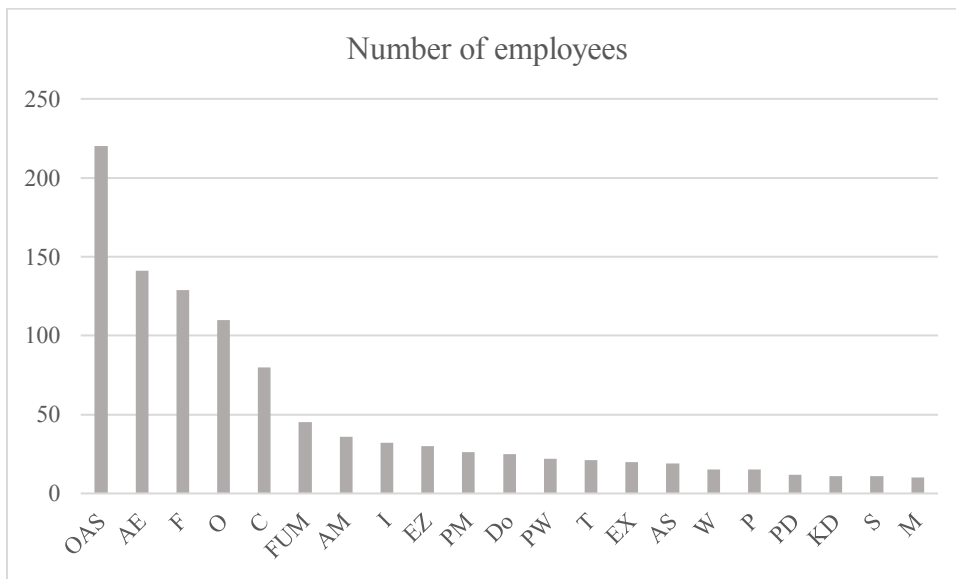


Table 2: SMEs distribution by number of employees

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