



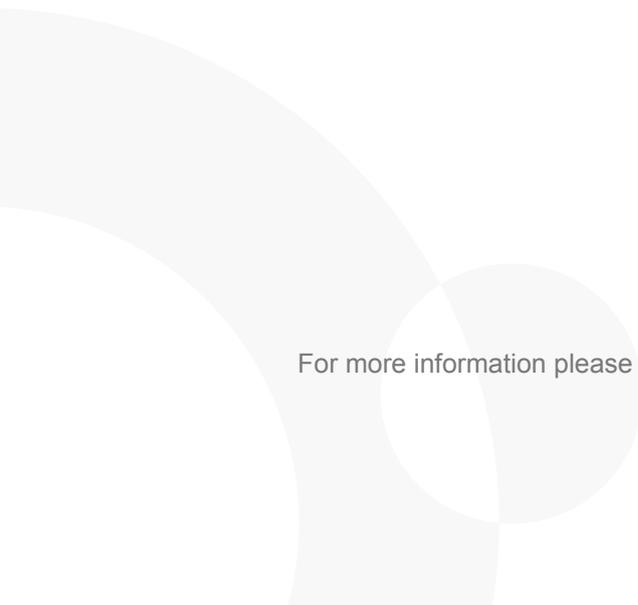
Fostering Sustainability in Small and Medium-Sized Enterprises

Generali SME EnterPRIZE White Paper

3RD EDITION

SDA Bocconi
SCHOOL OF MANAGEMENT
SUSTAINABILITY LAB





For more information please contact us at sme-enterprize@general.com



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FOREWORD

Generali Group CEO - Philippe Donnet

Much has happened since 2021, when Generali launched SME EnterPRIZE, its flagship project to promote a culture of sustainability among European small- and medium-sized enterprises and support them as they integrate it into their business models.

As companies and households were still facing the many health, economic and operational issues related to the Covid-19 pandemic, the invasion of Ukraine by the Russian Federation led first and foremost to a humanitarian crisis of historic proportions, while generating yet more wide-ranging consequences.

Among them, the strongest geopolitical tensions in recent years, severe supply chain disruptions that brought significant price increases, and an energy crisis that particularly affected Europe and forced governments to make crucial strategic choices. Finally, we saw inflation rising steadily at a time when economic growth remains subdued.

In such challenging scenario, many small- and medium-sized enterprises have been exposed to severe financial and employment-related losses that undoubtedly harmed the development and implementation of environmental, social and governance practices into their everyday activity. This was already one of the key findings of the second edition of the Generali SME EnterPRIZE White Paper, *Fostering Sustainability in Small- and Medium-Sized Enterprises*, which was published at the end of 2022.

Twelve months later, this third edition follows a survey of 1,240 SMEs from 9 European countries that was conducted once more by our partners at SDA Bocconi School of Management. The study provides another fundamental and comprehensive update on where these companies currently stand in their sustainable transition journey. Furthermore, it offers much food for thought as to what is required to make such transition truly systemic and permanent.

In fact, the research underlines that the business case for adopting a sustainable business model remains very strong, even in the presence of the challenges previously mentioned.

Nevertheless, there are still several substantial obstacles and barriers that companies simply cannot remove on their own. In particular, a growing percentage of respondents consistently highlighted the lack of institutional support, public incentives and sustainable finance instruments as issues that can be detrimental to their sustainable transition efforts.

SME EnterPRIZE has also always been about raising broader awareness and stimulating a public debate on the need to systemically support European SMEs as they become more sustainable.

Therefore, it is a collective effort that calls for many different players to step up to the challenge and the findings of this report make it once more very clear. It is about governments at all levels introducing regulations that reduce bureaucracy and ease the process of adopting sustainable practices. It is about larger private enterprises offering not only products and services that truly meet the needs of SMEs, but also their know-how. It is about engaging and involving academia and local institutions to promote and foster a wider and truly shared culture of sustainability.

It is a complex process that will take time, and we are not there yet. But we must spare no effort – as it is in the interest of all of us to build a stronger, safer, more prosperous and sustainable Europe. Today, and for many generations to come.

I'd like to express, also on behalf of all my colleagues at Generali, the utmost gratitude to the researchers and the whole team at SDA Bocconi Sustainability Lab for yet another key piece of research that will further foster the debate on such an important topic.

FOREWORD

Bocconi University Rector - Francesco Billari

In our ever-evolving global landscape, the importance of sustainable practices for businesses, particularly Small and Medium-Sized Enterprises (SMEs), cannot be overstated. The third edition of the Generali SME EnterPRIZE White Paper, entitled “Fostering Sustainability in Small and Medium-Sized Enterprises”, attests to this enduring commitment.

Building upon the foundations laid in previous editions, this research dives deeper into the sustainable transition of European SMEs. By leveraging a comprehensive survey of 1,240 SMEs, this edition endeavours to shed light on the multifaceted dynamics of sustainability: from strategic intentions to tangible integration, and from perceived challenges to achieved benefits.

One of the most commendable advances in this edition is its expanded geographical scope. By incorporating insights from nine European countries, this White Paper transcends borders and provides a richer, more holistic understanding of sustainability in varying national contexts. This broader perspective allows us to discern both the shared ambitions and unique challenges faced by SMEs across Europe, offering invaluable lessons and strategies for the entire SME ecosystem.

As we consider the findings and recommendations of this edition, it should serve as a reminder that the journey towards sustainability is both complex and rewarding. The narratives of these SMEs underscore the profound impact that sustainable practices can have – not just for the environment and society, but also in carving out competitive advantages in the marketplace.

Now, more than ever, as we stand at the crossroads of global challenges and opportunities, we must rally behind these SMEs, championing their efforts and ensuring that their sustainable aspirations translate into transformative actions. Their stories, captured in this edition, hold the power to inspire, educate, and drive forward the collective mission of fostering a sustainable future.

FOREWORD

**Assistant Secretary General and Director of UNDP's
Bureau of Policy and Programme Support - Marcos Neto**

We have just reached the mid-point of the Sustainable Development Goals (SDGs). Created by the Governments of the world and adopted by the United Nations in 2015, the SDGs are a universal call to action to end poverty, protect the planet, create jobs, and ensure that by 2030 all people enjoy peace and prosperity. However, it is clear that we have a long road ahead of us if we are to achieve this milestone.

The lack of financial resilience across families, communities, businesses, and countries is a major factor in the worrying state of the SDGs. Shocks and hazards from climate- biodiversity- and social-related risks are on the rise in intensity and frequency, increasing the likelihood of dislocations and disruptions in the economic and financial spheres. These risks have important distributional effects, both between and within countries, and are disproportionately felt by vulnerable individuals, businesses, and communities in developing countries due to a lack of insurance and social protection.

Insurance and risk financing play a key role in building financial resilience by reducing vulnerabilities to climate, socio-economic, health, and disaster risks and shocks, providing a critical safety net for millions, and protecting assets, lives and livelihoods. However, in 2022, the global protection gap, which is the difference between financial losses incurred due to various risks and the amount of insurance coverage available, reached \$1.8 trillion in premium equivalent terms, 20 percent more of what was recorded in 2018.¹ From a development perspective it is starkly clear: progress on ensuring that countries, families, and businesses have a sustainable future is fragile and must be protected by bringing risk transfer and insurance into the heart of that progress.

Small businesses are critical to any such progress across employment, economic growth, and community cohesion. Generali and UNDP's Insurance and Risk Finance Facility (a part of our Sustainable Finance Hub) have therefore formed a partnership to develop new ideas, processes, and tools to build the financial resilience of such businesses, especially micro-, small- and medium-sized enterprises (MSMEs) in developing countries. As part of the partnership, we will publish a companion piece to the SME EnterPRIZE White Paper, focused on the Association of Southeast Asian Nations (ASEAN), with an emphasis on Malaysia and Thailand.

Micro-, small- and medium-sized enterprises (MSMEs) form the backbone of many developing country economies – contributing significantly to economic growth, employment, and innovation. In ASEAN specifically, MSMEs constitute between 88.8% and 99.9% of total enterprises and account for between 51.7% and 97.2% of total employment. The strong relationship between the prevalence of MSMEs, employment, and economic growth also holds in Malaysia and Thailand, the two focus countries of this study. In 2020 in Malaysia and in 2019 in Thailand, MSMEs accounted for 97.2% and 99.5% of all enterprises,

1. Swiss Re

generated approximately 38.2% and 40% of the GDP, and employed 7.3 million and 14 million people.²

However, MSMEs are highly vulnerable to climate and other shocks. They face a multitude of intersecting risks and have limited access to tools to measure and manage these risks when they occur. Through this report, we will explore how insurers can create affordable and accessible insurance products that meet the needs of MSMEs, by segmenting MSMEs by economic activities and value chains, merging products with non-insurance value-added services such as sensor-based tracking devices, early warning systems, and pest and disease identification apps, as well as leveraging alternative distribution partners including digital platforms and microfinance institutions. By considering holistic solutions that foster the overall financial resilience and inclusiveness of MSMEs, we can enhance the insurance industry's business case to serve MSMEs and encourage a virtuous cycle of protection, prevention, and investment.

At the United Nations Development Programme, we know that the Sustainable Development Goals cannot be achieved without active collaboration with the private sector, which is why we greatly value our partnership with Generali. We look forward to sharing the ASEAN version of the SME EnterPRIZE White Paper with you in early 2024.

UNDP's Insurance and Risk Finance Facility (IRFF)

The IRFF supports the development of innovative insurance products and services that are aimed towards vulnerable people and communities, while also investing in the long-term transformation of insurance markets.

The Facility is currently active in 30 countries and works closely with partners from the insurance industry to deliver policy advice, guidance, tools, methodologies and networks that boost country and community resilience towards socio-economic, health, climate and other shocks.

The IRFF harnesses UNDP's position as the UN's development lead, with a presence in 170 countries and long-term partnerships with governments, to integrate insurance and risk financing into sustainable development processes.

2. Respectively (OECD, 2022; UNCTAD, 2021; ADB Institute, 2023)

UNDP – GENERALI Partnership

Generali – UNDP Partnership is a unique collaboration aiming to boost access to insurance and risk finance solutions to reduce the protection gap and increase the socio-economic wellbeing in developing countries, with a focus on SME resilience.

Under this multi-year partnership, officially signed in April 2022, Generali is committed to providing technical and financial resources to UNDP's Insurance and Risk Finance Facility (IRFF).

By leveraging Generali's insurance expertise and UNDP's focus on financing and development, the joint work will enable us to achieve significant milestones including the development of the SME EnterPRIZE White Paper focused on ASEAN countries, the launch of the Insurance Innovation Challenge in Malaysia, and a disaster loss prevention framework for SMEs to leverage the power of data, awareness, and understanding of risks for businesses in vulnerable communities.

Objectives of the Third Edition of the Generali SME EnterPRIZE White Paper

The third edition of the White Paper “Fostering Sustainability in Small and Medium-Sized Enterprises”, developed by SDA Bocconi School of Management’s Sustainability Lab and promoted by Assicurazioni Generali’s SME EnterPRIZE project, presents an ongoing state-of-the-art analysis of the sustainable transition of European SMEs.

This edition builds upon the groundwork laid two years ago, further delving into the emerging trends and evolutions related to the just and sustainable transition of European SMEs. As in the previous edition, which involved 1,000 European SMEs, the main results are based on a specially designed survey of 1,240 European small- and medium-sized companies. This work represents one of the most extensive studies conducted over several years at European level to map the evolution of SMEs’ attitudes towards sustainability issues.

The survey aims to understand SMEs’ strategic approach to sustainability, the level of integration of sustainability within business operations, the key drivers and obstacles faced, as well as the benefits obtained by companies. Furthermore, as in the previous edition, the survey includes elements aimed at supporting European institutions in defining their policies on sustainability.

This edition expands the scope of analysis to nine European countries, including for the first time Portugal and Croatia, in addition to the countries previously examined, namely Austria, the Czech Republic, France, Germany, Hungary, Italy, and Spain. The overview by country offers insights into the strengths and weaknesses of each nation, enabling a comparative analysis of SMEs’ approach to sustainability within different national contexts.

The first chapter, building upon the previous editions, tracks the evolution of the strategic approach to sustainability among European SMEs. It seeks to advance the knowledge of the shifting landscape of how SMEs handle sustainability and what has changed in the past few years.

The second chapter examines the evolution of the barriers faced by SMEs and how recent challenges such as the energy crisis, inflation, and the war in Ukraine have affected SMEs’ sustainability ambitions. By evaluating the impact of these factors, the White Paper seeks to understand the resilience and adaptability of SMEs in pursuing their sustainability goals. Additionally, the report analyses the effects of NextGeneration EU funds on the sustainability goals of European SMEs.

The third chapter investigates the benefits obtained by European SMEs with the adoption of sound sustainability strategies and how the “ESG (Environmental, Social and Governance) business case”, as we termed it in the previous edition, has evolved throughout these challenging times. By showcasing tangible evidence of the advantages gained by SMEs, we aim to present the Undecided and Laggards with compelling evidence of the benefits associated with embracing sustainable practices.

The fourth chapter assesses the level of awareness and preparedness among European SMEs regarding selected transformative drivers that are expected to influence their evolution in the coming years. This involves analysing awareness of such drivers and the readiness of European SMEs to manage them.

The fifth chapter examines the ways in which European SMEs seek support for their sustainability journey: to navigate the complexities and overcome the barriers they encounter. Acknowledging their perspectives and addressing their specific needs is of utmost importance in empowering SMEs and facilitating their transition. By understanding their requirements and providing tailored support, we can enable SMEs to effectively embrace sustainability and overcome the challenges they face along the way.

In the final chapter, the White Paper emphasises the importance of delivering actionable roadmaps. It aims to provide policymakers and the financial services sector with recommendations in the form of actions, both immediate and medium-term, designed to address the needs and challenges faced by European SMEs on their sustainability journey.

Overall, the third edition of the Generali SME EnterPRIZE White Paper serves as a comprehensive resource in terms of monitoring and understanding the evolving landscape of sustainability among European SMEs. By highlighting trends, assessing barriers and benefits, and delivering practical recommendations, it aims to contribute to the advancement of sustainable practices and policies in Europe.



Executive Summary

The sustainable transition of European SMEs remains robust, despite the challenges (such as the post-pandemic recovery, inflation, rising energy costs, and Russia's war on Ukraine) faced by SMEs over recent years. According to our research, SMEs that have adopted a more formalised approach to sustainability or are in the process of adopting one (we call them "Heroes" and "Soon-to-be"), account for 44% of the sample, up 3% from the previous year, and up 10% from a similar 2020 pan-European investigation.

On the other hand, SMEs showing no interest in any sustainability strategy (Laggards), account for 37%, though with a 6% reduction in 2023 compared to last year. Standing at a crossroads in the transition, Undecided SMEs, which declare that some sort of sustainability action plan may be implemented in the future, slightly increased to 16% from 13% in 2023 vs 2022.

Despite the resilience shown by European SMEs, the barriers to the adoption of a sound sustainability approach remain high and have increased since last year. The percentage of European SMEs perceiving significant barriers hindering their sustainable transition has risen across various domains, such as:

- **The relevance of lack of institutional support** (excessive regulation and bureaucracy) which almost doubled, increasing from 25% in 2022 to 48% in 2023.
- **The lack of public incentives**, which also rose significantly from 17% in 2022 to 48%. SMEs perceive a lack of incentives from public authorities to encourage and reward sustainable initiatives.
- **The lack of sustainable finance instruments** for SMEs, which witnessed a notable increase, rising from 26% in 2022 to 47%.

On a positive note, the sustainability business case is clearer than ever: our research reaffirms that **SMEs that have adopted a more structured sustainability approach are reaping benefits across all domains**, highlighting a further increase compared to the already positive results of last year:

- **Organisational benefits:** the number of companies that report having achieved a better environmental impact and a consequent boost in organisational terms saw a steady increase from 78% in 2022 to 82% in 2023; SMEs declaring improvements in efficiency increased from 64% in 2022 to 74% in 2023.
- **Relational benefits:** There is a consistent level of employee satisfaction, customer satisfaction, and better relations with the community, as well as improvements in terms of reputation and dialogue with stakeholders.

- **Market and competitive benefits:** SMEs are gaining market and competitive advantages from their sustainability efforts. The percentage of companies reporting better access to new markets has increased from 54% in 2022 to 68% in 2023, indicating that sustainability credentials are becoming crucial to enter and expand into new markets.

European SMEs are persistently calling for support in their transition through a wide range of institutional and market initiatives:

- Tax incentives to promote the use of more sustainable products or services: This is the top-ranking measure, with 73% of European SMEs considering it very important or important.
- EU or national subsidies aiming to finance the green transition of European companies rank second and third, with 2 out of 3 SMEs declaring EU or national funds very important or important.
- More favourable financial conditions tied to ESG ambitions rank fourth, with 63%, and involve the development of financial instruments that promote sustainability and provide benefits, including discounted fees, to SMEs committed to environmental, social, and governance goals.

To ensure a just and sustainable transition, it is vital to onboard Laggards and Undecided SMEs. We have outlined short and medium-term recommendations for policymakers and the financial sector, as they are among the key actors capable of promoting, accelerating, and consolidating the just and sustainable transition of European SMEs.

I. Recommendations for Policymakers

- **Priority 1:** Explain and convince Undecided SMEs and Laggards through awareness initiatives and campaigns showcasing the “ESG business case”, and the benefits of sustainability.
- **Priority 2:** Support European SMEs in overcoming the main barriers, with a focus on establishing a clear and proportional framework for SMEs, while securing incentives for the transition.
- **Priority 3:** Enhance the capacity of European SMEs to engage in regional innovation centres to leverage opportunities, networking and partnerships for sustainability.

II. Recommendations for Financial Institutions

- **Priority 1:** Engage and empower SMEs, explaining and raising awareness about the available financial instruments and opportunities.
- **Priority 2:** Support European SMEs by designing and mainstreaming specifically tailored sustainable finance instruments, including addressing the “financeability” and “insurability” gaps.
- **Priority 3:** Enhance the capacity to reach SMEs through partnerships and collaboration with relevant players and the business community.



CHAPTER 1

European SME's Approach to Sustainability and How It Changed in Recent Years

powered
by





Our analysis underscores the resilience of European SMEs during challenging times, while also confirming a noticeable polarisation in their approach to the sustainable transition.

In our sample, 44% of the SMEs declare that they have already embraced, or are in the process of embracing, a more formalised sustainability approach (Heroes and Soon-to-be), while 37% show no interest in this transition (Laggards).

Larger companies exhibit a more formalised attitude, with the integration of environmental and social concerns reflecting their superior maturity.

Country-wise, Germany, Italy and Portugal lead the pack, with the remaining countries following suit.

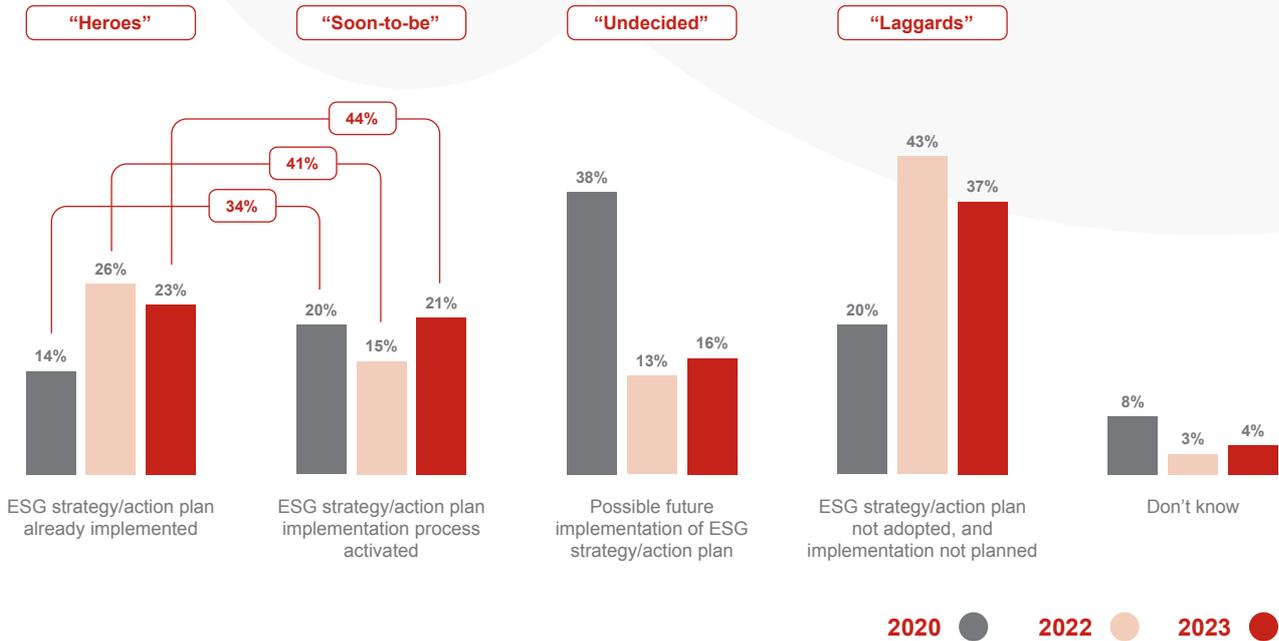
Key factors pushing formalised sustainability include high energy costs, regulatory demands, and entrepreneurial vision.

Interestingly, our analysis reveals a strong link between sustainability maturity and involvement in regional innovation ecosystems.

1.1 Our survey highlights the resilience of European SMEs during challenging times, but it also confirms polarisation in the approach towards sustainable transition.

The first edition of the White Paper, published in 2021, provided an in-depth analysis of over 3,000 national and international academic journals and grey literature, aimed at describing the strategic approach of European SMEs to sustainability.

(Figure 1) Strategic approach to sustainability trend 2020-2023 - % of SMEs



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240; (May 2022) Total No. 1,000, European Commission SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486 (2020)

The second edition, published in 2022, provided additional insights, through a specially designed survey targeting 1,000 SMEs in seven selected countries (Austria, the Czech Republic, France, Germany, Hungary, Italy, and Spain).

The results showed an acceleration and polarisation of trends in several respects: firstly, there was a notable rise in the number of European SMEs that had embraced the sustainable transition, compared to a prior pan-European study conducted in 2020. However, at the same time, there was also an increase in the number of SMEs that displayed disinterest in adopting a more structured sustainability approach.

Our latest survey, which was conducted in May 2023, covered 1,240 SMEs in nine European countries with the addition of Croatia and Portugal to the previous panel. It shed light on the evolving sustainability approach adopted by SMEs, which reflected the observed polarisation highlighted in the previous edition of the White Paper (Figure 1).

On the one hand, there has been an increase in the number of SMEs embracing a more formalised sustainability approach demonstrating growing recognition of these themes (e.g. adopting a specific sustainability strategy or action plan, possibly including objectives, targets and KPIs). This has either already been implemented (in continuity with the previous edition, we call these companies “Heroes”), or is in the process of being implemented (with companies referred to as “Soon-to-be”).

Our analysis confirms that the combined number of Heroes and Soon-to-be SMEs reached 44% of our sample in 2023, up 3% from the previous survey, and up 10% from a similar pan-European survey carried out by the European Commission in 2020.

On the other hand, the number of SMEs showing no interest in any ESG strategy (termed “Laggards”), has almost doubled since the 2020 report, with an interesting 6% reduction in 2023 compared to the previous year. At a crossroads in the transition, the number of “Undecided” SMEs, which declare that some sort of sustainability strategy or action plan may be implemented in the future, slightly increased in 2023 vs 2022, rising to 16% from 13%.

We consider these findings positive, as they attest to significant resilience in European SMEs with regard to a more structured approach to sustainability, despite the challenges faced by all businesses, and SMEs in particular, in recent years. These include the Covid-19 pandemic and varying recovery levels across different parts of the world, the resulting tensions in commodity markets, transportation, energy, and related inflationary pressures, along with the war in Ukraine which exacerbated existing trends.

This resilience highlights the commitment of a significant portion of SMEs to integrating environmental, social, and governance considerations into their business operations. The results emphasise the need for continued efforts to bridge the gap and encourage broader adoption among SMEs. By understanding the factors driving the polarisation and identifying the barriers hindering ESG engagement, all the parties involved (e.g. policy makers, financial services institutions, business organisations, and academia) can better support SMEs in their sustainability journeys.

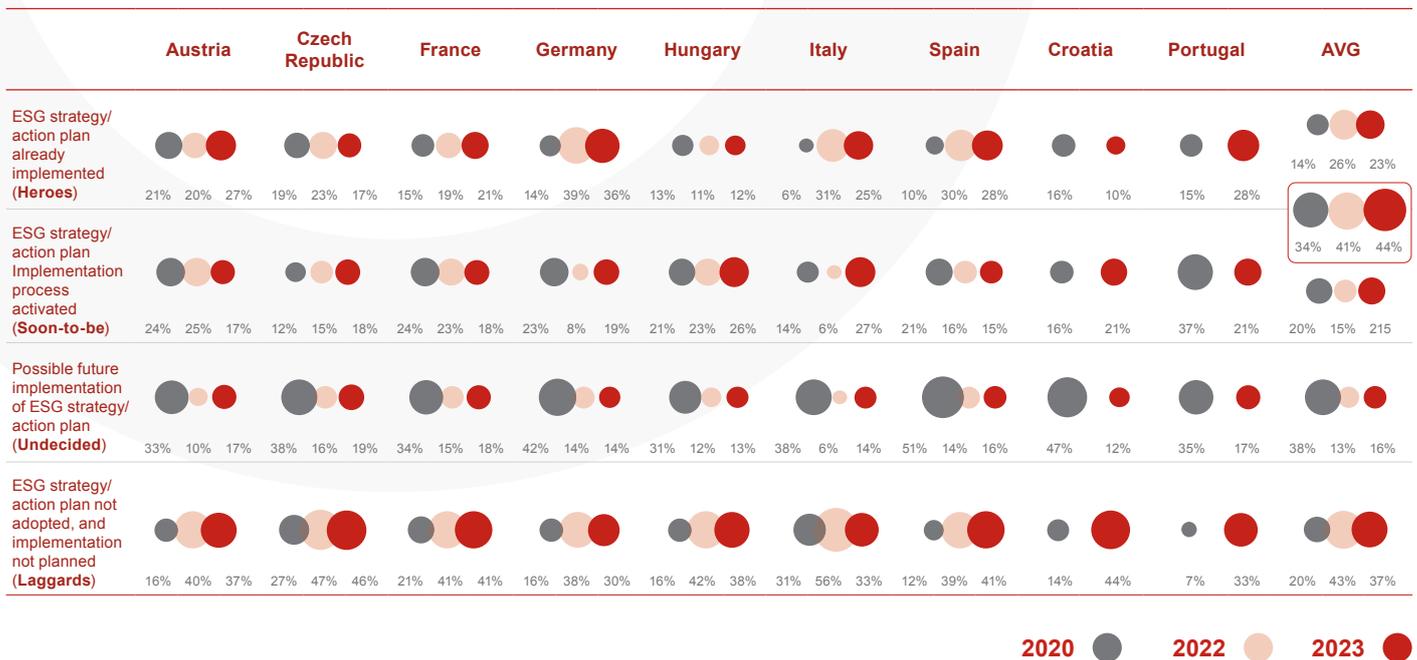
1.2 The overview by country confirms the polarisation observed and offers additional insights. SMEs from different countries are progressing at varying paces in their sustainable transition, with Germany taking the lead, followed by Italy, Portugal, Austria, Spain, and France.

The country-level analysis (Figure 2) provides a consistent picture of the overall polarisation observed at European level. SMEs from different countries seem to be moving towards the sustainable transition at different speeds, with Germany leading the pack (55% Heroes and Soon-to-be), followed by Italy (52%), Portugal (49%), Austria (44%), Spain (43%), and France (39%), with Hungary trying to close the gap (38%), followed by the Czech Republic (35%) and Croatia (31%).

The pace of sustainable transition among SMEs in different countries can be attributed to a mix of factors: economic (e.g. economic strength of each country, investments in R&D), cultural and historical (e.g. awareness and values of the owners, sense of connection with local communities), political (e.g. government initiatives), and infrastructural (e.g. existence and advancement of circularity and recycling supply chains, presence of renewable energy sources).

The countries leading the pack demonstrate a combination of governmental support, cultural emphasis on sustainability, a sense of connection to local communities, and the necessary economic, industrial, and infrastructure resources. On the other hand, those lagging might be facing unique challenges or may not yet have the infrastructure or policies in place to support the transition.

(Figure 2) Strategic approach to sustainability trend - % of SMEs by country



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240; (May 2022) Total No. 1,000, European Commission SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486 (2020). Croatia and Portugal not included in 2022 survey.

Undecided companies, which represented the majority of SMEs in each country in 2020, seem to have moved in two opposing directions. On the one hand, some have evolved towards greater maturity and embraced the sustainable transition, integrating sustainability issues into their business strategy and operations.

On the other hand, a significant part of the Undecided has chosen not to embrace this transition, at least for the moment, thereby increasing the number of Laggards. This pattern is also evident in the newly examined countries, Portugal and Croatia.

When analysing this polarisation, aside from the different national economic, cultural and historical, political and infrastructural factors, several other swaying drivers emerge:

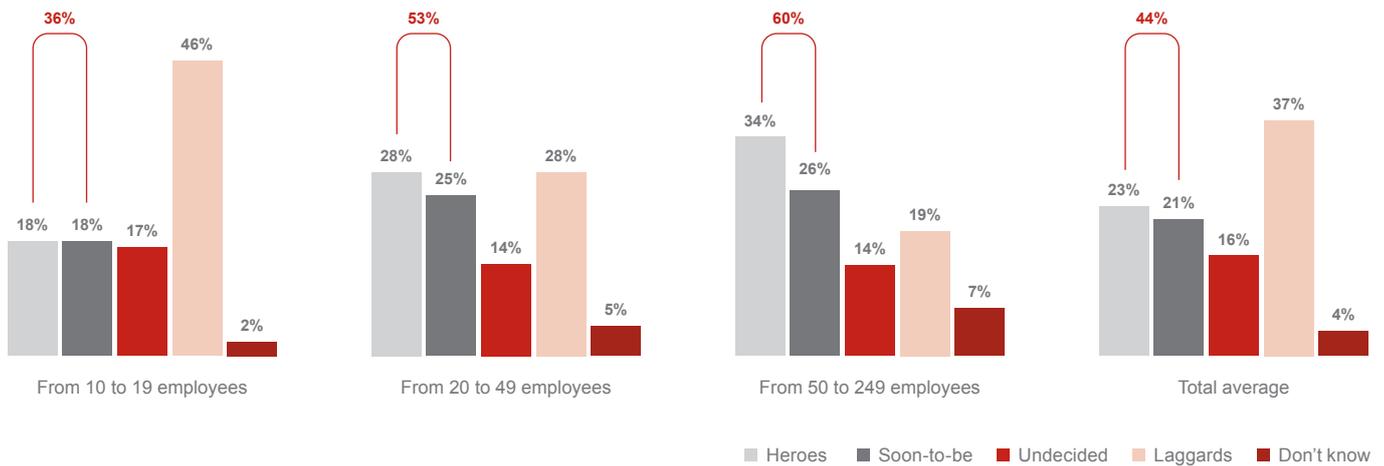
- Firstly, economic considerations play a pivotal role. Given that SMEs often operate with tighter financial constraints, many may view the shift towards sustainability as an added expenditure rather than a long-term beneficial investment.
- Secondly, the level of information and knowledge accessible to these enterprises significantly impacts their choices. Without a clear understanding of the tangible benefits of sustainable practices, some SMEs might hesitate to integrate them into their operations.

- Lastly, market demand acts as a compelling driver or deterrent. Companies that recognise a pronounced consumer or client preference for sustainable products or services are likely to be more proactive in their transition. Conversely, in sectors where this demand is less evident, SMEs might either delay their shift or not consider it at all.

1.3 Not surprisingly, dimensions count: the larger the companies, the higher the proportion of SMEs that claim to have adopted, or are in the process of adopting, a more formalised approach to sustainability.

The dimensional analysis (Figure 3), considering the number of employees, confirms that size matters: larger SMEs declare greater adoption of a sustainability strategy compared to smaller businesses.

(Figure 3) Strategic approach to sustainability - % of SMEs by number of employees



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

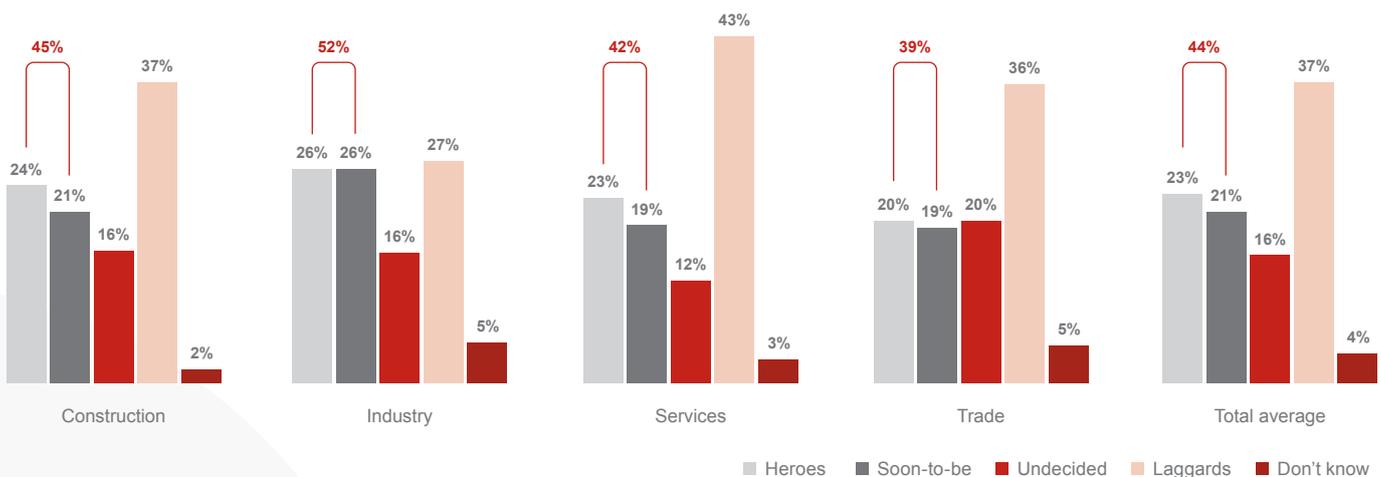
Given their scale, these enterprises often possess greater resources, both financial and human, which can be channelled towards sustainable initiatives. Additionally, their size might expose them to a broader customer base or stricter regulatory scrutiny, compelling them to prioritise sustainability. Conversely, smaller SMEs, often operating with tighter margins and limited resources, may perceive sustainability as a secondary concern.

The size-related gap is particularly significant for companies with fewer than 20 employees (36% Heroes and Soon-to-be), which show a lag of 17 percentage points compared to companies with 20 to 49 employees (53% Heroes and Soon-to-be), and a lag of 24 percentage points compared to those with more than 50 employees (60% Heroes and Soon-to-be).

The affiliation with specific sectors is also relatively influential (Figure 4): SMEs in the Industry and Construction sectors appear to have embraced a more formalised sustainability approach to a greater extent than those in the Services and Trade sectors.

This configuration can be attributed to the fact that SMEs in the Industry and Construction sectors, particularly those involved in global supply chains, are often perceived to have a more tangible and direct impact on the environment and society through their operations and activities. As a result, they face increased scrutiny and pressure from clients, customers, and other stakeholders to adopt sustainable practices. These sectors also tend to benefit from existing regulations and incentives that promote sustainability within their specific industries, such as regulations promoting resource- and energy-efficient building and renovation practices.

(Figure 4) Strategic approach to sustainability - % of SMEs by sector



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

SMEs in the Services and Trade sector may, instead, perceive themselves as having a comparatively smaller direct environmental and social impact or limited control over the production processes or sourcing decisions of the products they trade in. These factors can pose additional challenges for SMEs when it comes to the direct implementation of sustainability measures.

However, it is important to recognise that even SMEs in the Services and Trade sectors play a significant role within the broader context of global supply chains. While their impact may be less visible, their choices and actions still have the potential to influence sustainability outcomes throughout the supply chain.

The most recent regulatory developments, including the entry into force of the CSRD (Corporate Sustainability Reporting Directive), will likely introduce new elements into this scenario. With the CSRD in place, many businesses, including SMEs, will face more stringent reporting requirements regarding their sustainability practices, either directly addressed to them, or indirectly through the requests of clients in the supply chain that are subject to the reporting requirements of the directive. Given that larger SMEs have already been more proactive in their sustainability initiatives, they might find themselves better positioned to adhere to these new regulations. Their existing structures and strategies could make the transition to enhanced reporting smoother.

In essence, the CSRD is likely to amplify the importance of sustainability across all sectors. While the nature of the impact might vary, the overarching effect will be a push towards more transparent, responsible, and sustainable business practices. The directive not only enforces reporting, but could indirectly drive a holistic adoption of sustainability as a core business principle across sectors.

1.4 The integration of environmental and social concerns is linked to ESG maturity: Heroes and Soon-to-be lead the group, followed by the Undecided, who are still at a crossroads regarding the transition and do not yet have a clear strategic orientation.

In our analysis, we identified some of the main organisational areas or processes in which the integration of environmental and social aspects is most relevant to ensure a just and sustainable transition. Among them, there are aspects of a strategic and relational nature or linked to process or product innovation.

(Figure 5) Integration of environmental and social concerns in SMEs activities - % of SMEs fully or highly integrated

	AVG	Heroes	Soon-to-be	Undecided	Laggards
Health & Safety in workplace	56%	88%	78%	57%	23%
Quality of products / services	51%	87%	75%	49%	16%
Relations with customers	50%	89%	75%	49%	13%
Relations with trade unions	47%	80%	74%	44%	11%
Relations with suppliers	46%	85%	72%	43%	10%
Relations with employees	46%	79%	65%	44%	15%
Business strategy	45%	79%	71%	42%	11%
New products	44%	83%	68%	44%	9%
Marketing	44%	79%	64%	45%	11%
New investments	43%	80%	66%	40%	11%
New processes	42%	79%	64%	39%	9%
Relations with business organisations	39%	78%	57%	33%	7%
Relations with local communities	38%	75%	62%	30%	6%
Relations with competitors	35%	67%	57%	30%	7%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

The integration of environmental and social concerns into the activities of European SMEs reflects varying levels of maturity among different groups (Figure 5). Heroes stand out as leaders in adopting and incorporating sustainable practices across various aspects of their operations. In particular:

- **Heroes** prioritise sustainability across multiple aspects. They exhibit a strong commitment to health and safety, quality, and work practices, ensuring the well-being of their employees. They emphasise the importance of devising marketing and communication strategies in line with sustainable principles, promoting their sustainability initiatives to stakeholders. Heroes seem to make more informed investment choices, develop new products and services that align with sustainability goals, and implement new processes to reduce environmental impact. They place importance on building strong relationships with suppliers, partners, customers, and even competitors, thus fostering a collaborative business ecosystem. Their engagement with local communities and workers associations showcases their comprehensive approach to sustainability integration.
- **Soon-to-be** companies show progress in integrating social and environmental concerns into their operations. They prioritise aspects such as health and safety, quality, and work practices. Although their percentages are slightly lower than those of the Heroes group, Soon-to-be companies are actively building marketing and communication strategies aligned with sustainability goals, and making strides in investment choices, the development of new products and services, and the implementation of sustainable processes.
- **Undecided** SMEs are still evaluating their approach to sustainability. While their integration of social and environmental concerns is lower compared to Heroes and Soon-to-be companies, they are not completely disregarding sustainability. They show some consideration for aspects such as health and safety, quality, and work practices, although there is room for improvement in areas such as investment choices, and the development of sustainable products and services.
- **Laggards** show the lowest integration of social and environmental concerns across all the different domains, including areas such as health and safety, quality, and work practices. To facilitate a sustainable transition, Laggards need to be onboarded.

A more detailed analysis, distinguishing between “full” and “full or high” integration of environmental and social concerns into the activities of European SMEs, reveals areas for improvement across all groups of companies (Figure 6).

Full integration means that the various environmental and social aspects are systematically considered in corporate decisions, in an integrated, comprehensive, and continuous manner. High integration, on the other hand, refers to a significant level of consideration, albeit not integrated, complete, or continuous, in corporate decisions.

Our analysis highlights that:

- despite their leading position, **Heroes** still have room to fully integrate environmental and social concerns into their strategies and business operations. This is evident from the average gap of 43 percentage points between the number of companies declaring to have fully integrated environmental and social concerns, versus the ones that declare a combination of full and high integration. This gap can be attributed to various factors, including the complexity of full integration (e.g. from high-level strategies down to day-to-day operations), the adoption of an evolutionary approach (e.g. starting with high integration in certain areas before progressing to full integration), time lag (e.g. between intent and action), external pressures and market dynamics (e.g. companies might prioritise areas that face more external scrutiny or where market dynamics favour sustainability), and resource constraints (e.g. limited financial and human resources to ensure a complete and continuous integration of sustainability practices);
- **Soon-to-be** companies also show room for improvement, with an average gap of 45 percentage points between “full” and “full or high” integration: while in the process of adopting a sustainability strategy, these companies have yet to fully incorporate social and environmental concerns across all business aspects, highlighting the need for ongoing efforts to strengthen their commitment to sustainability;
- **Undecided companies** show less pronounced, but still significant differences, with an average gap of 31 percentage points: these companies are uncertain about adopting a sustainability strategy and the level of integration of social and environmental concerns remains relatively low, reinforcing the notion that further exploration is required to make more informed decisions and potentially move towards full integration;
- **Laggard** companies exhibit the lowest level of integration in both analyses, with an average gap of 9 percentage points, indicating a lack of interest or commitment to sustainability.

(Figure 6) Integration of environmental and social concerns - % of SMEs fully vs fully or highly integrated



% fully % fully + highly

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

1.5 At country level, the integration of environmental and social concerns follows, to some extent, the maturity of the national context: SMEs from Italy, Germany, and Portugal appear on average to be more advanced in the sustainable transition.

At country level, the analysis reveals varying degrees of integration of environmental and social concerns, which, to some extent, align with the maturity of SMEs from the various national contexts, as discussed in paragraph 1.2. While countries like Germany and Italy present higher levels of integration across multiple aspects, the others follow behind:

- **Germany** emerges as a leader in sustainability integration. It demonstrates high percentages across most aspects, indicating a strong commitment to incorporating social and environmental concerns into various business operations.
- **Italy** follows closely, showing significant integration in most aspects. It demonstrates a comprehensive approach to sustainability, particularly in areas such as health and safety, quality, and investment choices. Portugal and Austria also exhibit relatively high levels of integration. These countries show notable commitment to sustainability in areas such as health and safety, quality, and customer relations.
- **Spain, the Czech Republic, and Hungary** display moderate levels of integration overall. While they have made progress in integrating social and environmental concerns into certain aspects, there is room for improvement in several areas.
- **France and Croatia** demonstrate comparatively lower levels of integration than other countries, with opportunities for further development.

(Figure 7) Integration of environmental & social concerns by country -
% of SMEs fully or highly integrated

	AVG	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain
Health & Safety in workplace	56%	58%	39%	57%	39%	65%	50%	73%	66%	54%
Quality of products / services	51%	47%	37%	50%	40%	60%	48%	68%	49%	52%
Relations with customers	50%	53%	37%	45%	34%	61%	46%	68%	54%	49%
Relations with trade unions	47%	50%	39%	42%	39%	54%	38%	58%	48%	49%
Relations with suppliers	46%	48%	33%	41%	36%	58%	40%	59%	48%	47%
Relations with employees	46%	44%	38%	48%	31%	55%	33%	61%	49%	47%
Business strategy	45%	48%	32%	47%	33%	51%	38%	57%	50%	47%
New products	44%	45%	30%	41%	33%	56%	31%	61%	49%	46%
Marketing	44%	43%	34%	37%	38%	54%	33%	59%	44%	44%
New investments	43%	45%	33%	39%	28%	53%	39%	69%	43%	36%
New processes	42%	36%	29%	39%	32%	51%	31%	58%	52%	43%
Relations with business organisations	39%	43%	27%	37%	30%	49%	29%	52%	40%	36%
Relations with local communities	38%	38%	28%	37%	28%	54%	22%	56%	36%	40%
Relations with competitors	35%	33%	30%	31%	23%	42%	24%	56%	35%	37%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

1.6 When asked to identify the three main factors that favoured or required the adoption of a more formalised sustainability approach, SMEs mainly emphasised high energy costs, regulatory requirements, and the vision and sense of responsibility of the entrepreneurs.

Overall, the adoption of a formalised sustainability strategy in SMEs that have adopted, or are in the process of adopting, an ESG approach (i.e. Heroes and Soon-to-be companies), is mainly influenced by a combination of three factors, namely economic considerations, national and international regulatory requirements, and the vision and sense of responsibility of the owners (Figure 8).

The relative importance of these drivers may vary slightly from country to country, but they consistently play a significant role in shaping SMEs' sustainability strategies:

- **high energy costs:** This driver holds an overall relevance of 43%, with peaks of 52% in the Czech Republic and 49% in Croatia, indicating that the economic implications of energy costs play a significant role in motivating SMEs to adopt sustainability strategies;
- **national and/or international regulatory requirements:** With an overall relevance of 40%, and a peak of 46% in France, regulatory compliance emerges as a strong driver for SMEs to adopt sustainability strategies, seen as necessary to conducting business and staying competitive in the market;
- **vision and sense of responsibility of owners:** This driver holds an overall relevance of 38%, with peaks of 51% in Italy, 46% in Croatia and 44% in France, highlighting the importance of owners' vision and their commitment to social responsibility. SMEs whose owners possess a strong sense of responsibility are more likely to adopt formalised sustainability strategies.

(Figure 8) Main 3 factors that favoured or required the adoption of an ESG approach - % of SMEs by country

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain	AVG
High energy costs	40%	49%	52%	44%	45%	44%	37%	39%	41%	43%
National and/or international regulatory requirements	37%	38%	31%	46%	43%	42%	41%	39%	41%	40%
Vision and sense of social responsibility of ownership	31%	46%	26%	44%	38%	27%	51%	37%	35%	38%
Pursuit of organisational and/or market advantages	29%	38%	26%	33%	39%	36%	2%	34%	38%	29%
Cultural and social factors	35%	35%	29%	19%	26%	22%	12%	34%	31%	26%
Potential benefits from accessing capital at better conditions	35%	14%	19%	27%	23%	31%	5%	27%	24%	22%
Social proximity to the local community	33%	30%	24%	16%	20%	18%	14%	27%	19%	21%
Potential benefits for future listing	27%	8%	21%	29%	22%	18%	4%	22%	28%	20%
Quality of corporate governance (e.g. diversity of the Board)	8%	19%	21%	14%	14%	11%		12%	7%	11%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 548.

Other drivers, such as the pursuit of organisational and market advantages, including benefits from accessing capital at better conditions, or the potential benefits for future listing, as well as cultural and social factors including social proximity to the community, are perceived as less relevant, with some variations by country.

1.7 Efficiency, referred to recycling, energy conservation, and material savings, represents the main area in which European SMEs are active. Heroes emerge as frontrunners, closely followed by Soon-to-be companies. Notably, the Undecided exhibit similar patterns, particularly in relation to recycling and energy-saving efforts.

Consistent with the main drivers of action for the implementation of a more structured approach to sustainability, the main domains in which European SMEs make an active effort to achieve higher results are resource and energy efficiency.

Heroes and Soon-to-be SMEs exhibit higher levels of investment across all sustainability areas. These proactive groups prioritise recycling or material reuse, energy savings or transitioning to sustainable energy sources, and the reduction of natural resource consumption. They also show a stronger commitment to developing sustainable products or services, minimising the impact of their operations on biodiversity, selecting sustainable partners or suppliers, and reducing their carbon footprint.

Undecided SMEs, meanwhile, show intermediate levels of intervention across most sustainability areas, indicating a willingness to engage, albeit with less intensity compared to Heroes and Soon-to-be. Laggards allocate the lowest levels of investment across all areas.

(Figure 9) Main initiatives actively undertaken in the field of sustainability - % of SMEs by strategic approach

	AVG	Heroes	Soon-to-be	Undecided	Laggards
Recycling or reuse of materials	39%	54%	49%	46%	19%
Energy saving or shift to sustainable energy sources	31%	53%	53%	48%	23%
Reduction in the consumption of natural resources	30%	41%	41%	33%	16%
Development of sustainable products or services	22%	42%	34%	16%	6%
Selection of suppliers also by sustainability criteria	17%	34%	29%	13%	3%
Reduction of impact on biodiversity	17%	34%	29%	13%	3%
Reduction of carbon footprint	15%	27%	26%	11%	4%
None of the above	18%	1%		6%	42%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

Overall, the findings indicate a positive link between the strategic approach to sustainability and the level of activation. Heroes and Soon-to-be companies have invested across all sustainability areas and benefit from their proactive approach by gaining a deeper understanding of sustainability issues and reaping the associated rewards.

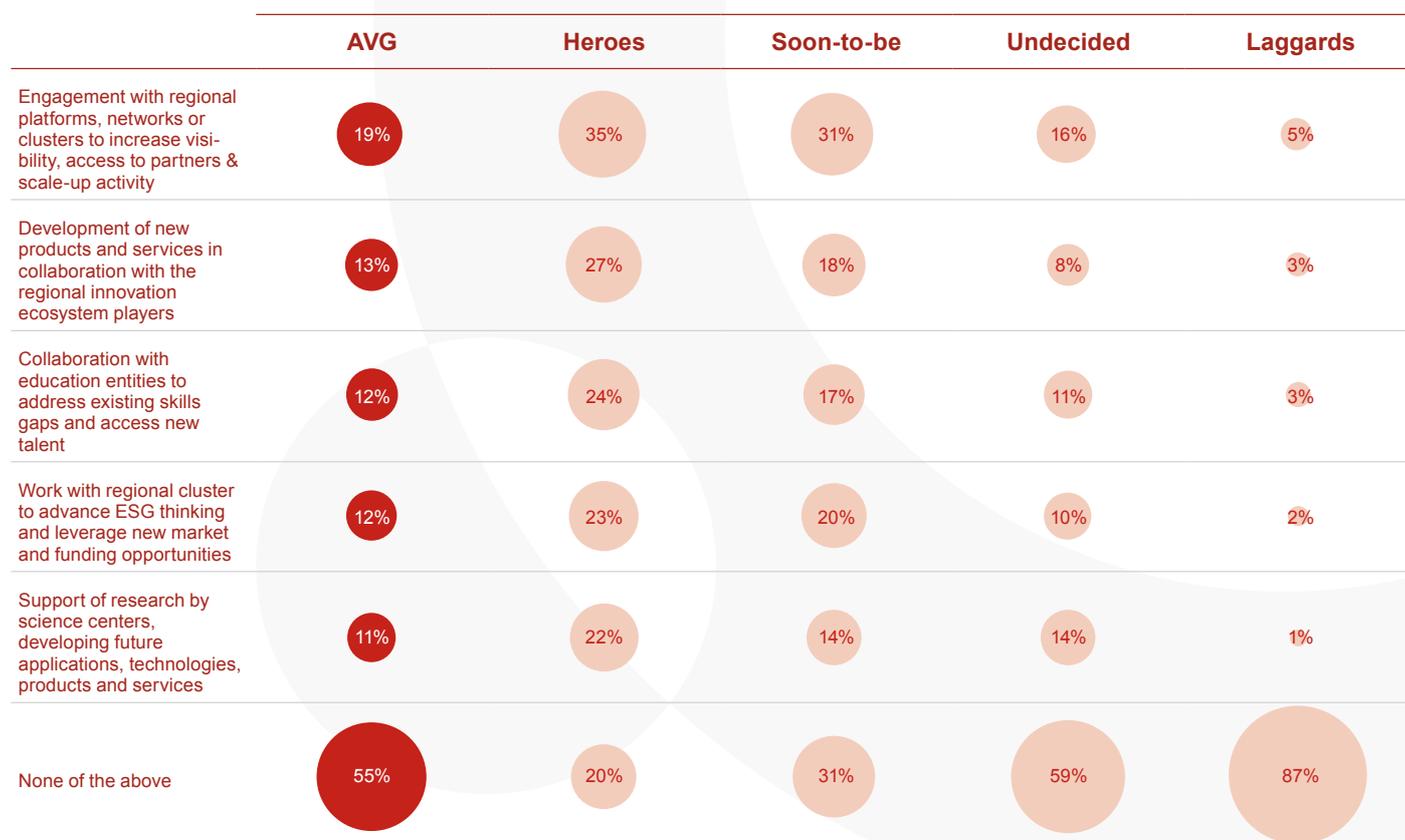
1.8 ESG maturity and the connection to regional innovation ecosystems go hand-in-hand: 8 out of 10 Heroes, and 7 out of 10 Soon-to-be SMEs, show a propensity to develop connections and participate in joint initiatives across different domains.

Our analysis shows that engagement with regional innovation ecosystems and superior maturity in the field of sustainability are linked (Figure 10). A regional innovation ecosystem refers to the interconnected networks of institutions, organisations, and businesses within a specific geographical region that collectively support and drive innovation. This ecosystem is shaped by the interactions between various components and facilitates the flow of knowledge, ideas, and resources. Ultimately, it fosters creativity, technological advancements, and economic growth in the region, uniting educational entities, local districts, research centres, and local platforms to advance skill sets, sustainability thinking, visibility, and the co-development of technologies, products, and services.

Heroes and Soon-to-be companies exhibit higher rates of collaboration with regional platforms, networks or clusters to increase their visibility, access to partners and scale-up their activity. Additionally, they develop new products and services in collaboration with other players, engage with educational institutions to address skill gaps and access new talents, or work with local districts to advance sustainable thinking and leverage their network for increased opportunities.



(Figure 10) Connection to regional innovation ecosystem - % of SMEs by strategic approach



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

Heroes and Soon-to-be SMEs also show greater support for research conducted by collaborative research centres, enabling the development of applications, technologies, and new processes. In contrast, Undecided companies and Laggards display lower engagement across all areas of collaboration. This limited connection may have hindered their progress in sustainability matters to a certain extent.

We can assume that superior ESG maturity leads to higher involvement in local innovation ecosystems. Superior maturity enables companies to recognise the importance of collaborating for further enhancing sustainability efforts. Existing sustainability practices may have motivated Heroes and Soon-to-be companies to seek partnerships, knowledge exchange and resources, resulting in their increased involvement.

Conversely, superior involvement in local innovation ecosystems can also lead to higher ESG maturity. By collaborating with educational institutions, local districts, research centres and ecosystem actors, companies gain access to valuable resources, expertise and innovation opportunities.

This involvement has likely exposed Heroes and Soon-to-be SMEs to new sustainability practices, cutting-edge technologies and emerging trends, ultimately contributing to their higher level of maturity.



CHAPTER 2

Existing and Emerging Barriers Preventing SMEs from Implementing Sustainability Strategies

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Barriers to the adoption of a formalised sustainability approach remain substantial and have intensified over the past year.

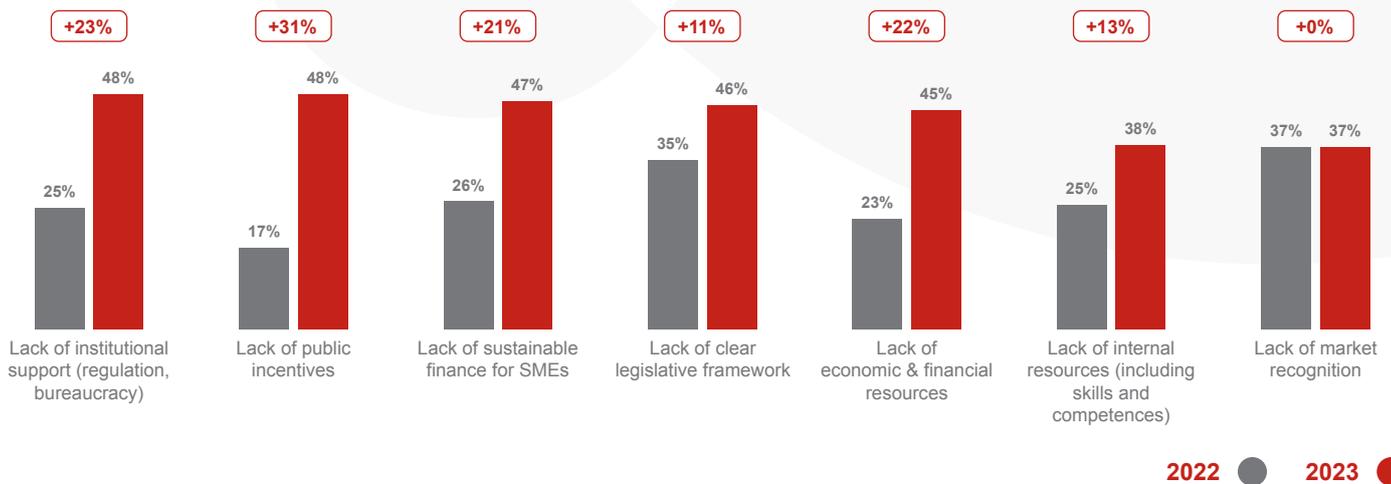
Smaller SMEs perceive these barriers more acutely, with institutional challenges such as excessive regulations and bureaucracy being predominant.

European SMEs' sustainability ambitions have also been affected by rising energy prices, inflation, and the Ukraine conflict, with these factors impacting the Undecided and Laggards the most.

2.1 Barriers to the adoption of an ESG approach remain high and their severity has increased since last year.

Since our 2022 study, the percentage of European SMEs perceiving significant barriers hindering their sustainable transition has increased across various domains (Figure 11). This rise can be attributed in part to the challenging period faced by all businesses, especially SMEs. The perception of the barriers to the sustainable transition, driven by the characteristic weaknesses of SMEs (e.g. lack of skills and human resources, lack of financial resources), has further intensified due to the particularly complex circumstances.

(Figure 11) What are the barriers to the sustainable transition - % of SMEs rating as very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240; (May 2022) Total No. 1,000

In particular:

- lack of institutional support (excessive regulation and bureaucracy):** excessive regulation and bureaucracy refer to an overabundance of rules (regulation) coupled with complex administrative procedures (bureaucracy), both of which are often perceived as impediments to efficiency, innovation and growth, rather than facilitators. The relevance of this barrier has nearly doubled, increasing from 25% in 2022 to 48% in 2023. European SMEs perceive increased challenges in receiving adequate support and guidance from institutions in their sustainable transition efforts;

- **lack of public incentives:** similarly, the importance of this barrier has significantly risen from 17% in 2022 to 48% in 2023. SMEs perceive a lack of incentives from public authorities to encourage and reward sustainable initiatives;
- **lack of sustainable finance instruments for SMEs:** the relevance of this barrier has also witnessed a notable increase, rising from 26% in 2022 to 47% in 2023. SMEs face challenges in accessing financial instruments tailored to their sustainability needs. The growing importance of this barrier highlights the need to develop and promote financial mechanisms specifically designed to support SMEs' sustainable initiatives;
- **lack of clear legislative framework:** while this barrier was already relatively important in 2022 at 35%, it has further increased to 46% in 2023. SMEs perceive a lack of well-defined and comprehensive legislative frameworks that provide clarity and guidance for sustainable practices. The continued rise in its importance emphasises the urgent need to establish clear and consistent regulations to facilitate the sustainable transition of SMEs;
- **lack of economic & financial resources:** this barrier has seen a substantial increase, growing from 23% in 2022 to 45% in 2023. SMEs face difficulties in accessing the necessary economic and financial resources required to implement sustainable practices. The significant rise in its importance indicates a pressing need to address the resource constraints faced by SMEs and explore avenues for providing financial and economic support;
- **lack of internal resources:** this barrier has increased from 25% in 2022 to 38% in 2023. It remains a significant challenge for SMEs, indicating limitations in the internal capacity and resources necessary to implement sustainability practices. Addressing this barrier would involve providing SMEs with the necessary tools, knowledge, and skills to effectively integrate sustainability into their operations;
- **lack of market recognition:** while still a significant barrier, the relevance of the lack of market recognition remains steady at 37%. The barrier remains noteworthy, indicating that further efforts are needed to increase market demand and recognition for sustainable offerings.

The evolution of the barriers reveals an increased recognition of the challenges faced by European SMEs in their sustainable transition. The notable rise in the relevance of barriers such as lack of institutional support, public incentives, and sustainable finance instruments, highlights the need for stronger backing and engagement from institutions and policymakers. Efforts should be directed towards creating a favourable ecosystem that addresses these barriers, enabling SMEs to embrace sustainability effectively.

2.2 While Heroes have made significant strides in overcoming various barriers, institutional obstacles (such as excessive regulations and bureaucracy, lack of a clear legislative framework, limited public incentives, and lack of sustainable finance) predominantly affect the Undecided, followed by Soon-to-be SMEs and Laggards.

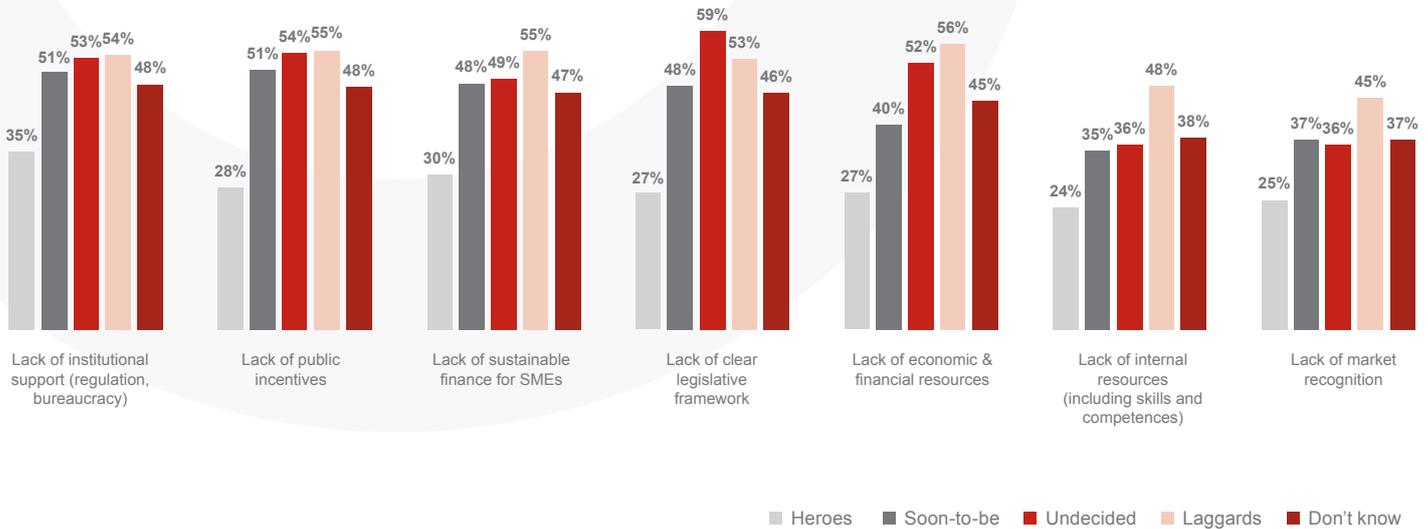
According to our analysis (Figure 12), compared to other groups, **Heroes** generally perceive lower levels of importance for most barriers, and have already made progress in overcoming obstacles. The reasons for this lower perception of barriers could depend on various factors, some of which, as previously mentioned (see paragraphs 1.3 and 1.8), could be linked to the larger average size of the Hero companies, or their greater involvement in regional innovation networks. However, even these companies face ongoing challenges, particularly in areas such as excessive bureaucracy, lack of public incentives, and lack of economic resources. Continued support and improvement in these areas could further enhance their sustainability efforts.

Soon-to-be SMEs indicate relatively higher levels of importance across all barriers compared to Heroes. These companies are in the process of adopting sustainability strategies, but still face significant challenges. They consider regulation and bureaucracy, lack of public incentives, and lack of sustainable finance tailored towards SMEs as the most crucial barriers. Addressing these concerns through streamlined processes, attractive incentives, and accessible financial resources could accelerate their transition.

Undecided companies exhibit similar perceptions to the Soon-to-be group, highlighting the importance of barriers such as excessive regulation and bureaucracy, lack of public incentives, and lack of clear political frameworks. Undecided SMEs seem to be considering sustainability strategies, but have concerns about the external support and favourable conditions required to implement them effectively. Clear and consistent policies, along with targeted incentives, can play a pivotal role in encouraging this group to embrace sustainability.

Laggards consistently rank barriers with high levels of importance. These companies seem to face significant challenges and might require substantial motivation and support to initiate sustainability efforts. Tailored assistance, awareness campaigns, and capacity-building programmes can help them overcome these barriers and start their sustainability journeys.

(Figure 12) What are the barriers to the sustainable transition by ESG approach - % of SMEs rating as very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

2.3 Not surprisingly, size also matters when it comes to barriers: the smaller the companies, the higher the number of SMEs that perceive the various barriers as “very important” or “important”.

The size of an SME has a direct connection with its perception of the barriers to sustainable transition. Larger SMEs typically have more resources, both in terms of finances and personnel, which can be allocated to navigate challenges such as regulatory compliance, bureaucratic procedures, and access to sustainable finance. Their scale often allows them a better vantage point from which to understand and adapt to policy frameworks.

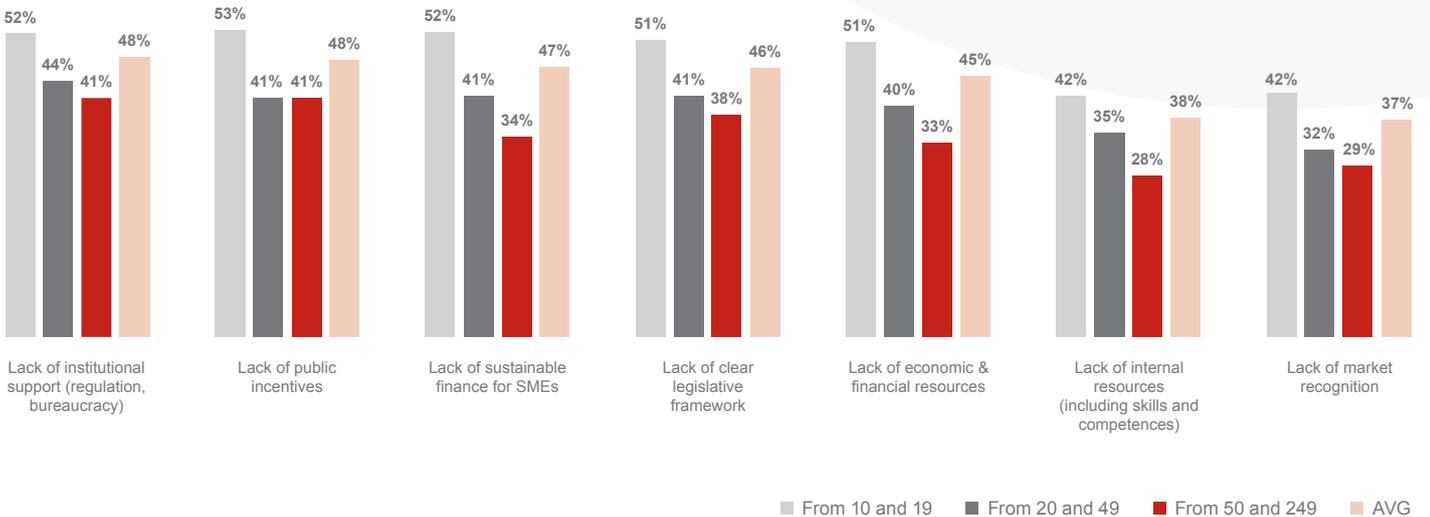
In contrast, smaller companies, especially those with 10-19 employees, often operate on tighter margins and have limited manpower. These constraints make them more susceptible to feeling the burden of excessive regulation, a lack of public incentives, and the intricacies of legislative frameworks. Their smaller scale can also make accessing financial support more challenging, further amplifying their perception of these barriers.

Companies with 10-19 employees consistently perceive high levels of importance for all barriers. The constraints cited above, together with lack of sustainable finance and lack of financial resources, are particularly significant (Figure 13). This confirms the challenges that smaller companies face in dealing with administrative processes, accessing financial support, and navigating policy frameworks.

Compared to smaller businesses, companies with 20-49 employees show a slightly lower perception of importance across most barriers. However, bureaucracy, public incentives, and a lack of economic resources remain significant concerns.

Companies with 50-249 employees generally perceive lower levels of importance for most barriers. While bureaucracy and public incentives are still seen as significant, the importance placed on sustainable finance, economic resources, and internal resources decreases, confirming that larger companies may have more resources and capabilities to overcome certain barriers. However, the significance of bureaucracy and public incentives indicates that even larger companies face challenges in dealing with administrative processes and accessing governmental support.

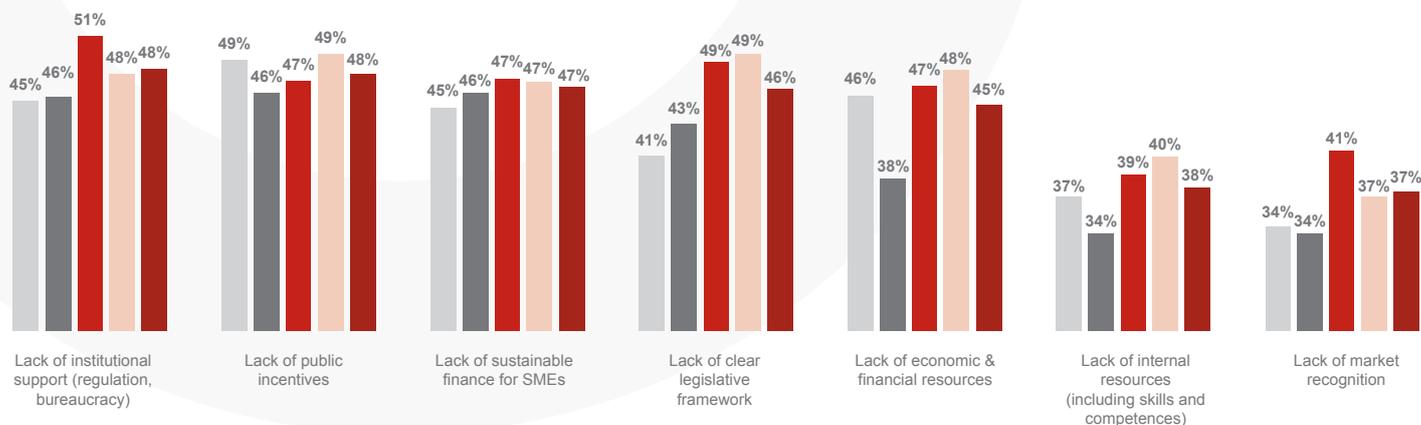
(Figure 13) What are the barriers to the sustainable transition by dimension - % of SMEs rating as very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

The sectoral analysis highlights that companies in the Trade and Services sectors exhibit a slightly stronger perception of the various barriers to the adoption of a more structured sustainability approach (Figure 14).

(Figure 14) What are the barriers to the sustainable transition by sector - % of SMEs rating as very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

■ Construction ■ Industry ■ Services ■ Trade ■ AVG

These figures are consistent with our previous insights (see paragraph 1.3). Companies in the Trade and Services sectors may perceive their environmental and social impacts as being more indirect compared to sectors like Industry or Construction. This perception could make it challenging for them to identify clear paths to sustainability and might amplify the barriers they see. In addition, Trade companies might not have direct control over the production processes or sourcing decisions of the products they deal in. Without this control, implementing sustainability measures directly can be challenging, leading to a heightened perception of barriers.

2.4 The barriers to the sustainable transition are perceived with varying degrees of intensity in different countries.

According to our survey, on average, a higher number of SMEs in Hungary, Croatia, and Portugal declare the barriers to be “very important” or “important”, followed by Austria, Spain and the Czech Republic (Figure 15). With some differences at national level, the perceived intensity of the barriers is mainly concentrated on the lack of institutional support, lack of public incentives, and lack of sustainable finance instruments specifically tailored to SMEs. Germany, France, and particularly Italy, show the lowest levels of perception of the barriers.

(Figure 15) What are the barriers to the sustainable transition by country - % of SMEs rating as very important or important

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain	AVG
Lack of institutional support (regulation, bureaucracy)	57%	53%	58%	37%	47%	58%	24%	60%	51%	48%
Lack of public incentives	56%	59%	52%	42%	39%	59%	26%	56%	51%	48%
Lack of sustainable finance for SMEs	53%	67%	53%	38%	33%	59%	18%	55%	56%	47%
Lack of clear legislative framework	51%	60%	52%	41%	39%	63%	26%	48%	49%	46%
Lack of economic & financial resources	50%	58%	50%	44%	36%	48%	22%	54%	51%	45%
Lack of internal resources (including skills, competences)	41%	45%	36%	34%	32%	53%	16%	49%	43%	38%
Lack of market recognition	43%	43%	37%	30%	31%	57%	12%	44%	48%	37%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

The perception of barriers to the sustainable transition among SMEs can be influenced by a complex interplay of economic, institutional, cultural, regulatory, and historical factors. The differences in these factors across countries can lead to variations in how SMEs perceive challenges in their sustainability journeys. Countries like Hungary and Croatia, for example, might face different economic challenges compared to countries like Germany, France and Italy. The economic robustness of a country, as well as the level of institutional support, the regulatory environment, and cultural and social factors, can influence the extent to which SMEs perceive such barriers.

2.5 European SMEs have experienced the impact of rising energy prices and inflation, with 6 out of 10 stating that these factors have negatively affected their approach towards sustainability. The conflict in Ukraine also emerged as a significant element. Conversely, NextGeneration EU funds have had a positive influence on slightly more than 1 in 3 SMEs.

The rapid recovery of the European economy in 2021, following the impact of the Covid-19 pandemic in 2020, has played a significant role in driving the current inflationary pressures. The reopening of businesses and easing of restrictions led to increased demand for goods and services, straining global supply chains that are still battling production challenges and workforce disruptions. In addition, rising energy costs have further compounded supply issues.³

The upward trend in energy prices has had a substantial influence on overall inflation rates across all EU Member States. This effect has been particularly notable due to the unprecedented sanctions imposed on Russia following its invasion of Ukraine, along with the comprehensive revamp of the EU's energy policy aimed at reducing reliance on Russian energy sources. Consequently, the EU economies have had to face elevated energy costs driven by economic and political uncertainties. Almost half of the current inflation rate (HICP - Harmonised Index of Consumer Prices) can be attributed to components related to energy, accounting for 49% of the overall inflation figure.⁴

In 2022, the inflation rate in the EU reached a record high of 9.2%, more than triple the rate of 2021 of 2.9%, which also marked one of the highest levels of the last 10 years.

The annual average change in the EU during the period 2013-2022 was 2.1%. Some common trends can be observed across European countries, as all of them experienced higher inflation rates in 2021 and 2022.⁵

Hungary, the Czech Republic and Croatia have experienced higher inflation compared to other countries, with Hungary having the highest inflation in 2022 at 15.3%, followed by the Czech Republic (14.8%) and Croatia (10.7%). Germany, France, Austria, Spain, Portugal and Italy have had lower inflation rates in comparison to the other countries, with France recording the lowest figures in the group in 2022 (5.9%). Portugal had the lowest inflation rate in 2021 (0.9%), but it surged to reach a similar level to that of the other countries in 2022.

3. Statista, *Harmonised index of consumer prices (HICP) inflation rate in Europe in March 2023, by country* <https://www.statista.com/statistics/225698/monthly-inflation-rate-in-eu-countries/> accessed June 5 2023

4. European Union (2022), *Inflation explained: What lies behind and what is ahead?* [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2022\)729352](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)729352)

5. Eurostat <https://ec.europa.eu/eurostat/web/hicp/database>

In June 2023,⁶ the HICP 12-month average rate of change in the European Union stood at 9.4%, with Hungary experiencing the highest rate at 22.4% followed by, among the countries analysed, the Czech Republic with 16.0% and Croatia with 11.3%.

In this context, our analysis reveals the negative influence of energy price increases, inflation, and the war in Ukraine on European SMEs' sustainability approach and priorities (Figure 16).

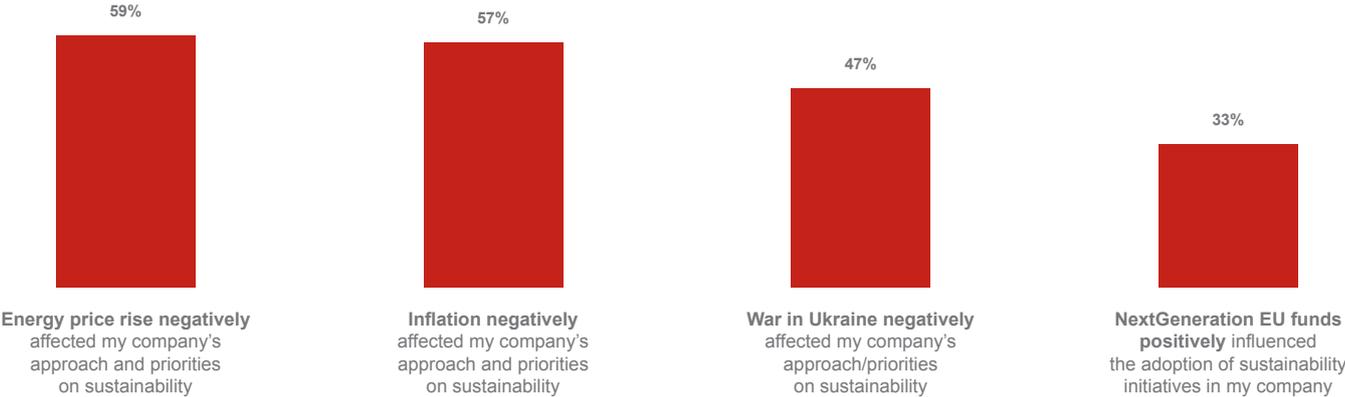
In terms of energy price increases, the average negative impact is quite significant, with 59% of SMEs acknowledging its influence. Rising energy costs pose a challenge to SMEs' ability to implement sustainability strategies, as higher energy expenses can strain their financial resources and make sustainable practices less economically viable.

Similarly, inflation is perceived as a significant hurdle, with an average of 57% of SMEs recognising its negative impact. Inflation erodes the purchasing power of businesses and consumers, affecting SMEs' ability to invest in sustainability initiatives and implement long-term sustainable practices.

The war in Ukraine also registers a substantial negative impact, with an average of 47% of SMEs acknowledging its influence. Geopolitical tensions and armed conflicts can disrupt supply chains, create economic uncertainties, and undermine business confidence, all of which can impede SMEs' focus on and commitment to sustainability efforts.

6. Source Eurostat, latest available data as of August 14, 2023 https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_MV12R/default/table?lang=en

(Figure 16) Agreement with the following statements - % of SMEs responding very much or very



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

On a more positive note, we investigated whether NextGeneration EU funds have had any positive influence on the ambitions of European SMEs in terms of sustainability initiatives.

In last year's White Paper, we highlighted several ways in which NextGeneration EU funds could benefit European SMEs in their sustainability journey.

These include:

- strategic infrastructure initiatives (e.g. zero-emission transport and electrified intermodal rail networks);
- context-based sectoral initiatives (e.g. aimed at directing resources toward the modernisation of essential areas of the public and private sectors, such as improvement of buildings' energy efficiency);
- and targeted initiatives for enterprises (e.g. financing or co-financing of measures to promote investments in the field of green transition, reduction in greenhouse gas emissions, energy efficiency and pilot projects).

Additionally, NextGeneration EU funds could contain, as in Italy, positive and/or negative technical, environmental as well as social criteria that companies, including SMEs, must meet in order to gain preferential access to financial resources and grant opportunities.⁷

According to the companies surveyed, NextGeneration EU funds seem to have positively influenced slightly more than one-third of SMEs.

While these funds hold significant potential to drive the green and digital transition and support businesses, including SMEs, in their sustainability efforts, the fact that most SMEs have not yet perceived positive effects in their ambitions raises important considerations. This highlights the need for further attention and efforts to ensure that the outlined initiatives effectively reach and support a larger number of SMEs.

This may involve enhancing accessibility to funding, streamlining administrative procedures, and tailoring measures to address the specific challenges faced by SMEs.

7. The Italian Law Decree 77/2021, known as the Simplification Decree of 31 May, 2021, officially called "Governance of the National Recovery and Resilience Plan and first measures to strengthen administrative structures and accelerate and streamline procedures", in art. 47, namely "Equal opportunities, generational and gender in public NRRP (National Recovery and Resilience Plan) contracts", contains provisions relating to equal opportunities, promotion of youth and female employment, company welfare, and reporting of a non-financial nature.

2.6 The negative effects of escalating energy prices, inflation, and the conflict in Ukraine are more pronounced among the Undecided and Laggards. In contrast, NextGeneration EU funds have had a positive impact primarily on Heroes and Soon-to-be SMEs.

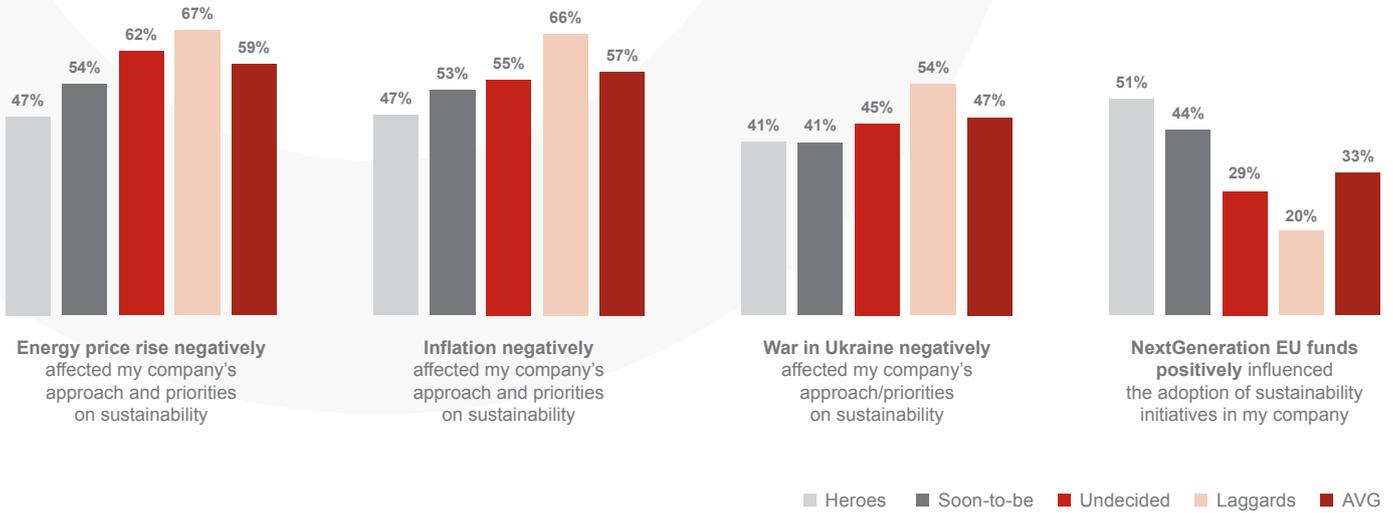
The negative effects impacting the sustainability ambitions of the Undecided and Laggards (Figure 17) can be attributed to several factors, including their limited awareness of the benefits and importance of sustainability strategies and their risk aversion, especially during challenging times.

As a result, these companies may be more sensitive to external factors such as energy prices, inflation, and geopolitical conflicts, which can exacerbate their existing challenges and make the adoption of sustainability strategies seem less feasible. The uncertainty surrounding the war in Ukraine and its potential consequences, coupled with rising energy prices and inflation, may further increase the aversion to taking on additional risks associated with sustainability initiatives. In the face of external challenges, these businesses may prioritise stability and continuity, which can hinder their willingness to engage in sustainability transitions.

On the opposite end of the scale, the position of Heroes and Soon-to-be SMEs reflects their strategic vision, resilience, resource allocation, stakeholder engagement, and recognition of market opportunities. Their steadfast commitment to sustainability during challenging times enables them to better navigate external pressures and continue their sustainability journey.

Interestingly, with regard to the influence of NextGeneration EU funds on the sustainability ambitions of European SMEs, 51% of Heroes, and 44% of Soon-to-be SMEs report having a positive effect. The measures included in NextGeneration EU funds, either already implemented or announced, seem to have provided additional “impetus” to these companies’ sustainability ambitions, further supporting their initiatives.

(Figure 17) Agreement with the following statements - % of SMEs responding very much or very



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

The effects of inflation, high energy prices, and the war in Ukraine may have a transitory impact on the sustainability ambitions of European SMEs, but the duration and intensity of this influence could vary based on their current stance on sustainability. For the Undecided and Laggards, these external pressures may amplify their existing challenges and risk aversions, making them more hesitant to adopt sustainability strategies in the short to medium term. Their primary focus might shift towards maintaining stability and continuity, especially when faced with immediate economic challenges.

Conversely, the foundational commitment to sustainability, strategic vision, and resilience of Heroes and Soon-to-be SMEs put them in a better position to navigate these external challenges more effectively. While they might experience short-term disruptions, their long-term sustainability ambitions are less likely to be deterred. Their recognition of market opportunities, coupled with effective stakeholder engagement and resource allocation, allows them to continue their sustainability journey despite external pressures.

2.7 On average, SMEs in Hungary and Croatia perceive the negative effects of energy price increases, inflation, and the war in Ukraine to a greater extent, whereas these negative effects are less strongly perceived in Germany, Portugal, and Italy.

According to our analysis, there seems to be a link between higher inflation rates, increased energy prices, and the negative impact of these factors on the sustainability ambitions of SMEs. Countries with higher inflation rates, such as Hungary, the Czech Republic, and Croatia, exhibit a more pronounced negative impact.

On the other hand, countries like France, Germany, Austria, Spain, Portugal, and Italy, which have been subjected to relatively lower inflation rates compared to other countries, while still experiencing negative effects on the sustainability ambitions of SMEs, are slightly less impacted.

(Figure 18) Agreement with the following statements - % of SMEs responding very much or very

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain	AVG
Energy price rise negatively affected my company's approach and priorities on sustainability	59%	69%	58%	58%	59%	73%	43%	52%	64%	59%
Inflation negatively affected my company's approach and priorities on sustainability	60%	68%	56%	58%	54%	72%	42%	50%	61%	57%
War in Ukraine negatively affected my company's approach/priorities on sustainability	50%	50%	50%	45%	47%	59%	36%	38%	48%	47%
NextGenerationEU funds positively influenced the adoption of sustainability initiatives in my company	34%	28%	28%	31%	39%	37%	28%	33%	41%	33%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240.

The impact of such factors on different countries depends on several variables, such as:

- geographic location (e.g. countries closer to Ukraine and Russia have been more directly affected by the war, experiencing greater disruptions to trade and transportation),
- dependency on Russian energy imports,
- economic strength (e.g. countries with stronger economies have been better able to weather the economic storm caused by the war),
- and government policies (e.g. the implementation of price controls on energy to mitigate the impact of higher energy prices on businesses and consumers).

Multidimensional challenges, such as rising energy prices, inflation, and geopolitical tensions, added to the post-Covid recovery phase, rendered sustainability and resilience all the more relevant for European SMEs

The Covid-19 pandemic highlighted the vulnerabilities and interconnectedness of our global systems, underscoring the need for a sustainable and resilient economy capable of withstanding future shocks.

As a result, sustainability and resilience were brought to the forefront of the debate surrounding SMEs. The rise in energy prices, as well as inflation and the geopolitical tensions arising from the Russian aggression in Ukraine, have added layers of uncertainty and complexity to an already challenging environment.

In this type of post-pandemic recovery scenario, collaborative efforts between governments, businesses, civil society, and other stakeholders are needed to ensure an equitable recovery and a just and sustainable transition, where environmental, social, and economic considerations are integrated into the strategies and operations of SMEs.

The European Commission has launched the REPowerEU plan, which aims to reduce the EU's reliance on Russian fossil fuels and accelerate the transition to clean energy. The plan includes several measures to support SMEs, such as funding for renewable energy projects, tax breaks for businesses that invest in energy efficiency measures, and grants to help SMEs switch to renewable energy. Governments across Europe have also announced measures to

support SMEs addressing the current challenges. For instance, in April 2023, the European Commission approved a €3.5 billion French scheme to support small and medium-sized enterprises and microenterprises in the context of Russia's war against Ukraine.

In light of these circumstances, government support plays a crucial role. Governments have the power to shape policies, provide financial resources, and create enabling environments that facilitate the adoption of sustainable practices by businesses, particularly SMEs. By offering targeted support mechanisms, such as funding, grants, and tax incentives, they can encourage SMEs to invest in renewable energy, energy efficiency measures, and sustainable production processes. Additionally, governments can implement regulations that promote social responsibility, ensuring that businesses prioritise fair wages, worker protections, and ethical supply chains.





CHAPTER 3

The Benefits of Adopting a Sound Sustainable Approach and the Evolution of the ESG Business Case Despite Recent Challenges

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The ESG business case is stronger than ever, with SMEs that have adopted a more formalised sustainability approach reaping benefits across all domains.

Our survey shows that the number of SMEs declaring “very positive” and “positive” benefits has increased since last year, even in challenging times.

This suggests that sustainability is no longer just a nice-to-have, but a critical component of any successful business strategy.

3.1 The ESG business case is clearer than ever: our latest survey reaffirms that SMEs that have adopted an ESG approach are reaping benefits across all domains, highlighting a further increase in the already positive results that emerged from last year's survey.

Based on our 2023 survey, the number of European SMEs that obtained “very positive” or “positive” benefits from the implementation of a more structured sustainability approach has increased, compared to the already positive results from last year's survey (Figure 19).

The benefits obtained by Heroes and Soon-to-be SMEs can be clustered into three categories: organisational benefits, relational benefits, and market and competitive benefits:

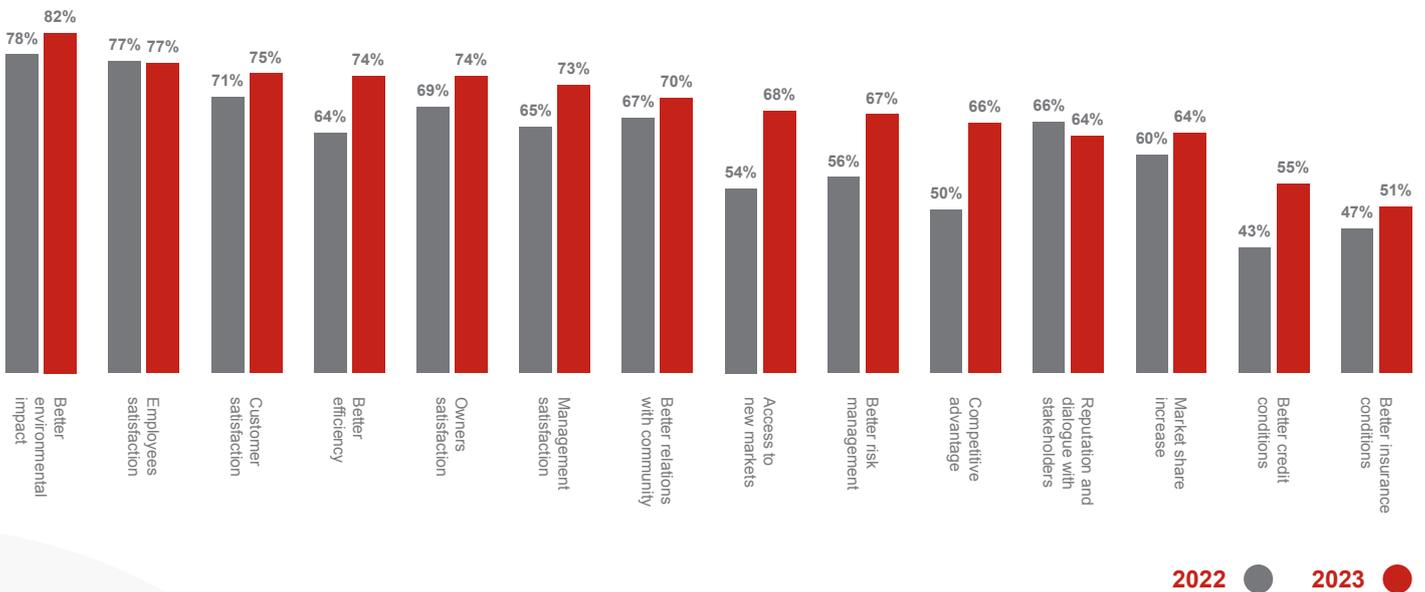
- **organisational benefits:** the data reveal notable organisational benefits derived from the adoption of a more structured sustainability approach. These include improved environmental impact, which saw a steady increase from 78% in 2022 to 82% in 2023. SMEs are becoming more environmentally conscious and are successfully implementing practices to reduce their ecological footprint. SMEs have also experienced improvements in efficiency, with the percentage of companies reporting better efficiency increasing from 64% in 2022 to 74% in 2023. Sustainable practices are enhancing the operational processes and resource management of SMEs, leading to increased productivity and reduced waste. SMEs are also reporting better risk management as a consequence of their sustainability efforts;
- **relational benefits:** the data show that European SMEs have experienced significant improvements in various relational and social aspects thanks to their sustainability efforts. We have recorded a consistent level of employee satisfaction, customer satisfaction, and improved relations with the community, as well as better reputation and dialogue with stakeholders, although this specific aspect is the only one registering a slight decrease year-on-year (from 66% to 64%). These benefits highlight the positive impact of sustainability practices on the overall well-being of employees, customer loyalty, and community engagement. Furthermore, there is a positive trend in owner and management satisfaction, indicating that sustainable initiatives contribute to the overall satisfaction of key stakeholders within the organisation;

- market and competitive benefits:** the data demonstrate that SMEs are reaping market and competitive advantages from their sustainability efforts. Access to new markets has significantly increased from 54% in 2022 to 68% in 2023, indicating that sustainability credentials are becoming increasingly important for SMEs to enter and expand into new markets. Moreover, SMEs are reporting an improvement in competitive advantage, as well as market share increase. These findings confirm that sustainability practices enhance the resilience, competitiveness, and reputation of SMEs, enabling them to differentiate themselves from competitors and attract more customers and investors.

Overall, our findings demonstrate the wide-ranging benefits that European SMEs are gaining from adopting a more structured sustainability approach. These benefits extend beyond environmental impact and encompass social, relational, organisational, as well as market and competitive aspects.

It is encouraging to observe that most SMEs are experiencing positive outcomes, which further highlights the value of integrating sustainability into business strategies.

(Figure 19) Benefits of adopting an ESG approach - % of SMEs declaring very positive or positive benefits



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 548, (May 2022) Total No. 258

Although the number of SMEs reporting “positive” or “very positive” benefits in terms of better credit and insurance conditions has increased since last year, the overall percentages remain relatively low compared to other benefits.

This could be attributed to several factors:

- firstly, credit conditions and insurance conditions are influenced by various external factors such as economic stability, industry-specific risks, and the overall market environment. While sustainable practices can contribute to a company’s overall risk management, it may take time for these benefits to translate into tangible improvements in credit and insurance conditions;
- secondly, credit and insurance conditions are influenced by the assessments of financial institutions and insurance providers, which may have specific criteria and requirements for providing favourable terms. SMEs may need to demonstrate a consistent track record of sustainability performance and risk mitigation to gain more favourable credit and insurance conditions. This may require SMEs to establish a strong and credible reputation in terms of sustainability over a longer period;
- additionally, the complexity and specificity of credit and insurance policies can make it challenging for SMEs to navigate and access better conditions. SMEs, especially those with limited resources and expertise, may encounter difficulties in understanding credit and insurance contracts and may lack access to specialised guidance or negotiation skills;
- finally, this may depend on the attitudes of financial sector operators and the fact that the dimension of operations is often too small to make deals worthwhile. The size of SMEs’ financing and loan requirements, in fact, is relatively small compared to large companies. Therefore, the potential benefits of sustainability-linked banking or insurance are also limited and the administrative costs of managing sustainability may outweigh the potential financial benefits. As a result, assessing the alignment of SMEs’ activities against ESG criteria often relies on manual and individual intervention, which is inefficient and costly for both SMEs and financial operators. This leads to increased transaction costs.⁸

Overall, while the percentage of SMEs experiencing positive benefits in terms of better credit and insurance conditions has increased, these benefits may take more time and effort to materialise compared to others.

Enhancing creditworthiness and insurance conditions requires a combination of sustained sustainability performance, building strong relationships with financial and insurance institutions, and developing a comprehensive understanding of the credit and insurance landscape.

8. See also European Banking Federation, UNEP Finance Initiative (2021), *Testing the application of the EU Taxonomy to core banking products: High level recommendations* <https://www.ebf.eu/wp-content/uploads/2021/01/Testing-the-application-of-the-EU-Taxonomy-to-core-banking-products-EBF-UNEPFI-report-January-2021.pdf>

The Investment Value of Sustainability

Our survey sheds light on the true nature of sustainability within the European SME business landscape. It is evident that a commitment to sustainability is not merely an expenditure. Rather, it should be recognised as a strategic investment, which yields tangible returns across multiple domains.

By embracing sustainable practices, companies are not just acting ethically or environmentally; they are positioning themselves for enhanced growth, resilience, and long-term profitability. The data underscore this perspective, making it clear that the dividends of a sustainable approach are real, multifaceted, and instrumental for modern businesses.

3.2 The country overview with year-on-year comparison confirms the general trend: despite the challenging period, the increase in SMEs declaring “very positive” and “positive” benefits remains consistent.

The year-on-year comparison between the number of European SMEs experiencing benefits from a more structured sustainability approach in 2023, as compared to 2022, reveals varying trends across different countries (Figure 20).

In general, the overall average change across all categories indicates a positive trend, with a 6.7% increase in the number of SMEs experiencing benefits in 2023 compared to the previous year. This suggests a growing recognition and adoption of sustainability practices among SMEs, with many reaping the rewards in various areas.

When examining country-specific data, several notable trends emerge, particularly regarding the alignment of most countries that had previously reported lower perceptions of benefits. Hungary stands out with significant improvements in multiple categories, including access to new markets (a 44% increase year-on-year), better management satisfaction (43%), improved employee and customer satisfaction (35%), a gain in competitive advantage (33%) and an increase in market share (30%).

The Czech Republic also demonstrates positive developments across various categories, particularly in access to better credit (a 26% increase year-on-year) and insurance conditions (17%), access to new markets (16%), and customer satisfaction (13%).

Spain shows advancements in several areas, including access to new markets (a 35% year-on-year increase), a gain in competitive advantage (30%), better credit conditions and an increase in market share (22%).

France, Germany, Austria, and Italy display mixed results across different categories. While these countries experienced positive changes in certain aspects, such as improved risk management, better environmental impact, reputation and dialogue with stakeholders, customer satisfaction, and access to new markets, they also face challenges in areas like market share increase. These variations could be attributed to specific dynamics and market conditions, as well as varying levels of sustainability integration among SMEs.

Newly introduced in the 2023 survey, Portugal and Croatia show high rates of benefits acknowledgement. In Portugal, the implementation of structured sustainability strategies in 2023 had a significant impact on SMEs.

The most relevant benefits reported by a large number of companies included reduced environmental impact (88%), improved productivity efficiency (85%), and higher employee, owner and customer satisfaction (83%, 81% and 80% respectively).



Benefits of adopting an ESG approach - % of SMEs declaring very positive or positive benefits

	Avg	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain
Better environmental impact	78% 82%	85% 87%	86%	89% 90%	90% 71%	75% 79%	69% 76%	64% 81%	88%	83% 87%
Employees satisfaction	77% 77%	85% 87%	84%	89% 76%	83% 79%	86% 77%	38% 73%	60% 65%	83%	79% 75%
Customer satisfaction	71% 75%	81% 85%	76%	74% 90%	90% 75%	70% 74%	38% 73%	54% 61%	80%	77% 75%
Better efficiency	64% 74%	78% 77%	68%	78% 79%	47% 76%	60% 79%	46% 76%	64% 59%	85%	69% 78%
Owners satisfaction	69% 74%	85% 79%	73%	74% 76%	63% 73%	73% 75%	54% 76%	50% 65%	81%	77% 78%
Management satisfaction	65% 73%	67% 87%	70%	85% 74%	77% 76%	63% 78%	31% 73%	54% 52%	76%	69% 78%
Better relations with community	67% 70%	74% 85%	57%	74% 81%	77% 75%	71% 79%	46% 62%	56% 53%	71%	63% 75%
Access to new markets	54% 68%	63% 85%	57%	59% 76%	33% 68%	59% 72%	23% 67%	68% 49%	63%	46% 81%
Better risk management	56% 67%	70% 65%	78%	67% 79%	37% 65%	68% 76%	38% 53%	52% 58%	73%	46% 65%
Competitive advantage	50% 66%	70% 83%	76%	59% 74%	30% 62%	57% 67%	38% 71%	52% 46%	66%	38% 68%
Reputation and dialogue with stakeholders	66% 64%	81% 73%	57%	89% 81%	57% 65%	73% 56%	23% 51%	56% 48%	69%	63% 81%
Market share increase	60% 64%	67% 65%	62%	67% 79%	90% 59%	60% 74%	23% 53%	54% 53%	61%	50% 72%
Better credit conditions	43% 55%	63% 75%	49%	41% 67%	33% 56%	46% 55%	23% 42%	54% 46%	58%	29% 51%
Better insurance contitions	47% 51%	56% 58%	57%	52% 69%	37% 48%	51% 47%	23% 42%	48% 41%	59%	44% 49%

2022  2023 

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 548, (May 2022) Total No. 258. Croatia and Portugal not included in 2022 survey.

In Croatia, SMEs also experienced notable benefits from structured sustainability strategies. Key aspects that had a positive impact on businesses included improved environmental impact (86%), employee satisfaction (84%), risk management (78%), and customer and management satisfaction (both 76%).

Overall, the year-on-year changes across different countries indicate a nuanced and evolving landscape of sustainability practices among European SMEs. While some areas may experience setbacks or fluctuations, there is an overall positive trend of gaining increasing benefits.

The country-specific data show that there is a positive trend of increasing benefits from sustainability practices among SMEs in most countries. This is particularly true for countries that had previously reported lower perceptions of benefits. This suggests that sustainability practices are becoming more mainstream, thanks to an increased awareness of the benefits of sustainability, growing pressure from consumers, clients and stakeholders, and enhanced competition which is also based on sustainability practices. This is compelling SMEs to become more sustainable to remain competitive.

Further efforts and support in fostering sustainability practices among SMEs can contribute to their long-term success and resilience in a changing business landscape.



CHAPTER 4

The Level of Awareness and Preparedness of European SMEs Regarding Drivers that Are Bound to Shape the Environmental, Social, and Economic Landscape in the Coming Years

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The maturity of SMEs' strategic sustainability approach is a key factor in determining the perceived relevance of transformative drivers and their preparedness for them.

Heroes, Soon-to-be, and Undecided SMEs show a similar level of recognition of transformative drivers, with Heroes expressing a higher level of readiness.

The size of an SME also plays a role in the perceived relevance and preparedness: on average, companies with 20 to 49 employees attribute greater importance to these drivers compared to other companies, while SMEs with 50 to 249 employees declare a higher level of preparedness.

4.1 Certain transformative drivers will shape the environmental, social, and economic landscape in the coming years. It is therefore crucial for all businesses, including SMEs, to recognise and proactively address them. By acknowledging their impact, businesses are in a better position to succeed in the evolving landscape.

To analyse SMEs' level of awareness and preparedness in relation to the many changes that will take place in the coming years, we have identified a group of **transformative drivers**, many of which are interrelated and complementary:

- **decarbonisation** (i.e. the progressive reduction of greenhouse gas emissions - GHG) in operations and activities: the latest report from the Intergovernmental Panel on Climate Change (IPCC) calculated that, to meet the 1.5°C warming target of the Paris Agreement, global GHG emissions need to peak before 2025 at the latest and be reduced by 43% by 2030. Even in this scenario, it is almost inevitable that the temperature will temporarily exceed the threshold, but could return below it by the end of the century.⁹ As the urgency to combat climate change intensifies, businesses across various sectors are recognising the need to reduce their greenhouse gas emissions. This involves adopting sustainable practices and transitioning away from fossil fuel-based energy sources. By implementing renewable energy solutions, improving energy efficiency, and re-evaluating supply chains, companies can make substantial progress towards decarbonisation. This driver not only aligns with global climate goals, but also presents opportunities for innovation and cost savings;
- **electrification** (i.e. the progressive shift from fossil fuel sources of energy to electricity): as industries and transportation systems transition from fossil fuel-powered technologies to electric alternatives, the demand for renewable energy and electric power infrastructure will surge. This shift not only reduces carbon emissions but also promotes energy efficiency and sustainability. The widespread adoption of electric vehicles, electric heating systems, and electric-powered machinery in various sectors will create new business opportunities, drive technological advancements, and contribute to the development of a cleaner and more sustainable energy ecosystem;
- **increasing levels of circularity in products and services:** the circular economy model emphasises minimising waste, maximising resource efficiency, and promoting the reuse, recycling, and regeneration of materials.

9. IPCC (2022), *Climate Change 2022: Mitigation of Climate Change*, https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf

By adopting practices such as product redesign, resource recovery, and closed-loop systems, businesses can reduce their environmental footprint and create a more sustainable value chain. The shift towards circularity not only addresses the issue of waste management but also presents economic opportunities through the development of new business models and the creation of circular supply networks;

- **increasing operational efficiency:** businesses are increasingly recognising the importance of enhancing efficiency in operations and activities, optimising resource usage, streamlining processes, and reducing waste. By improving energy efficiency, water management, and supply chain logistics, companies can achieve cost savings, reduce their environmental impact, and enhance overall productivity. Embracing efficiency as a strategic priority can lead to improved competitiveness, increased profitability, and the development of more sustainable business models;
- **advancements in digitalisation:** rapid advancements in technology, coupled with the Covid-19 pandemic's acceleration of digital transformation, have highlighted the importance of digital solutions across various sectors. Businesses are adopting technologies such as artificial intelligence, automation, data analytics, and cloud computing to optimise operations, enhance decision-making processes, and improve overall productivity. The digitalisation of operations and activities can lead to increased efficiency, reduced resource consumption, and improved sustainability performance;
- **initiatives in the field of nature-based solutions for carbon sequestration:** leveraging the power of ecosystems to capture and store carbon dioxide from the atmosphere, initiatives such as carbon farming and reforestation, can mitigate the impacts of climate change. By investing in sustainable land management practices, protecting and restoring forests, and promoting biodiversity, businesses can contribute to carbon sequestration while enhancing the resilience of ecosystems. Nature-based solutions not only offer environmental benefits but also provide opportunities for ecosystem-based businesses and sustainable agriculture practices;
- **diffusion of diversity, equity, and inclusion (DEI) initiatives in the workplace:** companies are recognising the importance of embracing diversity and creating a culture of inclusivity to foster more equitable workplaces, as well as to drive innovation, improve employee well-being, and enhance organisational performance. By promoting diversity in hiring practices, providing equal opportunities for advancement, and cultivating inclusive work environments, businesses can unlock the potential of their workforce and create a more sustainable and resilient business ecosystem;
- **development of social products or services for vulnerable or disadvantaged categories of clients or customers:** businesses are increasingly recognising the importance of social impact and sustainability, with the aim of addressing societal challenges and improving the well-being of marginalised communities. By developing products or services that cater to the needs of underserved populations, businesses can drive positive social change, build stronger customer relationships, and contribute to a more inclusive and equitable society.



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4.2 The perceived relevance and preparedness of SMEs regarding transformative drivers is influenced by the maturity of their ESG strategic approach. Heroes, Soon-to-be, and Undecided show a similar level of recognition of transformative drivers, with Heroes expressing a higher level of readiness.

According to our analysis, **Heroes** consistently show a relatively high level of perceived importance for all transformative drivers (Figure 21). On average, more than 6 out of 10 Heroes declare that they have a strong understanding of the significance of these factors in shaping the future of their businesses and the sustainability agenda, with peaks of above 70% for digitalisation, circularity, and diversity, equity, and inclusion. This aligns with their declared level of preparedness, suggesting that these companies have taken proactive measures to align their operations and activities.

Soon-to-be companies have a similar perception of the importance of these drivers compared to Heroes. However, their preparedness scores are slightly lower, in line with the fact that they are still in the process of implementing sustainability practices and strategies. This highlights their intention and progress toward embracing sustainability, but also indicates a need for further action to bridge the gap between importance and preparedness.

The **Undecided** exhibit a moderate level of perceived importance for most transformative drivers. These companies seem to demonstrate some awareness, but may still be exploring their potential impact on their business operations. Their preparedness scores are comparatively lower, confirming that they require more guidance and support to effectively address sustainability challenges.

Laggards show the lowest perceived importance and preparedness across all transformative drivers, highlighting a lack of awareness or limited focus on sustainability issues within their operations. Targeted interventions to raise awareness, educate, and support this group in adopting sustainable practices are needed. Providing resources and demonstrating the benefits of sustainability could help bridge the gap between importance and preparedness for these companies.

However, it is important to note that the overall average scores for both awareness and preparedness indicate that there is still room for improvement and further efforts are needed to fully embrace sustainability measures.

(Figure 21) Relevance of and preparedness for transformational drivers: % indicating very or fairly



% stating relevant % stating prepared

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240

4.3 Perceived relevance and preparedness regarding transformative drivers also vary with the size of the companies: on average, companies with 20 to 49 employees indicate a greater importance for these drivers compared to other companies, while SMEs with 50 to 249 employees exhibit a higher level of preparedness.

In general, as the size of SMEs increases, awareness and preparedness also grow (Figure 22). Larger SMEs with more resources and capabilities appear to be better equipped to address challenges and integrate sustainability practices into their operations.

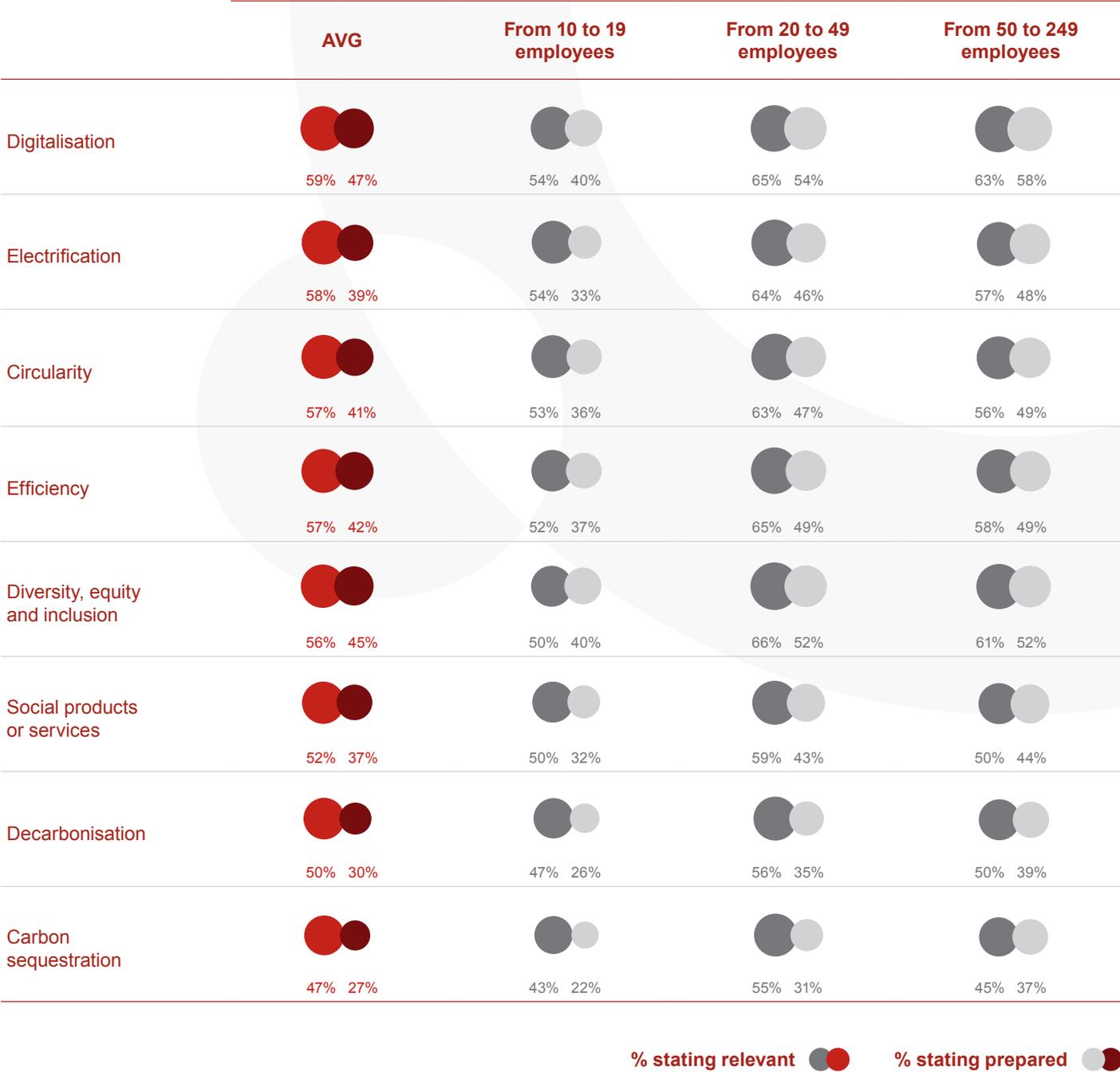
SMEs with 10 to 19 employees show the lowest scores across most of the transformative drivers. Their perception of the relevance of such drivers ranges from 43% to 54%, with readiness ranging from 22% to 40%, indicating that these companies have relatively limited measures in place to address sustainability challenges. This seems to highlight that while at least some SMEs recognise the importance of the drivers, they may require further support to translate awareness into action.

SMEs with 20 to 49 employees demonstrate higher levels of awareness compared to the previous group, ranging from 56% to 65%. Similarly, the readiness of this group is higher than the previous one, ranging from 31% to 54%, indicating stronger implementation of sustainability measures. SMEs in this group appear to have made some progress in aligning their operations with sustainability goals.

SMEs with 50 to 249 employees show the highest levels of awareness, with scores ranging from 45% to 63%. Their readiness levels range from 37% to 58%, suggesting that they have more comprehensive sustainability measures in place.

To support smaller SMEs in enhancing their awareness and readiness, targeted initiatives, training programmes, and resources specifically tailored to their needs are beneficial. By providing guidance and assistance, SMEs of all sizes can be encouraged to take meaningful steps towards sustainability.

(Figure 22) Relevance of and preparedness for transformational drivers: % indicating very or fairly



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240

4.4 The relationship between perceived relevance and preparedness is less significant with respect to sectors. Overall, the various sectors show a comparable level of importance attributed to these drivers and express similar levels of preparedness.

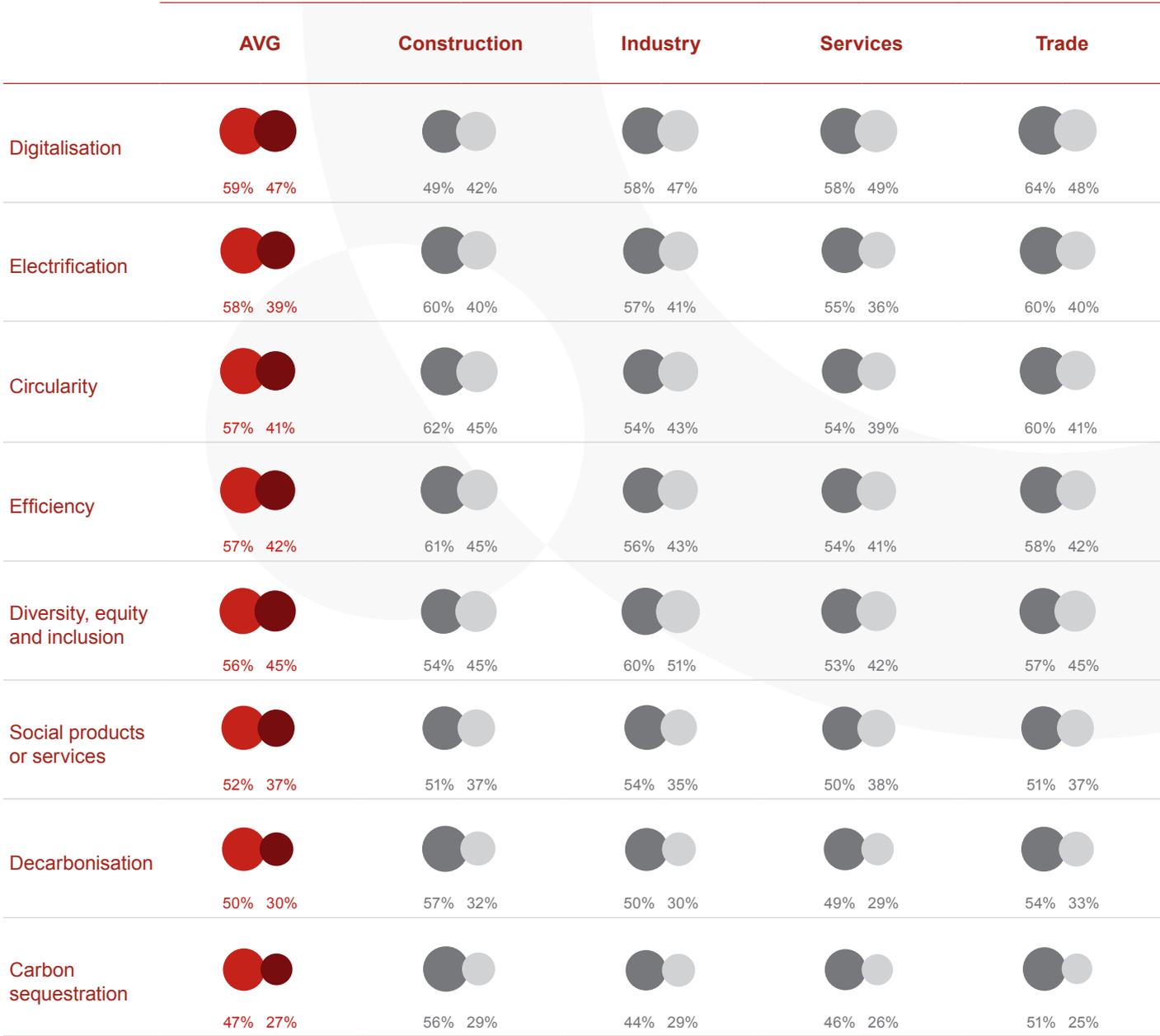
The link between perceived importance and preparedness for transformative drivers is not as pronounced when analysed at sector level.

Across the different sectors (i.e. Construction, Industry, Services, and Trade), there is a relatively consistent level of significance assigned to these drivers, and the levels of preparedness expressed are also comparable (Figure 23).

One explanation for this alignment is that transformational drivers are becoming increasingly important for all sectors. This is due to several factors, such as the growing awareness of climate change, the increasing demand for sustainable products and services, and the evolving regulatory landscape. As a result, businesses in all sectors are recognising the need to adopt transformational drivers in order to remain competitive and sustainable.



(Figure 23) Relevance of and preparedness for transformational drivers: % indicating very or fairly



% stating relevant % stating prepared

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240



CHAPTER 5

The Support SMEs Want to Foster Their Just, Sustainable Transition

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European SMEs highlight several measures as essential for their sustainable transition.

Their top priorities include tax incentives for sustainable products or services, and subsidised EU or national funds.

Additionally, they value favourable financial conditions linked to ESG goals and initiatives that boost demand for sustainable products.

Clear regulations and reduction of bureaucracy, education, and partnerships with ESG-focused finance providers are also indicated, alongside tax measures to deter unsustainable practices.

5.1 Despite the challenging period, our analysis confirms European SMEs' commitment to a just sustainable transition. However, SMEs are persistently seeking support through a wide range of institutional and market-based initiatives.

In today's rapidly changing world, the importance of sustainable practices and the need for a just transition are becoming increasingly evident. Economic, environmental, and societal shifts underscore the urgency for businesses to adopt and maintain sustainable strategies. The past few years, marked by significant challenges, have made it clear that resilience, adaptability, and long-term thinking are vital for survival and growth. As emphasised in the previous chapters, despite the complex period of recent years, SMEs' approach to sustainability remains stable.

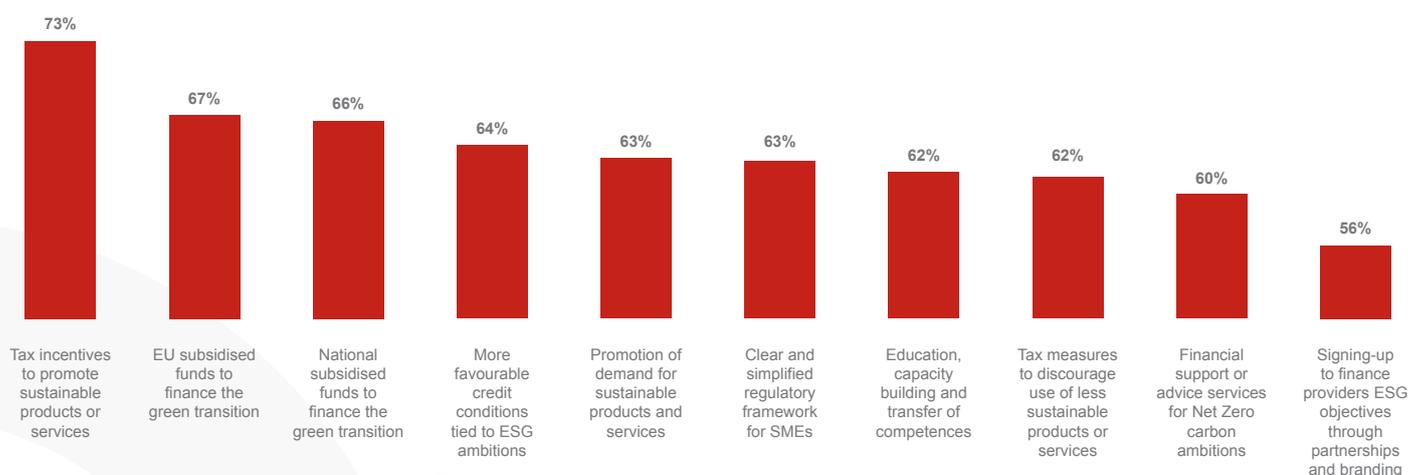
Our final findings regard how European SMEs are requesting support in their sustainable journey, to navigate complexities and overcome barriers. Understanding their perspectives and addressing their specific needs is crucial in order to empower SMEs and enable their transition.

Figure 24 indicates the importance that European SMEs place on various measures to support and facilitate their just sustainable transition:

- **tax incentives to promote the use of more sustainable products or services** feature as the top-ranking measure, with 73% of European SMEs considering it “very important” or “important”. It involves providing tax benefits or incentives to encourage SMEs to adopt and offer sustainable products or services;
- **EU subsidies or national funds aiming to finance the green transition of European companies** rank second, with 2 out of 3 SMEs considering them “very important” or “important”. These measures involve the allocation of subsidised funds by the European Union or national governments to support the green transition; more favourable financial conditions tied to ESG ambitions rank fourth with 64% and involve the development of financial instruments that promote sustainability and provide benefits, including discounted fees, to SMEs committed to environmental, social, and governance goals;
- **initiatives aimed at promoting consumer demand for sustainable products and services** include awareness campaigns, certifications, and labels that highlight the environmental or social benefits of products. Governments can collaborate with industry associations and NGOs to promote sustainable consumption and raise public awareness;

- **a clear and simplified regulatory framework** requires its development or simplification in a way that is tailored to the capabilities and resources of SMEs, ensuring that compliance with sustainability regulations is manageable;
- **education, capacity building, and transfer of competences** focus on providing SMEs the means to enhance their knowledge and skills in sustainable practices. Training programmes, workshops, and mentorships can be implemented to help SMEs improve resource efficiency and develop more sustainable business models;
- **tax measures to discourage the use of less sustainable products or services** consist in applying taxes or levies on products or services with negative environmental or social impacts to discourage their use. For example, higher taxes can be imposed on products with excessive packaging or high carbon emissions to incentivise SMEs and consumers to choose more sustainable alternatives;
- **support or advisory services from the financial sector to drive Net Zero carbon ambitions** focus on ways for the financial sector to help SMEs achieve their Net Zero carbon goals. Financial institutions can offer specialised expertise, funding advice, and tailored financial products to support SMEs in their transition to carbon neutrality;
- **signing-up to finance providers' ESG objectives through partnerships and branding** refers to SMEs aligning their sustainability objectives with finance providers that have strong environmental, social, and governance objectives. SMEs can form partnerships with banks or investment firms that prioritise sustainability, leveraging their branding and expertise to support their own sustainable initiatives.

(Figure 24) How SMEs are asking to be supported - % of SMEs declaring the initiative very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240

5.2 Interestingly, the most pressing demands for support in the sustainable journey come from Heroes and Soon-to-be, followed by the Undecided. Laggards exhibit lower levels of interest, although not entirely negligible.

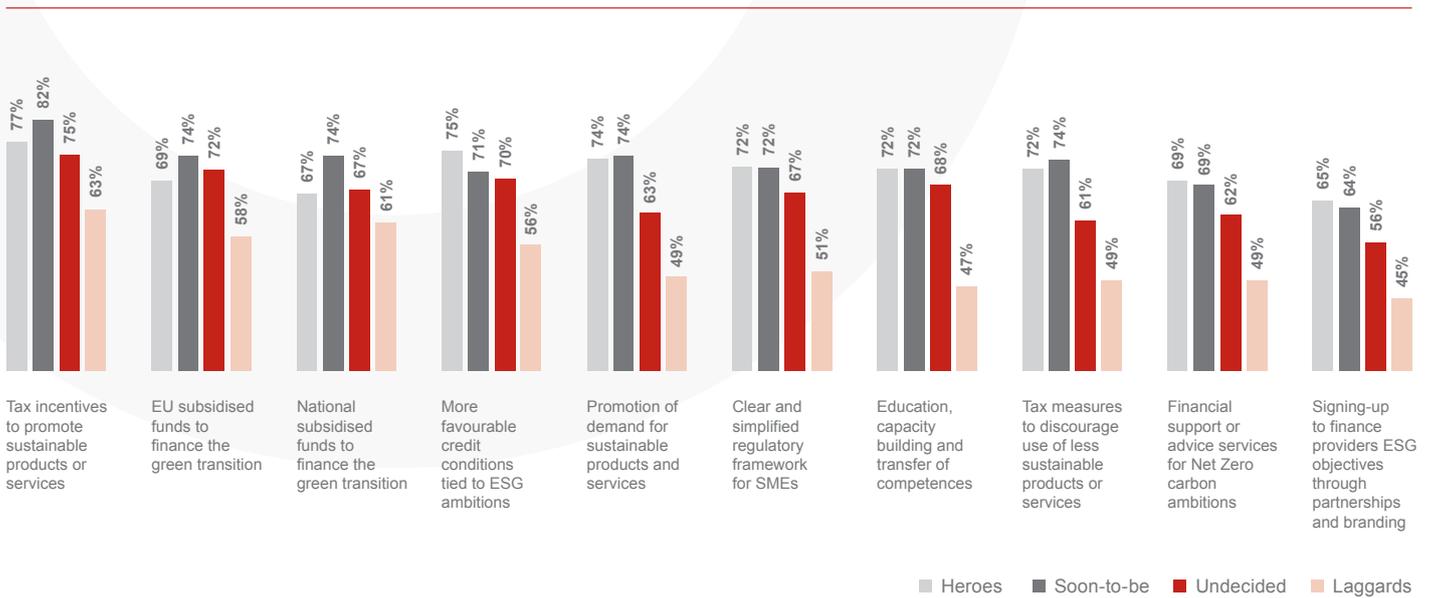
It is interesting to observe that, among the different groups of SMEs, Heroes and Soon-to-be companies show the highest levels of interest in the various initiatives and measures to support their sustainable transition, followed by the Undecided.

The higher levels of interest shown by Heroes and Soon-to-be SMEs can be attributed to several factors. Heroes, for example, have already taken steps towards sustainability and have likely experienced the benefits of such measures, like cost savings, improved reputation, and access to new markets. Their positive experiences motivate them to seek further support and initiatives to enhance their sustainable practices.

Soon-to-be SMEs are in the process of implementing sustainability strategies and are actively exploring ways to integrate sustainable practices into their operations. They recognise the need for support and initiatives to facilitate their transition and ensure its success. Their high level of interest reflects their commitment to sustainability and their eagerness to learn and adopt sustainable measures.

Undecided SMEs, despite their uncertainty about adopting sustainability strategies, also express significant interest. They appear open to considering sustainability and seek information and incentives to make informed decisions. Access to financial support, favourable regulatory frameworks, and educational resources can play a crucial role in influencing their decision-making process.

(Figure 25) How SMEs are asking to be supported - % of SMEs declaring the initiative very important or important



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE (May 2023) Total No. 1,240

On the other hand, Laggards, as the name implies, exhibit the lowest interest across the different initiatives compared to their fellow SMEs. Their reluctance can be attributed to several factors. Firstly, they possess limited awareness of the potential advantages that sustainable practices can bring, such as cost reductions, enhanced reputation, and access to new markets. While Heroes have first-hand experience of these benefits and Soon-to-be SMEs are actively pursuing them, Laggards remain somewhat distanced from the positive impacts of sustainability. Additionally, Laggards encounter more pronounced barriers when trying to integrate sustainable measures into their operations (see paragraph 2.2). To bridge this gap and foster genuine interest in the sustainable transition, Laggards would need tailored support and interventions specifically designed for them.

Overall, the findings highlight the importance of providing dedicated support, financial incentives, regulatory clarity, and educational resources to SMEs at various stages of their sustainability journey.

By addressing the specific needs and concerns of these SMEs, it becomes possible to foster their sustainable transition and contribute to a more sustainable and inclusive economy.



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CHAPTER 6

A Roadmap to Foster the Just Sustainable Transition of European SMEs

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Despite facing challenges in recent years, the attitude of European SMEs towards the sustainable transition remains robust.

While barriers to a structured approach persist and have even increased, the ESG business case is clearer than ever, yielding tangible benefits.

To ensure a just and sustainable transition, it is vital to engage Laggards and Undecided SMEs.

Policymakers are urged to raise awareness about the benefits of sustainability, establish clear frameworks for SMEs while reducing excessive regulation and bureaucracy, and promote engagement with regional innovation centres.

Financial institutions should offer tailored instruments for SMEs and foster collaboration to reach a wider SME audience.

6.1 Our analysis reveals that the sustainable transition of European SMEs has not halted, despite the various challenges faced over the last few years.

European SMEs have demonstrated remarkable resilience in their pursuit of more structured sustainability approaches, propelled by three main drivers.

Firstly, **rising energy costs**, alongside the escalating prices of raw materials and commodities, have further incentivised SMEs to engage in resource efficiency, circularity, and waste reduction. By implementing measures that promote self-production of renewable energy (e.g. through photovoltaic panels) and adopting more circular business models, efficient resource utilisation, and waste reduction, SMEs can not only mitigate the impact of rising costs and inflation, but also contribute to more sustainable development patterns.

Secondly, **regulatory requirements** have played a crucial role in compelling SMEs to adopt sustainable initiatives. Within the supply chain, for example, larger firms are increasingly requiring the disclosure of non-financial information from their SME suppliers, either as mandated by European legislation or in response to demands from the financial community. This cascade of requirements has triggered a knock-on effect, compelling SMEs to align their practices with sustainability goals to meet the reporting requirements set by their larger counterparts.

Thirdly, the **vision and sense of responsibility of the owners** have played a crucial role in driving European SMEs to embrace a forward-thinking entrepreneurial approach that recognises the long-term benefits and opportunities associated with sustainable practices.

6.2 The barriers to the adoption of a more structured sustainability approach remain high and have increased since last year.

In comparison to our previous study in 2022, a greater percentage of European SMEs perceive significant barriers impeding their sustainable transition across various domains. This increase can be attributed to the challenging period faced by all businesses, particularly SMEs. The growing relevance of barriers such as a lack of institutional support, public incentives, and sustainable finance instruments underscores the need for stronger support and engagement from institutions and policymakers. It is essential to focus efforts on creating an enabling ecosystem that addresses these barriers and empowers SMEs to effectively embrace sustainability.

In a landscape already impacted by the post-pandemic recovery, European SMEs have also felt the effects of rising energy prices, inflation, and the conflict in Ukraine, with 6 out of 10 SMEs stating that these factors have negatively influenced their approach to sustainability. NextGeneration EU funds have shown a positive influence only on slightly more than one-third of SMEs.

6.3 On a positive note, the business case for adopting an ESG approach among European SMEs is stronger than ever: clear and tangible benefits are achieved by SMEs that implement sustainability strategies.

The results indicate that SMEs that have embraced a more structured sustainability approach are experiencing increased benefits across all domains, surpassing the already positive outcomes observed in last year's report. In fact, a larger number of European SMEs, are reporting significant positive benefits, falling into three main areas: organisational and environmental, relational, and market and competitive benefits. This highlights the tangible advantages that SMEs gain from aligning their operations with sustainability principles.

By focusing on sustainability, SMEs are not only improving their internal processes and reducing their environmental impact, but also strengthening their

relationships with stakeholders and enhancing their competitiveness in the market. In the field of waste reduction and efficiency, for example, the implementation of closed-loop systems in clothing production lines, which involves recycling fabric offcuts and using more sustainable materials, can reduce waste output and increase circularity. This not only lowers disposal costs but also increases operational efficiency, leading to cost savings and a more environmentally friendly production process.

Stakeholder engagement and supply chain management provide an additional example. In the agri-food industry, the adoption of a direct trade approach — sourcing directly from farmers and ensuring they receive fair compensation — not only improves the quality and traceability of products, but also strengthens the relationship with both suppliers and consumers. By transparently sharing sourcing practices, the company builds trust and loyalty among its customer base, leading to increased sales and market differentiation.

These findings reinforce the importance of adopting an ESG approach and highlight the potential for SMEs to thrive by prioritising sustainability.

6.4 Despite the challenging period, European SMEs are still showing commitment to their just and sustainable transition. However, they are calling for comprehensive support through institutional and market-based initiatives.

Our analysis reports the key measures that European SMEs deem crucial to facilitate their sustainable journey.

Tax incentives to promote sustainable products or services emerge as the top priority, followed by EU or national subsidised funds for green transition financing. More favourable financial conditions tied to ESG ambitions and initiatives to stimulate demand for sustainable products also rank highly.

Clear regulatory frameworks, education, capacity building, and tax measures discouraging unsustainable practices are also among the most sought-after measures, together with support from the financial sector for Net Zero goals and partnerships with finance providers aligned with ESG objectives.

Addressing these needs will empower SMEs and enable their successful transition towards sustainability. Notably, the greatest demands for support in the sustainable journey are voiced by the Heroes and Soon-to-be groups, with the Undecided category also expressing substantial interest.

6.5 For the just sustainable transition to happen, it's essential to onboard Laggards and Undecided SMEs and secure their commitment.

Laggards represent the largest single group of SMEs identified in our survey, accounting for a noteworthy 37% in 2023. Predominantly, these are smaller companies, typically ranging from 10 to 19 employees, mostly grouped in the Services, Trade, and Construction sectors.

Their defining characteristics include a marked lack of interest in any sustainability strategy. Moreover, Laggards consistently exhibit a lower level of integration when it comes to social and environmental concerns, including foundational areas such as health and safety, quality, and work practices.

The predominance of Laggards in sectors like Services, Trade, and Construction, and their smaller size, offers some insights into their hesitancy regarding sustainability. Smaller firms often face tighter margins and may perceive sustainability initiatives as costly or not directly beneficial to their immediate bottom line. Additionally, these sectors may have traditionally been more resource-intensive and less inclined to change established practices without clear economic incentives.

Undecided SMEs, on the other hand, represent 16% of our 2023 sample and, while they are not resistant to sustainability, they have yet to firmly commit to it. This group does not present a clear specific predominance of smaller companies or sector affiliation, and its stance is marked by ambivalence or uncertainty regarding the path to sustainability, reflecting a potential wait-and-see approach or a need for more clarity before making decisive moves.

Unlike Laggards, Undecided companies may recognise the importance of sustainability strategies but could be held back by various factors. These could range from a lack of information or understanding about the benefits of sustainability to concerns about the feasibility or costs of implementing such strategies in their operations.

6.6 Building on the framework developed in our previous report, we can confirm that three main action drivers can sustain, consolidate, and facilitate the just sustainable transition of SMEs.

Building on these insights, to advance on the journey of just and sustainable transition, we have identified three main drivers of action: explain and convince, support, and enhance (Figure 26).

We have attempted to outline short and medium-term recommendations for policymakers, both at international and national level, as well as for the financial sector, which are among the key actors capable of promoting, accelerating, and consolidating the just sustainable transition of European SMEs.

We have sought to present the following recommendations in order of priority, to draw attention to the initiatives that we believe are most relevant and should receive higher priority for implementation. In some cases, such as initiatives aimed at promoting awareness of the benefits of the just sustainable transition, the implementation of these actions may not be overly complex and could yield tangible benefits in terms of awareness and persuasion, including in the short term.

(Figure 26) Three main action drivers (explain and convince, support, and enhance) can sustain, consolidate, and develop SMEs' just sustainability transition

SME's strategic approach to sustainability	Recommendations for policy makers	Recommendations for financial sector
<p>23% ESG strategy already implemented ("Heroes")</p>	<p>Explain and convince Undecided and Laggards through awareness initiatives and campaigns showcasing the "ESG business case", and the organisational, relational, market and competitive benefits of sustainability</p>	<p>Engage and empower SMEs explaining and raising awareness about the available financial instruments and opportunities to drive the just sustainable transition</p>
<p>21% ESG strategy in the process of being implemented ("Soon-to-be")</p>	<p>Support European SMEs alleviating the main barriers, focusing on the establishment of a clear and proportional framework for SMEs, while securing incentives for the transition</p>	<p>Support European SMEs designing and mainstreaming specifically tailored instruments to promote SMEs' sustainable transition</p>
<p>16% ESG strategy may be considered in the future ("Undecided")</p>	<p>Enhance the capacity of European SMEs to engage in regional innovation centres, to leverage opportunities, networking and partnership for their sustainable transition</p>	<p>Enhance the capacity to reach SMEs through partnerships and collaboration with relevant players and the business community</p>
<p>37% ESG strategy not adopted and not considered for future ("Laggards")</p>		

I. Recommendations for Policymakers

Priority 1: explain and convince Undecided SMEs and Laggards through awareness initiatives and campaigns showcasing the “ESG business case”, and the organisational, relational, market and competitive benefits of sustainability.

Since the priority is to engage in the just sustainable transition the Undecided and Laggards, who represent approximately 53% of our sample, the first short-term initiative should aim at explaining the benefits of more structured sustainability approaches to these companies and persuading them of the organisational, relational, market and competitive gains the sustainable transition can bring.

While this task seems relatively less complex for the Undecided group, as they already exhibit an approach to sustainability comparable to that of Heroes and Soon-to-be (e.g. integration of environmental and social concerns into business activities, and adoption of sustainability initiatives, especially in the field of resource efficiency and energy saving), the task appears more challenging for Laggards, who demonstrate more pronounced behavioural patterns.

In both cases, the sustainability business case is clearer than ever: SMEs that have adopted an ESG approach are reaping benefits across all domains, with an increase compared to the already positive results of last year’s survey. It is paramount to use these results to explain and convince the Undecided and Laggards that sustainability is an investment capable of providing benefits and gains, rather than just incurring costs.

Priority 2: support European SMEs in overcoming the main barriers, with a focus on the establishment of a clear and proportional framework for SMEs, while securing incentives for their transition.

Based on the barriers experienced by European SMEs in their sustainability journey, and the measures requested for their just and sustainable transition, medium-term recommendations for policymakers to overcome barriers and foster sustainability mainly involve:

- definition of a simplified, consistent, and clear legislative framework for SMEs, providing clarity and guidance on sustainable practices, while avoiding excessive regulation and bureaucracy for these companies. The European Green Deal envisions a comprehensive sustainability transition encompassing multiple dimensions of environmental sustainability, with the overarching goal of reducing greenhouse gas emissions. This is to be achieved through various actions and plans, complemented by legislation covering different streams, including providing frameworks for corporate sustainability reporting and promoting environmentally sustainable economic activities.

The European Green Deal, along with related and unrelated policies and actions, can directly and indirectly impact SMEs in terms of requirements, obligations, limitations, and compliance.

Direct impacts are often localised or specific to certain sectors, obliging SMEs to comply with several requirements. Indirect impacts, on the other hand, depend on the fact that SMEs, while not directly targeted by regulatory compliance, might still be burdened with obligations and impositions within the value chain by their clients, often large enterprises which are subject to the relevant regulations.

To support European SMEs, it is crucial that all legislation takes into account the capabilities and characteristics of these businesses. This implies considering both the direct and indirect impacts of regulations, simplifying procedures, and reducing the administrative burden for SMEs' sustainability-related activities;

- provision of additional incentives (e.g. tax incentives), and funding to foster the sustainable transition of European SMEs. These measures could include tax incentives (e.g. tax deferral, exemption or reduction) to promote the use of more sustainable products or services by SMEs, or tax measures to discourage the use of less sustainable products or services. EU or national subsidised funds could also be employed to finance the green transition of European companies.

The European Union already offers various funding programmes and initiatives dedicated to financing the just and sustainable transition of SMEs, such as Horizon Europe, European Structural and Investment Funds (ESIF), the European Investment Bank (EIB) various financing instruments, like loans, guarantees, equity investments and the European Innovation Council (EIC) Accelerator. It is essential that European SMEs are well-informed about the opportunities available for accessing such funding, including through the support of dedicated structures that facilitate and streamline access to these resources.

Priority 3: enhance the capacity of European SMEs to engage with regional innovation centres to leverage opportunities, networking and partnerships for their sustainable transition.

Our analysis demonstrates a strong link between ESG maturity and engagement with regional innovation ecosystems. By fostering connections with these centres, companies gain access to resources, expertise, and innovation opportunities. Collaboration with various stakeholders exposes SMEs to new sustainability practices, cutting-edge technologies, and emerging trends, ultimately elevating their ESG maturity. Initiatives facilitating the connections of SMEs with regional innovation centres can significantly contribute to their sustainability journey. The European Commission oversees an important initiative known as the European Enterprise Network (EEN), which offers customised advisory services and technical support to SMEs. Starting from 2022, the EEN has expanded its services by introducing Sustainability Advisors who specialise in guiding SMEs through their sustainability transition.

In particular, it is crucial that regional innovation centres are provided with the capabilities and resources necessary to engage and effectively involve not only Heroes and Soon-to-be SMEs, but also the Undecided and Laggards.

Leveraging their expertise and networks, these centres can play a pivotal role in demonstrating the benefits of a sustainable transition, providing tailored support and guidance (e.g. targeted training programmes, workshops, and mentorship opportunities) to overcome specific barriers and challenges. Their involvement can help SMEs to enhance their understanding of sustainability principles, develop the necessary skills, and foster a mindset shift towards sustainable business practices.

II. Recommendations for Financial Institutions

Priority 1: engage and empower SMEs, explaining and raising awareness about the available financial instruments and opportunities to drive the just and sustainable transition.

Barriers to accessing sustainability-related financial services and products still exist for SMEs. These barriers can be attributed to several factors, including the characteristics of SMEs (e.g. presence of dedicated skills and competences) or the lack of a formalised strategic approach. Furthermore, some financial operators, despite marketing or advertising claims, do not always find it worthwhile to develop or offer tailored ESG financial products targeted to SMEs.

The financial sector plays a crucial role in supporting and fostering the just and sustainable transition of European SMEs. To ensure the success of this transition, it is essential that SMEs are well-informed about the available instruments and opportunities.

Dedicated structures and initiatives, along with specialised advisory services staffed by sustainability and responsible finance experts, should be established to facilitate and streamline access to sustainable finance and provide guidance and assistance to SMEs throughout the process. These professionals could provide guidance, education, and support to SMEs seeking to adopt sustainable practices. Additionally, organising workshops, training programmes, and webinars can enhance SMEs' understanding of sustainable business models, ESG criteria, and reporting standards.

Raising awareness and facilitating access to financing options, the financial sector can empower SMEs to embark on their sustainability journey. This support not only helps SMEs in overcoming financial barriers but also enables them to implement sustainable practices, develop green or socially responsible products and services, and contribute to the overall sustainability goals.

Priority 2: support European SMEs by designing and mainstreaming specifically tailored instruments to facilitate their sustainable transition, including addressing both the “financeability” and “insurability” gaps.

Financial institutions can accelerate the design and mainstreaming of instruments tailored specifically for financing the sustainable transition of European SMEs¹⁰. This can be accomplished by building on existing good practices that demonstrate positive outcomes in SME engagement in sustainable finance (e.g. public-backed guaranteed instruments, or pooling mechanisms to share the costs and complexities associated with accessing sustainable finance, for example in the form of basket bonds).

Such initiatives can provide SMEs with financial support at favourable and discounted fees or interest rates (e.g. credit lines and loans to eligible suppliers committed to ESG initiatives in the field of energy saving, carbon footprint reduction, waste reduction), as well as insurance services at better conditions (e.g. in the field of renewables, energy efficiency, green mobility, welfare and well-being).

The financial industry, which includes both the banking and insurance sectors, is witnessing an extraordinary surge in the creation of ESG products, breaking previous records. However, the participation of SMEs in this trend remains low, and the adoption of these instruments among SMEs is still significantly lacking, falling far short of its potential in the market.

In the insurance industry, the market is undergoing significant developments, with many operators in the process of redefining or repositioning both traditional and non-traditional products in the environmental and/or social sector. Nevertheless, the availability of sustainable insurance offerings truly tailored to the needs and characteristics of SMEs remains limited. This highlights substantial opportunities for insurers to enhance their product offerings and engage SMEs more effectively.

The concepts of “financeability” and “insurability” gaps reflect the difficulty or inability of some SMEs to access adequate financing or insurance protection. These gaps arise from various factors, such as high costs, bureaucratic constraints, or stringent criteria set by financial operators.

When introducing the sustainability lens, this scenario becomes even more complex. SMEs might aim to adopt more environmentally friendly practices, but these might require significant initial investments. Without proper access to financing or insurance coverage, it can be challenging for them to embark on such a sustainable journey. Moreover, the lack of protection against extreme events might make it even harder for these businesses to maintain or pursue their sustainability objectives.

Addressing both the “financeability” and “insurability” gaps is crucial, not only for the resilience of SMEs, but also to promote the transition towards a more sustainable economy. Access to adequate financial and insurance tools can in fact facilitate SMEs, allowing them to adopt green practices and better prepare for increasing environmental and climate risks.

10. IPCC (2022), *Climate Change 2022: Mitigation of Climate Change*, https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf https://www.sme-enterprize.com/wp-content/uploads/2022/10/SME-EnterPRIZE_WhitePaper.pdf

Given this context, there is a compelling case for adopting a partnership-based approach between public institutions and the private sector to bolster sustainability. If the EU and governments were to establish requirements while simultaneously offering discounts and incentives, this could encourage banks and insurance companies to contribute more actively. Such collaborative efforts could ensure that SMEs not only receive adequate financial support and insurance protection, but are also incentivised to pursue a more sustainable path. In doing so, the combined endeavours of the public and private sectors would foster a resilient and sustainable economic landscape.

Priority 3: enhance the capacity to reach SMEs through partnerships and collaboration with relevant players and the business community.

In order to reach a broader segment of SMEs not yet involved in the sustainability transition, the financial community should also explore new methods of engagement.

Building on good practices developed in several domains (e.g. Supplier Engagement Programmes established by large companies), financial operators, including banks and insurance companies, can develop partnerships with large and leading sustainability-driven companies, encouraging the extension of sustainability requirements to their suppliers, co-designing specific initiatives and instruments to support the transition of small suppliers belonging to the extended value chains of large businesses. The same concept can be applied to clusters, ranging from agri-food to manufacturing, which consist of networks of interconnected businesses sharing sustainability goals. Such clusters can be instrumental in fostering shared sustainable practices and standards, thereby amplifying the impact across industries.

Banks and insurance companies can provide guarantees or financial incentives to SME suppliers who adopt sustainable practices. This approach not only promotes sustainability throughout clusters and supply chains, but also allows SMEs to access better financial conditions and support for their sustainability initiatives.



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APPENDIX

Country Overview

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Austria

In 2023, 44% of Austrian SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a slight decrease of 1% compared to the previous survey conducted in 2022. The integration of environmental and social concerns is largely aligned with the European average.

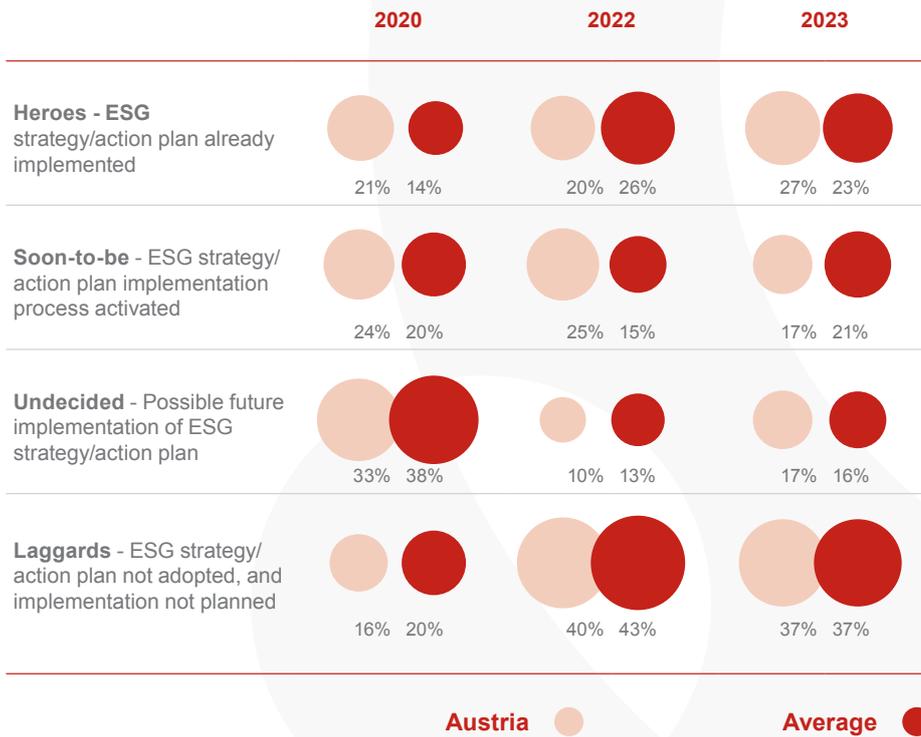
Key drivers motivating ESG adoption include the high cost of energy, regulatory requirements, the potential benefits from accessing capital at better conditions, and cultural and social factors.

SMEs in Austria perceive regulation and bureaucracy and the lack of public incentives and of sustainable finance initiatives or instruments as the main barriers to their sustainable transition.

Austrian SMEs feel slightly more affected by the latest global crises than their European counterparts and consider measures such as the promotion of demand for sustainable products and services, EU-subsidised funds to finance the green transition, and tax incentives to promote sustainable products or services as the most relevant to support their just and sustainable transition.

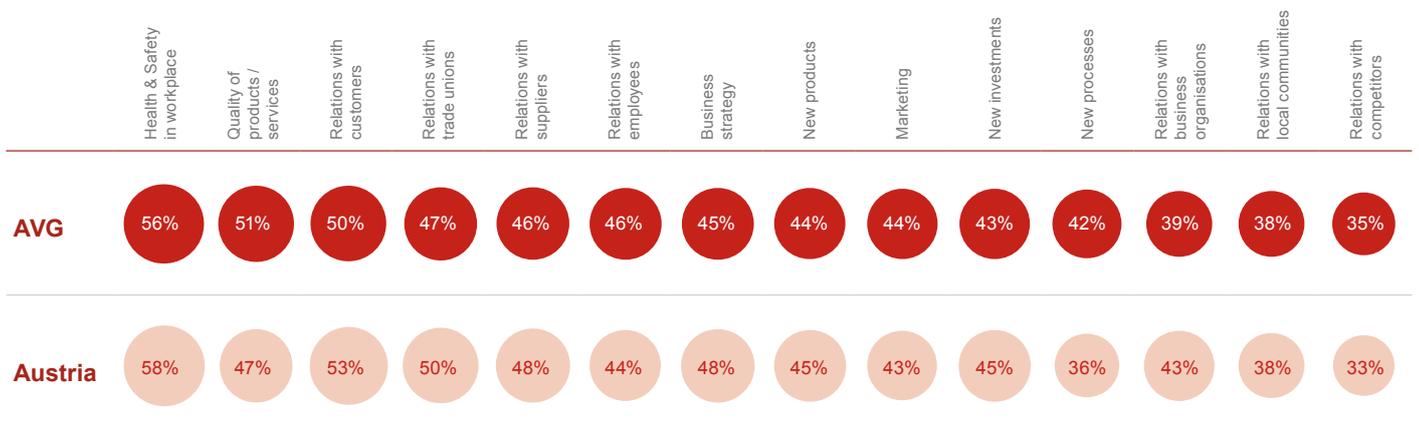
Strategic approach to sustainability trends - % of SMEs (Austria No. 120, Total No. 1,240)

In 2023, 44% of SMEs in Austria declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 1% decrease from the 45% reported in the previous survey.



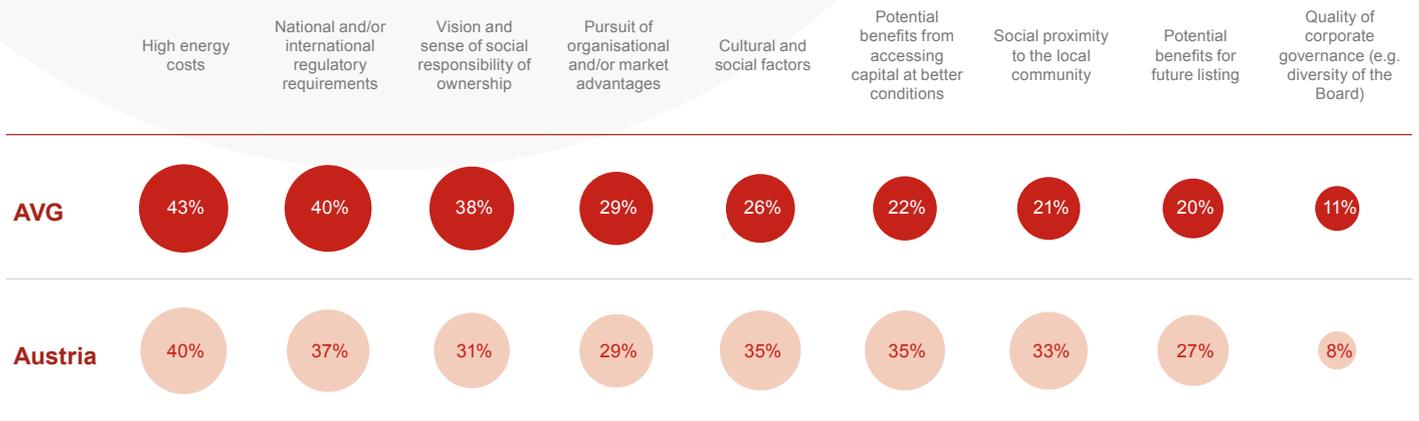
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Austria No. 120, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Austria is largely in alignment with the average scores in most domains. The most notable deviation below the average is in relation to new processes and above the average in terms of relations with business organisations.



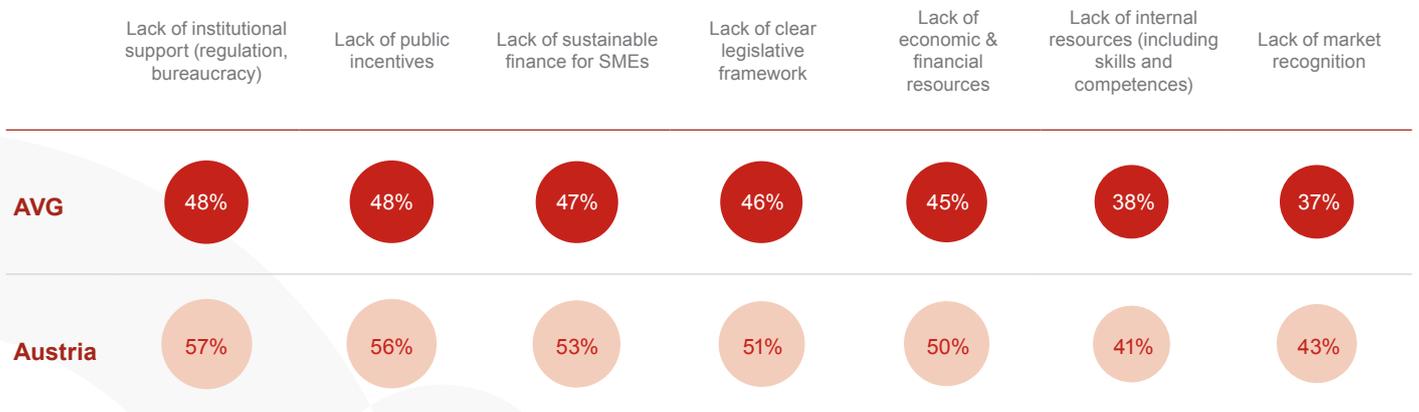
Main factors that favoured the adoption of an ESG approach - % of SMEs (Austria No. 52, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Austrian SMEs centred around the high cost of energy and regulatory requirements, However, these factors are ranked below average, with potential benefits from accessing capital at better conditions and cultural and social factors sharing third place.



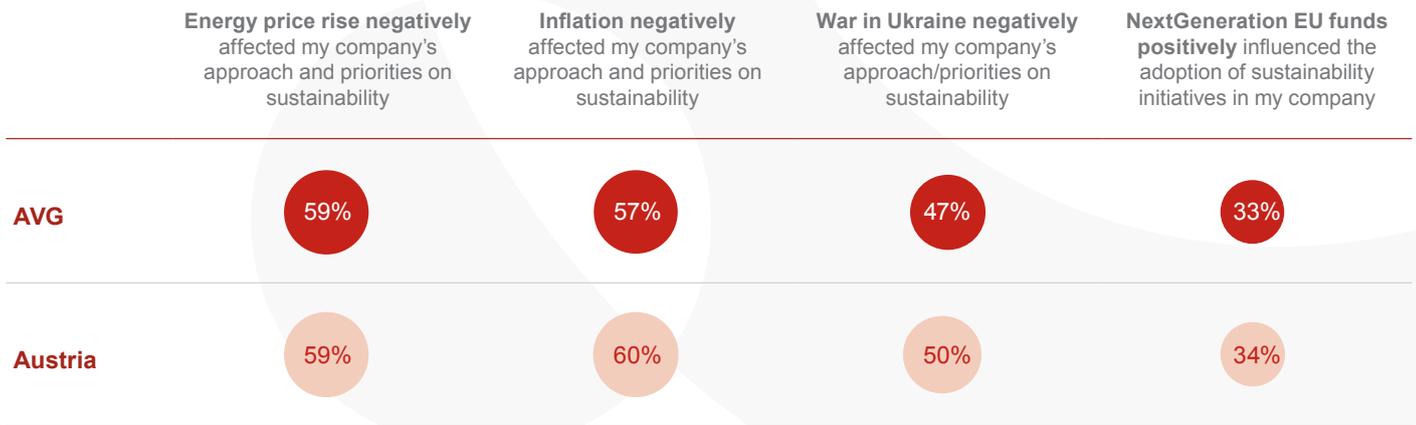
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Austria No. 120, Total No. 1,240)

Austrian SMEs appear to perceive the barriers to the sustainable transition with a slightly higher intensity compared to their European counterparts. The main barriers are regulation and bureaucracy, a lack of public incentives, and a lack of sustainable finance initiatives or instruments for SMEs.



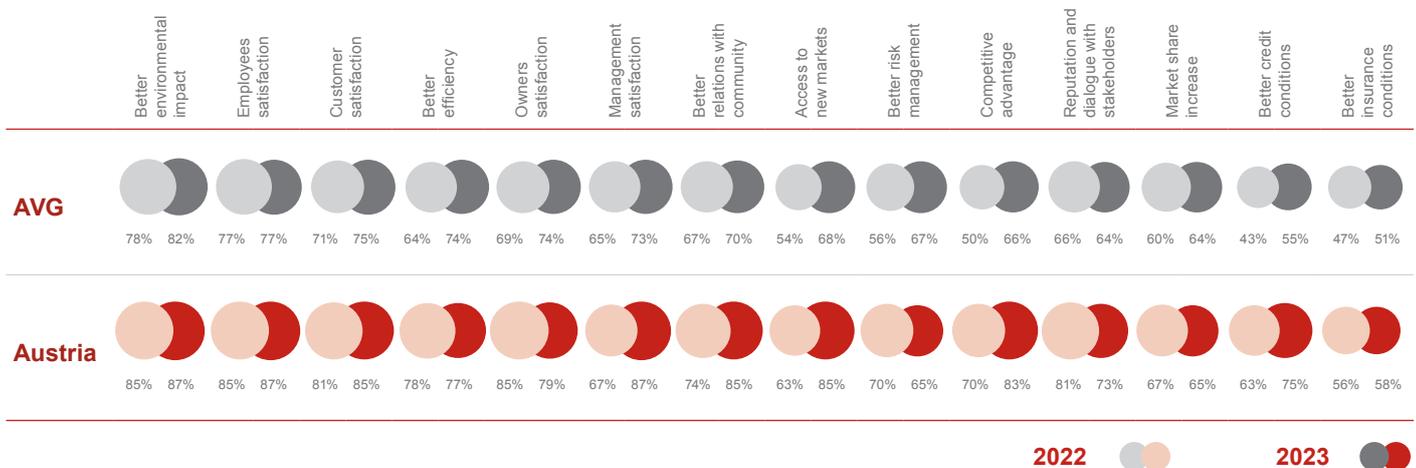
Impact of the energy crisis, inflation, and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Austria No. 120, Total No. 1,240)

Austrian SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with a slightly higher intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, 1 in 3 SMEs perceived positive effects on their ESG ambitions.



Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Austria No. 52, Total No. 548)

Austrian SMEs perceive the benefits of adopting more structured sustainability approaches with a higher intensity compared to their European counterparts. The year-on-year comparison shows a relatively consistent trend.



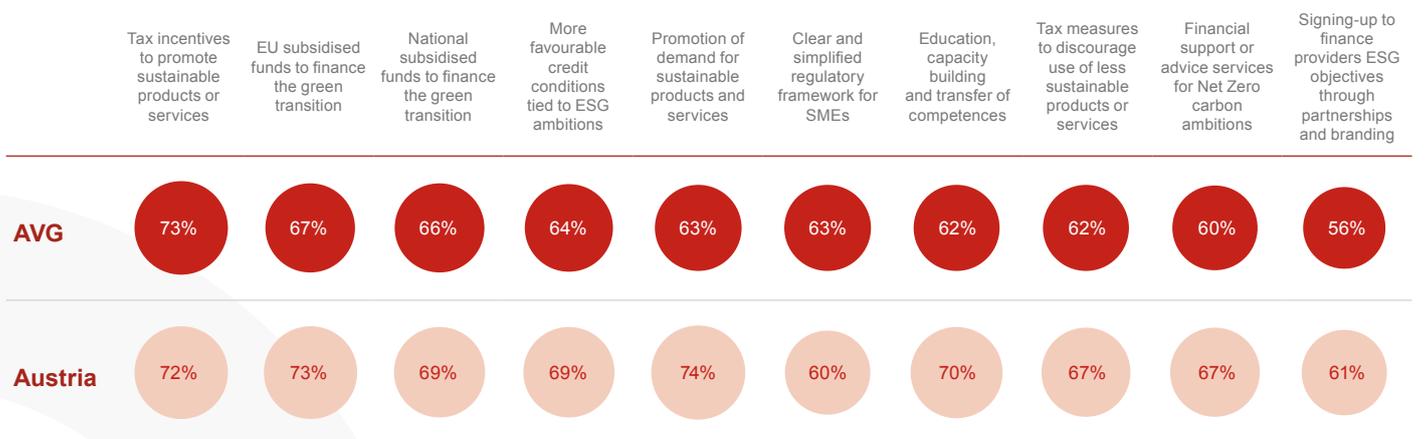
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Austria No. 120, Total No. 1,240)

Austrian SMEs perceive the relevance of transformational drivers with a slightly higher intensity than their European counterparts and declare a slightly higher level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Austria No. 120, Total No. 1,240)

In terms of requests for support, Austrian SMEs demonstrate a stronger perception of urgency compared to their European counterparts. Promotion of demand for sustainable products and services, EU subsidised funds to finance the green transition, and tax incentives to promote sustainable products or services are highly relevant issues for Austrian SMEs.



Croatia

In 2023, 31% of Croatian SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a slight decrease of 1% compared to the previous survey conducted in 2020. Their integration of environmental and social concerns is below average, especially in areas such as health & safety in the workplace, products and services quality, and new product development.

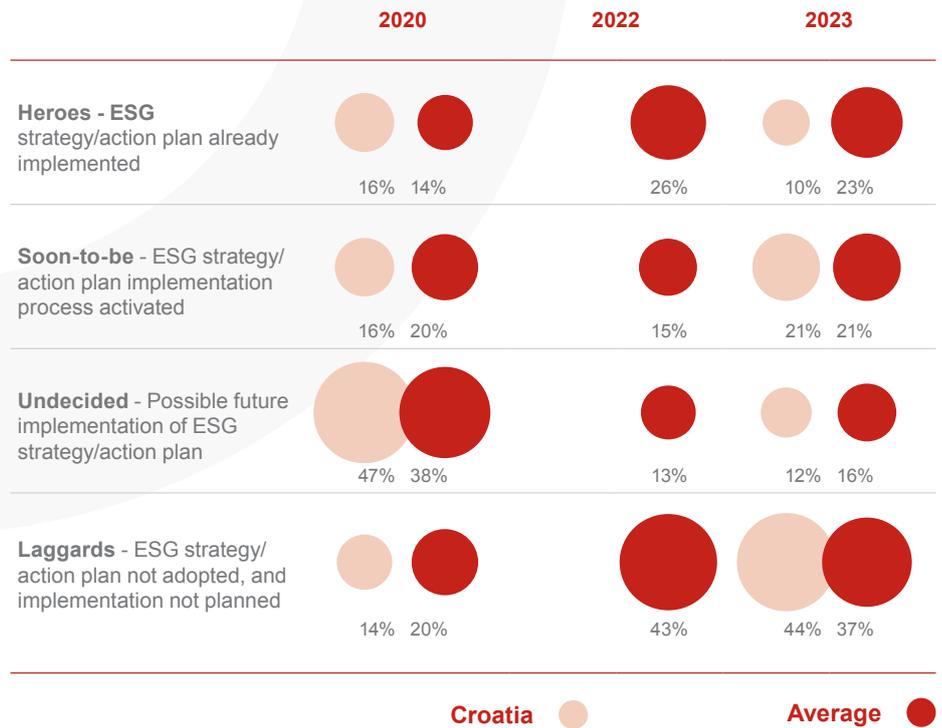
Key drivers motivating ESG adoption include the high cost of energy, the vision and sense of social responsibility of the owners, regulatory requirements, and the pursuit of organisational and market advantages.

SMEs in Croatia perceive the lack of sustainable finance, a clear legislative framework, and public incentives as the main barriers to their sustainable transition.

They feel a greater impact from the latest global crises than other European SMEs and consider national subsidised funds to finance the green transition, tax incentives to promote sustainable products or services, and more favourable credit conditions tied to ESG ambitions the most relevant measures to support their just and sustainable transition.

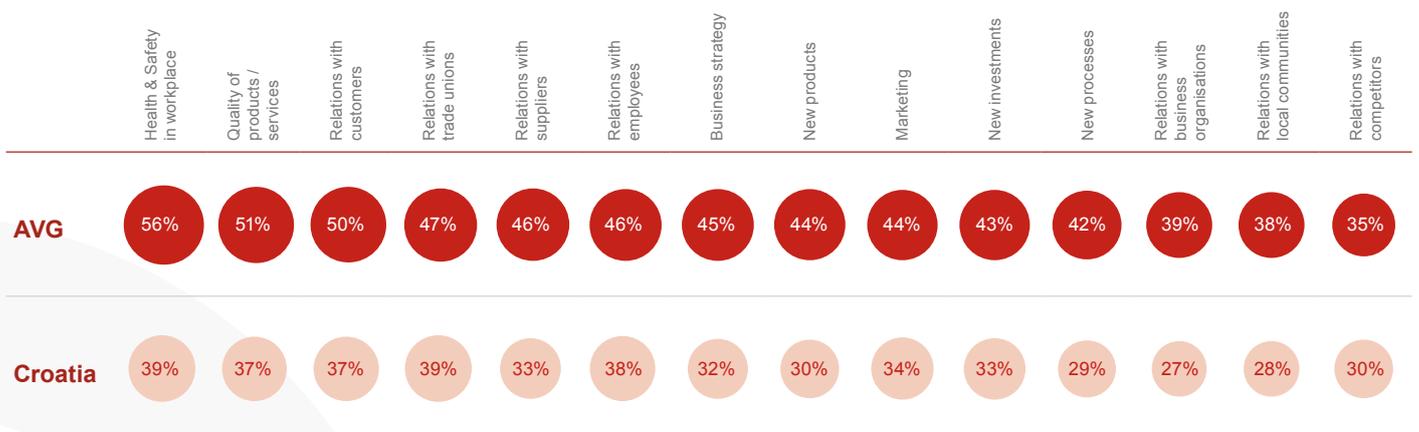
Strategic approach to sustainability trends - % of SMEs (Croatia No. 120, Total No. 1,240)

In 2023, 31% of SMEs in Croatia declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 1% decrease from the 32% reported in the previous survey in 2020. Data for 2022 are not available.



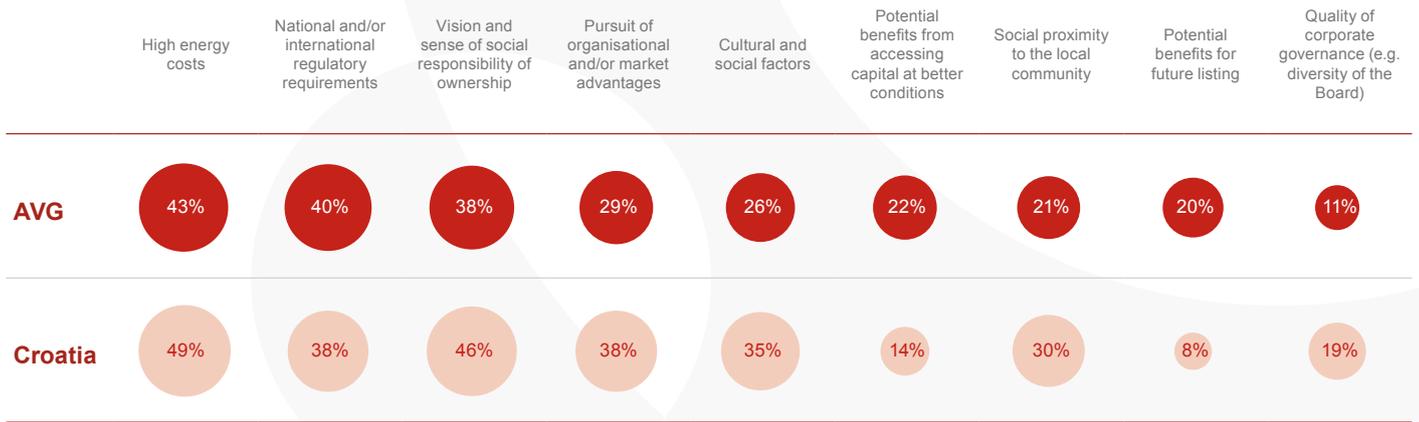
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Croatia No. 120, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Croatia is below average across all the domains, in particular with regard to health & safety in the workplace, quality of products and services, and new products.



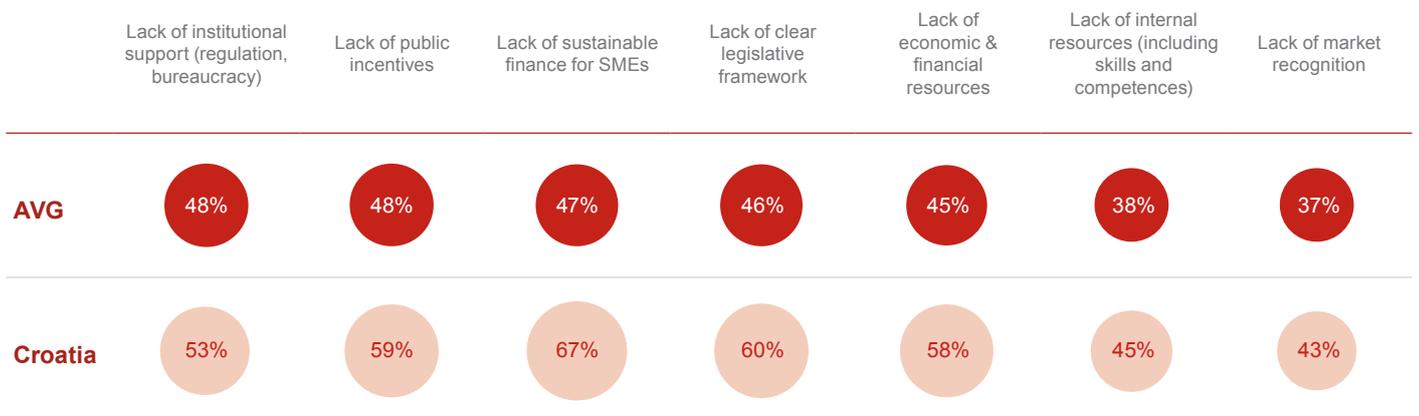
Main factors that favoured the adoption of an ESG approach - % of SMEs (Croatia No. 37, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Croatian SMEs are centred around the high cost of energy and the vision and sense of social responsibility of the owners, with regulatory requirements and the pursuit of organisational and market advantages sharing third place.



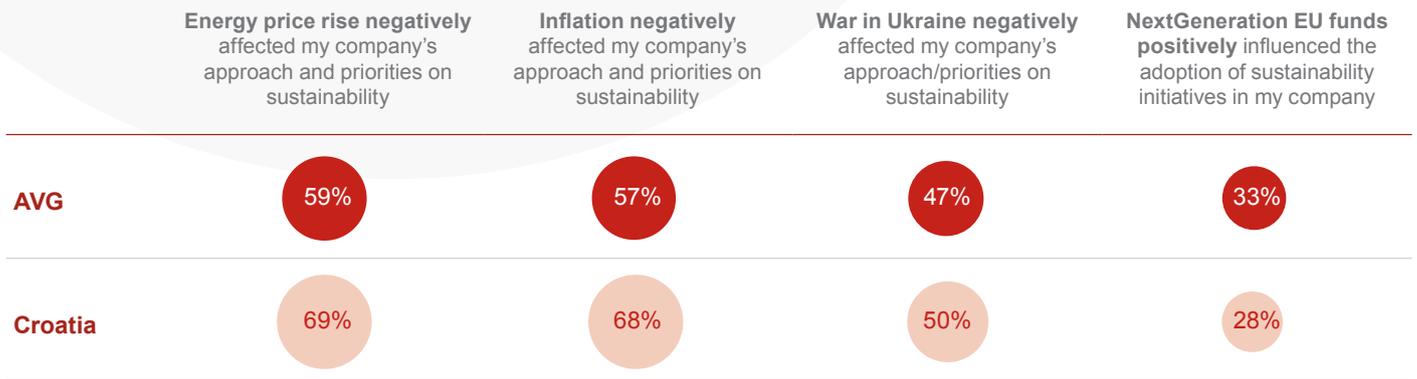
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Croatia No. 120, Total No. 1,240)

Croatian SMEs appear to perceive the barriers to the sustainable transition with a higher intensity compared to their European counterparts. The main barriers are a lack of sustainable finance, a lack of a clear legislative framework, and a lack of public incentives.



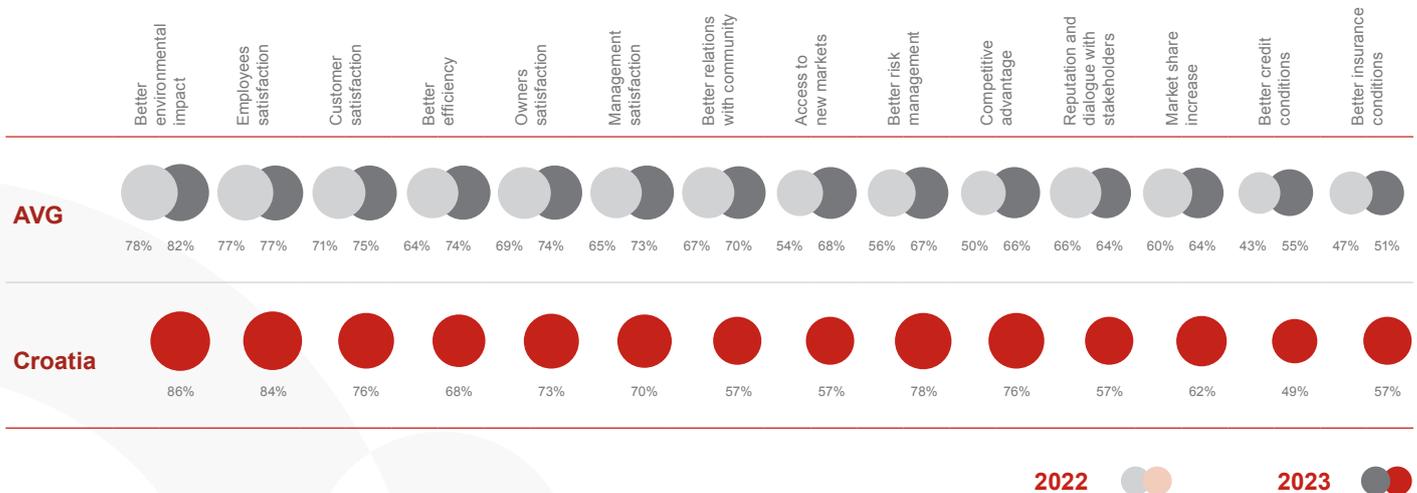
Impact of the energy crisis, inflation, and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Croatia No. 120, Total No. 1,240)

Croatian SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with a higher intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, less than 1 in 3 SMEs perceived positive effects on their ESG ambitions.



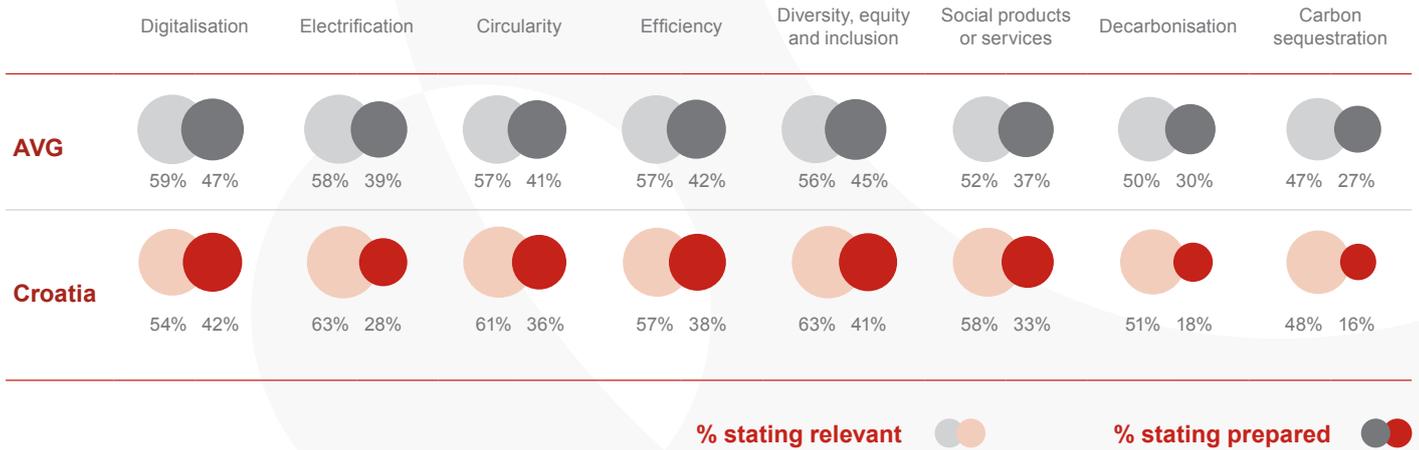
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Croatia No. 37, Total No. 548)

The pattern of benefits perceived by Croatian SMEs due to the adoption of more structured sustainability approaches is similar to that of their European counterparts, although small deviations in terms of intensity have been recorded. Data are available only for 2023.



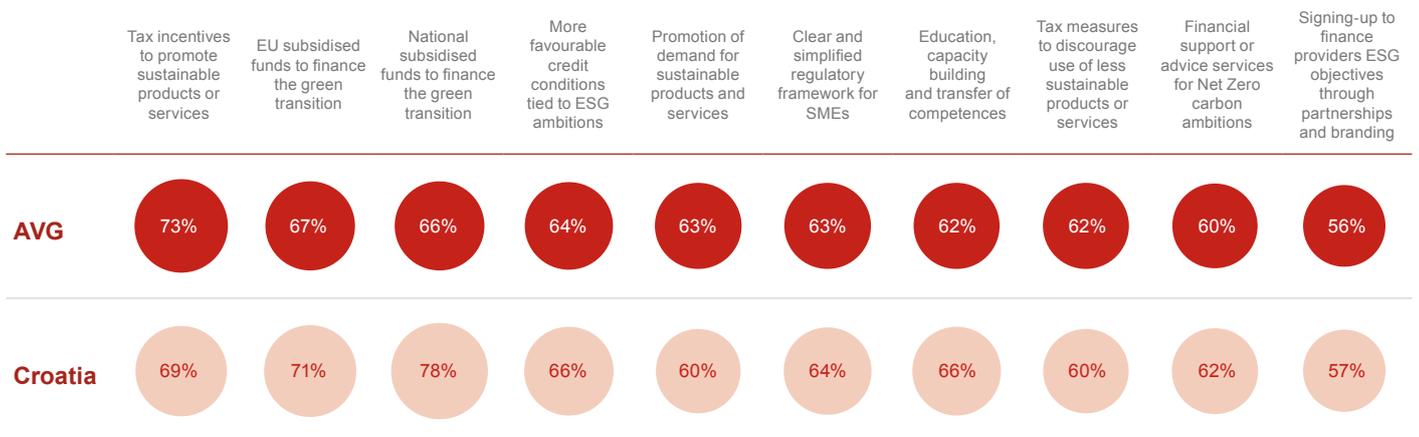
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Croatia No. 120, Total No. 1,240)

Croatian SMEs perceive the relevance of most transformational drivers with a slightly higher intensity compared to their European counterparts, while they report a minor level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative as relevant ('very' or 'fairly') (Croatia No. 120, Total No. 1,240)

In terms of requests for support, Croatian SMEs exhibit a perception of urgency similar to their European counterparts. National subsidised funds to finance the green transition, tax incentives to promote sustainable products or services, and more favourable credit conditions tied to ESG ambitions are highly relevant issues for Croatian SMEs.



The Czech Republic

In 2023, 35% of Czech SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a decrease of 3% compared to the previous survey conducted in 2022.

Their integration of environmental and social concerns is below average, especially with regard to relations with customers, trade unions, and suppliers, as well as marketing initiatives.

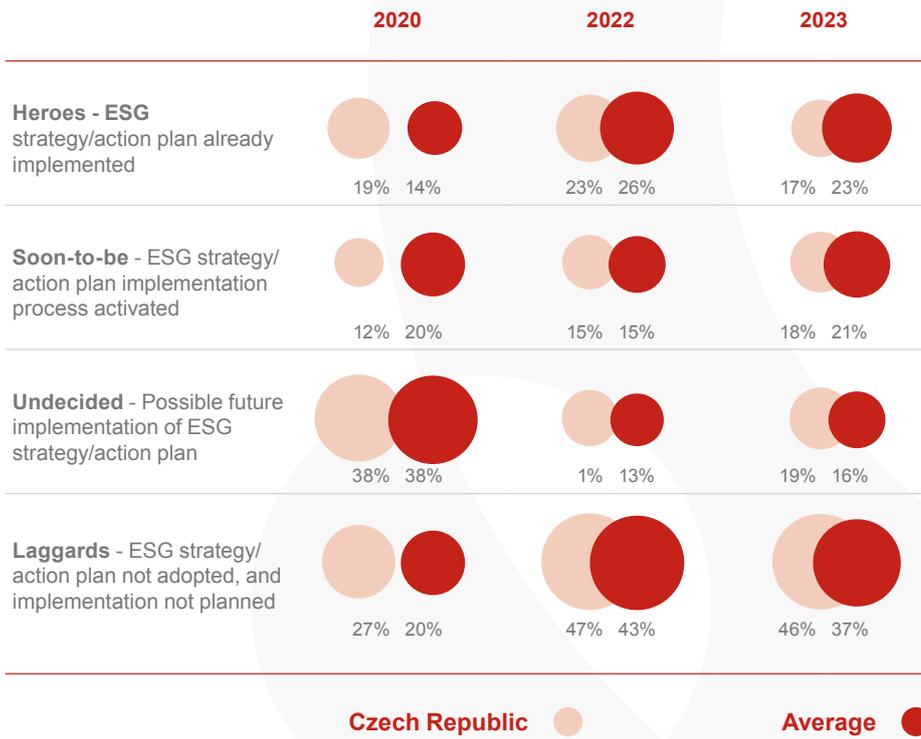
Key drivers motivating ESG adoption include the high cost of energy, regulatory requirements, and cultural and social factors.

SMEs in the Czech Republic perceive regulation and bureaucracy and the lack of sustainable finance, public incentives, and a clear legislative framework as the main barriers to their sustainable transition.

They feel equally affected by the latest global crises as their European counterparts and consider national subsidised funds to finance the green transition, more favourable credit conditions tied to ESG ambitions, and tax incentives to promote sustainable products or services the most relevant measures to support their just and sustainable transition.

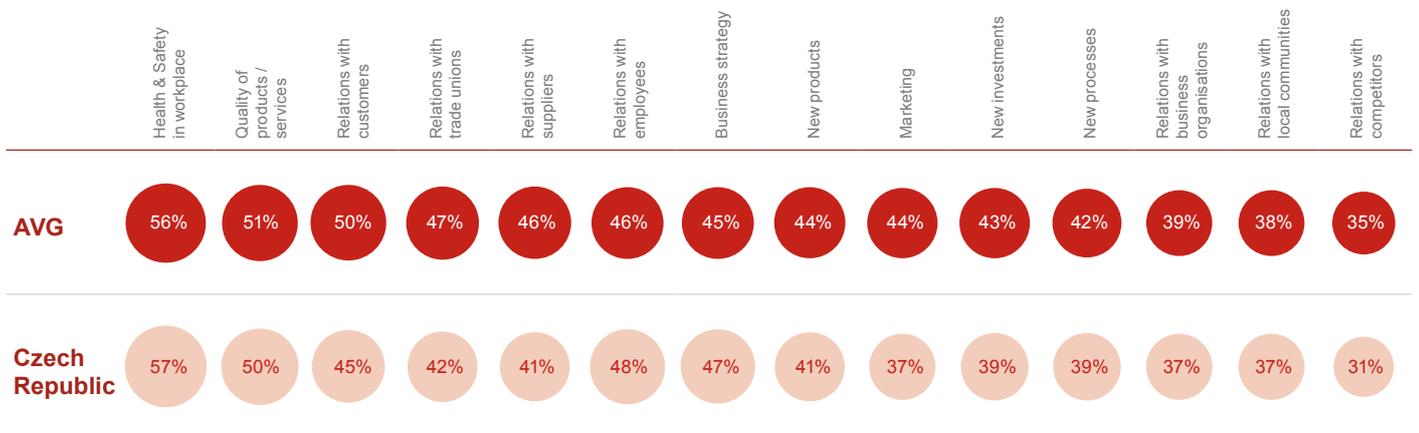
Strategic approach to sustainability trend - % of SMEs (Czech Republic No. 120, Total No. 1,240)

In 2023, 35% of SMEs in the Czech Republic declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 3% decrease from the 38% reported in the previous survey.



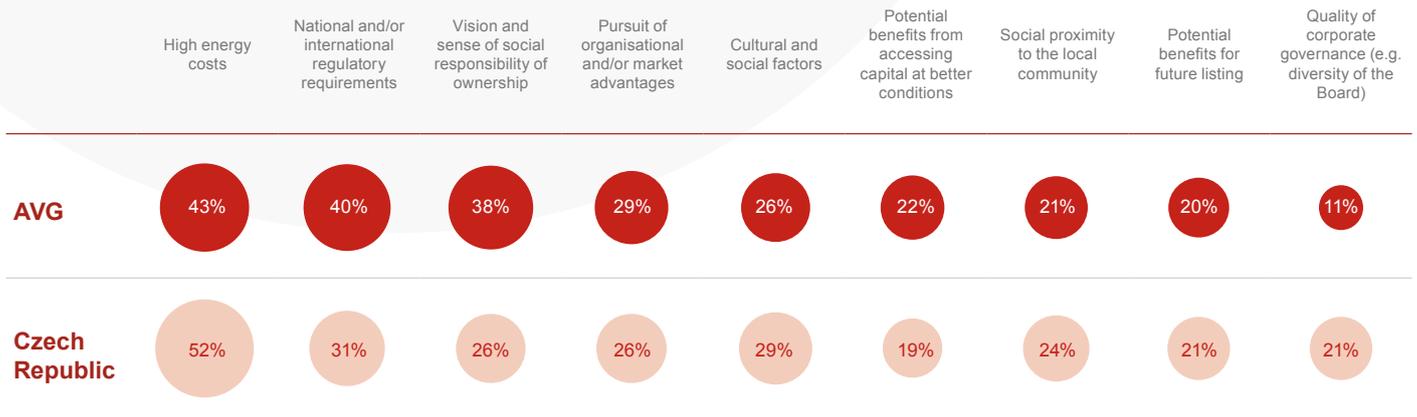
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Czech Republic No. 120, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in the Czech Republic is below average in most domains, in particular with regard to relations with customers, trade unions and suppliers, as well as marketing initiatives.



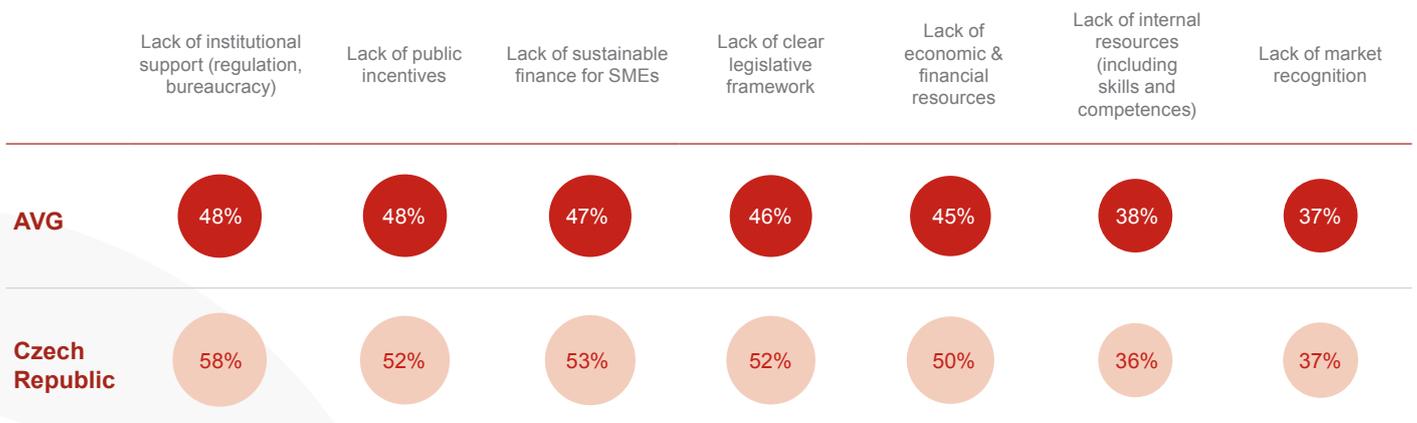
Main factors that favoured the adoption of an ESG approach - % of SMEs (Czech Republic No. 42, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for SMEs in the Czech Republic are mainly centred around the high cost of energy, with regulatory requirements taking second position, despite ranking below average, and cultural and social factors following in third place.



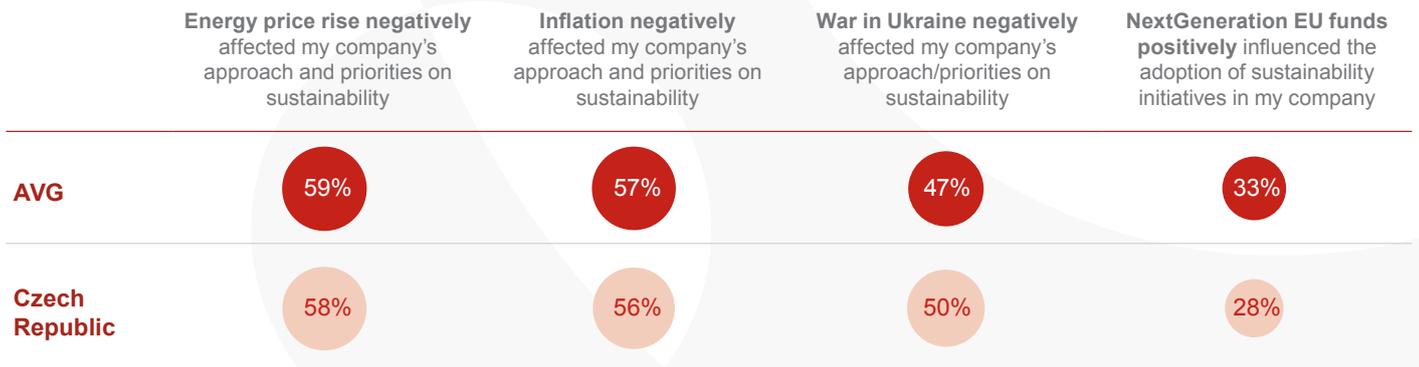
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Czech Republic No. 120, Total No. 1,240)

Czech SMEs appear to perceive barriers to the sustainable transition with a slightly higher intensity compared to their European counterparts. The main barriers are regulation and bureaucracy, a lack of sustainable finance, a lack of public incentives, and a lack of a clear legislative framework.



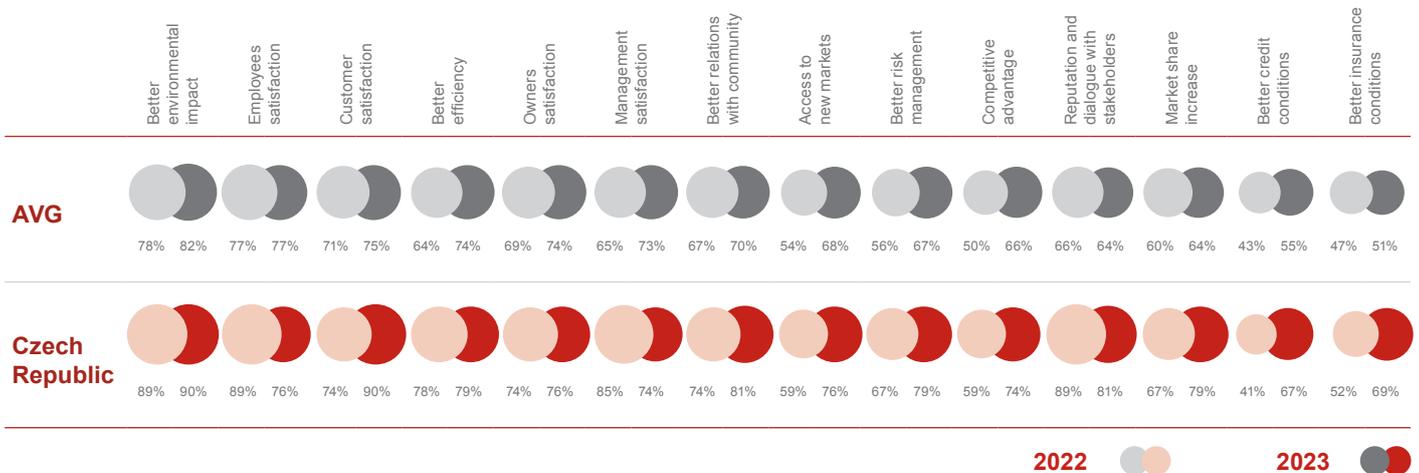
Impact of the energy crisis, inflation, and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Czech Republic No. 120, Total No. 1,240)

Czech SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with similar intensity to their European counterparts. With regard to the positive impact of NextGeneration EU funds, less than 1 in 3 SMEs perceived positive effects on their ESG ambitions.



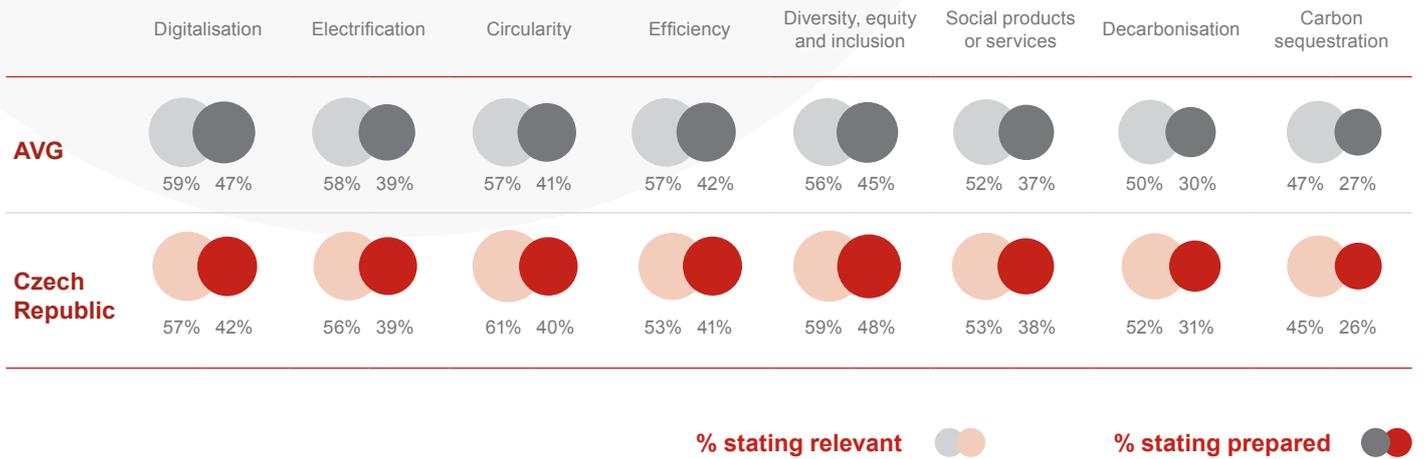
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Czech Republic No. 42, Total No. 548)

The pattern of the benefits perceived by Czech SMEs due to the adoption of more structured sustainability approaches is similar to that of their European counterparts, although with a higher perceived intensity in most aspects. The year-on-year comparison shows a relatively consistent trend. However, the perception of some benefits appears to have increased slightly from 2022 to 2023.



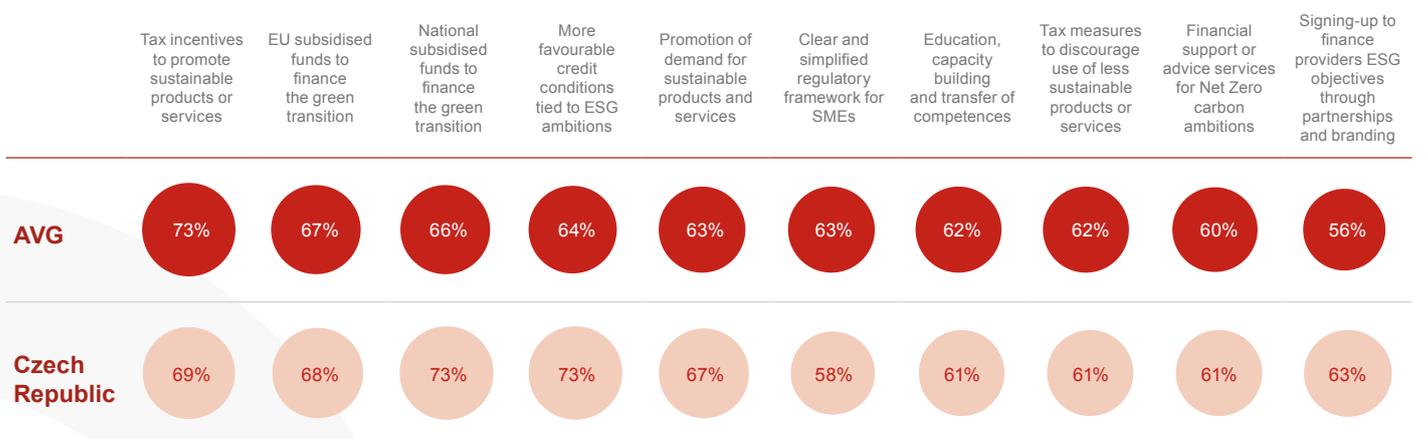
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Czech Republic No. 120, Total No. 1,240)

Czech SMEs perceive the relevance of transformational drivers largely in line with their European counterparts. The same applies to their declared level of preparedness to deal with such drivers. Small deviations apply.



How SMEs are asking to be supported - % of SMEs declaring the initiative as relevant ('very' or 'fairly') (Czech Republic No. 120, Total No. 1,240)

In terms of requests for support, Czech SMEs show a similar perception of urgency to their European counterparts. National subsidised funds to finance the green transition, more favourable credit conditions tied to ESG ambitions, and tax incentives to promote sustainable products or services are highly relevant issues for Czech SMEs as well.



France

In 2023, 39% of French SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan, a decrease of 3% compared to the previous survey conducted in 2022.

Their integration of environmental and social concerns is below average, in particular with regard to health & safety in the workplace, relations with customers and employees, and new investments.

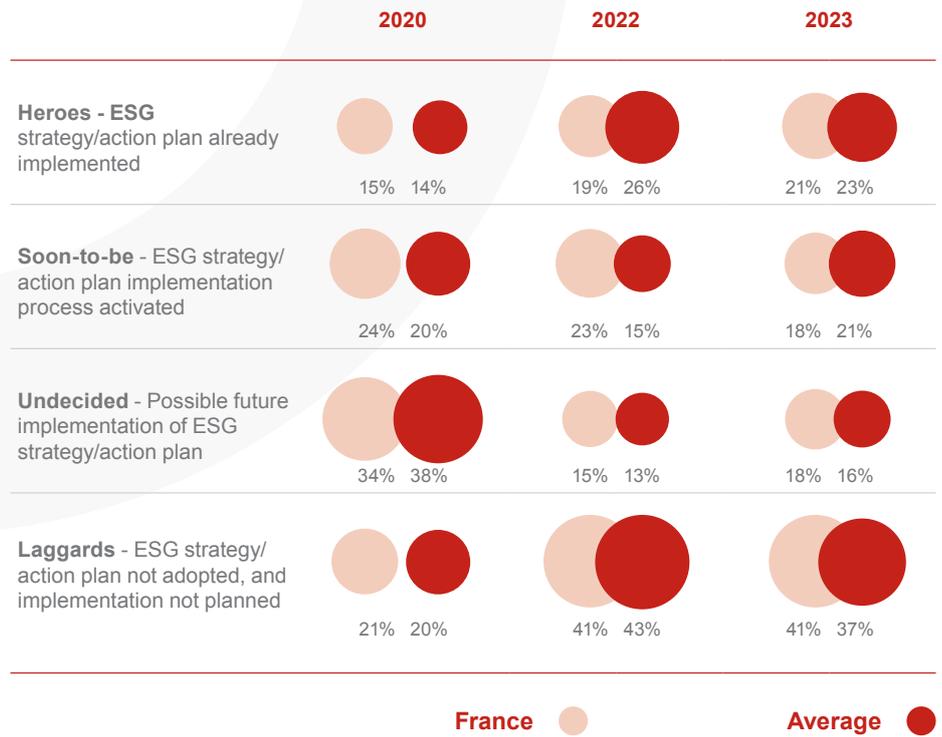
Key drivers motivating ESG adoption include regulatory requirements, vision and sense of social responsibility of the owners, and the high cost of energy.

SMEs in France perceive a lack of economic and financial resources, public incentives, and a clear legislative framework as the main barriers to their sustainable transition.

French SMEs feel equally affected by the latest global crises as their European counterparts, and consider tax incentives to promote sustainable products or services, national subsidised funds to finance the green transition, and more favourable credit conditions tied to sustainability ambitions the most relevant measures to support their just and sustainable transition.

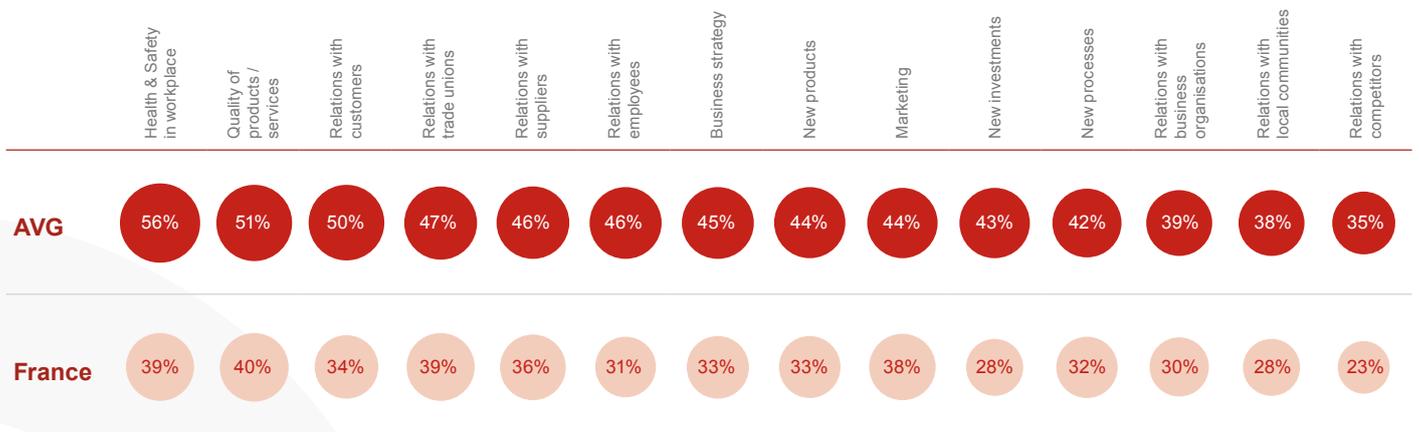
Strategic approach to sustainability trends - % of SMEs (France No. 160, Total No. 1,240)

In 2023, 39% of SMEs in France declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 3% decrease from the 42% reported in the previous survey.



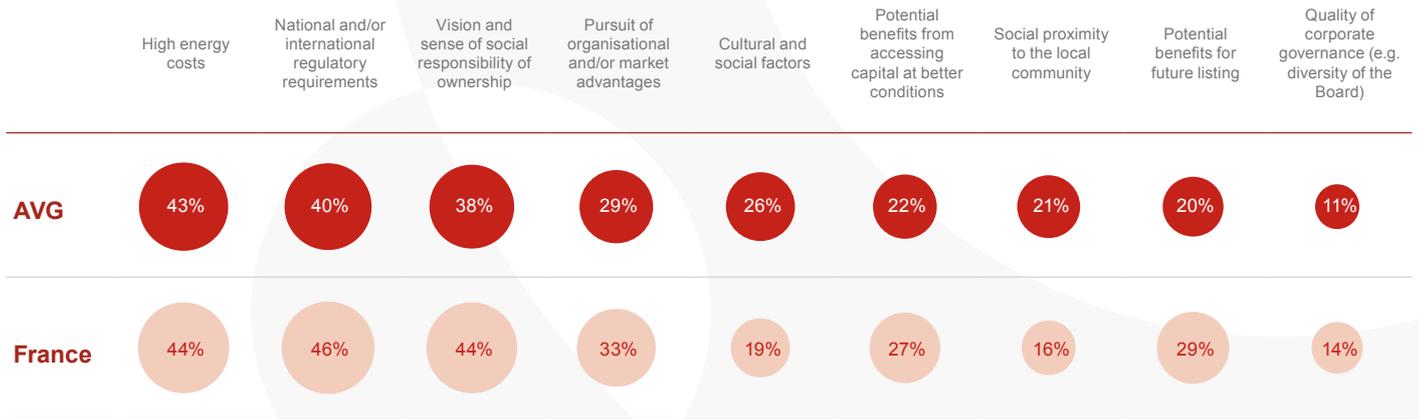
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (France No. 160, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in France is below average across all domains, in particular with regard to health & safety in the workplace, relations with customers, relations with employees, and new investments.



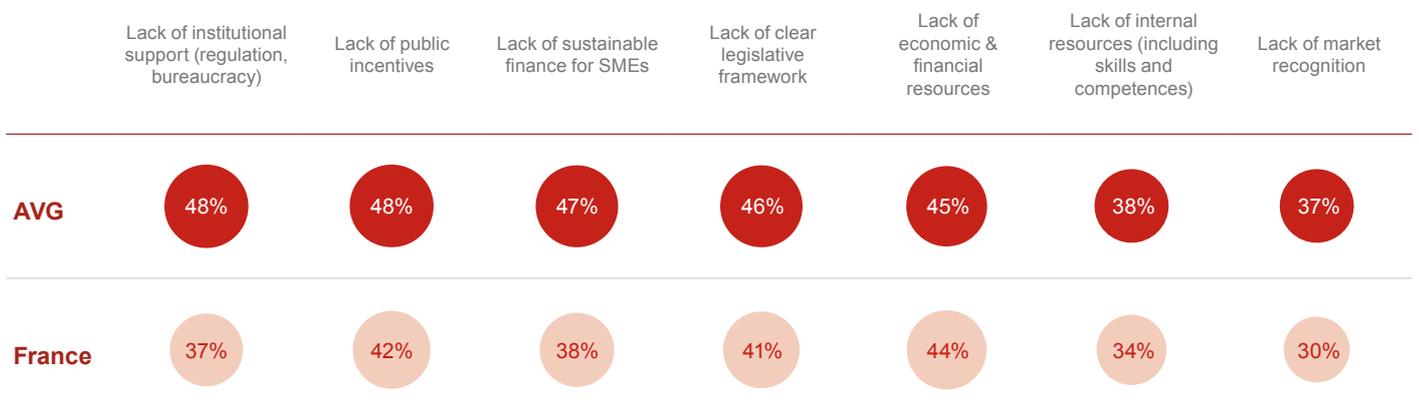
Main factors that favoured the adoption of an ESG approach - % of SMEs (France No. 63, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for French SMEs are centred around regulatory requirements, vision and sense of social responsibility of the owners, and the high cost of energy.



Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (France No. 120, Total No. 1,240)

French SMEs appear to perceive the barriers to the sustainable transition with a slightly lower intensity compared to their European counterparts. The main barriers are a lack of economic and financial resources, a lack of public incentives, and a lack of a clear legislative framework.



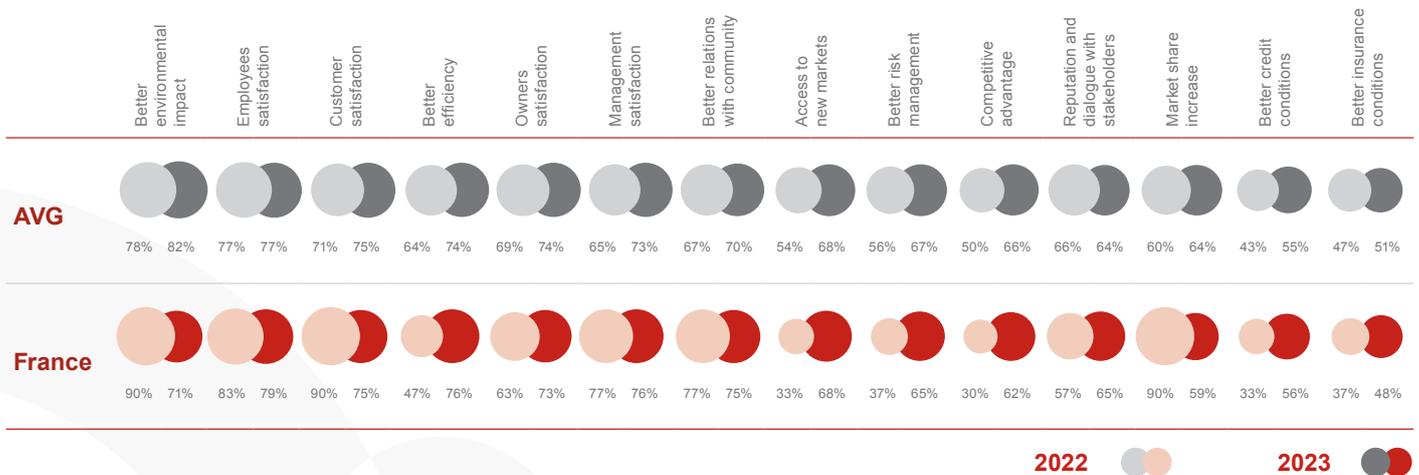
Impact of the energy crisis, inflation and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (France No. 160, Total No. 1,240)

French SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with similar intensity to their European counterparts. With regard to the positive impact of NextGeneration EU funds, 1 in 3 SMEs reported positive effects on their ESG ambitions.



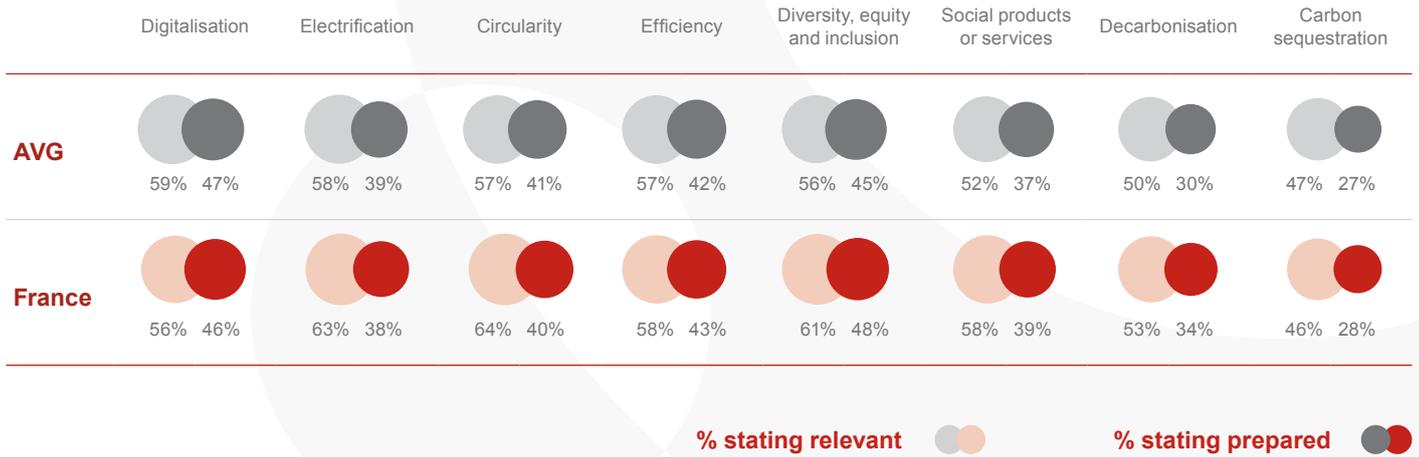
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (France No. 63, Total No. 548)

The pattern of the benefits perceived by French SMEs due to the adoption of more structured sustainability approaches varies from that of their European counterparts with significant deviations in most aspects. The year-on-year comparison shows an increase in the perceived intensity of several of the benefits, and a slight reduction in some other benefits, in particular among those that recorded exceptionally high levels in 2022.



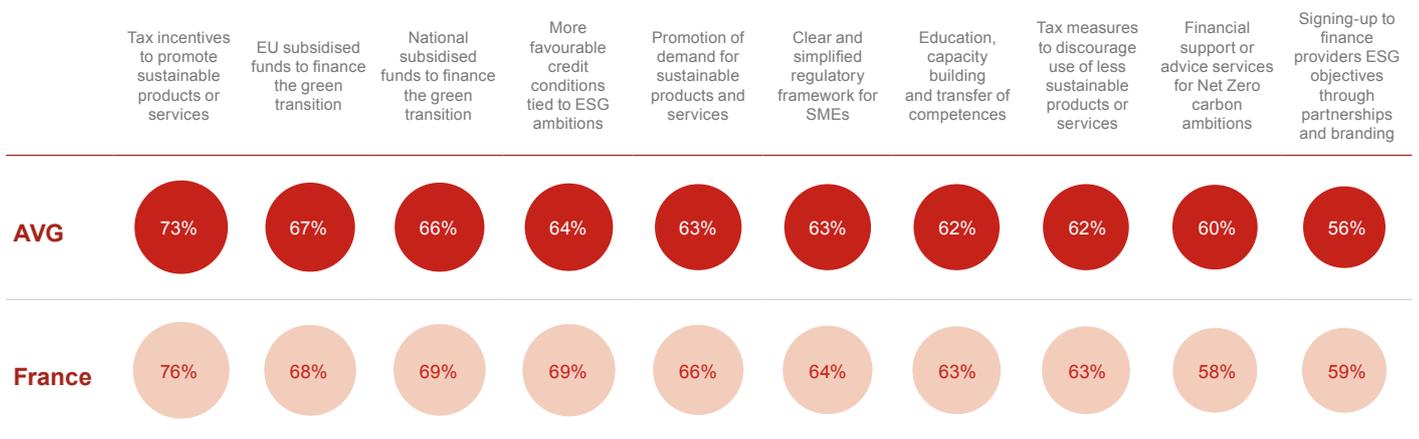
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (France No. 160, Total No. 1,240)

French SMEs perceive the relevance of transformational drivers with a slightly higher intensity than their European counterparts. The same applies to their declared level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant (very or fairly) (France No. 160, Total No. 1,240)

In terms of requests for support, French SMEs show a slightly stronger perception of urgency compared to their European counterparts. Tax incentives to promote sustainable products or services, national subsidised funds to finance the green transition, and more favourable credit conditions tied to sustainability ambitions are all highly relevant issues for French SMEs.



Germany

In 2023, 55% of German SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a considerable increase of 8% compared to the previous survey conducted in 2022.

Their integration of environmental and social concerns is above average, especially in terms of relations with suppliers and new products.

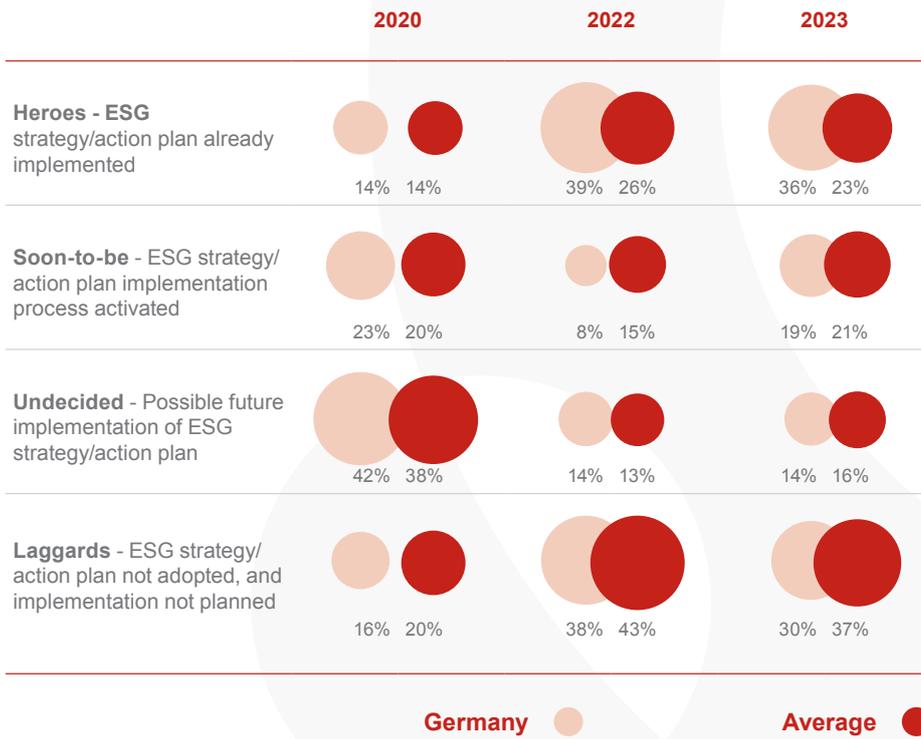
Key drivers motivating ESG adoption include the high cost of energy, regulatory requirements, and the pursuit of organisational and market advantages.

SMEs in Germany perceive regulation and bureaucracy, a lack of public incentives, and a clear legislative framework as the main barriers to their sustainable transition.

German SMEs feel equally affected by the latest global crises as their European counterparts and consider tax incentives to promote sustainable products or services, more favourable credit conditions tied to ESG ambitions, and tax measures to discourage the use of less sustainable products or services the most relevant initiatives to support their just and sustainable transition.

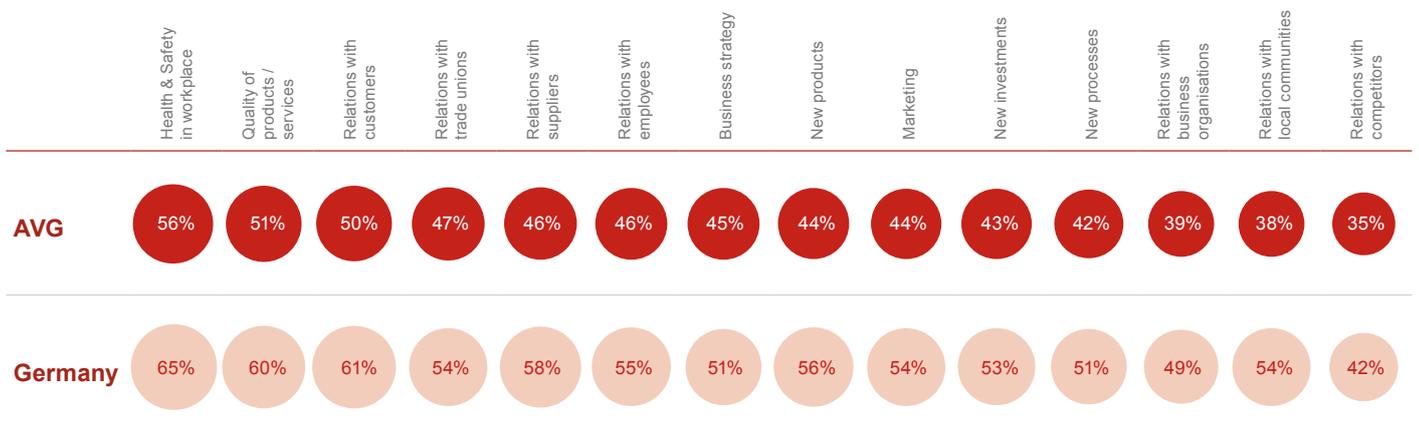
Strategic approach to sustainability trend - % of SMEs (Germany No. 160, Total No. 1,240)

In 2023, 55% of SMEs in Germany declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), up 8% from the 47% reported in the previous survey.



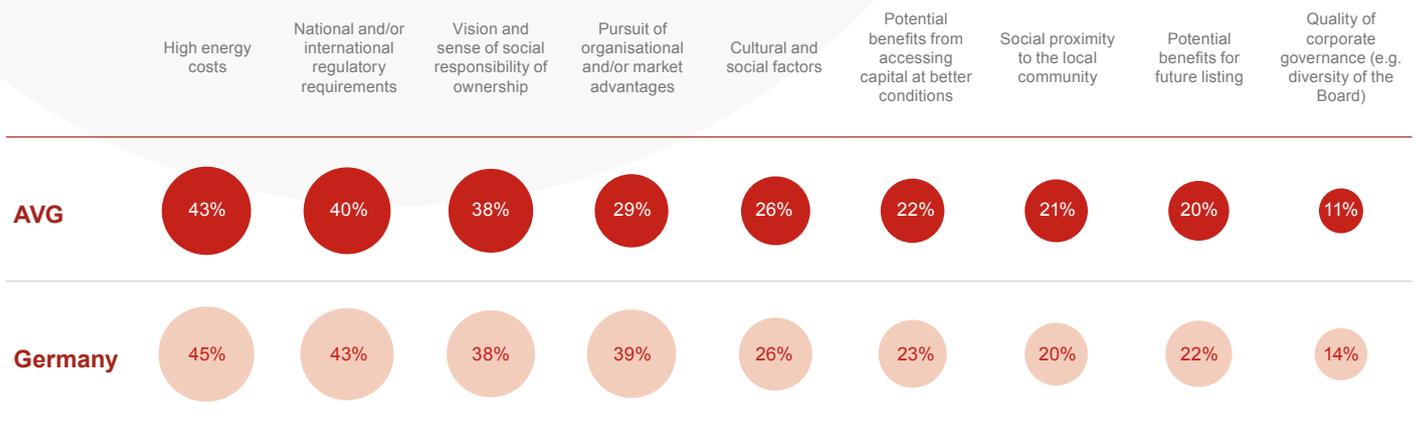
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Germany No. 160, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Germany is above average across all domains, in particular with regard to relations with suppliers and new products.



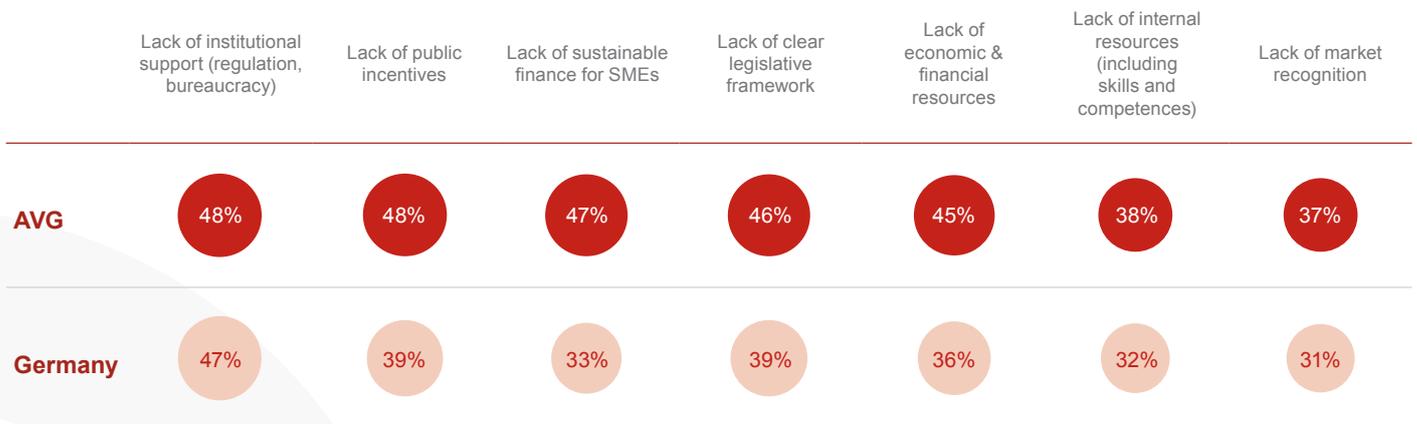
Main factors that favoured the adoption of an ESG approach - % of SMEs (Germany No. 87, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for German SMEs are centred around the high cost of energy and regulatory requirements, The pursuit of organisational and market advantages ranks third, with only a marginal difference to vision and sense of social responsibility of owners, which comes a close fourth.



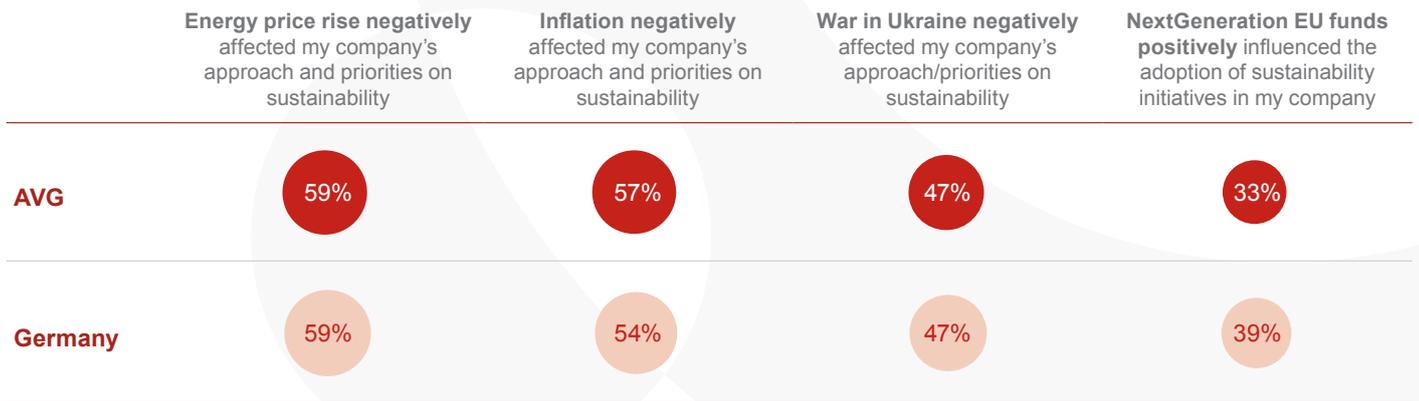
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Germany No. 160, Total No. 1,240)

German SMEs appear to perceive the barriers to the sustainable transition with a lower intensity compared to their European counterparts. The main barriers are regulation and bureaucracy, a lack of public incentives, and a lack of a clear legislative framework.



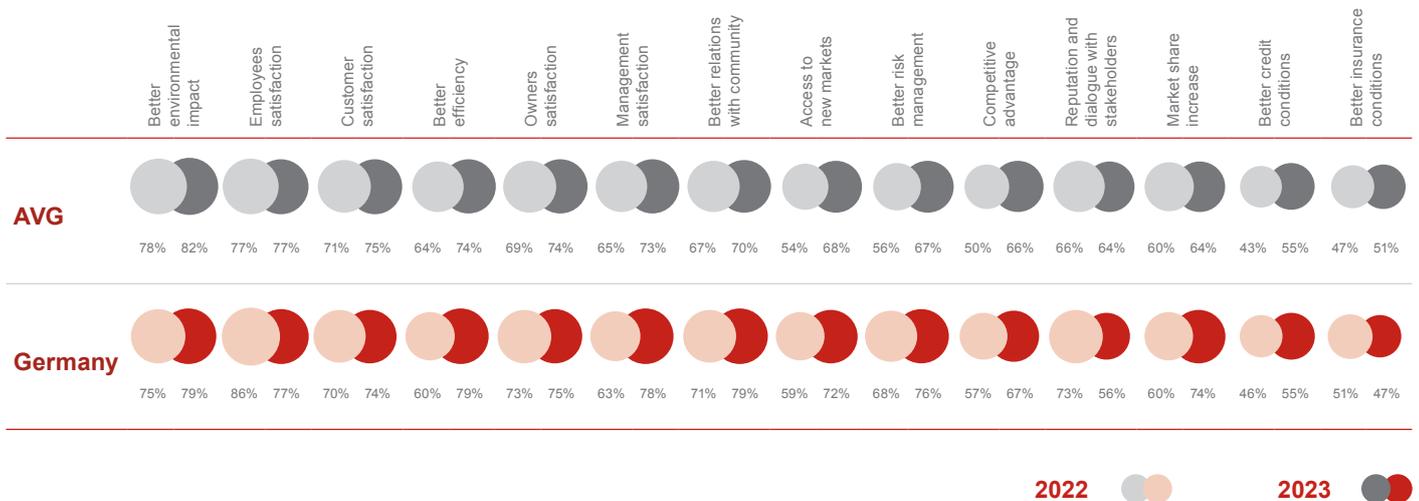
Impact of the energy crisis, inflation and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Germany No. 160, Total No. 1,240)

German SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with similar intensity to their European counterparts. With regard to the positive impact of NextGeneration EU funds, more than 1 in 3 SMEs perceived positive effects on their ESG ambitions.



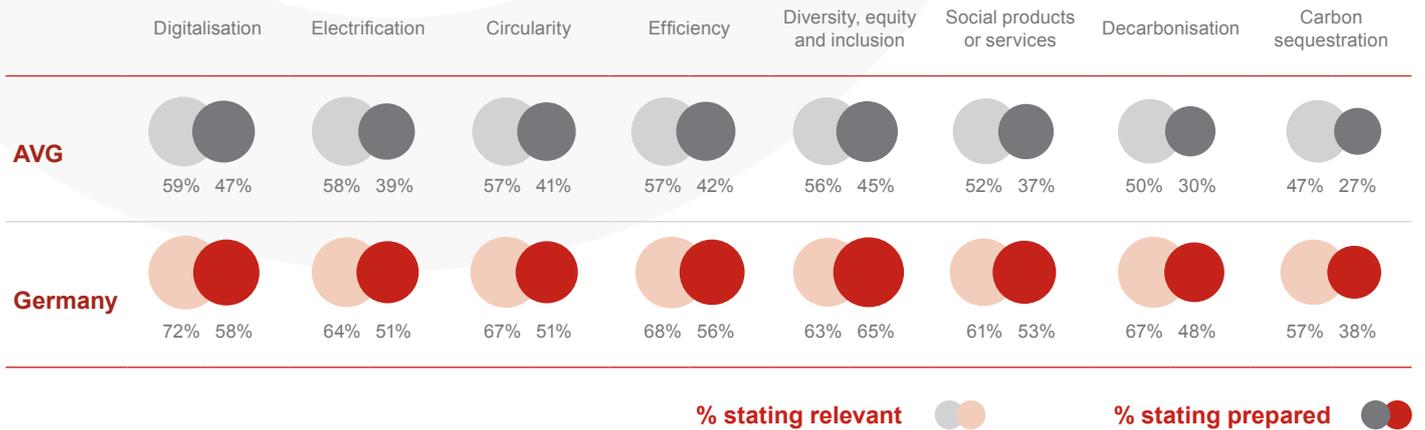
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Germany No. 87, Total No. 548)

The pattern of the benefits perceived by German SMEs due to the adoption of more structured sustainability approaches is similar to that of their European counterparts, although with a slightly higher perceived intensity. The year-on-year comparison shows a relatively consistent trend.



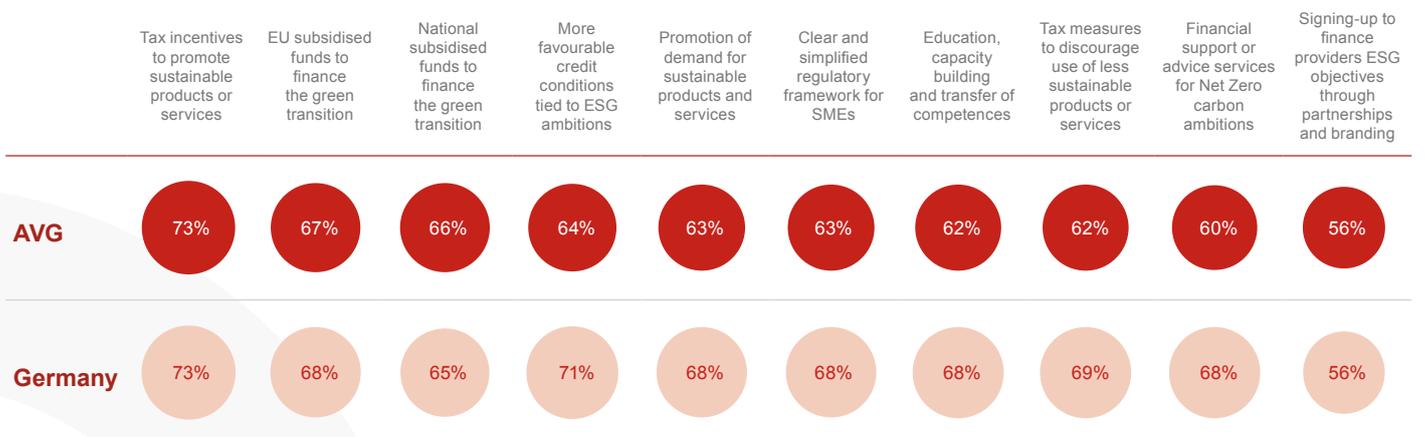
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Germany No. 160, Total No. 1,240)

German SMEs perceive the relevance of transformational drivers with a higher intensity with respect to their European counterparts, also declaring a slightly higher level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Germany No. 160, Total No. 1,240)

In terms of requests for support, German SMEs show a slightly stronger perception of urgency compared to their European counterparts. Tax incentives to promote sustainable products or services, more favourable credit conditions tied to ESG ambitions, and tax measures to discourage the use of less sustainable products or services are highly relevant issues for German SMEs, although all of the 10 initiatives were declared as very relevant overall.



Hungary

In 2023, 38% of Hungarian SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents an increase of 4% compared to the previous survey conducted in 2022.

Their integration of environmental and social concerns is below average, especially in terms of relations with employees, new products, and relations with local communities.

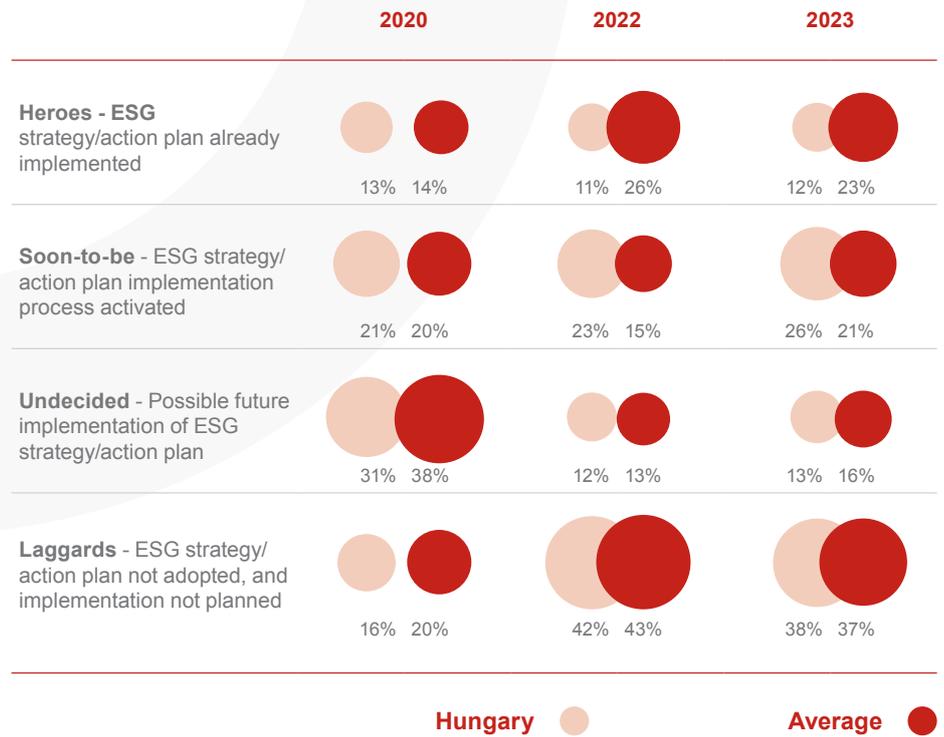
Key drivers motivating ESG adoption include the high cost of energy, regulatory requirements, and the pursuit of organisational and market advantages.

SMEs in Hungary perceive a lack of a clear legislative framework, public incentives, sustainable finance, and market recognition, as well as regulation and bureaucracy, as the main barriers to their sustainable transition.

Hungarian SMEs feel significantly more affected by the latest global crises than their European counterparts, and consider tax incentives to promote sustainable products or services and EU and national subsidised funds the most relevant measures to support their just and sustainable transition.

Strategic approach to sustainability trends - % of SMEs (Hungary No. 120, Total No. 1,240)

In 2023, 38% of SMEs in Hungary declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), up 4% from the 34% reported in the previous survey.



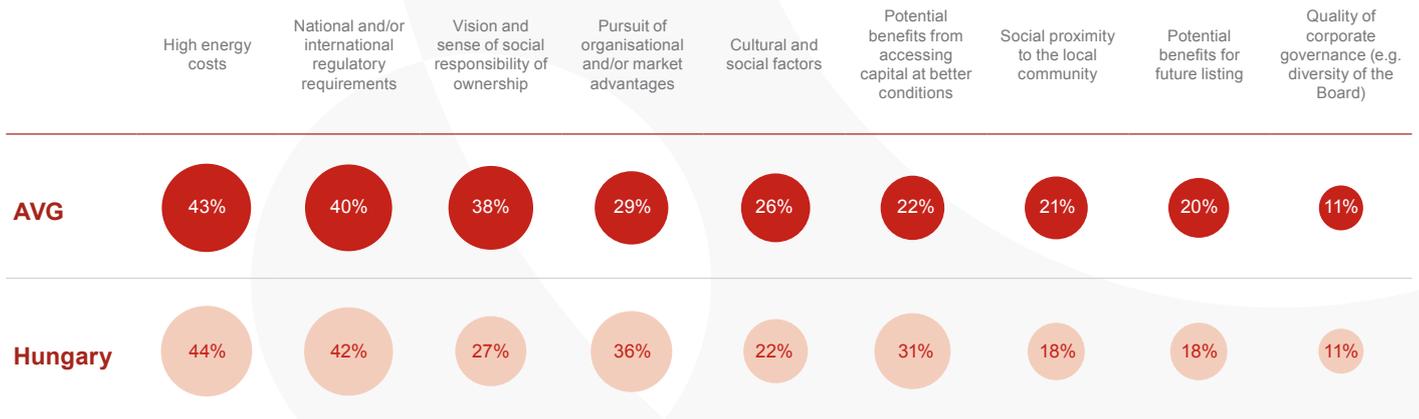
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Hungary No. 120, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Hungary is below average across all domains, in particular with regard to relations with employees and local communities and new products.



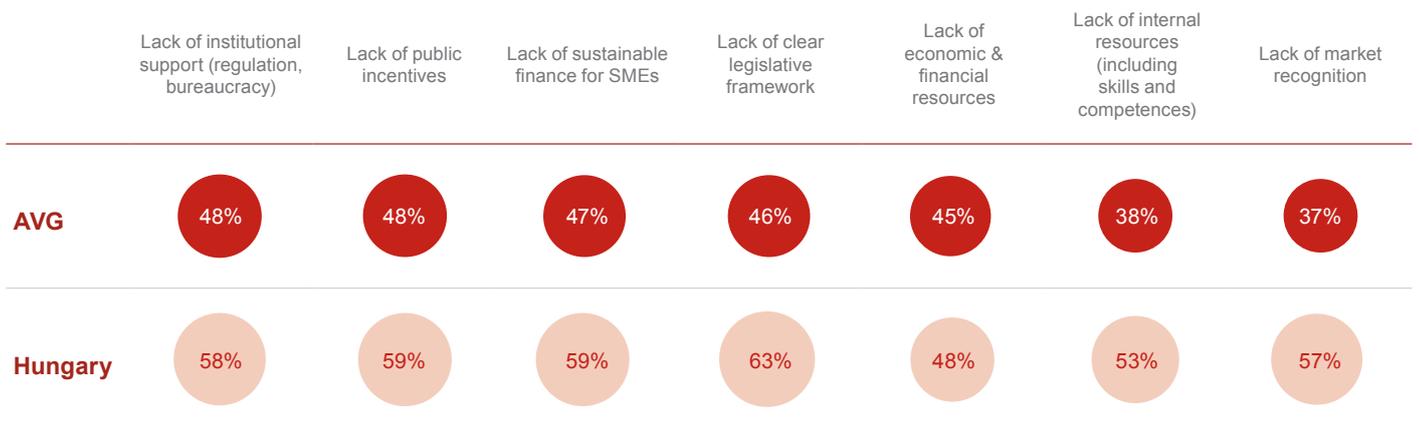
Main factors that favoured the adoption of an ESG approach - % of SMEs (Hungary No. 45, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Hungarian SMEs are centred around the high cost of energy and regulatory requirements, with the pursuit of organisational and market advantages ranking third.



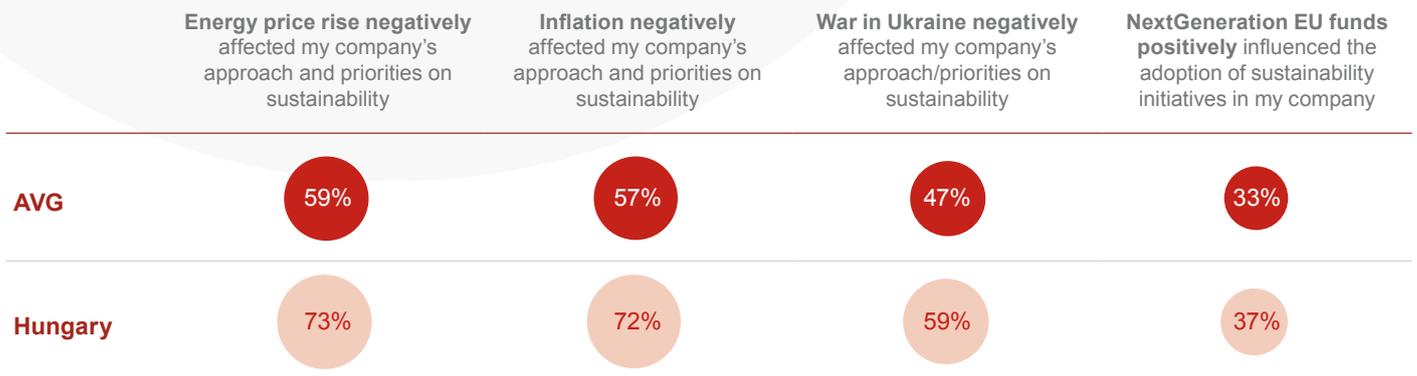
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Hungary No. 120, Total No. 1,240)

Hungarian SMEs appear to perceive the barriers to the sustainable transition with a higher intensity compared to their European counterparts. The main barriers are a lack of a clear legislative framework, a lack of public incentives, a lack of sustainable finance, regulation and bureaucracy, and a lack of market recognition.



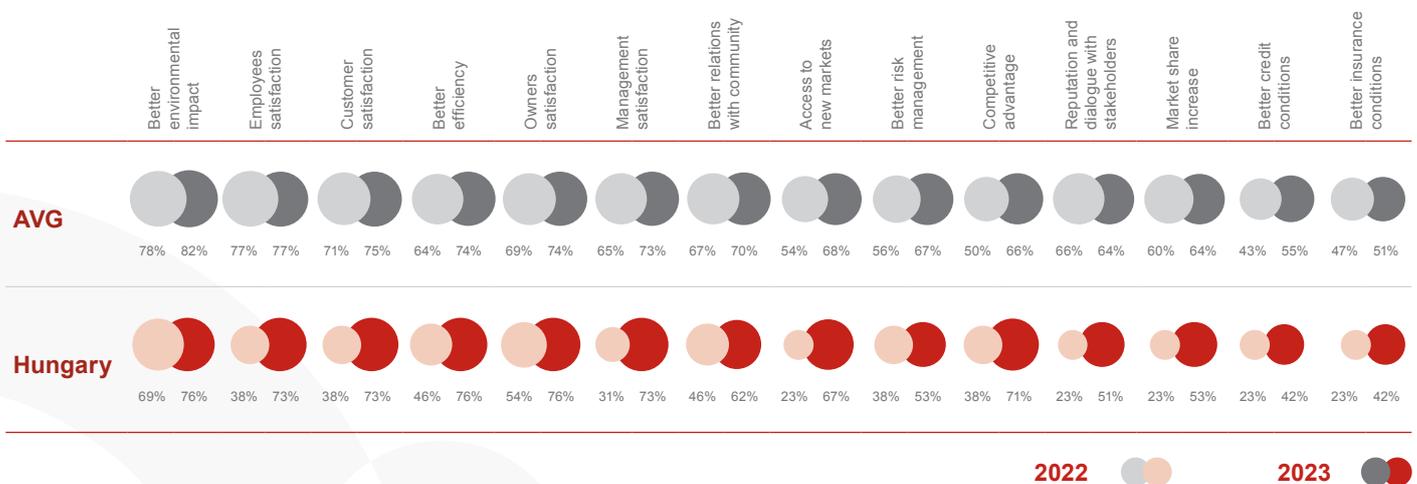
Impact of the energy crisis, inflation and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Hungary No. 120, Total No. 1,240)

Hungarian SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with significantly higher intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, more than 1 in 3 SMEs reported positive effects on their ESG ambitions.



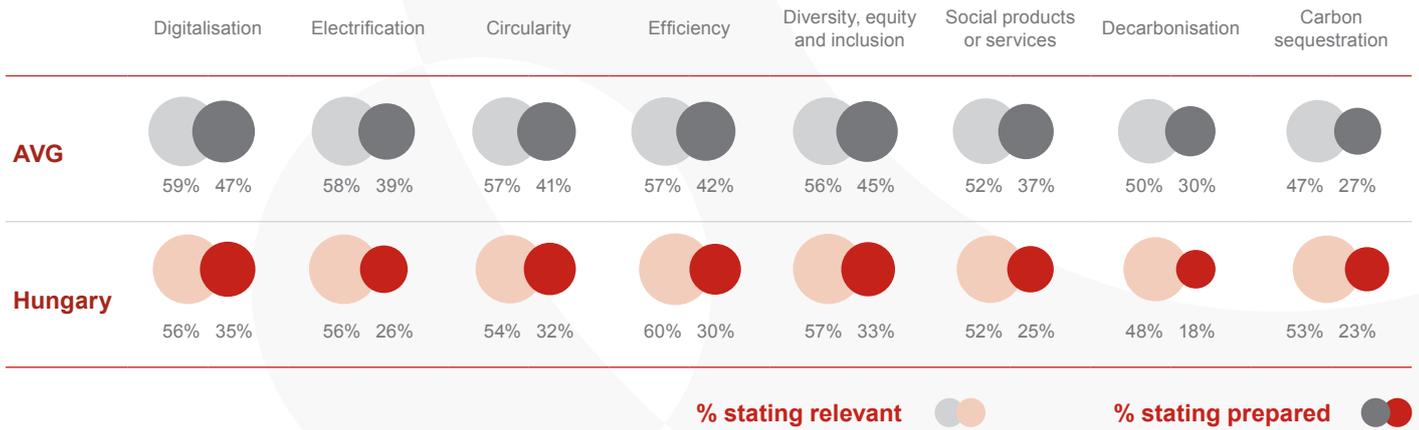
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Hungary No. 45, Total No. 548)

The pattern of the benefits perceived by Hungarian SMEs due to the adoption of more structured sustainability approaches varies from that of their European counterparts, with significant deviations in most aspects. The year-on-year comparison shows a dramatic increase in the perceived intensity by Hungarian SMEs in 2023, mainly due to the moderate levels of perceived intensity recorded in 2022.



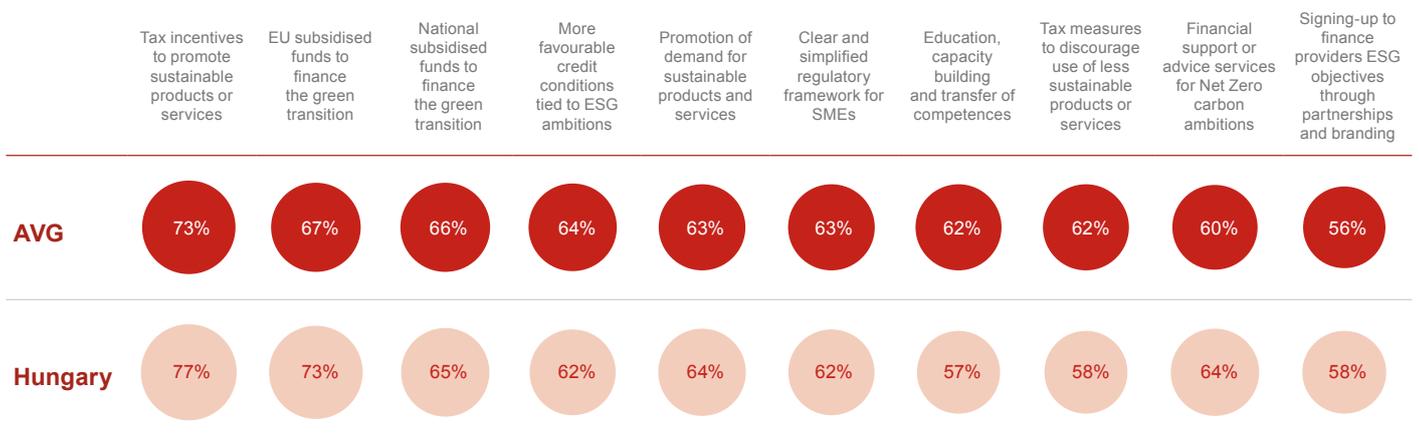
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Hungary No. 120, Total No. 1,240)

Hungarian SMEs perceive the relevance of transformational drivers with a level of intensity similar to their European counterparts, although small deviations apply. However, they report a lower level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Hungary No. 120, Total No. 1,240)

In terms of requests for support, Hungarian SMEs show a similar perception of urgency to their European counterparts. Tax incentives to promote sustainable products or services, and EU and national subsidised funds to finance the green transition are highly relevant issues for Hungarian SMEs.



Italy

In 2023, 52% of Italian SMEs are either implementing or have already implemented a sustainability strategy or action plan.

This represents a significant increase from the previous year.

Their integration of environmental and social concerns is above average, especially in terms of workplace safety, quality of products and services, and relations with customers and employees.

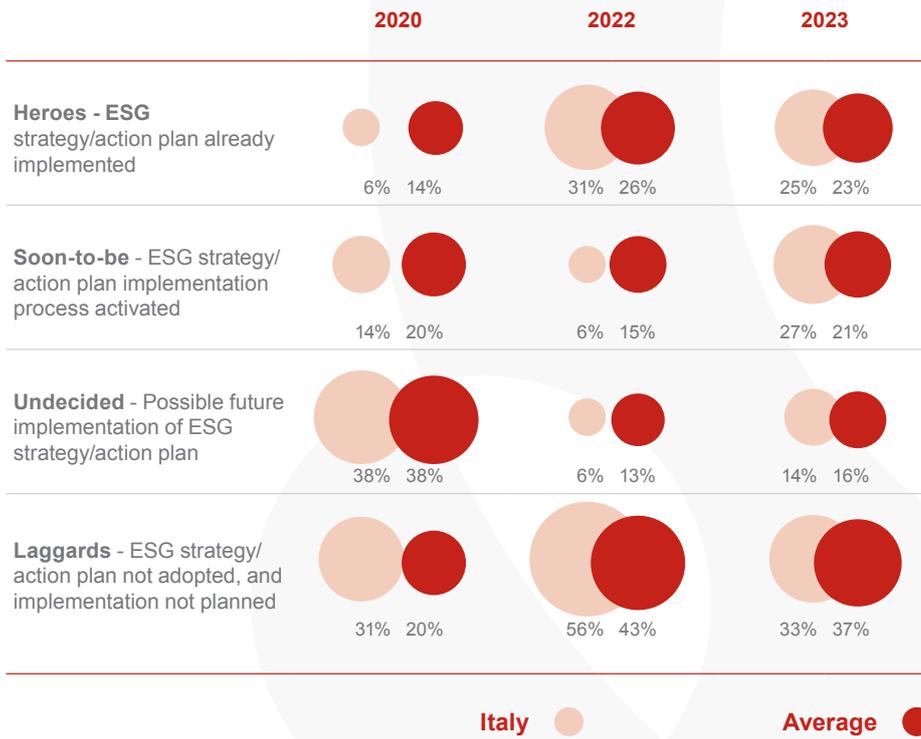
Key drivers for ESG adoption include owner vision, regulatory requirements, and high energy costs.

Italian SMEs face barriers including unclear legislation and excessive regulation and bureaucracy, as well as a lack of public incentives.

Italian companies feel slightly less affected by global crises than other European SMEs, and consider tax incentives and a simplified regulatory framework the most relevant measures to support their just and sustainable transition.

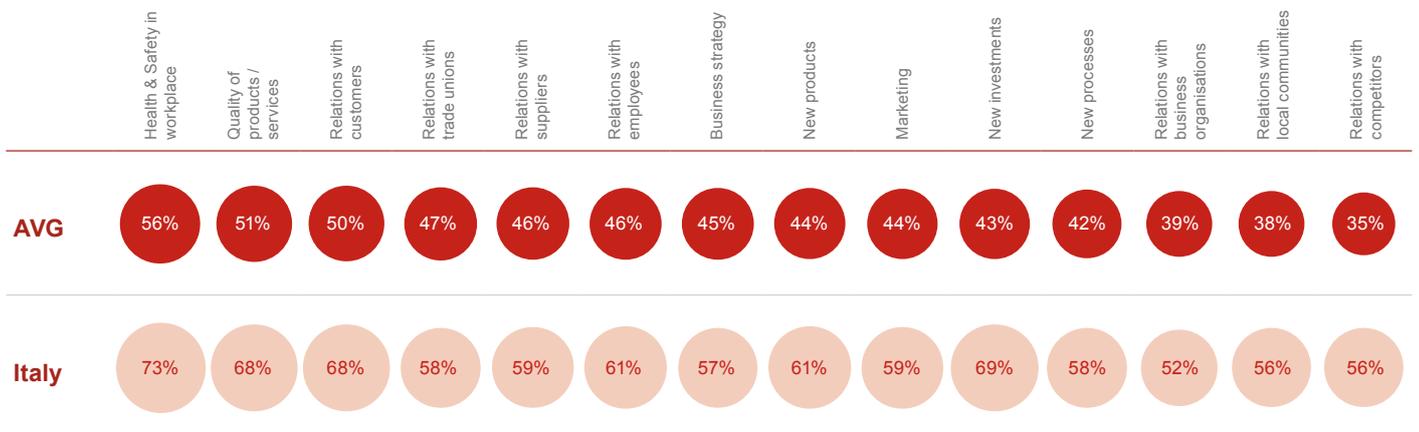
Strategic approach to sustainability trends - % of SMEs (Italy No. 160, Total No. 1,240)

In 2023, 52% of SMEs in Italy declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), up 15% from the 37% reported in the previous survey.



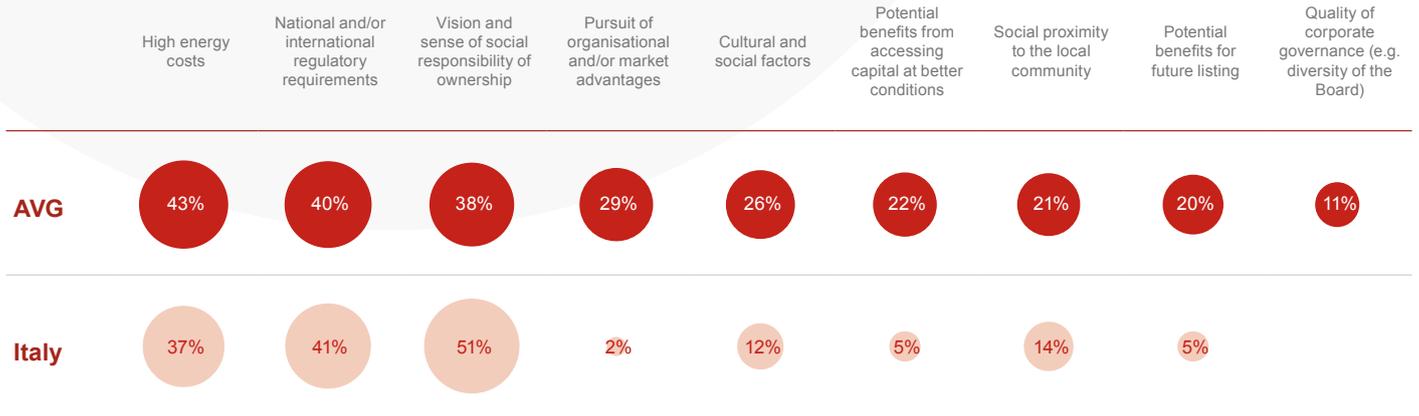
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Italy No. 160, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Italy is above average across all domains, in particular regarding health & safety in the workplace, quality of products and services, relations with customers and employees.



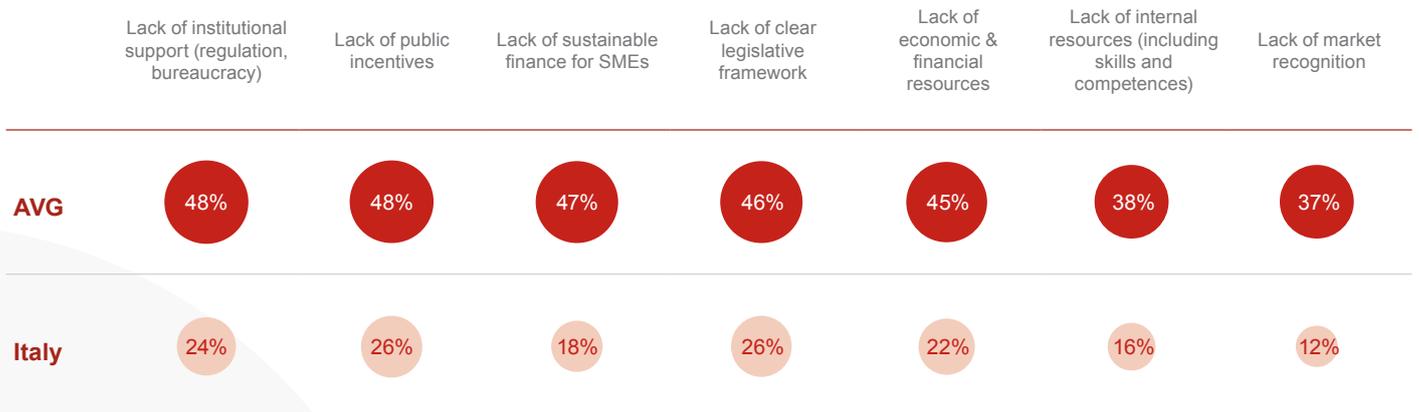
Main factors that favoured the adoption of an ESG approach - % of SMEs (Italy No. 95, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Italian SMEs are centred around the vision and sense of social responsibility of owners, regulatory requirements, and the high cost of energy, which required intervention in the field of energy efficiency.



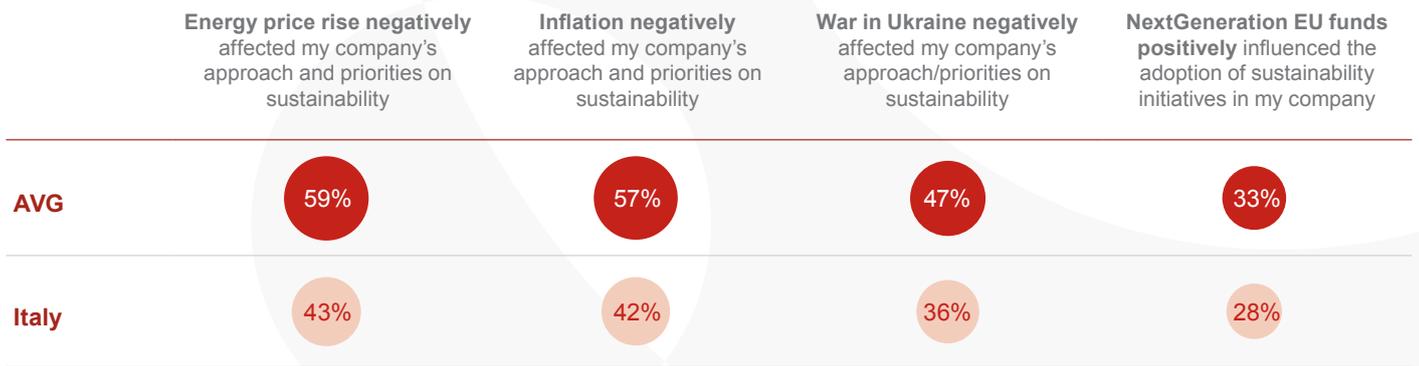
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Italy No. 160, Total No. 1,240)

Italian SMEs appear to perceive the barriers to the sustainable transition with a slightly lower intensity compared to their European counterparts. The main barriers are a lack of a clear legislative framework, a lack of public incentives, and excessive regulation and bureaucracy.



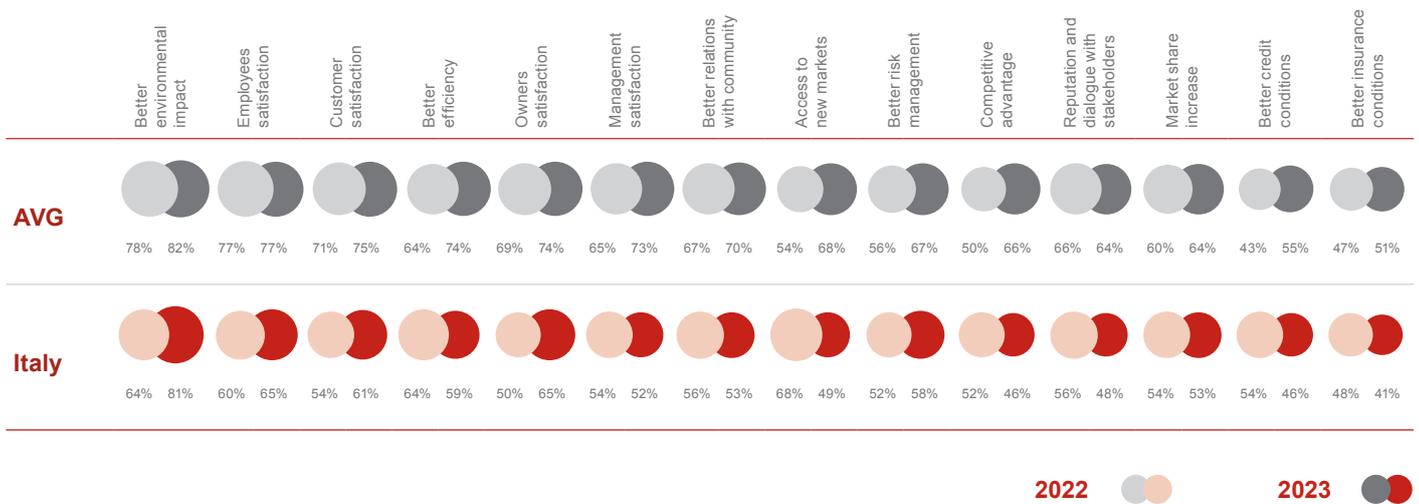
Impact of the energy crisis, inflation and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very (Italy No. 160, Total No. 1,240)

Italian SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with a slightly lower intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, less than 1 in 3 SMEs reported positive effects on their ESG ambitions.



Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Italy No. 95, Total No. 548)

The pattern of the benefits perceived by Italian SMEs due to the adoption of more structured sustainability approaches is similar to that of their European counterparts, although with a slight decrease in perceived intensity. The year-on-year comparison shows a consistent trend.



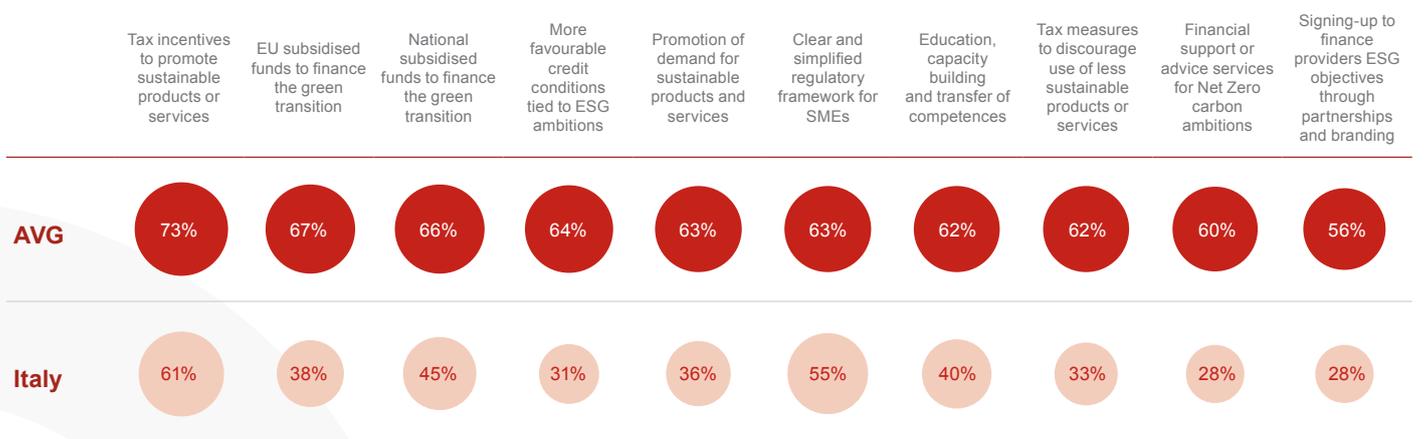
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Italy No. 160, Total No. 1,240)

Italian SMEs perceive the relevance of transformational drivers with a slightly lower intensity with respect to their European counterparts and report a minor level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Italy No. 160, Total No. 1,240)

In terms of requests for support, Italian SMEs show a lower perception of urgency compared to their European counterparts, although tax incentives to promote sustainable products or services and a clear and simplified regulatory framework are quite relevant issues for Italian SMEs as well.



Portugal

In 2023, 49% of Portuguese SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a decrease of 3% from the previous survey conducted in 2020.

Their integration of environmental and social concerns is above average, especially with regard to health & safety in the workplace, business strategy, and new products.

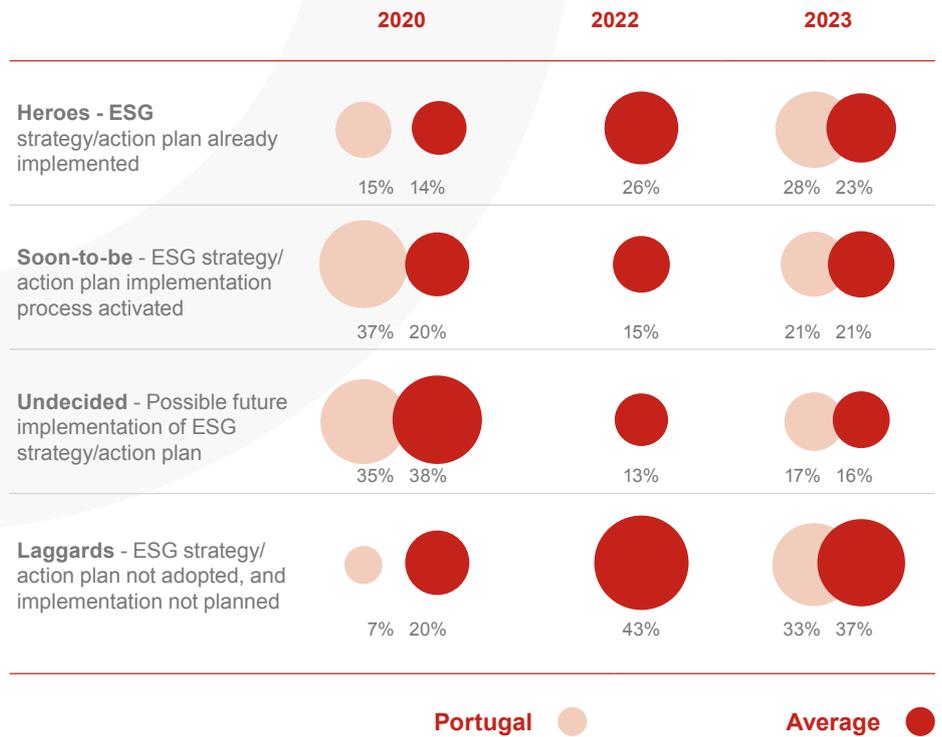
Key drivers for ESG adoption include high cost of energy, regulatory requirements, and vision and sense of social responsibility of the owners.

Portuguese SMEs perceive regulation and bureaucracy and a lack of public incentives, sustainable finance, and economic and financial resources as the main barriers to their sustainable transition.

Portuguese companies feel less affected by the latest global crises compared to other European SMEs and consider tax incentives to promote sustainable products or services, EU subsidised funds to finance the green transition, and tax measures to discourage the use of less sustainable products or services the most relevant initiatives to support their just and sustainable transition.

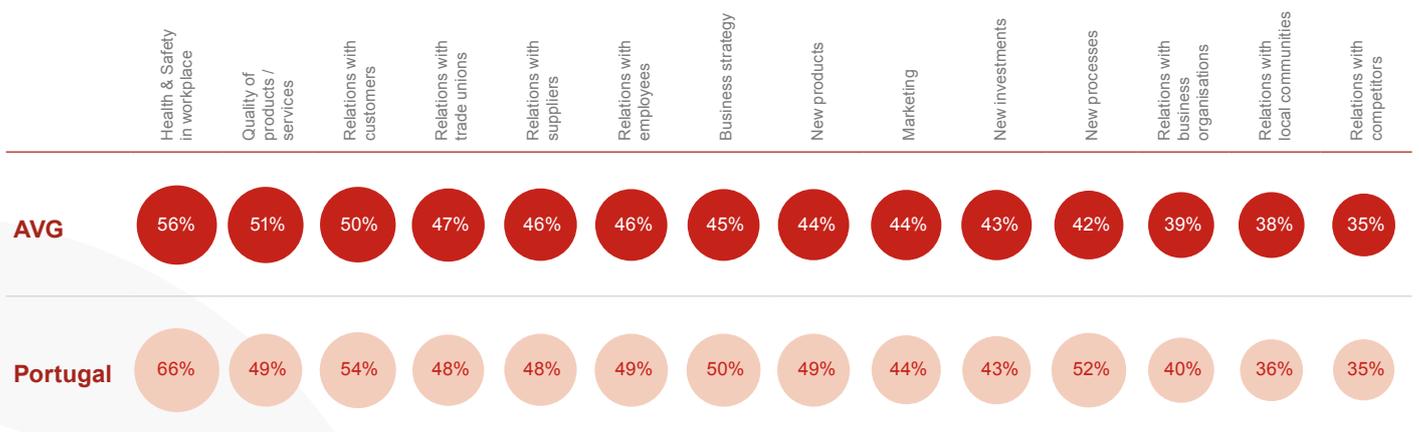
Strategic approach to sustainability trends - % of SMEs (Portugal No. 120, Total No. 1,240)

In 2023, 49% of SMEs in Portugal declared that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 3% decrease from the 52% reported in the previous survey in 2020. Data for 2022 are not available.



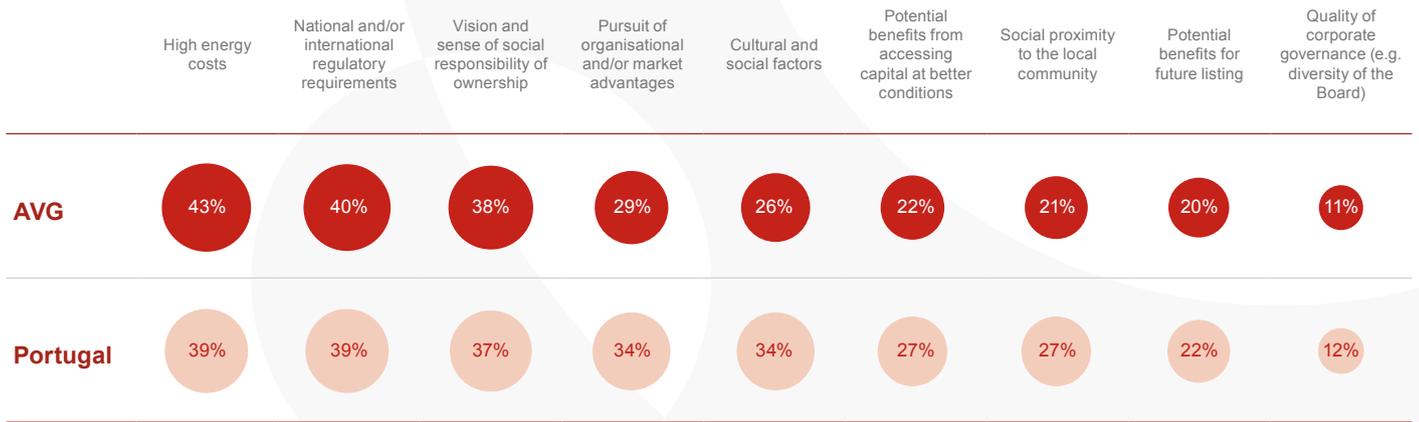
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Portugal No. 120, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Portugal is above average across most domains, in particular with regard to health & safety in the workplace, business strategy, and new products.



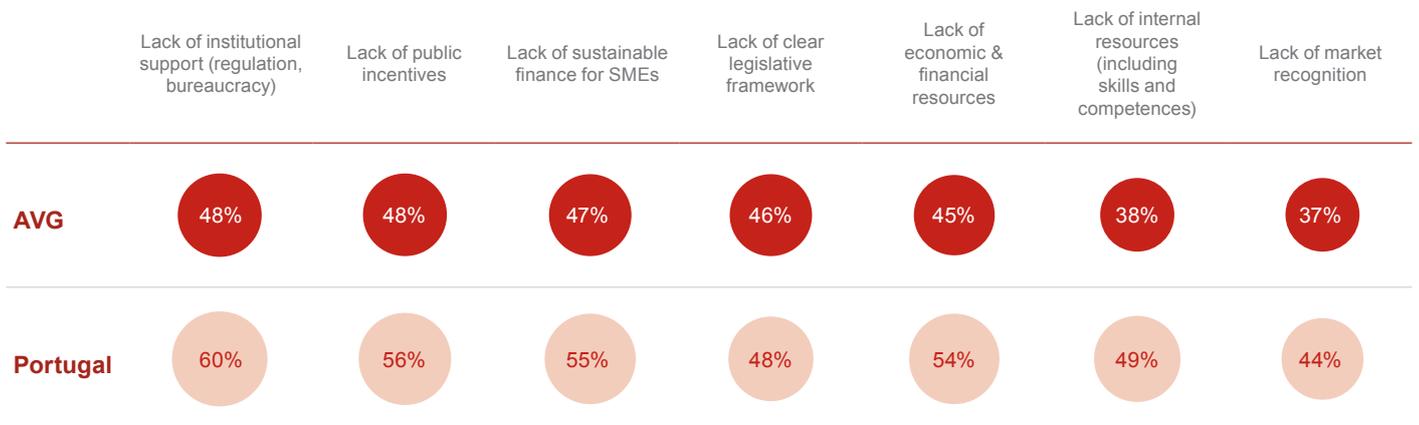
Main factors that favoured the adoption of an ESG approach - % of SMEs (Portugal No. 59, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Portuguese SMEs are centred around the high cost of energy, regulatory requirements, and vision and sense of social responsibility of owners, despite these ranking below average.



Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Portugal No. 120, Total No. 1,240)

Portuguese SMEs appear to perceive the barriers to their sustainable transition with a higher intensity compared to their European counterparts. The main barriers are regulation and bureaucracy, a lack of public incentives, a lack of sustainable finance, and a lack of economic and financial resources.



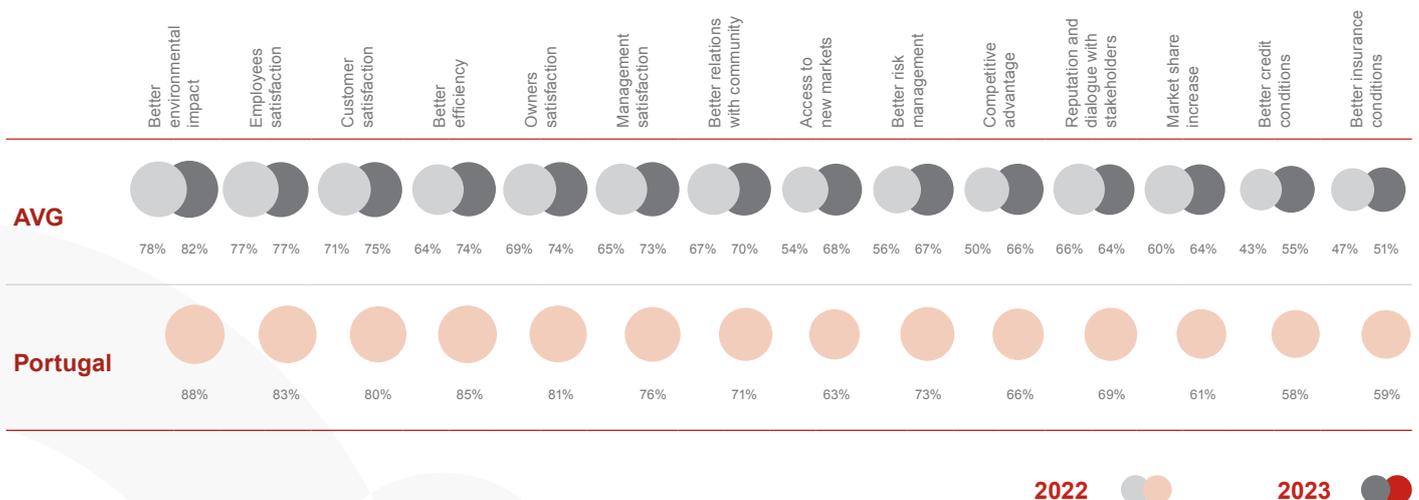
Impact of the energy crisis, inflation and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Portugal No. 120, Total No. 1,240)

Portuguese SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with a lower intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, 1 in 3 SMEs reported positive effects on their ESG ambitions.



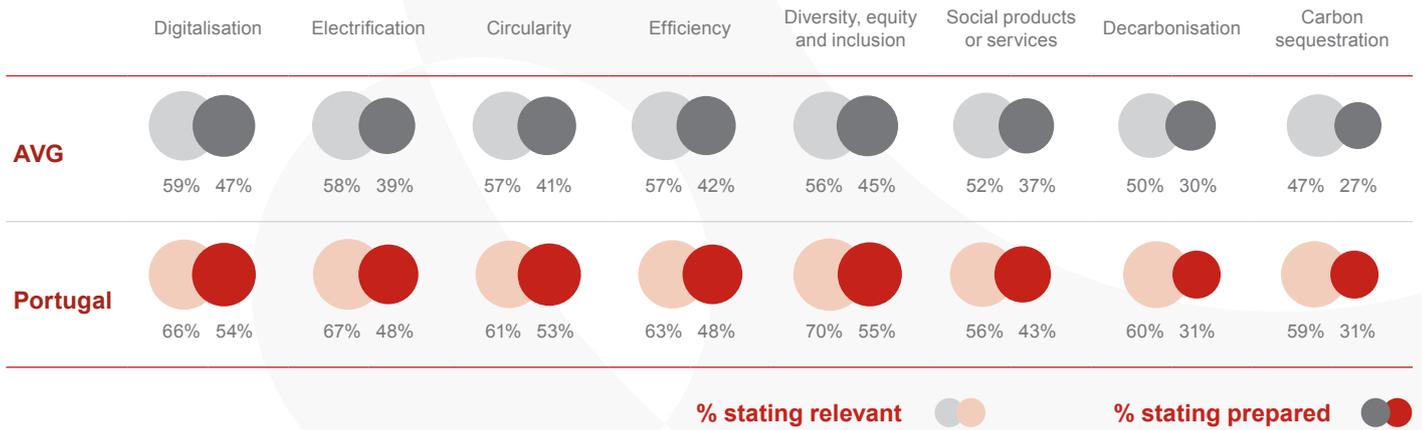
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Portugal No. 59, Total No. 548)

In general, Portuguese SMEs perceive the benefits of the adoption of more structured sustainability approaches with a higher intensity compared to their European counterparts. Data are only available for 2023.



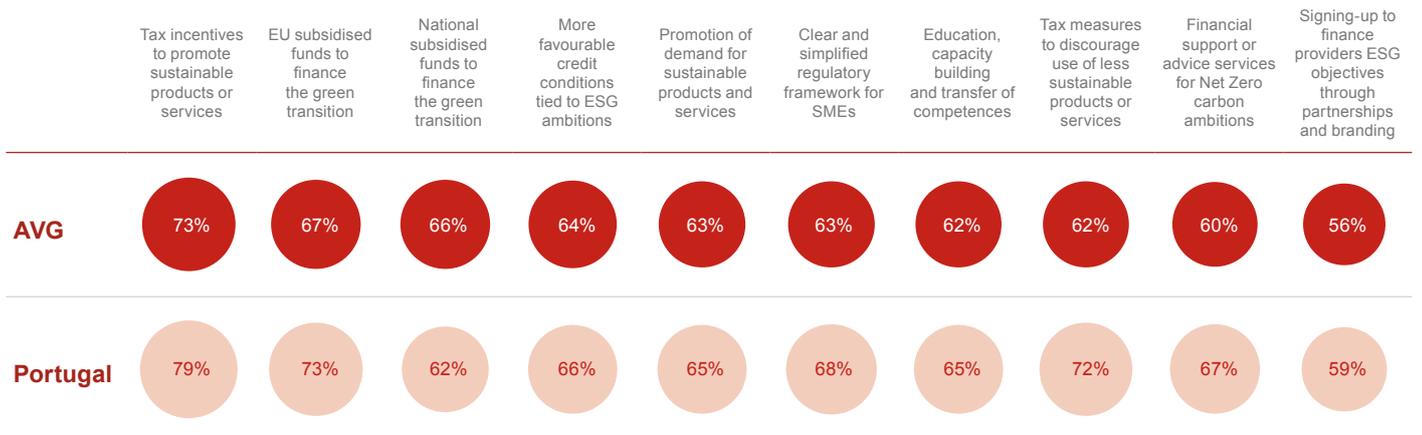
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Portugal No. 120, Total No. 1,240)

Portuguese SMEs perceive the relevance of transformational drivers with a higher intensity compared to their European counterparts, and also report a higher level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Portugal No. 120, Total No. 1,240)

In terms of requests for support, Portuguese SMEs exhibit a slightly stronger perception of urgency compared to their European counterparts. Tax incentives to promote sustainable products or services, EU subsidised funds to finance the green transition, and tax measures to discourage the use of less sustainable products or services are quite relevant issues for Portuguese SMEs.



Spain

In 2023, 43% of Spanish SMEs are either in the process of implementing or have already implemented a sustainability strategy or action plan.

This represents a 3% decrease from the previous survey conducted in 2022.

Their integration of environmental and social concerns is largely aligned with the European average.

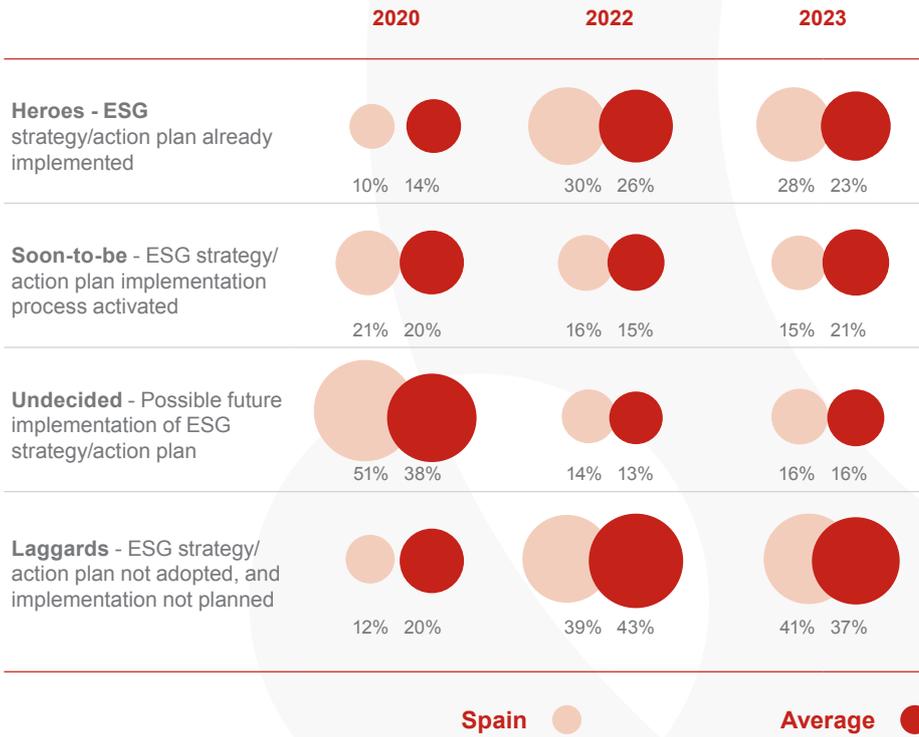
Key drivers for ESG adoption include regulatory requirements, the high cost of energy, and pursuit of organisational and market advantages.

Spanish SMEs perceive a lack of sustainable finance, regulation and bureaucracy and a lack of public incentives and economic and financial resources as the main barriers to their sustainable transition.

Spanish companies feel slightly more affected by the latest global crises than other European SMEs and consider tax incentives to promote sustainable products or services, EU subsidised funds to finance the green transition, and more favourable credit conditions tied to ESG ambitions the most relevant measures to support their just and sustainable transition.

Strategic approach to sustainability trends - % of SMEs (Spain No. 160, Total No. 1,240)

In 2023, 43% of SMEs in Spain declare that they have either already implemented an ESG strategy or action plan or are in the process of implementing one (Heroes and Soon-to-be), a 3% decrease from the 46% reported in the previous survey.



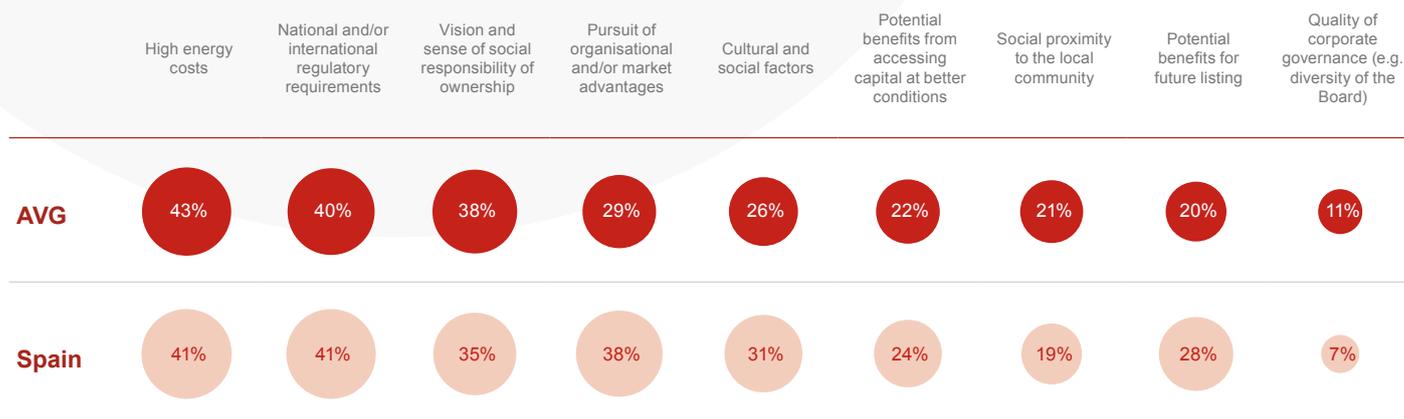
Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Spain No. 160, Total No. 1,240)

The level of integration of environmental and social concerns in SMEs' activities in Spain is in line with the average scores across most domains, with the most notable deviation below the average being observed in the context of new investments.



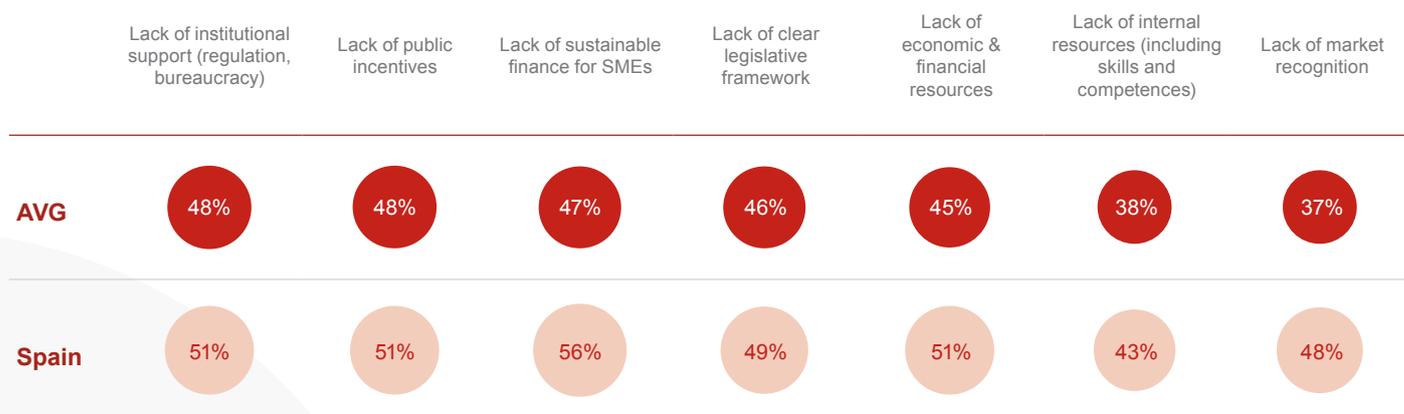
Main factors that favoured the adoption of an ESG approach - % of SMEs (Spain No. 68, Total No. 548)

The three main factors that favoured or required the adoption of an ESG approach for Spanish SMEs are centred around regulatory requirements and the high cost of energy, with the pursuit of organisational and market advantages ranking third.



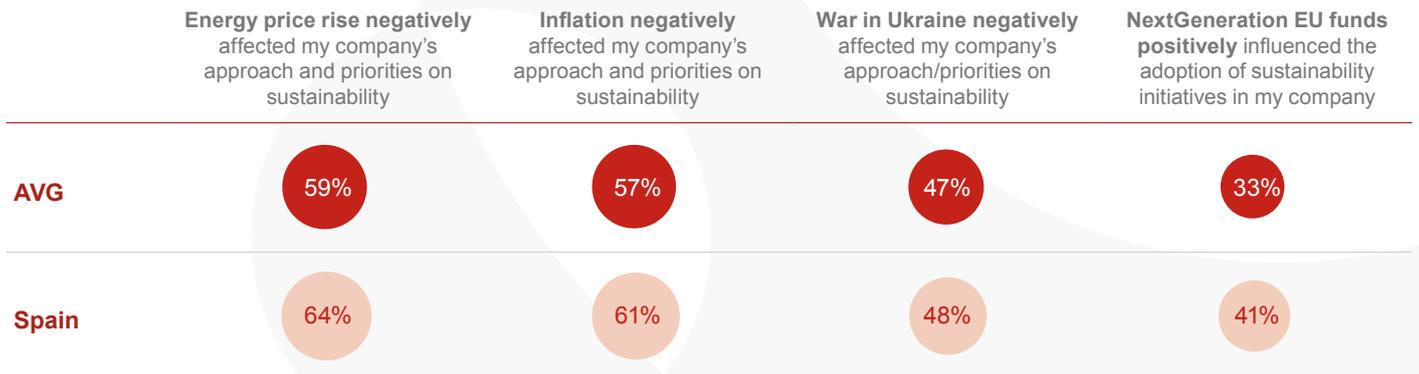
Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Spain No. 160, Total No. 1,240)

Spanish SMEs appear to perceive the barriers to the sustainable transition with a slightly higher intensity compared to their European counterparts. The main barriers are a lack of sustainable finance, regulation and bureaucracy, a lack of public incentives, and a lack of economic and financial resources.



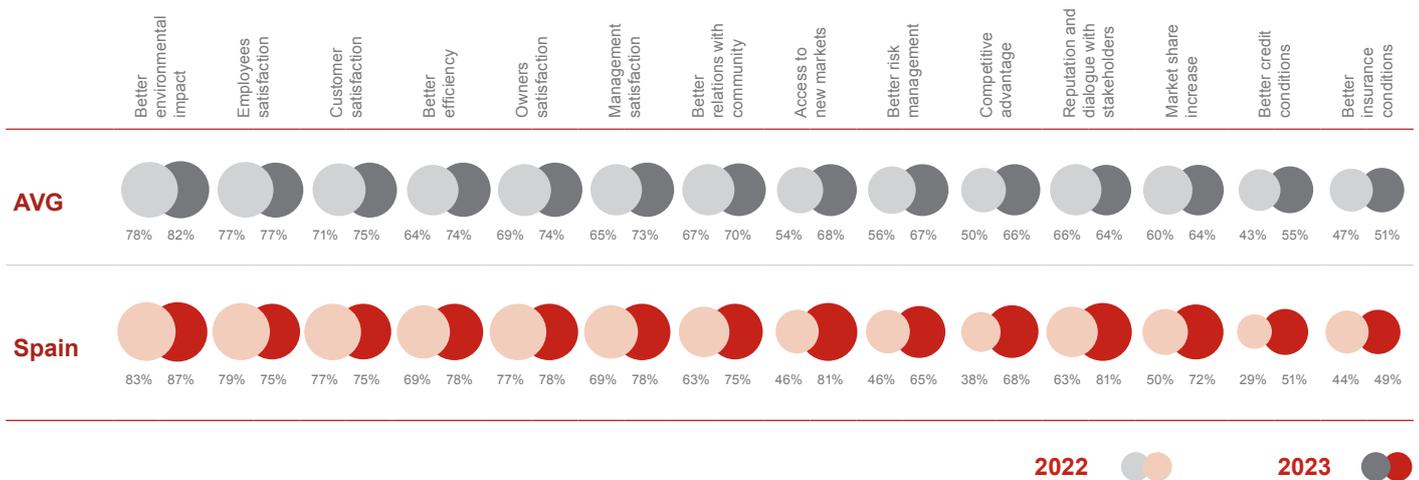
Impact of the energy crisis, inflation, and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Spain No. 160, Total No. 1,240)

Spanish SMEs perceived the negative impacts of the increase in energy prices, inflation, and the war in Ukraine on their sustainability ambitions with a slightly higher intensity compared to their European counterparts. With regard to the positive impact of NextGeneration EU funds, more than 1 in 3 SMEs reported positive effects on their ESG ambitions.



Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (Spain No. 68, Total No. 548)

The pattern of the benefits perceived by Spanish SMEs due to the adoption of more structured sustainability approaches varies from that of their European counterparts, with significant deviations in certain aspects. The year-on-year comparison shows a notable increase in the perceived intensity of these benefits in 2023, mainly due to the moderate levels of perceived intensity recorded in 2022.



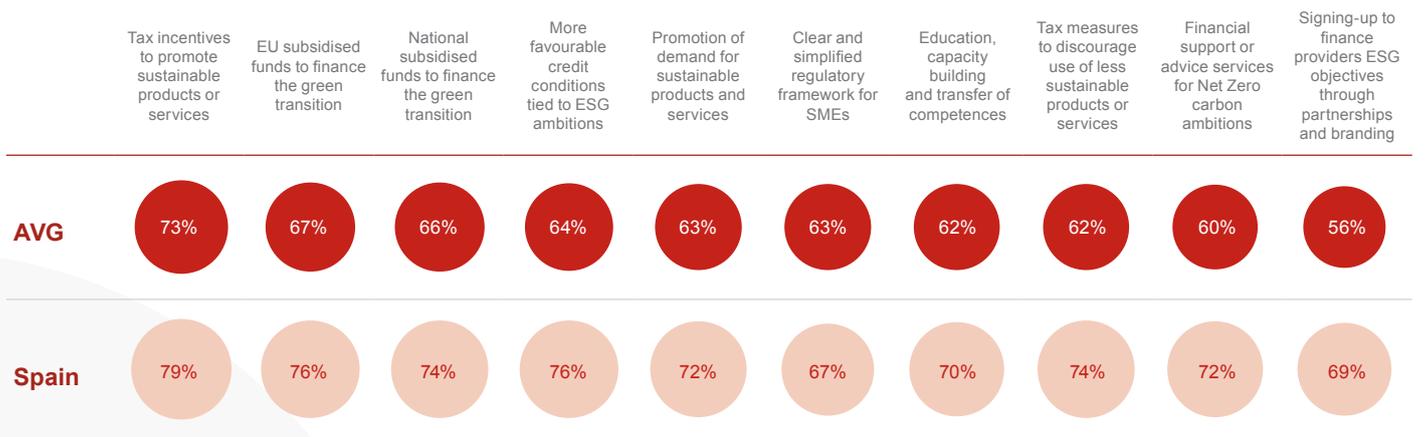
Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Spain No. 160, Total No. 1,240)

Spanish SMEs perceive the relevance of transformational drivers with a slightly higher level of intensity with respect to their European counterparts. The same applies to their reported level of preparedness to deal with such drivers.



How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Spain No. 160, Total No. 1,240)

In terms of requests for support, Spanish SMEs show a stronger perception of urgency compared to their European counterparts. Tax incentives to promote sustainable products or services, EU subsidised funds to finance the green transition, and more favourable credit conditions tied to ESG ambitions are quite relevant issues for Spanish SMEs.



Country Synoptic Overview

The table below offers a concise summary of the primary findings obtained through the country-level analysis regarding the key aspects of investigation.

COUNTRY OVERVIEW (Main Characteristics)	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain
Implementation of a sustainability strategy or action plan that has been already achieved or is in progress (Heroes + Soon-to-be) 2023	44%	31%	35%	39%	55%	38%	52%	49%	43%
Integration of environmental and social concerns (compared to the sample average)	Aligned	Below average	Below average	Below average	Above average	Below average	Above average	Above average	Aligned
Main driver for the adoption of a sustainability strategy or action plan	High cost of energy	High cost of energy	High cost of energy	Regulatory requirements	High cost of energy	High cost of energy	Vision and sense of social responsibility of owners	High cost of energy	High cost of energy & regulatory requirements
Main barrier to the sustainable transition	Regulation and bureaucracy	Lack of sustainable finance for SMEs	Regulation and bureaucracy	Lack of economic and financial resources	Regulation and bureaucracy	Lack of a clear legislative framework	Lack of a clear legislative framework & lack of public incentives	Regulation and bureaucracy	Lack of sustainable finance for SMEs
Perception of the negative effects on sustainability ambitions of the latest global crises (compared to the sample average)	Slightly more affected	More affected	Aligned	Aligned	Aligned	Significantly more affected	Slightly less affected	Less affected	Slightly more affected
Priority requests for support for SMEs just and sustainable transition	Promotion of demand for sustainable products and services	National subsidised funds to finance the green transition	National subsidised funds to finance the green transition	Tax incentives to promote sustainable products or services	Tax incentives to promote sustainable products or services	Tax incentives to promote sustainable products or services	Tax incentives to promote sustainable products or services	Tax incentives to promote sustainable products or services	Tax incentives to promote sustainable products or services



APPENDIX

Sector Overview

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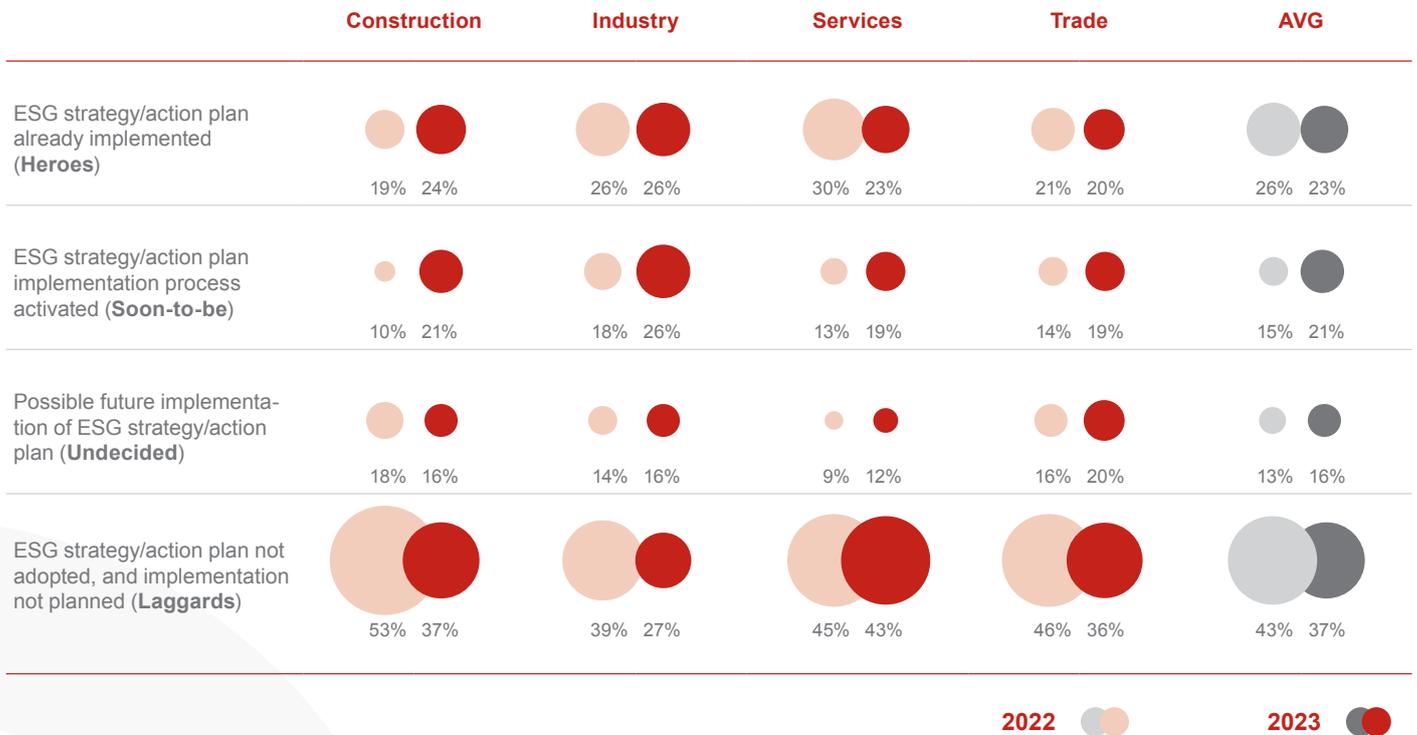


Construction, Industry, Services, and Trade

Strategic approach to sustainability trend - % of SMEs (2023 Total No. 1,240, 2022 Total No. 1,000)

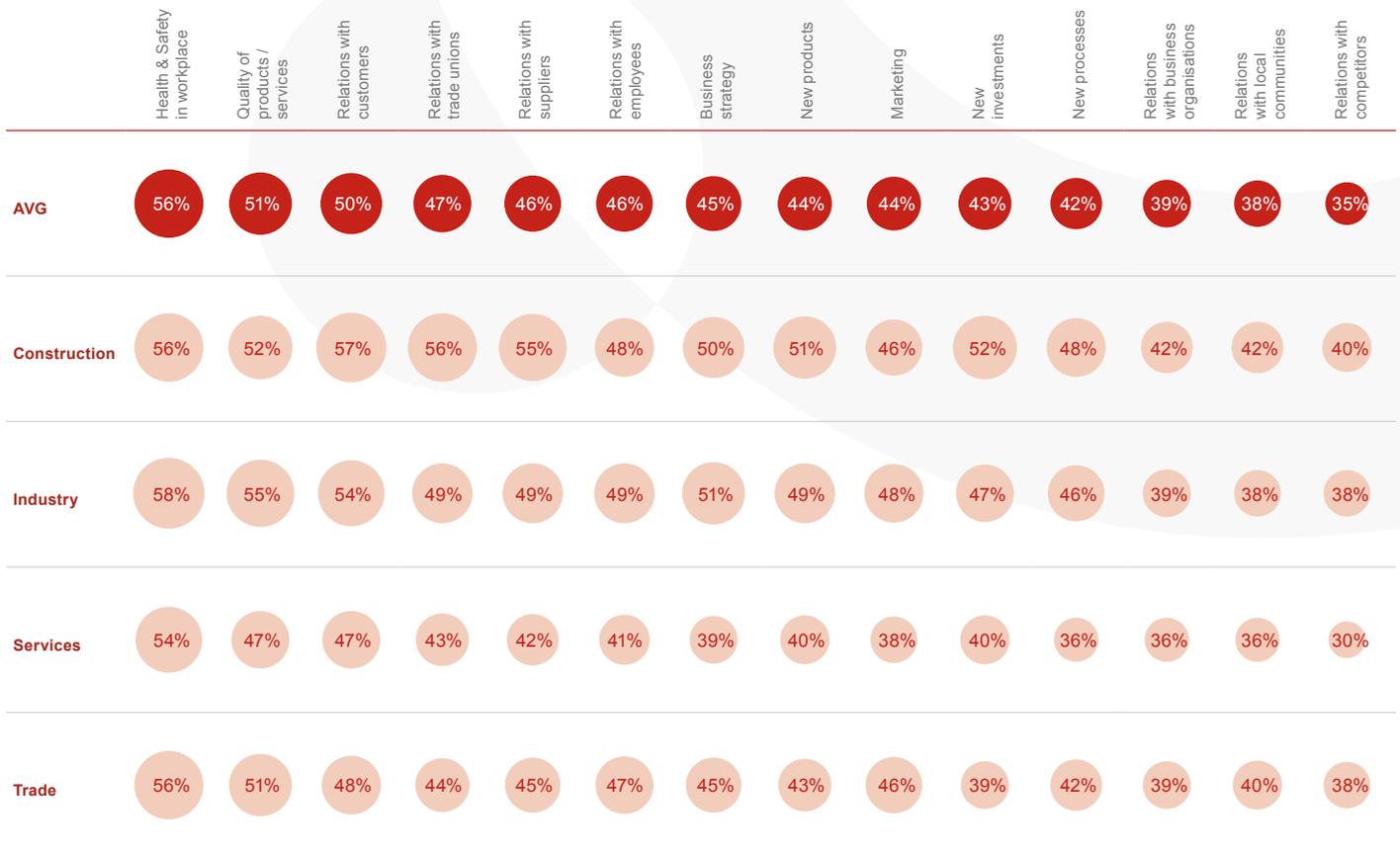
The data provide a comprehensive view of the progression of companies in different sectors towards sustainability. While the reasons behind these shifts can be manifold, it's evident that there is a broad shift, with Construction presenting the most positive change, with a 16% year-on-year increase in the combined number of Heroes and Soon-to-be (45% in 2023 vs 29% in 2022), followed by Industry with an 8% combined Heroes and Soon-to-be increase (52% in 2023 vs 44%). Services present a slight decrease of 1% (42% vs 43%), while Trade rose to 39% in 2023 from 35% in 2022.

The reasons for these shifts can be attributed to both cross-industry (e.g. a broad veering of stakeholders' opinions towards sustainability issues) and sector-specific factors (e.g. stricter regulations, incentives, or a growing demand on the part of clients for sustainable buildings and infrastructure, which are driving Construction SMEs towards adopting more sustainable practices).



Integration of environmental & social concerns - % of SMEs 'fully' or 'highly' integrated (Total No. 1,240)

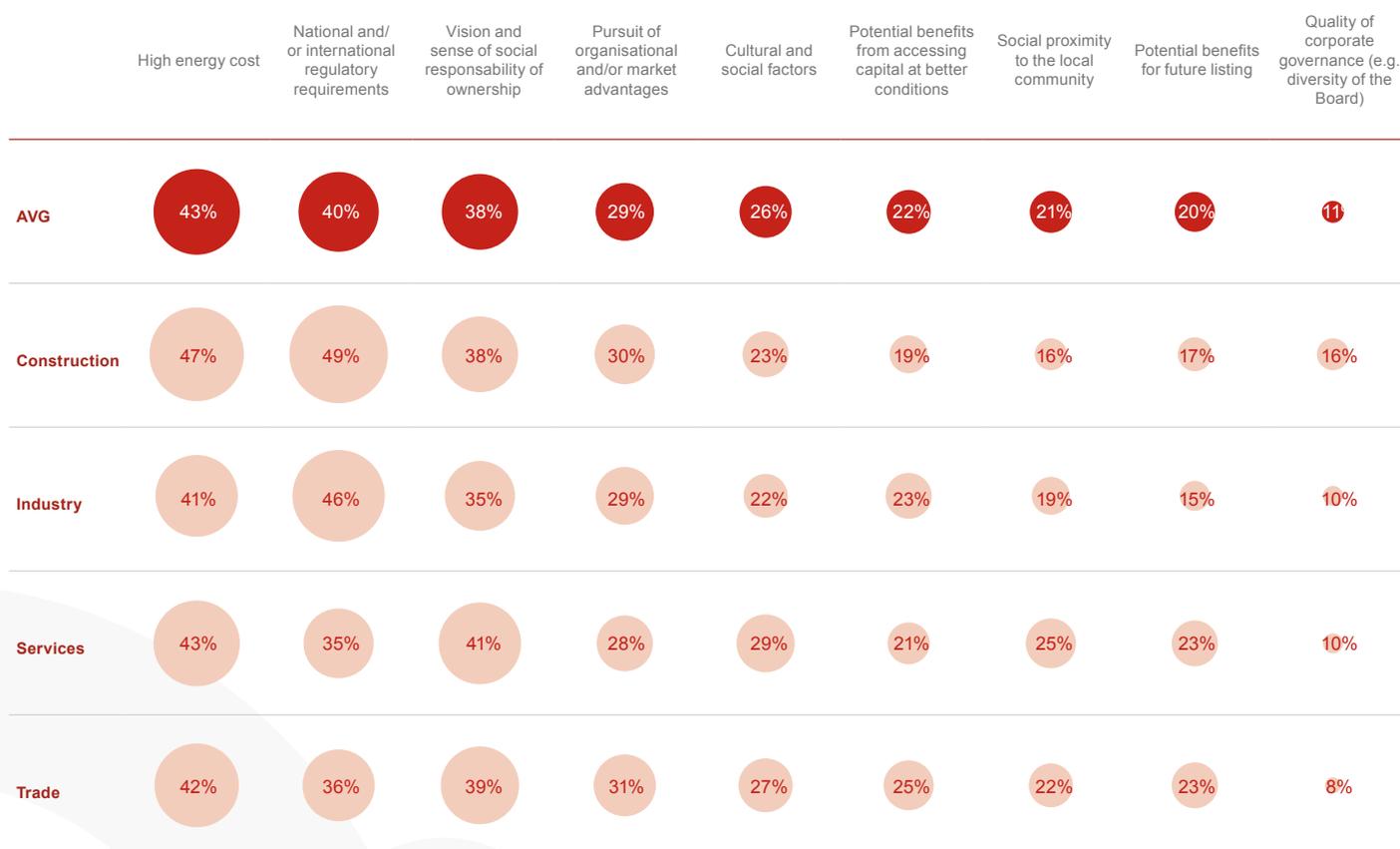
Regarding the integration of environmental and social concerns into business operations, the data reveal a consistent trend across all sectors. While there is still room for improvement, the data suggest a shift from perceiving sustainability as a peripheral initiative to recognising it as central to business success and longevity.



Main factors favouring the adoption of an ESG approach - % of SMEs (Total No. 548)

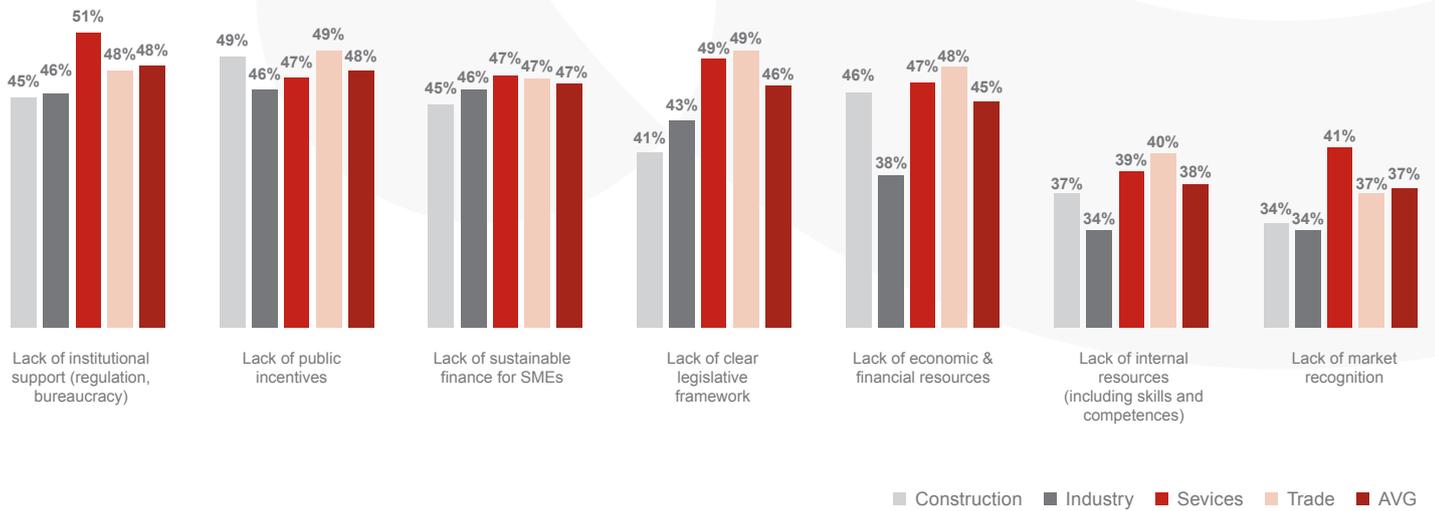
When considering the three main factors that favoured or required the adoption of a more formalised sustainability approach, it becomes evident that there is a clear interplay of economic, regulatory, and ethical drivers. While each sector has its specificities, the nuanced differences between sectors provide insights into their unique operational challenges and priorities.

High energy costs appear to be a consistent factor across all sectors, with percentages ranging from 41% to 47%, highlighting the importance of energy efficiency and cost savings for SMEs across the board. Energy cost management is particularly critical for sectors like Construction and Industry, where operations might be more energy-intensive. The Construction and Industry sectors show a higher percentage (49% and 46% respectively) of SMEs influenced by national and international regulatory requests. These sectors are facing more stringent regulations or are more exposed to international standards that demand sustainable practices. Finally, when it comes to showcasing a sense of social responsibility, Services stands out with 41% of SMEs being driven by the vision and social responsibility of owners. This suggests that businesses in this sector might be more consumer-facing or have a more direct relationship with clients, making them more attuned to societal demands and values.



Barriers to the sustainable transition - % of SMEs rating as 'very important' or 'important' (Total No. 1,240)

The sectoral analysis reveals that companies in the Trade and Services sectors exhibit a slightly stronger perception of the various barriers to adopting a more structured sustainability approach. As mentioned earlier, companies in these sectors may view their environmental and social footprints as less direct than those in the Industry or Construction sectors. This viewpoint could complicate their efforts to chart a clear course towards sustainability, potentially magnifying the hurdles they perceive. Furthermore, businesses in the Trade sector often don't have immediate oversight over the manufacturing methods or sourcing choices related to the products they trade in. This lack of direct influence can make the introduction of sustainable initiatives more complex, thereby intensifying their perception of the challenges.

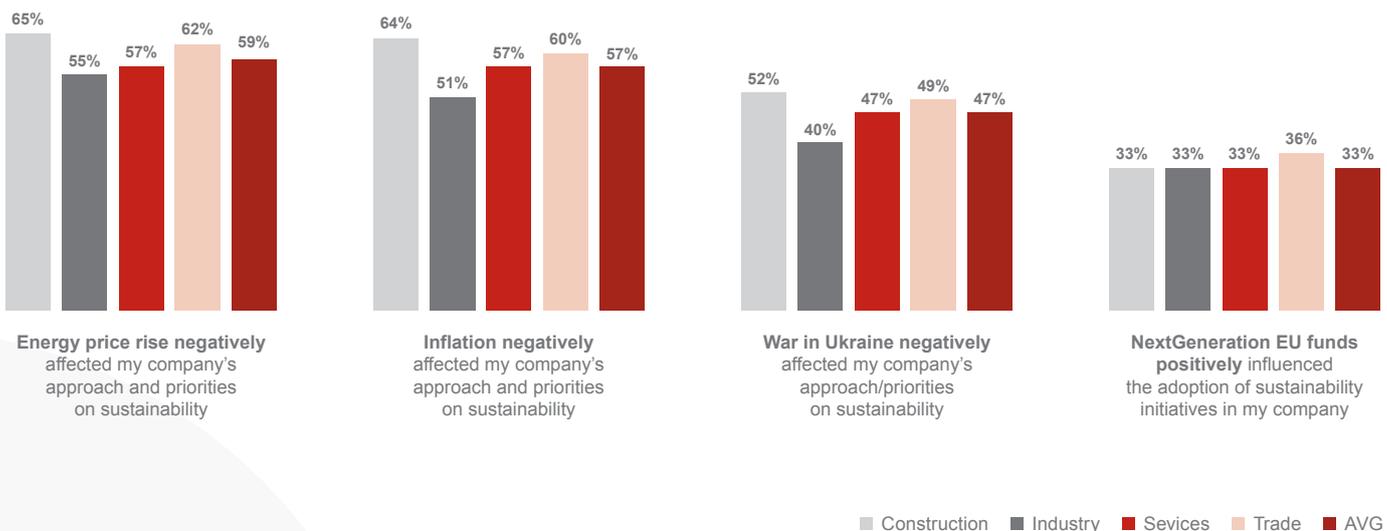


Impact of the energy crisis, inflation, and the war in Ukraine on the sustainability ambitions of European SMEs - % of SMEs responding 'very much' or 'very' (Total No. 1,240)

While all SMEs face challenges related to energy costs, inflation, and geopolitical issues, sector-specific sensitivities become apparent. Pertaining these challenges, the Construction sector seems to be the most vulnerable.

The Construction sector is the most negatively impacted by rising energy costs, with 65% of SMEs affected. This is due to the energy-intensive nature of construction operations, from machinery usage to transportation. Inflation has a considerable negative impact across all sectors, with percentages ranging from 51% to 64%. The Construction sector is, once again, the most affected (64%), primarily because it relies on various materials whose prices can be sensitive to inflation. Trade and Services follow closely. The war in Ukraine has impacted different sectors at varying degrees. SMEs in the Industry sector are the least affected (40%), suggesting that their supply chains or markets are less directly influenced by the conflict. In contrast, the Construction sector is the most affected (52%), possibly due to disruptions in raw material supplies or geopolitical uncertainties affecting investment in infrastructure projects.

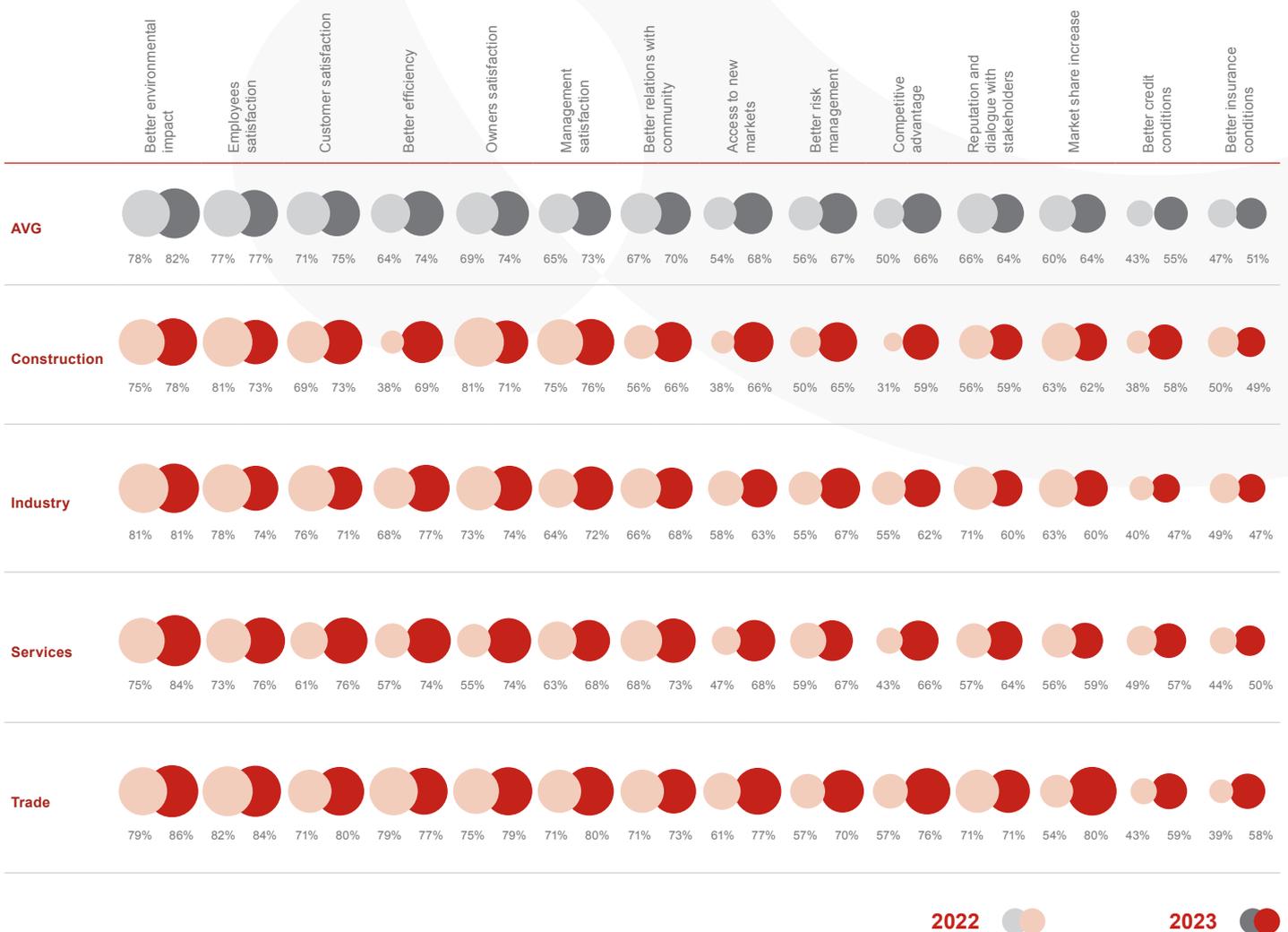
The NextGeneration EU funds, designed to promote sustainable and digital transitions, have had a positive impact across all sectors, with percentages in a fairly compact range (from 33% to 36%).



■ Construction ■ Industry ■ Services ■ Trade ■ AVG

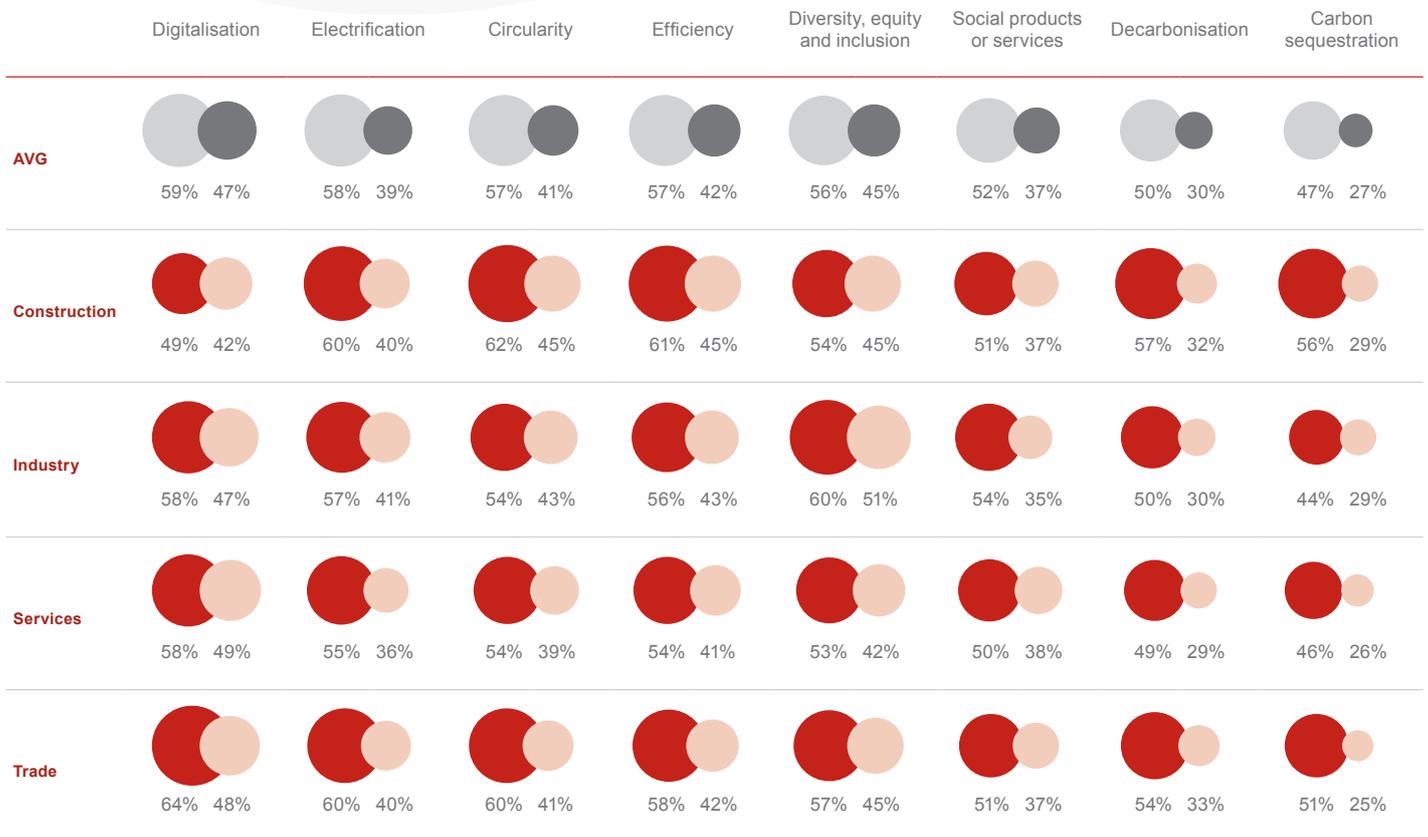
Benefits of adopting an ESG approach - % of SMEs declaring 'very positive' or 'positive' benefits (2023 Total No. 548, 2022 Total No. 258)

As SMEs adopt a more formalised sustainability approach, they are enjoying benefits that span organisational gains, improved stakeholder relations, and competitive and market advantages. The growth observed from 2022 to 2023 highlights the fact that the shift toward sustainability is yielding tangible and diverse rewards for businesses. These figures emphasise that sustainable practices are increasingly viewed as a strategic advantage, helping businesses improve their organisational efficiency, strengthen relationships, and expand their reach and customer base.



Relevance of and preparedness for transformational drivers: % declaring 'very' or 'fairly' (Total No. 1,240)

When evaluating the connection between the perceived significance and readiness for transformative drivers at the sectoral level, the relationship is not as distinct. Construction, Industry, Services, and Trade exhibit a relatively uniform emphasis, and their readiness levels are similarly consistent. This pattern can be attributed to factors such as increased awareness of climate change, a growing demand for green products and services, and evolving regulations.

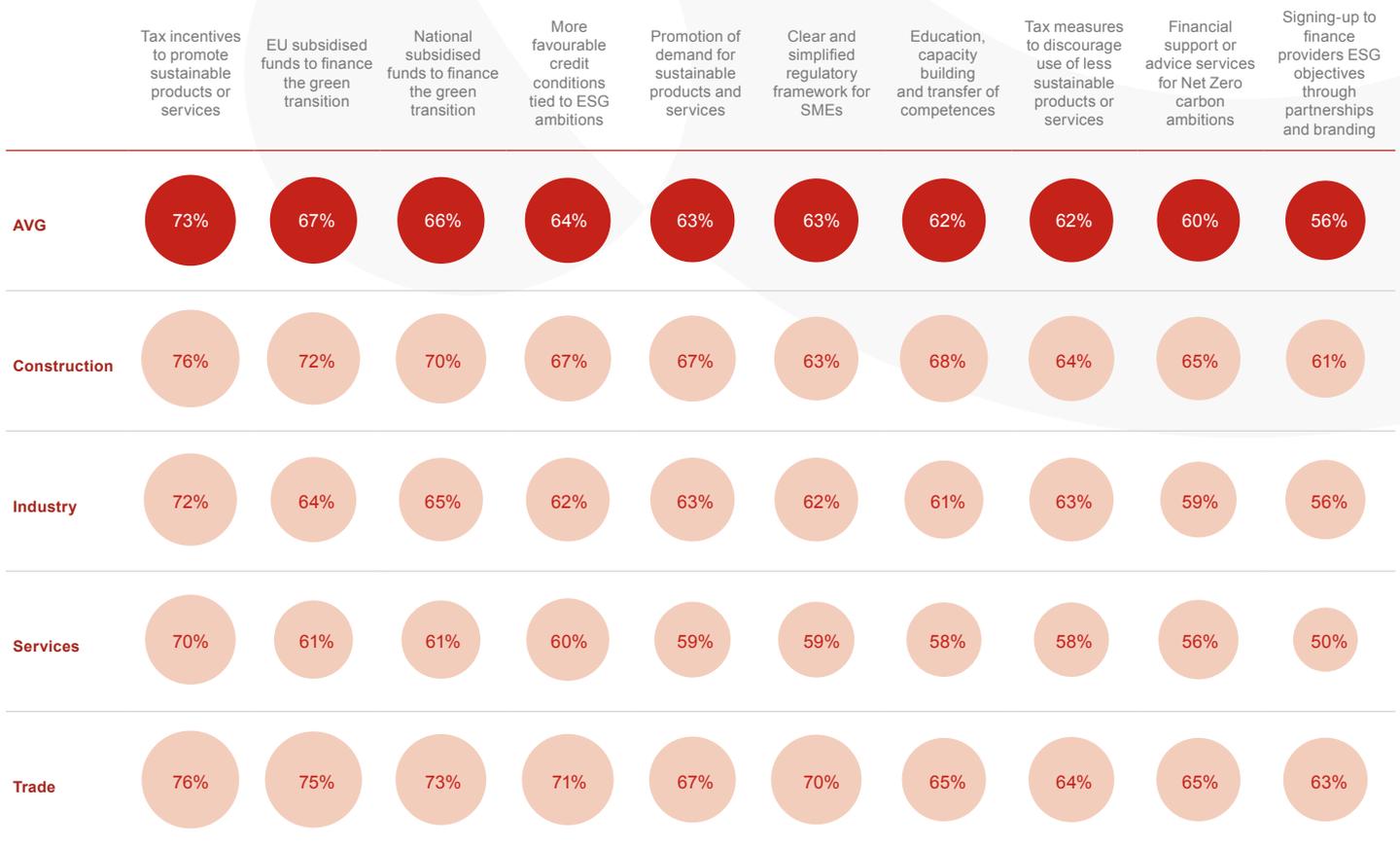


% stating relevant 

% stating prepared 

How SMEs are asking to be supported - % of SMEs declaring the initiative relevant ('very' or 'fairly') (Total No. 1,240)

While SMEs across sectors have varied preferences, there is a clear consensus in favour of direct fiscal incentives, access to funds, and a simplified regulatory environment to aid their sustainable transition. Tax incentives for promoting sustainable products and services are the preferred form of support across all sectors, with an average of 73%. Both EU and national subsidised funds aimed at the sustainable transition are popular among all sectors. A clear and simplified regulatory framework, tailored to the capabilities of SMEs, resonates across different sectors, indicating a general desire for regulations that are both understandable and manageable. Notably, the Trade sector expresses the highest level of interest in such simplifications, with a preference rate of 70%.



Methodology

We employed a mixed methodology for this study. To ensure comprehensive coverage, we conducted a survey using a mixed-method CATI-CAWI approach. Regarding the sampling plan, we meticulously designed it based on the latest Eurostat data on enterprises in Europe. This plan aimed to achieve representation by macro-sector and class of employees on a country-by-country basis. The interviews were carried out during the period of April-May 2023. The analysis was verified with a literature review and compared with data and information from studies, reports, and research at national and international level. The main preliminary results and insights were shared and discussed with representatives of EU institutions

EMPLOYEES	AUSTRIA	CROATIA	CZECH REPUBLIC	FRANCE	GERMANY	HUNGARY	ITALY	PORTUGAL	SPAIN	TOTAL
From 10 to 19	68	69	60	92	91	69	80	67	94	690
From 20 to 49	36	35	40	47	47	35	45	37	48	370
From 50 to 249	16	16	20	21	22	16	35	16	18	180
TOTAL	120	120	120	160	160	120	160	120	160	1240

SECTOR	AUSTRIA	CROATIA	CZECH REPUBLIC	FRANCE	GERMANY	HUNGARY	ITALY	PORTUGAL	SPAIN	TOTAL
Construction	20	21	15	28	27	17	22	18	22	190
Industry	20	34	37	29	30	28	44	34	33	289
Services	52	41	42	66	63	45	61	39	67	476
Trade	28	24	26	37	40	30	33	29	38	285
TOTAL	120	120	160	160	160	120	160	120	160	1240

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