



Co-funded by
the European Union

Toolkit Zone 2 Navigating EU Sustainability Frameworks

What CSRD means for SMEs ?

Green and Circular Economy in Business by
Digital Solutions

2024-1-EL01-KA210-ADU-000251741

Co-funded by the European Union. The contents of this
publication are the sole responsibility of the authors and do
not necessarily reflect the opinion of the European Union.



What information about our business will CSRD-reporting companies need from us?

Under CSRD, in-scope companies must disclose information that is necessary to understand both (a) **their impacts on “sustainability matters”** and (b) **how sustainability matters affect their development, performance and position** (Directive (EU) 2022/2464, 2022; IBM, 2025). This information is structured in ESRS into cross-cutting and topic-specific standards covering environment, social issues and human rights, and governance (IBM, 2025; SER, n.d.).

In practical terms, CSRD-reporting customers and banks will need data from SMEs that feeds into at least five areas (Directive (EU) 2022/2464, 2022; IBM, 2025):

a. Business model and strategy

- How resilient is their business model to climate change, resource constraints, labour issues or human-rights risks in the value chain?
- How does their strategy address sustainability impacts and stakeholder expectations?

b. Targets and transition plans

- Their **greenhouse gas (GHG) reduction targets** and progress.

- Other environmental or social targets and how they plan to achieve them.

c. Governance

- The roles, responsibilities and skills of the board and management in overseeing sustainability.
- Whether executive pay is linked to sustainability performance.

d. Policies and due diligence

- Policies on environment, labour, human rights, anti-corruption and responsible business conduct.
- Due diligence processes for identifying, preventing and addressing adverse impacts in their own operations and **value chain**.

e. Impacts, risks, dependencies and indicators

- Principal actual and potential **adverse impacts** connected with operations and the value chain.
- Principal **sustainability-related risks and dependencies**, and quantitative indicators that support the narrative.

For SMEs, this translates into **concrete questions and data requests**. Experience so far suggests that the first wave of

demands is heavily focused on **environment and CO₂ emissions**, but with a clear tendency to broaden into social and governance topics (IBM, 2025; The Ecological Entrepreneur, 2025):

a. Environmental data

- Energy and fuel consumption, electricity mix, basic GHG emissions (often at least Scope 1 and 2, with Scope 3 encouraged), waste, sometimes water and material use depending on the sector (IBM, 2025; The Ecological Entrepreneur, 2025).

Social and human-rights data

- Number of employees, gender balance, working conditions, health and safety incidents, use of temporary or agency work, respect for labour and human rights in the SME’s own supply chain (Directive (EU) 2022/2464, 2022; SER, n.d.).

Governance and conduct

- Existence of codes of conduct, anti-corruption measures, whistle-blowing channels, and basic information on how the SME handles complaints and ethical issues (IBM, 2025; Minutiello et al., 2025).

Because CSRD data must be **audited**, large companies and financial institutions will not be satisfied with generic statements (“we are environmentally friendly”). They need

documented, traceable data that can withstand assurance checks (IBM, 2025). As a result, SMEs are increasingly asked not only **what** they do, but also to **show evidence**, for example, energy bills, fuel logs, HR data or supplier certificates.

What is “double materiality” and how does it change the way we think?

A central innovation of CSRD is that it formalises the idea of **double materiality**. Companies must assess and disclose sustainability information from **two distinct but complementary perspectives** (Directive (EU) 2022/2464, 2022; IBM, 2025):

a. Impact materiality – “*What do we do to the world?*”

- How the company’s activities affect people and the environment, positively or negatively.
- This includes, for example, emissions, pollution, working conditions, human rights, community impacts and effects on biodiversity.

b. Financial materiality – “*What does the world do to us?*”

- How sustainability matters affect the company’s cash flows, risks, access to finance and overall financial health.

- This covers, for example, climate transition risks, resource price volatility, regulatory change, labour shortages, reputational impacts and supply-chain disruptions.

Information is considered material if it is significant from **either** perspective, or both (Directive (EU) 2022/2464, 2022; SER, n.d.). The Directive explicitly aligns materiality analysis with the **UN Guiding Principles on Business and Human Rights** and the **OECD Guidelines for Multinational Enterprises**, which already require companies to look at both impacts and risks across their value chains (SER, n.d.).

For SMEs, double materiality can be translated into a pragmatic reflection:

On the **impact side**, where are our **biggest footprints**?

- Energy and fuel use, waste, logistics, working conditions, key suppliers, local community.
- Which impacts are most severe, affect many people, or are hardest to fix?

On the **financial side**, where are our **biggest exposures**?

- Dependence on one or two major customers, sensitivity to energy prices, regulatory changes, reputation in the local community, vulnerability to extreme weather

or supply disruptions (Braun, 2025; Manasakis, 2024).

Research on SMEs shows that what really drives sustainable strategies is not so much size or formal governance structure, but the **underlying beliefs and vision** of the firm—how decision-makers think about their role, their responsibilities and their long-term competitiveness (Minutiello et al., 2025). Double materiality provides a **structured way** for SME leaders to align those beliefs with concrete priorities: focus on the **few issues that are most important both for society and for the business**.

How do value-chain obligations translate into pressure on SMEs?

CSRD significantly extends the scope of sustainability reporting **beyond a company's own operations**. Companies must report on sustainability matters in **“their own operations and their value chain, including their products and services, their business relationships and their supply chain”** (Directive (EU) 2022/2464, 2022, Art. 19a). This is tightly linked to due-diligence expectations under international standards: companies are expected to have processes to identify, prevent, mitigate and account for adverse impacts across their value chains, not only within their own walls (Braun, 2025; SER, n.d.).

For SMEs, this has several consequences:

a. Visibility inside customers' reports

- If an SME is an important supplier or partner, it becomes part of how the customer explains its value chain emissions, labour conditions, human-rights risks and other impacts.
- This can be positive (as a “responsible supplier” with good data) or negative (as a risk hotspot that needs remedial actions).

b. More structured information requests and contractual expectations

- Large companies, under pressure to demonstrate effective value-chain due diligence, increasingly use **codes of conduct, supplier assessments, audits and digital portals** to collect data and show that they manage ESG risks (IBM, 2025; The Ecological Entrepreneur, 2025).
- SMEs can therefore expect more questionnaires, requests for proof (certificates, policies, procedures) and, in some cases, requirements to improve practices as a condition of doing business.

c. Risk of overburden – and attempts to limit it

- Academic analysis warns that there is a real risk of **overburdening SMEs** with complex, frequent and uncoordinated data requests, given their limited resources and bargaining power (Braun, 2025).
- EU policy makers have recognised this and are working on **proportionality mechanisms**. The proposed “Omnibus” package includes a **value-chain cap**, which would **prohibit CSR-reporting companies from demanding more information from SMEs than what is foreseen in the official SME sustainability standard (VSME)** (European Commission, 2025).
- Member States can also adopt national measures to protect SMEs, as in Belgium, where SMEs are guided towards the voluntary VSME standard and cannot be forced by large customers to obtain third-party assurance (The Ecological Entrepreneur, 2025).

d. SMEs as essential enablers, not just passive recipients

- From a regulatory systems perspective, CSRD is part of a **multi-level sustainability enforcement system** that only works if SMEs participate. They are the “nodes” that link local realities to EU-level reporting, finance and due diligence (Braun, 2025).
- SMEs are deeply embedded in local communities and supply chains; their actions and data are therefore crucial for making sustainability transitions real on the ground (Manasakis, 2024; Minutiello et al., 2025).

In short, **if you are part of someone’s supply chain, you are part of their CSRD story**. The pressure is real, but there are growing safeguards and tools designed specifically so that **SMEs are not crushed by it**.

How can SMEs turn CSRD-driven demands into a business opportunity?

CSRD and related initiatives create **costs and complexity** for SMEs, but they also open up **opportunities** in at least four areas: competitiveness and market access, finance, internal efficiency, and strategic positioning.

Competitiveness and market access

Evidence shows that sustainability is increasingly a **source of competitive advantage**. Consumers perceive responsible behaviour as a **quality signal** and may be willing to pay a premium; firms with stronger social and environmental performance often show **better abnormal financial returns**; and sustainability is becoming a criterion in tenders and supply-chain selection (Manasakis, 2024). SMEs that can **demonstrate their ESG performance clearly and credibly** are better placed to win and keep contracts with CSRD-reporting clients (The Hague University of Applied Sciences, 2025; The Ecological Entrepreneur, 2025).



Co-funded by
the European Union

Co-funded by the European Union. The contents of this publication are the sole responsibility of the authors and do not necessarily reflect the opinion of the European Union.

