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Toolkit Zone 2 Navigating EU Sustainability Frameworks

When CSRD becomes relevant?

Green and Circular Economy in Business by
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From Scattered Actions to a Sustainability Strategy

As expectations rise—from regulators, banks, large customers, and employees—many SMEs undertake isolated sustainability actions: installing LEDs, recycling, switching suppliers, or supporting local social activities. These steps matter, but they do not constitute a strategy.

A sustainability strategy includes three elements:

a. Clarity on what really matters (materiality). Not all sustainability topics matter equally for every SME. Materiality identifies what affects the long-term success of the business, and what matters most to key stakeholders.

This now includes double materiality, the idea that firms must assess both how sustainability issues impact the business and how the business impacts society and the environment (Delgado-Ceballos et al., 2022). For SMEs, this dual lens helps turn abstract sustainability objectives into clear priorities.

b. Focused priorities and targets. Once the material issues are clear, SMEs define a small set of priority areas, such as energy and carbon, waste and circularity, employee well-being, or responsible sourcing. Targets can be:

- quantitative (e.g., “reduce electricity use per unit of output by 15%”),
- qualitative (e.g., “formalize supplier code of conduct”), or
- process-oriented (e.g., “integrate sustainability criteria into investment decisions”).

Research shows that SMEs with clearer priorities and stronger governance structures are more resilient, more adaptive in crises, and more capable of transitioning toward long-term sustainable growth (Rao et al., 2023).

c. Integration into the business model and governance. A sustainability strategy is not a separate “green initiative”—it informs:

- value creation (products, services, value propositions),
- value delivery (processes, supply chains, partnerships),
- value capture (cost structure, risk management, revenue models).

SMEs often begin with simple governance steps: assigning responsibility, embedding basic ESG indicators into management reporting, or aligning procurement and investment decisions with sustainability goals. Countries with higher national social responsibility norms also show stronger SME innovation and business

sophistication, reinforcing the connection between governance quality and sustainability integration (Oliinyk et al., 2023).

Voluntary reporting plays a role here, but SME practices are still limited. Most small firms publish little or no structured sustainability information; disclosures remain reactive, template-like, and rarely externally assured due to cost barriers (Ortiz-Martínez & Marín-Hernández, 2024). These patterns highlight why SMEs struggle to connect sustainability practices with formal governance structures and why strategy, not reporting, must come first.

What Does This Look Like in an SME Context?

A sustainability strategy in an SME does not require replicating the complexity of large corporate frameworks. Instead, it can be built around four practical questions:

a. Stakeholders and expectations

Who matters most to our business—customers, employees, suppliers, banks, local communities, regulators? What are they asking for now—or likely to ask for soon?

b. Risks and opportunities

Which environmental or social issues could disrupt our operations or

reputation (energy volatility, resource scarcity, stricter regulation)? Where do we see opportunities in greener products, processes, or partnerships?

c. Priorities and actions

Which 3–5 sustainability topics are critical? What concrete actions can we take in the next 1–3 years that improve performance and are feasible?

d. Minimum structure

How do we formalize existing efforts—through simple policies, basic procedures, and internal plans—so sustainability does not depend on one person?

This structured reflection fills a critical capability gap: SMEs often approach sustainability tactically through scattered initiatives, rather than embedding it into their governance and business model (Rao et al., 2023).

Why Alignment Matters Before Looking at Rules

Understanding CSR, ESG, and sustainability strategy at the business-model level is essential before turning to regulatory frameworks such as the CSRD, EU Taxonomy, ISO 14001, or EMAS. These frameworks do not exist in isolation; they codify how sustainability should be integrated into governance, risk management, and value creation.

When an SME first clarifies:

- what sustainability means for its business model,
- which issues and stakeholders are most material, and
- how it intends to manage them,

external frameworks become supports and reference points—not bureaucratic burdens. This preparatory clarity is especially important as sustainability reporting expectations formalize and intensify across European markets (Ortiz-Martínez & Marín-Hernández, 2024).

3.2.1 Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive – **Directive (EU) 2022/2464** – is the EU’s new framework for how companies must report on sustainability. It amends the EU accounting and transparency rules so that sustainability information is treated with the same seriousness as financial reporting (Directive (EU) 2022/2464, 2022). In practice, it makes environmental, social and governance (ESG) performance visible to investors, lenders, regulators and other stakeholders in a standardised way (IBM, 2025).

Most SMEs will not be directly subject to CSRD. However, they will increasingly feel its effects through value-chain pressure from large customers, financial institutions and investors who are in scope and need reliable data from the

SMEs they work with (Braun, 2025; Social and Economic Council of the Netherlands [SER], n.d.; The Hague University of Applied Sciences, 2025). CSRD is therefore highly relevant for SMEs, even when they never publish a formal “CSRD report” themselves.

The section below explains CSRD through five essential questions that an SME manager should be able to answer.

Does CSRD apply to my SME – and why should I care if it doesn’t?

CSRD directly applies to three main groups (Directive (EU) 2022/2464, 2022):

- **All “large” EU undertakings** and large groups that exceed at least two of the usual size criteria on net turnover, balance sheet total and employees.
- **All companies whose securities are admitted to trading on an EU regulated market**, including **listed SMEs**, except micro-undertakings.
- Certain **non-EU (“third-country”) companies** with significant net turnover generated in the EU and a large EU subsidiary or branch.

These companies must include a **sustainability reporting section** in their management report, prepared in line with **European Sustainability Reporting Standards (ESRS)** and subject to external assurance (Directive (EU) 2022/2464, 2022; IBM, 2025).

For SMEs, two situations are particularly important:

- **Listed SMEs:** CSRD foresees **simplified, proportionate reporting standards** for listed SMEs, with later application dates and the option to opt out for a limited period if they explain why (Directive (EU) 2022/2464, 2022; Manasakis, 2024).
- **Non-listed SMEs:** they are **not required** by CSRD to report, but they are still part of the **value chains** that large companies must report on. Large customers and banks will therefore ask them for sustainability information so they can meet their own obligations (Braun, 2025; IBM, 2025; SER, n.d.).

Recent EU discussions go even further in this direction. As part of a broader **“Omnibus” simplification package**, the European Commission has proposed to **limit mandatory CSRD reporting mainly to very large companies (over 1,000 employees)** and instead develop a **voluntary sustainability reporting standard for SMEs (VSME)** that smaller firms can use when they want or need to report (European Commission, 2025). This reinforces a trend: **most SMEs will not be directly regulated by CSRD, but they will be “pulled in” indirectly** through the information needs of their CSRD-reporting partners.

Surveys already show that this is happening. In the Netherlands, about **one in four SMEs** had already received sustainability-related data requests from customers or suppliers by the end of 2024, rising to **around two-thirds for SMEs with more than 50 employees** (The Hague University of Applied Sciences, 2025). For many SMEs, CSRD is therefore **not a distant future issue**, it is already shaping the questions they get from key clients and financiers.



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