

Why should SMEs report their ESG performance?



ESG (Environmental, Social and Governance) Sustainability Reports are documents drawn up by organisations to communicate their practices and performance on environmental, social and governance issues. They complement the Annual Management Reports, allowing interested parties (customers, employees, suppliers, the local community, the state and others) to learn about the organisation's performance from an integrated Environmental, Social and Economic perspective.

Sustainability reporting is not compulsory for SMEs, which are the principal structure of companies in the European leather goods sector. The EU CSRD (Corporate Sustainability Reporting Directive (EU) 2022/2464) came into force on the 5th of January 2023. It will only become compulsory for large companies from 2026 onwards, when they will be obliged to present the Sustainability Report for the year 2025.

So why is it important for SMEs in the leather goods sector to publish a Sustainability Report (ESG)?

Reputation and Transparency: Integrating sustainable and responsible practices has an impact on the company's reputation and generates trust with customers, suppliers and investors;

Access to markets and customers: Improving ESG performance contributes favourably to the supply chain performance of international distributors and brands;

Bank financing: The financial sector is obliged to report on how it allocates capital considering sustainability criteria, and therefore banks need to collect information from companies on ESG performance;

- **Alignment with society's objectives:** In the Report, the company must include its involvement and action to fulfil global goals, such as those related to the UN [Sustainable Development Goals](#) and the EU's "Fit for 55" package aimed at reducing EU greenhouse gas emissions by 55% in 2030;

Risk and Opportunity Management: Drawing up a Sustainability Report involves analysing business risks from the different ESG perspectives, setting objectives and generating opportunities for improvement.

A Sustainability Report includes quantified information on the company's performance in ESG areas during the year to which it refers, comparing it with previous years (to analyse the company's evolution) and outlining commitments for the future. Briefly, the report should include:

Environmental Aspects: Those are environmental management practices, such as the reduction of carbon emissions, efficiency in the use of natural resources and recycling initiatives. data on the environmental impact of operations and future environmental sustainability targets.

Social Aspects such as inserting practices and policies related to human resources and the local community. Topics can refer to are diversity and inclusion in the workplace, workers' rights, occupational safety and contributions to the development of the local community.

Governance aspects describe the company's corporate governance structure, including the composition of the management structure, ethics and transparency policies, compliance practices and risk management. Sound governance is fundamental to ensuring that decisions are made in a responsible manner and that the company is prepared to respond to future challenges.

It is important that the preparation of the ESG Sustainability Report follows existing international guidelines to facilitate its structuring, ensure that the most relevant aspects of performance are included and allow other companies to benchmark the results of performance indicators. The most widely used guidelines are those of the Global [Reporting Initiative](#), and specific European Standards with guidelines on the structure of Sustainability Reports for SMEs (European Sustainability Reporting Standards).

The first set of ESRS was published in the [Official Journal on 22 December 2023](#) under the form of a delegated regulation. These standards apply to companies under the scope of the CSRD regardless of which sector they operate in. They are tailored to EU policies, while building on and contributing to international standardisation initiatives.

ESG sustainability reports are key to demonstrating companies' commitment to sustainability and social responsibility, helping to build a positive image and attract responsible investment.