Sustainable Entrepreneurship Project

Development of a Sustainability Benchmarking Tool for SMEs

Supervisor: Dr Tom Long

Co-Assessor: Dr Emma Folmer

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by

Sarah Mermans

s5374987

Abstract

As sustainability issues continue to gain importance, companies have to address social and environmental concerns alongside economic profits. Corporate sustainability reporting plays a crucial role in providing stakeholders with an overview of a company's sustainability performance. However, existing reporting practices often lack the necessary context to assess a company's impact on social and environmental thresholds. Therefore, there is a need for a sustainability context-benchmarking tool that enables companies to benchmark their sustainability performance against relevant thresholds.

This research aims to identify the requirements of stakeholders regarding the design choices of such a tool. A qualitative questionnaire was administered to companies, financial stakeholders, and governmental stakeholders to analyse their perspectives on the following design choices: the target group, geographical scope of reporting, inclusion of maturity levels, materiality approach, and the need for a sector-specific approach. Four additional key considerations about the tool's design emerged: the trade-off between transparency about sustainability and sustained competitive advantage, prevention of greenwashing, feasibility for SMEs with limited resources and expertise, and avoiding the addition of another sustainability tool. By addressing these requirements, a sustainability context-benchmarking tool can provide guidance for companies in assessing their sustainability performance and contributing to a more sustainable future.

Keywords: sustainability reporting, stakeholder consultation, sustainability context, corporate sustainability, SMEs

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LIST OF ABBREVIATIONS

CSRD	Corporate Sustainability Reporting Directive
EFRAG	European Financial Reporting Advisory Group
ESRS	European Sustainability Reporting Standards
GRI	Global Reporting Initiative
GSC	German Sustainability Code
IFRS	International Financial Reporting Standards
NSRS	Nordic Sustainability Reporting Standard
SME	Small to Medium-sized Enterprise

INTRODUCTION

Sustainability issues are gaining in importance with five out of the nine planetary boundaries having been transgressed (1) and social issues becoming more prevalent (2). Consequently, companies must consider social and environmental concerns alongside economic profits (3).

Corporate sustainability reporting is the crucial practice of companies publishing public reports that provide their stakeholders with a picture of the state of the company's sustainability initiatives and issues (4,5). These reports typically focus on the three elements of the "triple bottom line" (6): social, environmental, and economic performance. Corporate sustainability reporting is important as it can help companies assess their sustainability performance and track and monitor the progress of their sustainability strategy (4,7,8). Furthermore, it can increase employee motivation and engagement (4,9). On the other hand, companies report on their sustainability for external purposes, aiming to meet external stakeholder expectations, legitimize their activities and products, increase corporate reputation, and signal superior competitiveness (9,10).

The importance of sustainability reporting is evident in the increasing rates of corporate sustainability reporting rates. In 1997, only 35% of the 250 largest companies reported on sustainability, whereas in 2022, this rose to 96% (11). Moreover, over 10,000 organizations across 100 countries currently report on their sustainability performance using the Global Reporting Initiative (GRI) standards (12).

Within sustainability reports, companies commonly use performance indicators to assess the company's performance relative to some key performance standard (3,13). Baue categorizes these indicators into three tiers (14). The first tier of indicators relates to a company's actual impacts, such as the actual amount of carbon emissions a company emits. Tier 2 indicators relate these actual impacts to social and environmental thresholds to assess a company's

sustainability performance. Finally, tier 3 indicators are transformational indicators that focus not on what to achieve, but on how to achieve this.

However, current reporting practices mainly focus on tier 1 indicators, highlighting what companies are doing, but fail to address tier 2 indicators that compare performance to social and environmental thresholds (13,15). A potential explanation for this trend is that the GRI, which is the most commonly used framework for sustainability reporting, does not explicitly incorporate sustainability context into its reporting guidelines, despite recognizing its importance (14,16,17).

On the other hand, it is vital for companies to report on how their current sustainability levels relate to social and environmental thresholds. Without providing context, these indicators fail to give an assessment of the company's contribution to social and environmental degradation and evaluating the firm's impact on the sustainability context is essential for assessing a company's sustainability performance level, which is the objective of corporate sustainability reporting (5,7).

Presently, there are no widespread tools available that allow for and give guidance to companies in reporting on their sustainability context (18). Thus, there is a need for such a tool to be developed to aid companies in benchmarking their impact against social and environmental thresholds. Furthermore, the proliferation of corporate sustainability reporting tools has made it challenging to compare and benchmark sustainability performance between firms (19). To address these issues, the first step in the process of developing such a tool should involve consulting with stakeholders to understand their needs, ensuring a broad base of support (20). However, even though other sustainability reporting tools also employ stakeholder consultation methods during their development, the outcome of these processes is not readily available. Therefore, the following research question has been formulated:

What are the requirements and expectations of users and stakeholders of a sustainability context-benchmarking tool?

Using a qualitative questionnaire with companies, financial stakeholders, and governmental stakeholders, this study analyses stakeholders' requirements regarding the design choices of the tool, including the target group, geographical scope of reporting, inclusion of maturity levels, materiality approach, and the need for a sector-specific approach. The results highlight four additional topics that should be considered in the tool's design: the trade-off between transparency about sustainability and sustained competitive advantage, avoidance of greenwashing, feasibility for SMEs with limited resources and expertise, and avoidance of adding yet another sustainability tool.

The structure of this research paper is as follows: it begins with a discussion of the theoretical background of a sustainability context-benchmarking tool's development, followed by an explanation of the methodology in Section 3. The subsequent section presents the results, which are then interpreted and discussed in Section 5. Finally, the conclusion summarizes the findings and addresses limitations and directions for further research.

THEORETICAL BACKGROUND

Stakeholder Consultation

The stakeholder theory developed by Freeman (21) posits that because companies operate within a wider social context, they cannot function in isolation of this social environment and instead must consider the impact of their actions on stakeholders – individuals or groups that can be influenced by or exert influence over the company (9,21). Furthermore, this theory states that for a company to be successful, it should take into account stakeholder demands (21). Due to the significant influence that companies have on their stakeholders, there is a growing demand for companies to disclose their social and environmental practices (19). Therefore, it is important that stakeholders are considered in the sustainability reporting process and that the information provided in these sustainability reports is relevant for the stakeholders so that the report can serve both the internal and external purposes of sustainability reporting (20,22–25). To achieve this, it is essential to include stakeholders in the design process of sustainability reporting tools or frameworks, as the reporting company lacks sufficient knowledge about stakeholders' priorities and concerns (20,24,26).

Additionally, including stakeholders in the design process of a sustainability reporting tool is beneficial for all parties, as it ensures a broad range of expertise and perspectives (24,27). This approach facilitates the elicitation of the best ideas and helps overcome stakeholder mistrust and scepticism (20). Therefore, involving stakeholders increases the likelihood of success of a sustainability reporting tool (24).

The most important stakeholders, besides the reporting company, who utilize sustainability information, and thus whose needs should be considered, are financial stakeholders (28,29), governments (24,30), and supply chain partners (24,30,31). Their importance and the purposes for which they need sustainability information are discussed in the following subsections.

Reporting Company. First, the needs of the reporting company should be considered to ensure that the tool is user-friendly and does not impose excessive demands (24). As companies often face resource constraints, it is crucial that the tool does not add any unnecessary burden to the already complex and resource-intensive process of collecting sustainability information (4,24,32,33). While stakeholder needs should be considered, external stakeholders may lack the necessary knowledge to determine which sustainability aspects are most important to report on (26). Therefore, it is important to consider the requirements and capabilities of the reporting company (24). Finally, the tool should fulfil the company's internal needs for sustainability reporting, such as serving as an internal reference tool to track progress on their sustainability strategy, to guarantee that the tool will be used by the reporting company (4,8,24).

Financial stakeholders. Financial institutions and investors require sustainability information from companies, especially regarding sustainability efforts with financial implications, to inform their investment and lending decisions (28,34). For example, the new EU Taxonomy regulation mandates financial market participants to report on the sustainability performance of their investments (35). However, current sustainability reports often fail to provide the necessary information to meet these stakeholders' needs (28,34). Thus, it is important to include financial stakeholders in the design process of a sustainability reporting tool (24).

Governments. Governments play a crucial role in driving the green transition and often require corporate sustainability information to implement effective policies, monitor their impacts, and allocate funding (36–38). For example, the European Commission's Recovery and Resilience Facility provides funding to mitigate the impacts of the Covid-19 pandemic, contingent upon climate goals, necessitating sustainability information to track progress (37). Governments can also benefit from collecting and aggregating sustainability information to

gain an overview of sustainability efforts within their jurisdictions (39). Therefore, considering government needs in the development of a sustainability reporting tool is essential (24).

Supply chain partners. The reporting company's supply chain partners, including suppliers, customers, and business partners, are key stakeholders that should be included in the design process (30,40). Companies increasingly aim to implement sustainable supply chain practices, requiring the measurement and monitoring of the supply chain's sustainability performance (41,42). Rowbottom and Lymer (40) find that a company's supply chain partners often request sustainability reports from a company's website, but they struggle to assess progress on sustainable supply chain strategies (41). Furthermore, companies need sustainability information from their supply chain partners to comply with legislation, such as the EU Taxonomy, which necessitates the disclosure of the taxonomy criteria of their value chain (24,35). Therefore, according to stakeholder theory, supply chain partners' needs should be taken into account when designing a sustainability reporting tool (21,24).

An overview of the different stakeholders and the reasons for including them in the consultation process can be found in *Table 1*.

Stakeholders	Reasons for inclusion
Reporting Companies	• Ensure user-friendliness of the tool (24) • Take resource constraints into account (4,24,32,33) • Fulfil internal reporting needs (4,8,24)
Financial Stakeholders	• Incorporate sustainability information into investment decisions (28,34) • Current sustainability reports don't meet their requirements (28,34)
Governmental Stakeholders	• Need sustainability information to monitor the implementation of legislation (36–38) • Gain an overview of sustainability efforts within their jurisdiction (39)

Supply Chain Partners	• Monitor sustainable supply chain practices (41,42)
	• Current sustainability reports don't meet requirements (41)
	• Need sustainability information to comply with legislation (24,35)

Table 1. Overview of Stakeholders that Should be Included in the Design Process

Design Choices

In the first stage of development, several higher-level design decisions must be made about the tool. These decisions include the target user group of the tool (3), the scope and depth of reporting required (24), whether different maturity levels should be included (43), how materiality will be assessed (44), and whether sector-specific standards should be developed (3,24). The following sections will primarily be based on the following sustainability reporting tools and standards, that are either currently in use or being developed: the Global Reporting Initiative (GRI), the European Sustainability Reporting Standards (ESRS), the German Sustainability Code (GSC), and the Nordic Sustainability Reporting Standard (NSRS).

   Target group. First, the target user group of the tool should be determined, in terms of both size and geographical scope. It is important to take company size into consideration when deciding on the target group as companies face different challenges depending on their size (3). Tools like the GRI and ESRS primarily target large companies, which often have the resources and skills to report extensively but face legislative and media scrutiny (3,45,46). On the other hand, the NSRS focuses on small- and medium-sized enterprises (SMEs), which are difficult to motivate to report on their sustainability performance as they are often time- and resource-constrained and lack expertise in sustainability reporting (3,24,26,45,47).

The geographical scope of the reporting tool should be determined to adapt it to the specificities of the local context and country (3,48). For example, the GSC is aimed at German companies that have to comply with the CSR Directive Implementation Act (49). Although it is primarily

designed for German companies, it can be used by companies worldwide. Similarly, the ESRS is being developed for European companies to comply with the Corporate Sustainability Reporting Directive (CSRD) (45). The NSRS focuses on sustainability reporting in Nordic countries, catering to this specific regional context (24). On the other hand, the GRI is an international reporting framework that is not adapted to any specific country (3).

Scope & depth of reporting. Decisions need to be made regarding the topics covered and the level of reporting required by the sustainability reporting tool. This should be determined by the materiality of the topic and differs between companies (50,51). Indeed, Frost et al. (48) and Rüger and Maertens (52) find that companies differ in the depth of their reporting, varying in the number of disclosures and the details provided. However, a sustainability reporting tool can determine the broader topics that should be covered, for example, environmental or human rights disclosures (48). For instance, the NSRS only mandates climate-related disclosures from companies that are new to sustainability reporting (50).

Next, the geographical scope of reporting should be determined. This determines which entities are included in the company's sustainability report (53). For example, according to the GRI, all entities controlled by the company or in which the company has an interest should be included. However, GRI standards 308 and 414 increase the scope by addressing disclosures related to the environmental and social impact of the company's supply chain, as the supply chain contributes significantly to the company's sustainability impact (41,54,55). Similarly, the GSC's scope aligns with that used in financial reporting, except for topics that specifically require a broader scope, such as those involving the supply chain (56). On the other hand, the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards mandate the provision of material information about all sustainability-related risks and opportunities throughout the entire value chain (57,58).

Maturity levels. The inclusion of different maturity or advancement levels can facilitate companies' engagement with sustainability reporting (43). Offering different levels allows companies to start with less stringent requirements that require less expertise and resources and gradually progress to more comprehensive reporting as they mature. Moreover, Perez and Sanchez (59) find that over time, companies tend to increase the quality of their sustainability reports in terms of both comprehensiveness and depth, and Farooq and De Villiers (60) report that companies have different approaches to sustainability reporting reflecting different levels of maturity, sophistication, and embeddedness.

For example, the previous version of the GRI standards included three maturity levels, introductory, intermediate, and expert, depending on the extent of the disclosures (19,61). The NSRS also includes three advancement levels, allowing companies to disclose climate-related matters using general metrics at the start and gradually advance to high-quality disclosures on all sustainability matters using organization-specific metrics (43,50).

Materiality approach. Materiality is a key concept within sustainability reporting where information is considered material if its omission or misstatement would affect the decision-making of stakeholders (28,62). Therefore, when reporting on sustainability, it is important for a company to report on all material information, while omitting non-material information (44). Materiality is often divided into two categories, collectively known as double materiality (62). The first category is financial materiality, which pertains to sustainability issues that impact the company's financial state (28,62,63). Financially material information is primarily important to investors and shareholders (28,64). The second category is impact materiality, which concerns the company's impact on the economy, environment, and people, and which is more significant to other stakeholders (28,62–64).

When determining the approach to materiality within a sustainability reporting tool, there are various options (44). On one end of the spectrum, the developer of the tool or standards

determines the full list of material topics. Therefore, there would only be mandatory disclosures for the reporting company. On the other end of the spectrum, the reporting company conducts a full materiality assessment and reports only on topics that are material to the company. However, there are options that fall in between these two extremes, such as the approach currently adopted by the ESRS. This approach consists of a list of mandatory disclosures, while other topics are subject to the company's own materiality assessment, combining advantages from both approaches. Allowing companies to conduct their own materiality assessment prevents the exclusion of material information (44). Moreover, practitioners and academics argue that companies should carry out their own materiality assessments as these analyses can provide valuable insights to help with both sustainability reporting and sustainability strategy (28). On the other hand, Jørgensen et al. (28) find that companies tend to selectively report on material information, prioritizing topics with high performance while neglecting those with low performance. Additionally, Garst et al. (65) argue that conducting materiality assessments is a complex undertaking due to the intricate, uncertain, and evaluative aspects inherent in addressing sustainability challenges. Therefore, having a mandatory set of requirements can make the reporting process less complex for the company (24). Finally, mandatory requirements ensure comparability between companies (44).

Sector-specific approach. Due to the sector-specific characteristics of sustainability reporting, it is crucial to tailor the reporting approach to each sector (3,24,66). For instance, within a sector, similar topics are likely to be material as companies in the same sector face comparable business issues, legislation, and business models (66). Adopting a completely sector-agnostic approach will result in inconsistent and misleading sustainability disclosures while adapting the reporting tool to the company's sector ensures relevance for users and avoids burdening them with excessive general disclosures (24,66).

However, in practice, this places an additional burden on the developer of the reporting tool as sector-specific guidance is more complex and challenging to design. For example, the NSRS initially focused solely on one specific sector in the first version of their standards (24). The development of sector-specific standards for the ESRS has also experienced a one-year delay and will be implemented in three stages, with the first stage focusing on high-impact sectors, to ensure adequate quality (67,68). Similarly, the GRI is only now developing its sector-specific standards, more than 25 years after its inception, with currently only 3 standards in use out of the 40 they aim to develop (19,69). Finally, the GSC does not develop sector-specific guides themselves but instead collaborates with the relevant industry associations for their development (70).

An overview of the different design choices that have to be made can be found in *Table 2*.

Design Choices	
Target Group	• Companies face different challenges during sustainability reporting depending on their size (3) • Sustainability reporting should be adapted to the local context and country (3,48)
Scope & Depth of Reporting	• Which topics are covered and at which level of detail (48,52) • Geographical scope of reporting: which entities are included (53)
Maturity Levels	• Different maturity levels allow for less strict requirements, requiring less resources and expertise, at lower levels (43)
Materiality Approach	• Mandatory list of material topics: enhances comparability (44) & reduces complexity of reporting (24,65) • Companies conduct own materiality assessment: only material information is included (44) & assessment provides valuable insights to company (28)

| Sector-Specific Approach | • Sector-agnostic approach can lead to misleading disclosures due to sector-specific characteristics of sustainability reporting (3,24,66) |
| | • Sector-specific approach is more difficult to design (24,67,68) |

Table 2. Overview of Design Choices of a Sustainability Context-benchmarking Tool

METHODOLOGY

Research Design

To answer the research question, a cross-sectional qualitative research method was used through the administration of a questionnaire. The questionnaire consisted of both open-ended questions and multiple-choice questions that allowed for an explanation of why a specific option was chosen. This method was chosen as it allows for in-depth, rich responses and the use of standardised questions allows for easy comparison across questions and easy analysis of qualitative data (71,72).

Sample

This research focused on the development of a sustainability context-benchmarking tool for Flemish SMEs as it is important to adapt a sustainability reporting tool to the country, and SMEs contribute significantly to both the economy and environmental degradation (3,32,48,73).

The sample consisted of 31 stakeholders of this tool who were selected to participate in this research. It included three distinct groups of respondents. First, company representatives filled out the questionnaire from the point of view of the SME and their needs. Representatives were chosen instead of directly involving SMEs to ensure their needs are met while taking their resource constraints into account (3). Furthermore, including organizations representing SMEs provides a broader perspective on their needs. The second group of respondents consisted of financial stakeholders. Finally, the sample also included members of governmental agencies or from other organisations who filled out the questionnaire from the government's perspective on the tool's requirements.

Out of 17 people who responded to the survey, there were 6 company representatives, 2 financial stakeholders, and 9 governmental respondents. However, two respondents (one

company representative and one governmental respondent) returned the survey without answering any of the questions. Therefore, the total response rate was 48%. *Table A1* provides an overview of the respondents. Data saturation was reached, as recurring codes emerged from the responses.

This study is part of a wider project conducted by Sustenuto, a Belgian sustainability strategy consultancy firm, commissioned by the Flemish government to develop a sustainability benchmarking tool for Flemish SMEs. As a result, no official selection procedure was followed for the selection of the participants, as this was already carried out by this company. Thus, the selection of participants was not randomized.

Data Collection & Analysis

The data was collected by administering a questionnaire with open-ended questions. The length of the responses varied between 1 and 106 words, with an average response length of 38.2 words. The survey was designed in collaboration with Sustenuto, based on literature and the company's requirements. Because of this, only those questions relevant to this research project were analysed. Furthermore, the questionnaire was administered in Dutch to avoid language barriers.

Qualitative thematic analysis was used to analyse the open-ended data obtained from the questionnaire. This method was chosen for its flexibility and ability to generate unanticipated insights (74,75). Moreover, this method can easily summarise key features of large qualitative datasets. The analysis process involved coding the responses to identify different patterns and themes within the data (74,76). In the first stage, the entire dataset was read through multiple times to gain a comprehensive understanding of the content (74,75). Subsequently, initial codes were generated by identifying key phrases and concepts that emerged. These codes were then used to generate broader themes capturing important patterns in the data. The generation of

themes involved comparing codes within responses to (groups of) questions and identifying overarching themes throughout the entire dataset.

Ethical Considerations

This study abided by all ethical requirements of the University of Groningen, Campus Fryslân. Informed consent forms were provided to all participants and participant anonymity is ensured at all times.

RESULTS

This section presents the findings of the questionnaire to answer the research question: what are the requirements and expectations of users and stakeholders of a sustainability context-benchmarking tool?

Purpose of Context-Benchmarking Tool

First, respondents were asked about the main purpose of this benchmarking tool, as well as the advantages and risks associated with its use. The primary response that came forward was that the tool should aim to involve SMEs in the transition process (see *Figure B1*). This statement was mainly chosen by the government respondents. The rationale behind this response was that if SMEs play a proactive role in the transition, they can mitigate risks and identify opportunities that could give them a competitive advantage. In that way, they can be involved in and contribute to the transition process.

> *"In an ideal scenario, the SMEs can thus help shape the transition and not just undergo it"* (G2)

However, others emphasized that the main purpose should be to mitigate the impact of the 'trickle-down' effect and to help SMEs meet the sustainability criteria imposed by stakeholders. These responses related to the obligations that SMEs have towards their supply chain, whose members will require sustainability information, driven by European regulation or other reasons.

> *"SMEs are part of the value chain (up- and downstream) of other parties (public and private) who will for various reasons require sustainability information from their business relations (for commercial reasons, reputational reasons, risk management, for own reporting purposes, etc.)"* (F2)

Further, multiple respondents viewed the tool as a means to provide SMEs with insights into their sustainability efforts, benchmarked to other companies. This comparison could motivate SMEs to take further actions and build a competitive advantage.

> *"[The benchmark] indicates [to] an SME where it stands in terms of sustainability compared to similar companies. Is he one of the better students in the class, or is he more of a follower? [This] can inspire/push a company to take additional actions."* (C2)

Financial stakeholders also highlighted that this tool could raise awareness among SMEs regarding the importance of sustainability in securing financial support.

> *"Banks, for example, will always consider a wide range of economic, financial and sustainability indicators in their credit and investment decisions."* (F2)

However, respondents also identified various risks associated with the use of the benchmarking tool. Firstly, there were concerns about the possibility of greenwashing. Respondents stressed the importance of objective and comparable data, along with third-party assurance. Further, one respondent was also concerned that performing well on the benchmark might also create the illusion of strong sustainability performance. Finally, respondents worried that the tool's requirements might overburden SMEs, considering their limited time and resources.

Design Choices

    Target group. Most respondents included both small- and medium-sized companies in their target group for this tool (see *Figure B2*). However, three opposing views emerged from the responses. One group of respondents mentioned that they preferred the tool to be available to as wide a target group as possible. However, one of the respondents mentioned that it is important that there are different versions available of the tool adapted to the size of the company.

Next, multiple respondents expressed that the tool should focus on micro-companies or sole proprietorships as they constitute the largest share of companies in Flanders. These companies, however, lack the resources to extensively report on their sustainability and face the largest risks. On the other hand, other respondents explicitly excluded these groups due to their lack of resources:

> *"Micro-enterprises and sole proprietorships may be less relevant here because the administrative overhead of a benchmark may be too high for them compared to the benefits."* (F2)

The largest group believed that the tool should mainly focus on small- and medium-sized companies for multiple reasons. First, these companies don't fall under the new European regulation, but they will feel the impact of this regulation due to the demands of their stakeholders. Moreover, these companies should have sufficient resources available to use this tool. Additionally, a substantial share of Flemish companies are small- and medium-sized companies, making them the ideal focus for the tool in order to generate the largest impact.

> ***Geographical scope.*** In general, the respondents agreed that sustainability performance should be measured on the level of all activities of the SME, not just the activities it carries out in Flanders (see *Figure B3*). This is important to capture the impact of the entire value chain because *"business doesn't stop at the gate of my site"* (G6). However, due to feasibility concerns for the SMEs, a phased approach might be better, starting with benchmarking all activities on an aggregated basis, and then later including site-specific information.

> *"Ideally, all activities are captured, but since many SMEs still have to start from scratch with data collection and reporting, we would also advocate a phased approach [starting from all activities on an aggregated level to site-specific reporting] here, but certainly not limited to activities in Flanders."* (C1)

On the other hand, multiple other respondents were concerned that this is still too wide of a scope for SMEs, and instead, only information about the activities in Flanders should be considered, even if this results in a loss of important context.

> *"So perhaps [it is] more feasible to limit [the] scope to activities in Flanders, although by doing so, you lose very important context about [the] production chain that will often take place partly abroad."* (G2)

Maturity levels. Multiple respondents mentioned that it is imperative to have different maturity levels, varying in difficulty and complexity, available in the tool. This would provide different entry levels for companies that are just starting with benchmarking their sustainability efforts and performance. This would also provide companies with different sustainability levels to aim for. Finally, using different advancement levels would allow the tool to be adapted to the needs of companies of different sizes.

> *"Qualifying maturity is certainly necessary to determine where an organization stands in terms of sustainability and to be able to provide different entry levels. The benchmark cannot be the same for all (types of) organizations."* (G6)

> *"I would rather ensure that the benchmark is built in types of levels of maturity (starting with [a] first simple module and for the next level build in another step of complexity etc)"* (C4)

Materiality approach. Several respondents highlighted the importance of allowing the company to carry out its own materiality assessment. First, this ensures that only relevant and material information is included. Next, if a company can carry out its own materiality assessment, it reflects a certain level of maturity by the company. Finally, several respondents mentioned that the determination of what information is considered material should be done in collaboration with the stakeholders of the company.

"What are material themes/topics should also not be determined by who fills in the benchmark for the organisation. It should be determined by supported stakeholder dialogue (internal and external)" (G2)

On the other hand, other respondents believed that letting companies carry out their own materiality assessment or allowing exceptions to a predetermined list of material topics would make it more difficult to compare data across companies. Further, allowing exceptions would require external oversight, increasing the workload for the owner of the tool. Allowing exceptions could also lead to *"cherry-picking"* (F2) by the company regarding which topics to benchmark. Moreover, having a predetermined list of material topics would reduce the workload of SMEs as they would not have to conduct their own materiality assessment.

"[I am] not in favour of exceptions that may create loopholes, as they make comparison more difficult and there must be some control over these exceptions, which creates potential workload for [the] government [as owner of the tool]." (G2)

Some respondents put forward the idea of only allowing exceptions for certain topics while making other topics mandatory for all companies. Others mentioned using a *"comply or explain"* (G8) approach, which only allows companies to deviate from the list of mandatory themes if they explain why this theme is not material to them, or applying a combination of the two approaches. In either case, according to this group of respondents, it should not be too easy to obtain an exception to the list of mandatory topics.

"Distinguish between material subjects from which no deviation is possible versus material subjects that can be deviated from? I can imagine that for certain material subjects, you ask for mandatory reporting, while for others you allow a deviation subject to argumentation." (F1)

Sector-specific approach. All respondents agreed that a sector-specific approach is necessary (see *Figure B4*) as it provides additional relevant information, and depending on the sector, different information is important.

> *"Materiality of sustainability themes is quite different per sector, so in [an] ideal scenario, there is [a] minimal sector specificity."* (G2)

However, the responses also reflected that this would increase the difficulty of developing this benchmarking tool due to the complexity of the subject and that the development of sector-specific standards for the ESRS has been delayed.

Moreover, multiple respondents mentioned that it might be too complicated for SMEs to start with sector-specific information. However, other respondents expressed the opposite view that the more customized and tailored to the company the tool is, the more relevant and user-friendly it would be, resulting in increased usage.

> *"To limit the workload of SMEs, it is best to work gradually and start with a (limited) set of sector-agnostic indicators."* (F2)

> *"The more customized, the more user-friendly, and the more the benchmark will also be used effectively."* (G6)

Transparency

When discussing the options for transparency of this benchmarking tool, two options came forward (see *Figure B5*). The first option, which entails full transparency, is perceived as advantageous for external stakeholders. However, implementing full transparency may raise concerns among SMEs. This is primarily because SMEs often consider their sustainability policies as a part of their competitive advantage or as proprietary information. Additionally, several respondents viewed full transparency as the only effective measure to avoid greenwashing and ensure the credibility of the sustainability reporting tool.

"Only with full transparency, there is (more) 'certainty' that no 'half-truths' can be presented (see previous answer: avoiding 'greenwashing')" (G6)

On the other hand, other respondents held the opposite view and suggested that if results are not aggregated, it might lead companies to report inaccurately. Furthermore, transparency about the aggregated results would stimulate participation by SMEs due to their reluctance to be transparent about sustainability information.

"If [transparency] would not work aggregated, perverse effects could arise (such as not reporting truthfully)" (G1)

"Full transparency will deter too many organizations from using the benchmark" (G2)

Some respondents also proposed alternative approaches to address the disadvantages of both full transparency and transparency about the aggregated results. For example, letting the company itself choose with whom to share the non-aggregated results, or only making the full results public after a certain number of years.

Other Users of the Benchmark

Respondents were also asked about other users of the information provided in the benchmark, whose needs should be considered as this questionnaire only focused on the concerns of financial and public sector actors. The actors mentioned include the SME's clients, suppliers, and employees. Other potential users are civil society actors, NGOs, and the local community. Finally, one respondent suggested that the needs of 'future generations' should explicitly be considered.

"All 'external' stakeholders of the SME are potential users of the benchmark: environmental/human rights NGOs, citizens living in the area, consumers and users, etc. The benchmark will also be used by the company's employees, who are more 'internal' stakeholders." (G4)

One respondent also mentioned academics as potential users, which would require the data to become open to everyone. Similarly, another respondent emphasized the need for a uniform tool where all data is available to all stakeholders. However, another respondent specifically mentioned the importance of carefully determining which data is made public and allowing the company to decide which information is shared with each user.

> *"[It should be] ensure[d] that [all stakeholders] are involved so that we work on a uniform approach and ideally use a system where all data can be retrieved (by all stakeholders)."* (C4)

Sustainability Reporting

This benchmarking tool could also provide SMEs with the option to use the information provided for sustainability reporting purposes. Multiple respondents expressed support for this approach. This would allow SMEs to further benefit from using the tool by being able to publicize the results. Moreover, in the long run, SMEs will need to report on their sustainability performance anyway, either due to legislation or due to the trickle-down effect of reporting requirements for large companies. Therefore, offering the option for sustainability reporting would increase the attractiveness of using the tool for SMEs.

> *"[I see] opportunities. SMEs should be able to show off in one way or another [that they use this tool]. This should be emphasised when the benchmark is published."* (C3)

On the other hand, multiple respondents also saw significant risks in allowing the option for sustainability reporting. First, sustainability reporting involves the use of qualitative data, which makes comparability and data assurance more challenging. However, it is crucial to validate this data to avoid the risk of greenwashing as there are concerns about self-censorship.

> *"The validation of data should be strict, to avoid that it is easy to 'report' on [the] transition, without actually realising the transition."* (G5)

"At the same time, there is a risk that if they also indicate that they want to report, there might be some self-censorship, while a benchmark [that is not used for reporting] will contain the harsher reality of areas for improvement." (C1)

Multiple respondents also commented that adding a sustainability reporting possibility to the tool should not be pursued. Instead, the tool should serve as a first step towards using a dedicated tool specifically designed for sustainability reporting.

"This benchmark should serve as a stepping stone to other recognised reporting tools and not become a tool in addition to all other tools." (C4)

DISCUSSION

In the following section, the findings of this study will be discussed in relation to existing academic literature. First, I review how the different stakeholders aim to use the information provided in the benchmark and the design choices that should be made, as discussed in the theoretical background. Next, four other emerging themes that should be taken into consideration when designing this benchmarking tool are discussed: the trade-off between transparency and sustainability as a competitive advantage, avoidance of greenwashing, feasibility for the SMEs, and avoidance of adding another sustainability tool.

Information Use by Stakeholders

Firstly, governmental bodies can utilize sustainability information to gain an overview of the sustainability efforts in their jurisdictions (39). This is reflected in the findings of this study as a governmental respondent mentioned that the information provided by the benchmark could be used by the Flemish government to take targeted actions for those companies or sectors that are lagging in their efforts. For example, Bell (36) and Atalla et al. (37) propose setting minimum performance standards for laggards in sustainability through direct legislation or aligning taxes and subsidies to incentive sustainable practices.

The financial stakeholders in this study emphasized that financial actors are increasingly incorporating sustainability concerns into their decisions. These results align with findings by Jørgensen et al. (28), Bernow et al. (34), and Unruh et al. (77) who report that financial market professionals and investors are integrating sustainability criteria into their decision-making processes.

Although the needs of other stakeholders were not explicitly considered in this research through their inclusion as respondents, the findings suggest that their needs should be taken into account. A recurring theme in the findings is the existence of the 'trickle-down' effect, which

would require SMEs to provide information on their sustainability efforts and performance to their supply chain partners, due to the partners' need for this information. In this context, two new pieces of European legislation, the CSRD and the proposal for a directive on corporate sustainability due diligence, were often mentioned. Other reasons, such as corporate reputation and risk management, were also brought forward. These results reflect findings by Alves and Steinberg (41), who report that companies manage and report on the sustainability of their supply chain for risk management purposes and to address regulatory pressures. This view also reflects findings by Rowbottom and Lymer (40) showing an increasing demand for sustainability information from the supply chain.

When asked about the target audience of the information provided by the tool, customers, suppliers, employees, NGOs, academia, and the local community were mentioned. This corresponds with findings by Adams and Frost (78 as cited in 40) who identified NGOs, customers, governments, academia, shareholders, investors, employees, suppliers, and competitors as the most important target audiences for corporate sustainability information.

Design Choices

Maturity levels. The NSRS, a sustainability reporting standard specifically for SMEs, advocates for the inclusion of different maturity levels (43). This approach reduces the barriers for a company to start reporting by having less stringent requirements at lower maturity levels. The findings of this study also reflect this perspective, indicating that the inclusion of maturity levels is considered advantageous due to the diverse entry points it would provide and the range of sustainability levels to strive for.

Materiality approach. The findings of this study indicate that, to serve as a benchmark for company comparison, the inclusion of a mandatory list of material topics was preferred, as this enables comparability. The European Financial Reporting Advisory Group (EFRAG),

which helps develop the new ESRS, also interpret this comparability as the main advantage of this approach (44). Further, the findings reflect that this approach could reduce the workload for SMEs. This aligns with the view of Garst et al. (65) who posit that materiality assessments are complicated processes to carry out due to the complex, uncertain, and evaluative nature of sustainability challenges. Civil society actors participating in the stakeholder consultation process of the ESRS also support this approach (44).

On the other hand, the findings show that others preferred allowing companies to conduct their own materiality assessment, to ensure the inclusion of only relevant and material data. Similarly, during the stakeholder consultation process of the ESRS, reporting companies advocated for this option as they believe they are best positioned to determine which information is material and therefore should be reported on (44). However, Jørgensen et al. (28) and Frost et al. (48) report that companies appear to be selective in their disclosures, focusing more on areas of success and less on areas where performance has been weaker, despite their importance.

Sector approach. The findings reveal that a sector-specific approach is necessary, as the importance of information varies depending on the sector in which the company operates. Similarly, Eccles et al. (66) find that companies in the same sector are likely to have similar material topics due to shared issues, legislation, and business models. Additionally, adapting the tool to each sector ensures its relevance to all users and prevents the burden of providing irrelevant disclosures (24). This view is corroborated by the findings which demonstrate that the tool would be more relevant and user friendly if it is more adapted to the company. However, other respondents had the opposite opinion that this would complicate the tool.

On the other hand, the results reflect that sector-specificity would increase the difficulty and workload of developing the tool, as seen in the development process of sector-specific standards of multiple reporting frameworks, such as the ESRS and the NSRS (24,67,68).

Transparency and Competitive Advantage

One recurring theme that emerged from the data is the trade-off between increased transparency for stakeholders and sustainability as a competitive advantage for SMEs. Transparency in corporate sustainability means being open about the company's activities and willing to share information with stakeholders, enabling them to make well-informed choices (79–81). This study finds that external stakeholders prefer more transparency and perceive it as advantageous. Fernandez-Fejioo et al. (25) support these findings, reporting that increasing stakeholder pressure leads to higher levels of transparency. Moreover, increased transparency can help reduce unintentional duplicity in corporate sustainability, where an organization's actions contradict its claims (79).

On the other hand, the findings show that companies desire less transparency and wish to retain control over who they share their data with. This is because they perceive sustainability information as a source of competitive advantage and as proprietary information. Further, the findings reflect the belief that if SMEs are actively involved in the transition process, they could identify sustainability-related risks and opportunities, leading to a competitive advantage. Previous studies found similar results, highlighting that companies are reluctant to disclose sustainability information due to perceived competitive disadvantage (66). SMEs, in particular, publish less sustainability information as they are more sensitive to competition and therefore less willing to disclose confidential information (46).

This tension between increased transparency about sustainability and sustained competitive advantage is well-documented in literature. According to Blok (82), a fundamental paradox exists within sustainable business models, as sustainability seeks to reduce information asymmetries, while entrepreneurship strives to enhance them. Information asymmetries occur when certain participants in an economic exchange possess superior or more comprehensive information than the other participants (83,84). These asymmetries can be reduced through

increased transparency and collaboration with stakeholders, both of which are needed for sustainable development due to the wicked nature of such problems (82,85). On the other hand, entrepreneurs rely on sustained levels of information asymmetries, as their competitive advantage is based on their additional knowledge which allows them to identify market or ecosystem failures which lead to business opportunities (82).

This paradox can be solved by either favouring information asymmetries or information symmetries (82). Kulkarni (86) argues for the latter approach as transactions based on trust and cooperation due to reduced information asymmetries will generate increased rents for the company in the long run. Furthermore, Dean and McMullen (87) contend that imperfect information represents a market failure that sustainable entrepreneurs are able to overcome by exploiting sustainable business opportunities, thereby reducing information asymmetries while still generating economic rents.

In contrast, Blok (82) advocates for preferring information asymmetries. Given that sustainable problems are considered wicked problems, the asymmetry of information is inherent and persisting. Therefore, sustainable entrepreneurs can still collaborate with stakeholders to reduce information asymmetries to address sustainability ecosystem failures. However, because of the epistemic or knowledge-related insufficiency of actors regarding sustainability ecosystem failures, information symmetry can never be fully achieved. Therefore, even if sustainable entrepreneurs reduce information asymmetries to address sustainability issues, a certain level of asymmetry will persist, thereby providing a sustained competitive advantage for the entrepreneur.

Greenwashing

Another frequently mentioned theme is the importance of the tool's ability to avoid greenwashing. Greenwashing occurs when a company intentionally misleads stakeholders

about its sustainability performance to create a positive image (88,89). In recent years, there has been a significant increase in greenwashing, making it challenging for stakeholders to accurately assess a company's sustainability performance.

One potential solution that came forward in the findings was the assurance of data by a third party. Confirming this, Kaplan et al. (90) argue that strong assurance is crucial for instilling confidence and credibility in sustainability disclosures. Furthermore, Ruiz-Blanco et al. (88) find that firms with external assurance of their sustainability reports tend to engage less in greenwashing than firms without such assurance.

Transparency of the results was also suggested as a potential solution. However, there were conflicting views within the results. One group argued that transparency would decrease greenwashing, while the other group believed it would increase it. Higgins et al. (79) argue that increased transparency would decrease greenwashing. However, in the case of this specific benchmarking tool, decreased transparency would result in the information provided only being used for internal purposes, in which case there should be fewer incentives to deliberately misrepresent the data.

Feasibility for SMEs

Another frequently raised concern was the feasibility of the tool for SMEs, considering their limited time and resources and the complexity of measuring sustainability performance. The findings support the opinion of the NSRS, which acknowledges that there is a significant administrative burden for SMEs to start sustainability reporting (43). Furthermore, limited availability of time and resources is widely acknowledged as a constraint in SMEs and an obstacle to the adoption of sustainability practices (3).

Adding another Sustainability Tool

Finally, there were concerns that developing this tool would add yet another tool for companies to manage their sustainability performance. There is currently a wide variety of tools and frameworks available for measuring, managing, and reporting sustainability performance (19,34). However, both companies and financial stakeholders support reducing the number of tools available (34). Furthermore, this would increase comparability across firms and strengthen the adoption and implementation of these tools and frameworks (19,26). Therefore, it is important to identify a clear purpose for this tool that cannot be fulfilled by existing tools, ensuring that this project does not add another sustainability management tool to the already wide range of options available.

CONCLUSION

The objective of this paper was to identify the needs and requirements of various stakeholder groups regarding a sustainability context-benchmarking tool. To do this, a qualitative questionnaire was administered to different stakeholder groups: reporting companies, financial stakeholders, and governmental stakeholders.

The findings show that the tool should focus on small- and medium-sized companies, but opinions differ on whether the tool should also focus on companies of different sizes, such as sole proprietorships. Furthermore, performance measurement should encompass all activities of SMEs, capturing the impact of the entire value chain. However, a phased approach is recommended to accommodate data collection challenges. Moreover, the tool should offer different maturity levels to accommodate companies at different stages of sustainability efforts and of different sizes. Opinions vary on the approach to materiality. Some advocate for companies to conduct their own materiality assessment to ensure data relevance, while others propose a predetermined list of material topics to enhance comparability and reduce the workload for SMEs. Sector-specific considerations are deemed necessary but may increase the complexity and feasibility of tool design.

Additional important considerations that should be addressed in the design of the tool are the trade-off between increased transparency for the stakeholders and sustainability as a competitive advantage for the SMEs, how the tool can avoid greenwashing, how it can ensure feasibility for the SMEs due to their lack of resources and expertise, and how it can avoid adding another sustainability tool.

However, the results should be interpreted with caution due to the limitations of this research. The small sample size and limited inclusion of different types of external stakeholders restrict the generalizability of the findings. Moreover, the participation of only two financial

stakeholders further limits the scope. Future research should encompass a broader range of stakeholder groups and increase the sample size for more representative results. Moreover, the lack of an official selection procedure led to a non-randomized sample, which could lead to biased results. While social desirability bias was reduced by anonymizing the results, the questionnaire itself was not anonymous due to company requirements. However, this research still benefited from its transdisciplinary approach by bringing together insights from theory and practice to comprehensively understand the needs and requirements of stakeholders of a sustainability context-benchmarking tool. Furthermore, this research will contribute to practice as the results of this study will be used to develop this tool.

Finally, as this research was conducted using a survey, there was no opportunity to seek clarification in case a response was unclear or to gain consensus among the participants. Accordingly, conducting focus group discussions involving multiple stakeholders or employing the Delphi method, which involves iterative questionnaires and feedback rounds to reach a consensus among participants, could be valuable for future research to gain a deeper understanding of the needs and requirements of the stakeholders (91).

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APPENDICES

Appendix A. List of Respondents

Identifier	Description
Companies	
C1	Organisation to promote good governance
C2	Industry federation
C3	Accounting Standards Board
C4	Network of sustainable organisations
C5	Employers' organisation
Financial Stakeholders	
F1	Sustainable Bank
F2	Industry federation
Government	
G1	Energy & Climate
G2	Work & Society
G3	Environment
G4	Sustainable Development
G5	Environment
G6	Work & Society
G7	Work & Society
G8	Foreign Affairs

Table A1. List of Respondents

Appendix B. Histograms of Multiple-Choice Questions
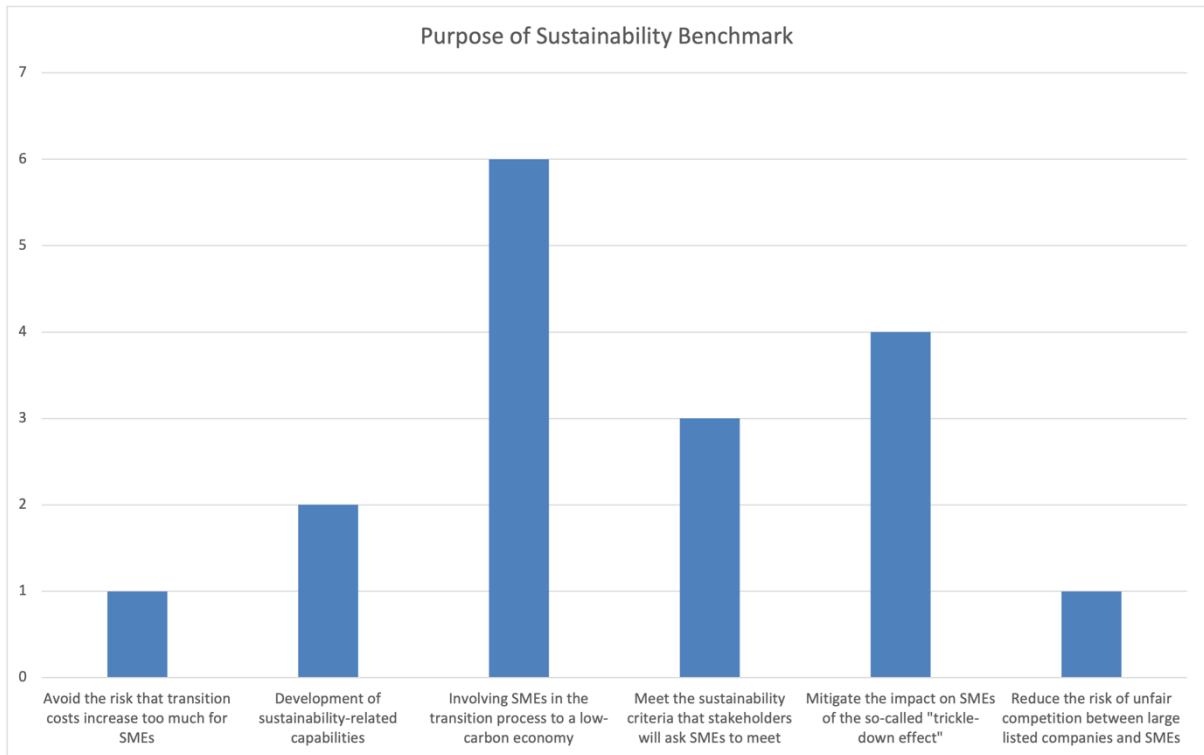
Figure B1. Responses to the question: "Which statement regarding the role of a sustainability benchmark do you consider most important?", n = 15, 2 respondents chose 2 options
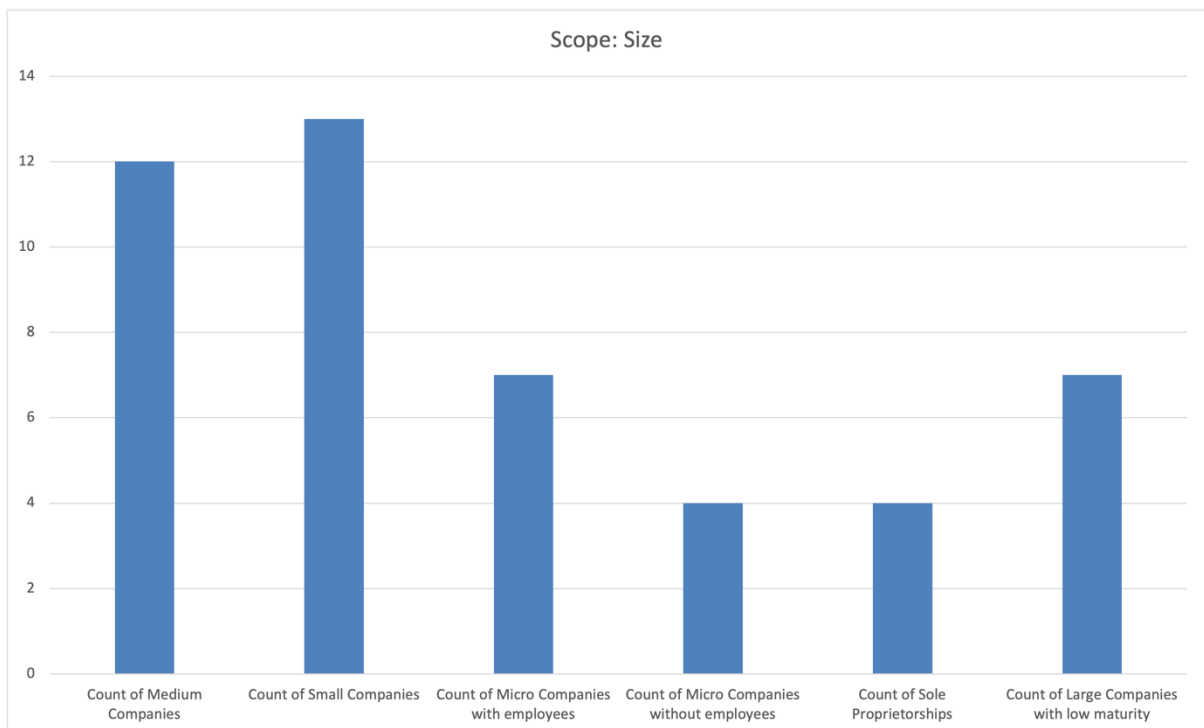

Figure B2. Responses to the question: "Select which types of companies you think the benchmark should focus on", n = 14
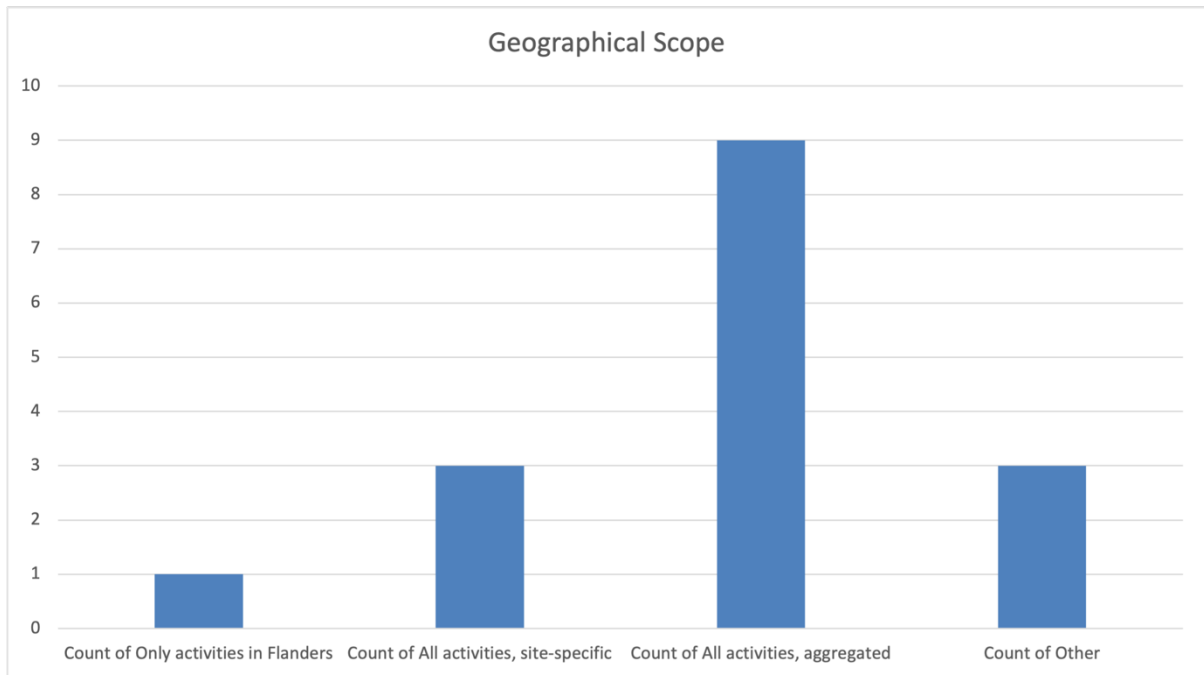
Figure B3. Responses to the question: "What is the geographical scope on which a 'Flemish SME' must report?", n = 15
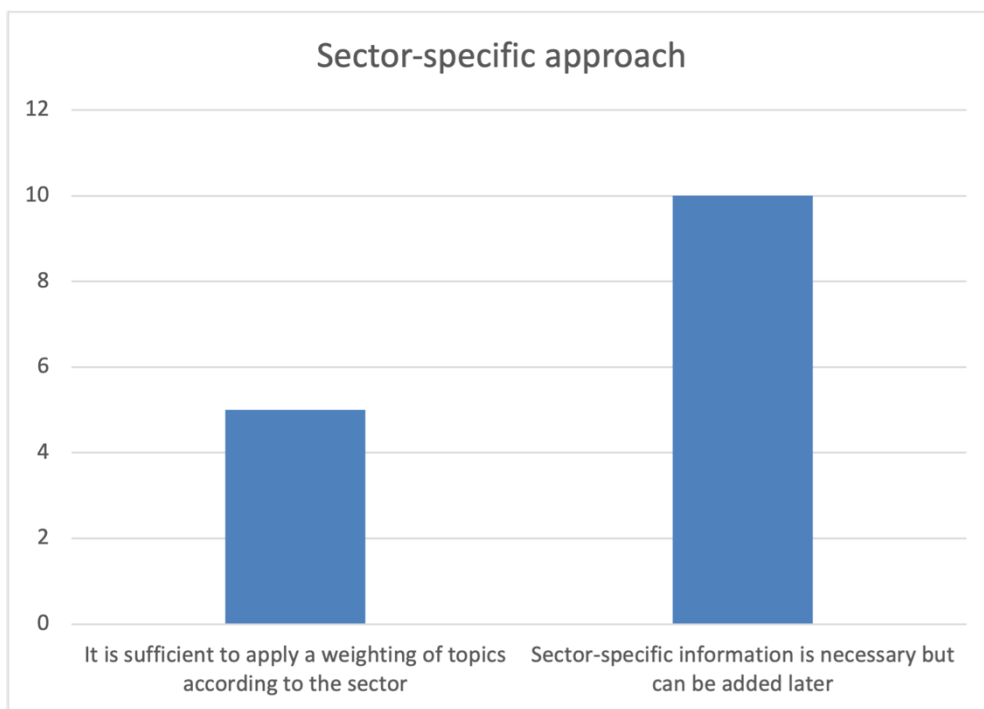

Figure B4. Responses to the question: "Is a sector-agnostic approach sufficient for SMEs, or should a sector-specific lens be added?", n = 15
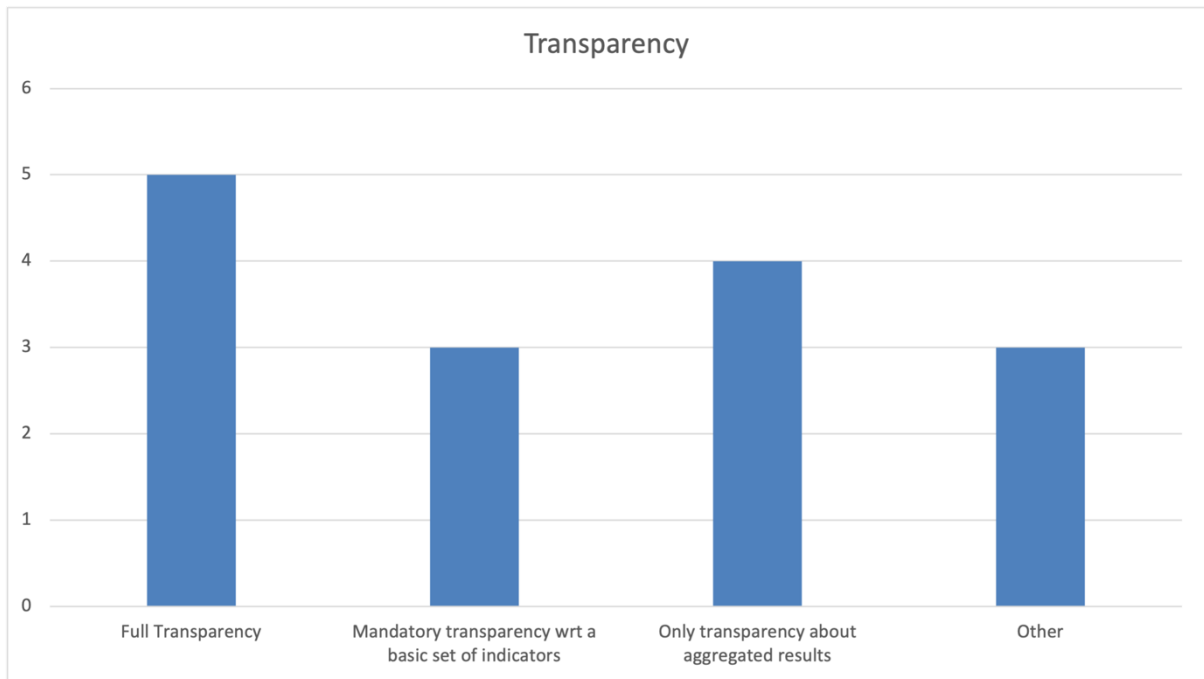
Figure B5. Responses to the question: "Which variation [about transparency of the results] do you prefer?", n = 15