



# A Short Guidance for SME Sustainability Reporting at the EU Level

Dominika P. Gałkiewicz<sup>1</sup>   
Veronika Gaßner<sup>2</sup> 

Received: November 6, 2023  
Accepted: January 24, 2024  
Published: May 28, 2024

## Keywords:

SME;  
Sustainability;  
Reporting



Creative Commons Non Commercial CC BY-NC: This article is distributed under the terms of the Creative Commons Attribution-Non-Commercial 4.0 License (<https://creativecommons.org/licenses/by-nc/4.0/>) which permits non-commercial use, reproduction and distribution of the work without further permission.

**Abstract:** Environment, Social and Governance (ESG) related regulations such as the Non-Financial Reporting Directive (NFRD) or the upcoming Taxonomy Regulation of the European Union (EU) combined with the Corporate Sustainability Reporting Directive (CSRD) had and will have a lasting impact on various market participants including small and medium-sized enterprises (SMEs). Among these market participants, SMEs face difficulties in complying with sustainability reporting due to limited resources and the absence of SME-specific guidelines. To address this issue, a framework for SME sustainability reporting in the EU is proposed in this study. The framework consists of a seven-step process that helps companies and stakeholders prioritize relevant sustainability topics. The proposed framework is easy to implement and cost-effective, considering the unique characteristics and capabilities of SMEs. The study targets managing directors and decision-makers of German SMEs to assist them in preparing their sustainability reports. The minimum content elements for SME sustainability reporting include general disclosures, climate change, own workforce, and materiality assessment. The European Financial Reporting Advisory Group (EFRAG) plans to provide a digital questionnaire for SMEs to gather the necessary information. Proactive sustainability reporting can help SMEs improve stakeholder relations and optimize their internal processes, leading to competitive advantages and cost savings. However, it is important to note that authenticity, high quality, and transparency in disclosing sustainability aspects are crucial to avoid reputational damage resulting from greenwashing.

## 1. INTRODUCTION

Over the past two decades, the importance of sustainability and reporting on it has grown significantly. Nowadays, people and businesses are increasingly aware of the need to combat climate change and to behave ethically when interacting with communities, customers, suppliers, and employees. Although the United Nations (UN) defined sustainability in 1987, it was not until almost thirty years later, with the creation of the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs) and 169 targets in the 2015 Paris Agreement, that the importance of sustainability became widely recognized. Sustainability has become a buzzword for many eco-friendly concepts and corporate responsibility. However, for investors and capital markets, the preferred term is ESG, which stands for Environment, Social, and Governance. ESG reports show the risks a company faces and how the company addresses them to sustainably act and generate long-term financial returns. Unfortunately, the information provided is sometimes difficult to follow for stakeholders due to various ESG reporting standards and frameworks, as well as non-mandatory reporting regimes. For companies, the high cost of data collection and additional reporting is a significant concern. Nevertheless, effective

<sup>1</sup> University of Applied Sciences Kufstein Tirol, Finance, Accounting & Auditing, Andreas Hofer-Str. 7, 6330 Kufstein, Austria

<sup>2</sup> University of Applied Sciences Kufstein Tirol, Finance, Accounting & Auditing, Andreas Hofer-Str. 7, 6330 Kufstein, Austria

ESG data management and sustainability reporting are essential for complying with the existing Non-Financial Reporting Directive (NFRD) and the upcoming European Taxonomy combined with the Corporate Sustainability Reporting Directive (CSRD) in 2024.

This research delves into the current state of mandatory and voluntary sustainability reporting, particularly in the European Union (EU) where the relevant laws are still in their rudimentary stages. The main objective of this study is to assist SMEs in establishing sustainable reporting structures and collecting data on sustainability-related key performance indicators (KPIs). To achieve this, a proposal was developed that encompasses the most critical components of non-financial reporting in SMEs, and a recommended procedure for data collection. The proposal considers the characteristics and capabilities of SMEs and focuses on a practical, cost-effective, and straightforward implementation, given the limited resources available to SMEs for this purpose.

In the following, section 2 provides the background on sustainability reporting regulations. Next, section 3 describes the data and methodology, while the discussion of the empirical results follows in section 4. Section 5 concludes the paper.

## 2. REGULATORY BACKGROUND AND LITERATURE REVIEW

In the scientific literature, no unified, globally accepted definition of sustainability reporting is provided (Dilling, 2010). This following definition is considered one of the most influential ones (Steinhöfel et al., 2019) and describes sustainability reporting as “the practice of companies disclosing the most significant economic, environmental and social impacts that arise from their corporate activities, and thereby being held accountable for these impacts and responsible for managing them” (MovingWorlds, n.d.). Usually, sustainability reporting serves as an extension of financial reporting that addresses topics such as the development of the company and its future viability (Auer et al., 2022).

The prerequisite for a company to obtain the relevant data and information is its sustainability management. In this context, the principle of materiality applies, which is of central importance in financial reporting (Harrison, 2018). This principle states that all facts that are relevant to a stakeholder’s decision must be included in the sustainability report. Therefore, a materiality analysis is often carried out. This strategic tool facilitates the identification and prioritization of the sustainability issues that are relevant for a certain company and its stakeholders. The creation of a set of sustainability-related KPIs helps organizations and stakeholders to measure and evaluate the sustainability success of a company. The results can be used to derive appropriate measures for the sustainability management of the company (Auer et al., 2022). This approach is a valuable aid to internal decision-making processes and can add significant value to the non-financial corporate communications with a company’s stakeholders (Meutia et al., 2021; Oprean-Stan et al., 2020).

According to the CSRD which took effect in January 2023, mandatory sustainability reporting applies to certain companies in the EU according to European standards. The aim of the CSRD is that companies disclose information on opportunities and risks relating to sustainability truthfully and transparently (Baumüller et al., 2022). Currently, a project task force of the European Financial Reporting Advisory Group (PTS-EFRAG) is developing a mandatory cross-industry European Single Reporting Standard (ESRS) to obtain uniform data and ensure standardization of sustainability reports. The intention is to make the data comparable, to regulate the scope for interpretation of the reports, and thus to promote the transformation to a more sustainable economy

(Bassen et al., 2023). By 31 October 2023, sector-specific standards and separate reporting standards for SMEs are expected to be published, which should consider the capacities and characteristics of SMEs (European Commission, 2022). With the new CSRD, almost 50,000 companies are required to report instead of around 11,700 companies previously following the NFRD (Rinke & Messner, 2022). Moreover, all non-EU companies with substantial activity in the EU (with a turnover above 150 million euros in the EU) that have at least one subsidiary (large or listed) or branch (net turnover of more than 40 million euros) in the EU will be affected by the CSRD.

Only listed SMEs are obliged to report on sustainability from January 2026 according to the CSRD. In compliance with the new CSRD (Directive [EU] 2022/2464) and the ESRS, sustainability reporting will henceforth have to be included in a separate section of the company's management report. This dedicated section where material sustainability-related information will be presented is called a sustainability statement (EFRAG, 2022a). Furthermore, all companies concerned are obliged to have their sustainability information audited by an external organization. The audit is initially carried out with limited assurance and will be extended to reasonable assurance over time. All non-listed SMEs are consequently not required to report but can voluntarily publish sustainability reports. Nevertheless, it should be mentioned that SMEs may be forced to sustainability reporting by financial institutions and significant clients in their value chain simply requiring more information (Gorgels et al., 2022). According to the CSRD, the ESRS are binding EU standards for sustainability reporting. The final draft for cross-sector reporting standards from EFRAG which is responsible for developing the ESRS was submitted to the European Commission on 23 November 2022. The EU Commission is currently consulting the EU bodies and the member states on the draft standards (EFRAG, 2022b). The first set of ESRS is based on the requirements of the CSRD and comprises twelve standards (EFRAG, 2022a).

| Cross-cutting Standards                          |                                              |                                    |
|--------------------------------------------------|----------------------------------------------|------------------------------------|
| ESRS 1 <i>General requirements</i>               |                                              |                                    |
| ESRS 2 <i>General disclosures</i>                |                                              |                                    |
| Topical Standards                                |                                              |                                    |
| Environment                                      | Social                                       | Governance                         |
| ESRS E1<br><i>Climate change</i>                 | ESRS S1<br><i>Own workforce</i>              | ESRS G1<br><i>Business conduct</i> |
| ESRS E2<br><i>Pollution</i>                      | ESRS S2<br><i>Workers in the value chain</i> |                                    |
| ESRS E3<br><i>Water and marine resources</i>     | ESRS S3<br><i>Affected communities</i>       |                                    |
| ESRS E4<br><i>Biodiversity and ecosystems</i>    | ESRS S4<br><i>Customers and end-users</i>    |                                    |
| ESRS E5<br><i>Resources and circular economy</i> |                                              |                                    |

**Figure 1.** Overview of the Content Elements of the First Set of ESRS Drafts

**Source:** Own illustration based on EFRAG, 2022a

**Figure 1** provides an overview of the topics covered in the first draft of the ESRS. ESRS 1 *General Requirements* sets general principles that must be applied when reporting and does not itself set specific disclosure requirements. ESRS 2 *General Disclosures* specifies essential information that must be disclosed irrespective of which sustainability matter is being considered.

Then the topical standards follow according to the ESG classification (EFRAG, 2022a). The content requirements of the ESRS highlight that the application of double materiality is a central element of the ESRS, which is mandatory for all affected companies. This means that the company's positive and negative impacts on the people and the environment (impact materiality) as well as the impacts of the people and the environment on the company's economic situation (financial materiality) must be reported (EFRAG, 2022a).

### 3. DATA AND METHODOLOGY

The literature review allows us to identify the current sustainability reporting requirements for SMEs, while the empirical content analysis (Mayring (2022)) helps to examine common reporting patterns of SMEs. For the latter, the ten best sustainable reports from German SMEs according to the study of the Institute for Ecological Economy Research and the business network Future were taken for an in-depth analysis (Figure 2).

| Rank | Company                                   | Industry                |
|------|-------------------------------------------|-------------------------|
| 1    | Assmann Büromöbel GmbH & Co. KG           | Office furniture        |
| 2    | Pure Taste Group GmbH & Co. KG            | Food                    |
| 3    | Neumarkter Lammsbräu Gebr. Ehrnsperger KG | Food                    |
| 4    | memo AG                                   | Trade                   |
| 5    | GLS Gemeinschaftsbank eG                  | Service provider        |
| 6    | Bohlsener Mühle GmbH & Co. KG             | Food                    |
| 7    | Entega AG                                 | Energy and water supply |
| 8    | alstria office REIT-AG                    | Real estate             |
| 9    | elobau GmbH & Co. KG                      | Electronics             |
| 10   | Stadtreinigung Hamburg                    | Public utilities        |

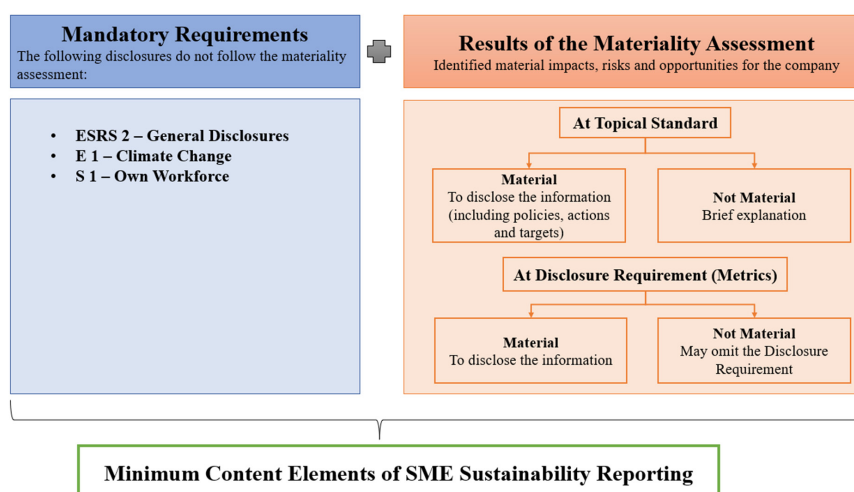
Figure 2. List of the 10 best sustainable reports from German SMEs

Source: Own illustration

### 4. RESULTS

This study proposes a framework for SME sustainability reporting based on an analysis of existing sustainability reports from SMEs as well as the legal requirements under the CSRD and ESRS. The aim is to provide comprehensive recommendations for SME sustainability reporting that is both simple and cost-effective. The proposed minimum content elements for SME sustainability reporting are based on the current SME-specific standards issued by EFRAG, which consider the unique capacities and characteristics of SMEs. These standards represent a simplified version of ESRS for large corporations. According to this study, the minimum content elements for SME sustainability reporting consist of two main components, as illustrated in Figure 3. The SME-specific ESRS are expected to be published by EFRAG no later than 31 October 2023.

Based on Figure 3, SME sustainability reporting has two main content-related elements. The first element is mandatory requirements, which include General Disclosures, as well as Climate Change and Own Workforce. SMEs are required to disclose their policies, actions, targets, and metrics related to these requirements. However, the available mandatory KPIs for Own Workforce only relate to organizations employing more than 250 people (EFRAG, 2023b).

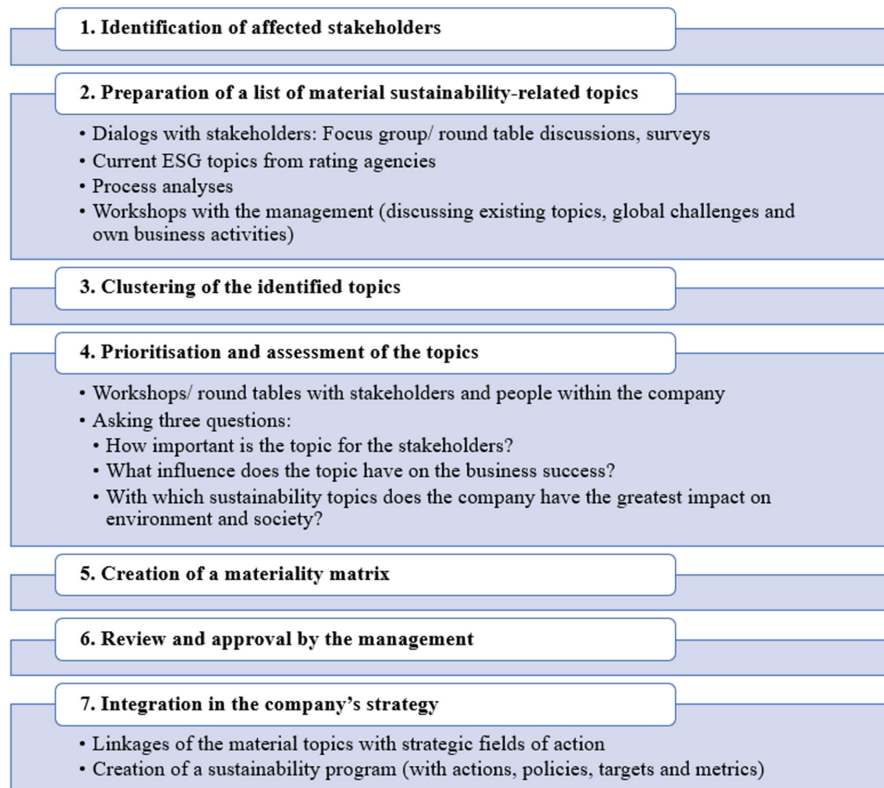


**Figure 3.** Content List of All Topics for SME Sustainability Reporting

**Source:** Own illustration based on [EFRAG, 2023b](#)

The second element is the results of the materiality assessment. Through this process, SMEs prioritize and identify the relevant topics to their stakeholders and themselves from the list of topical standards. All material topics, including their associated policies, actions, and targets, must be included in the company’s sustainability statement. If a topic is deemed not material, the company must explain the reason for this. Metrics are treated differently. If a topic is material but the metric is not, then the company can omit this information. Every SME must address Climate Change, but not all SMEs are required to report on Pollution. If Pollution is deemed relevant according to the materiality analysis, then the affected company must report on it, including its policies, actions, targets, and metrics are also material. However, if Pollution is not considered a material topic, then the company only needs to provide a brief explanation as to why the issue is not relevant to the company. These elements represent the minimum standards for non-financial reporting by SMEs. They serve as a preliminary orientation, especially for listed SMEs required to report on sustainability from January 2026, to know what is expected under the CSRD. This enables the affected SMEs to start preparing for sustainability reporting as soon as possible. EFRAG plans to provide a digital questionnaire for SMEs to indicate the required information.

**Recommended Procedure for the Materiality Assessment Process.** To ensure simple, reliable, and cost-effective determination of sustainability indicators for SMEs, we recommend the following approach. The process begins with a materiality analysis as shown in **Figure 4** below. This analysis should be conducted as early as possible to allow sufficient time for compliance with regulations and capture all material issues and stakeholder interests. The approach consists of seven steps. First, identify the company’s affected stakeholders. Second, prepare a list of material sustainability-related impacts, risks, and opportunities using various approaches or a combination of them. SMEs should evaluate which approach to take based on their available resources. However, involving stakeholders is recommended based on empirical results. Third, cluster the identified topics. Fourth, evaluate the material topics considering the stakeholders (question 1), the company’s management (question 2), and the sustainability team (question 3) if it exists. A materiality matrix provides a quick overview of all material issues and should be used to present the results of the materiality analysis (fifth step). In the sixth step, conduct a management review. Lastly, integrate the findings into the corporate strategy by creating a sustainability program with policies, actions, targets, and metrics. It is essential to note that the materiality analysis is an ongoing process and should be regularly reviewed and adapted if necessary to ensure that company-specific material issues remain up to date.



**Figure 4.** Procedure of the Materiality Assessment Process

Source: Own illustration

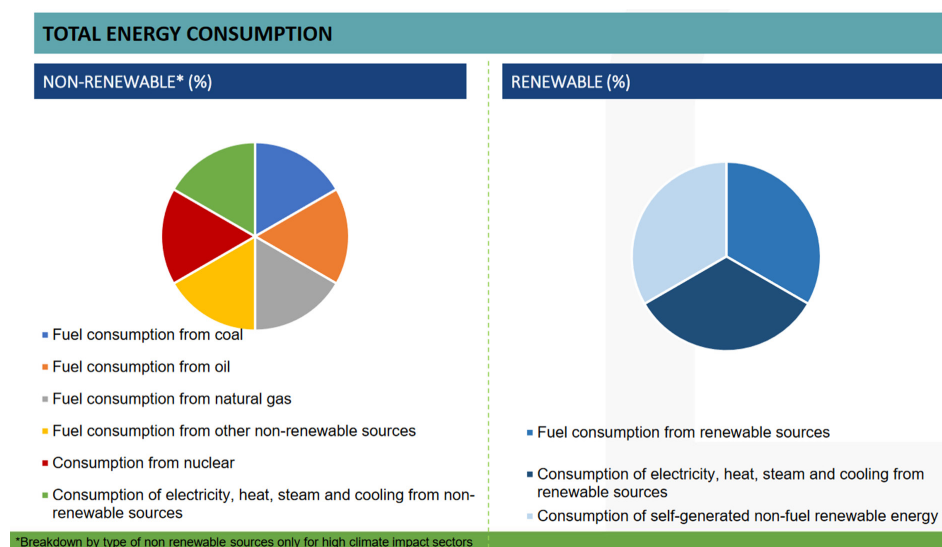
Once this process has been carried out, it only needs to be adjusted annually. The most resource-intensive part of sustainability reporting takes place in the first year. Suitable sustainability indicators must be defined to monitor the effectiveness of the measures determined in the sustainability program and achieve the set targets. Finally, the costs are amortized, and competitive advantages are generated. In the following paragraphs, we briefly explain the identification of sustainability indicators in the areas of Climate Change and Own Workforce because they comprise the mandatory disclosures.

|                                                                                 | Retrospective |              |   |           | Milestones and target years |      |        |                             |
|---------------------------------------------------------------------------------|---------------|--------------|---|-----------|-----------------------------|------|--------|-----------------------------|
|                                                                                 | Base year     | Compa-rative | N | % N / N-1 | 2025                        | 2030 | (2050) | Annual % target / Base year |
| <b>Scope 1 GHG emissions</b>                                                    |               |              |   |           |                             |      |        |                             |
| Gross Scope 1 GHG emissions (tCO <sub>2</sub> eq)                               |               |              |   |           |                             |      |        |                             |
| Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%) |               |              |   |           |                             |      |        |                             |
| <b>Scope 2 GHG emissions</b>                                                    |               |              |   |           |                             |      |        |                             |
| Gross location-based Scope 2 GHG emissions (tCO <sub>2</sub> eq)                |               |              |   |           |                             |      |        |                             |
| Gross market-based Scope 2 GHG emissions (tCO <sub>2</sub> eq)                  |               |              |   |           |                             |      |        |                             |

**Figure 5.** Recommended Reporting Table for GHG emissions Scope 1 and 2

Source: EFRAG, 2023a

The figures for energy consumption and production can be gathered from the utility bill. A clear representation showing the energy consumption in pie charts could resemble the following:



**Figure 6.** Recommended representation of Energy Consumption and Mix

Source: EFRAG, 2023a

**Own Workforce Indicators.** The data for a company’s workforce can be obtained from its ERP system. It is often helpful to seek assistance from external sources such as consulting firms, chambers of trade and commerce, or software tools like KlimAktiv. Based on empirical findings, various approaches can be adopted for preparing the sustainability statement, from outsourcing the entire process to only designing parts of it through agencies. SMEs should be aware that errors discovered by auditors could be more expensive than seeking external advice beforehand. Therefore, it is up to each SME to decide which approach is suitable, based on their available resources. It is also recommended to establish a sustainability team within the company that tracks current legal requirements, prepares the annual sustainability statement, and collaborates with other departments to coordinate sustainability actions. It is crucial to note that sustainability management is a collaborative effort that should involve all departments.

In summary, it is highly recommended that SMEs strategically use sustainability reporting to gain various benefits. This involves disclosing information related to sustainability, which can make firms feel vulnerable due to the sensitive nature of the information. However, it is important to be authentic and transparent towards stakeholders to avoid any reputational damage. To address this issue, adopting a holistic approach to sustainability reporting and integrating sustainability into the company’s business model is crucial. In the long run, SMEs can achieve competitive advantages, as well as improve efficiency and stakeholder relations.

## 5. CONCLUSION

The goal of this study is to assist German SMEs in sustainability reporting and identifying sustainability-related key performance indicators by proposing a framework for SME sustainability reporting at the EU level. The main focus of the study was to create an easy-to-implement and cost-effective approach to sustainability reporting that caters to the unique characteristics and capabilities of SMEs. Moreover, the proposed framework includes a seven-step process to determine and prioritize the relevant sustainability topics for a company and its stakeholders.

The results of this study have significant implications for SMEs. By engaging in proactive sustainability reporting, SMEs can gain a competitive edge and reduce costs through enhanced stakeholder relationships and streamlined internal processes. SMEs can use the proposed framework as a guide to develop their sustainability reporting practices. As the study highlights, the minimum requirements for SME sustainability reporting consist of the mandatory elements under the Corporate Sustainability Reporting Directive (CSRD) and the outcomes of the materiality assessment.

## References

- Auer, C., Borchering, N., & Möller, V. (2022). Zum Hintergrund des Nachhaltigkeitsmanagements. In J. Freiberg & A. Bruckner (Eds.), *Corporate Sustainability: Kompass für die Nachhaltigkeitsberichterstattung* (1<sup>st</sup> ed., pp. 27–34). Rudolf Haufe Verlag.
- Bassen, A., Lopatta, K., Wolters, K., & Zwick, Y. (2023). Im Dschungel der Berichtssysteme – Ein Beitrag zur internationalen Suche nach Transparenz. In Y. Zwick & K. Jeromin (Eds.), *Mit Sustainable Finance die Transformation dynamisieren: Wie Finanzwirtschaft nachhaltiges Wirtschaften ermöglicht* (1<sup>st</sup> ed., pp. 171–186). Springer Gabler.
- Baumüller, J., Haring, N., & Merl, S. (2022). Die Endfassung der CSRD – Was lange währt, wird endlich gut? *CFO Aktuell*, 16(4), 126–129.
- Dilling, P. F. A. (2010). Sustainability Reporting In A Global Context: What Are The Characteristics Of Corporations That Provide High Quality Sustainability Reports An Empirical Analysis. *International Business & Economics Research Journal*, 9(1), 19–30.
- Directive (EU) 2022/2464 of the European Parliament and of the Council of December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.
- EFRAG. (2022a). Draft European Sustainability Reporting Standards: ESRS 1 General requirements. Retrieved February 6, 2023, from <https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F06%2520Draft%2520ESRS%25201%2520General%2520requirements%2520November%25202022.pdf>
- EFRAG. (2022b). EFRAG delivers the first set of draft ESRS to the European Commission. Retrieved February 5, 2023, from <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/EFRAG+Press+release+First+Set+of+draft+ESRS.pdf&AspxAutoDetectCookieSupport=1>
- EFRAG. (2023a). Educational session on draft ESRS E1 Climate change. Retrieved April 19, 2023, from <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEducational%2520session%2520E1.pdf>
- EFRAG. (2023b). Glimpse into draft ESRS 1 General requirements. Retrieved April 19, 2023, from <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FGlimpse%2520into%2520draft%2520ESRS1.pdf>
- European Commission. (2022). Corporate sustainability reporting. Retrieved January 11, 2023, from [https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en)
- Gorgels, S., Priem, M., Blagoeva, T., Martinelle, A., & Milanese, G. (2022). Annual Report on European SMEs 2021/2022: SMEs and environmental sustainability. Retrieved January 17, 2023, from [https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review\\_en](https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en)
- Harrison, W. T. (2018). *Financial accounting: International financial reporting standards* (11<sup>th</sup> ed.). Pearson.
- Mayring, P. (2022). *Qualitative Inhaltsanalyse: Grundlagen und Techniken* (13<sup>th</sup> ed.). Beltz Verlag.



- MovingWorlds. (n.d.). ESG Reporting Guide. Retrieved from <https://movingworlds.org/esg-reporting-guide>
- Meutia, I., Yaacob, Z., & F. Kartasari, S. (2021). Sustainability reporting: An overview of the recent development. *Accounting and Financial Control*, 3(1), 23–39.
- Oprean-Stan, C., Oncioiu, I., Iuga, I. C., & Stan, S. (2020). Impact of Sustainability Reporting and Inadequate Management of ESG Factors on Corporate Performance and Sustainable Growth. *Sustainability*, 12(20), 8536.
- Rinke, R., & Messner, P. (2022). Mysterium EU-Taxonomie – Wo Begegnet Sie Uns? [Mystery of EU Taxonomy - Where Does It Encounter Us?]. Stuttgart: LBBW Research / Financials.
- Steinhöfel, E., Galeitzke, M., Kohl, H., & Orth, R. (2019). Sustainability Reporting in German Manufacturing SMEs. *Procedia Manufacturing*, 33, 610–617.

