

OPPORTUNITIES AND BARRIERS TO ESG REPORTING IN SMALL AND MEDIUM-SIZED ENTERPRISES

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Purpose: The implementation of ESG (Environmental, Social, Governance) principles in the group of small and medium-sized enterprises (SMEs) is currently one of the key challenges for the development of sustainable economies at the local, national and international level. Although the idea of sustainable development has been promoted for years at the level of European Union policies and on the global arena, its effective implementation among SMEs faces a number of unique difficulties, but at the same time creates opportunities that can contribute to improving the competitiveness and long-term stability of companies.

Design/methodology/approach: The inference was based on the results of a systematic literature review. It was found that the management of environmental, social and corporate governance aspects creates an opportunity to accelerate advanced development or increase competitive advantage.

Findings: In the literature on the subject, it has been pointed out that expanding disclosures is essential for companies to maximize returns on ESG investments. This allows creditors, investors, and other stakeholders to gain deeper insights into a company's ESG assessment in a timely and timely manner, facilitating greater support for their continued growth and success. Various proposals are discussed in the research to ensure the best way to implement the upcoming mandatory ESG reporting. The need for systematic, regulated and measurable ESG-focused disclosures is highlighted. There is a crucial need for SMEs to gain an understanding, awareness and recognition of the importance of ESG and its reporting.

Originality/value: The implementation of ESG (Environmental, Social, Governance) principles in the group of small and medium-sized enterprises (SMEs) is currently one of the key challenges for the development of sustainable economies at the local, national and international level. Although the idea of sustainable development has been promoted for years at the level of European Union policies and on the global arena, its effective implementation among SMEs faces a number of unique difficulties, but at the same time creates opportunities that can contribute to improving the competitiveness and long-term stability of companies.

Keywords: ESG reporting, small, medium – sized enterprises. Financial statements, ESG regulations.

Category of the paper: research paper.

Introduction

Financial statements are a structured set of information on the property, financial situation, financial result and cash flows of a business entity, prepared at the end of the reporting period. According to IAS 1, financial statements are a structured presentation of the financial position and transactions made by an enterprise. The purpose of the financial statements is therefore to provide information on the financial situation, achievements and cash flows in the company, which is useful for a wide range of decision-making users, but also the purpose is to present the results of the fiduciary function performed by the management over the resources transferred to it (Kumor, 2013). According to M. Smejda (Smejda, 2006), financial reporting is a synthetic picture of the effects of managerial actions occurring in the process of managing a given business entity. These activities express the multiple economic relationships of current and potential economic partners, such as owners, contractors, managers, employee teams, and society (Pfaff, Messner, 2012).

The financial statements are the final product of the accounting system and are the main source of information on the property and financial situation of a business entity. The financial statements have a formalized form specified in the Accounting Act and in the International Financial Reporting Standards. The final effect of financial reporting is that all the information contained therein comes directly from the accounting books, previously confirmed by the results of the inventory. In accordance with the Accounting Act, financial statements should be prepared in a reliable, clear and consistent manner with the actual state of affairs in order to enable their recipients – including owners, investors, creditors, tax authorities or other stakeholders – to properly assess the financial condition of the entity.

Financial statements can be considered in a static as well as dynamic approach. In static terms, financial reporting can be understood as a set of numerical statements prepared periodically or occasionally, taking into account legal requirements and the expectations of the recipient. On the other hand, in a dynamic approach, financial reporting is understood as the creation and transformation of information characterizing the property and financial situation of a business entity and showing the effectiveness of its operations in the indicated reporting period. In this approach to financial reporting, in addition to the indicated values, the procedures, valuation methods and processes leading to the estimation of this value should also be taken into account.

The financial condition of business entities can be assessed not only with the help of financial results, which are determined on the basis of financial statements. Stakeholders also expect an assessment of the impact that economic entities exert outside the economic sphere (Śnieżek, Wiatr, 2014; Świdorska Bek-Gaik, 2016; Dratwińska-Kania, Ferens, Szewieczek, 2021). ESG reporting was the answer to these needs.

Thus, ESG covers three areas:

- a) Environmental – environmental protection through sustainable development, reduction of greenhouse gas emissions and energy consumption, use of renewable energy sources, reduction of waste and harmful chemicals.
- b) Social responsibility – ESG investments focus on social responsibility, i.e. the impact of companies' operations on employees, consumers, and the local community. Companies investing in ESG are committed to protecting workers' rights, preventing discrimination and promoting diversity, occupational health and safety.
- c) Governance – ESG investments include ethical and effective financial management, including issues related to transparency, accountability, ethics and compliance.

The ESG concept itself is based on the idea of CRS, i.e. corporate social responsibility.

Literature review

The idea of corporate social responsibility, commonly known as CSR (Corporate Social Responsibility), means the responsibility of a company for its impact on society and the environment. Initially, it was understood primarily as a charitable activity carried out by individual entrepreneurs, but over time it has transformed into an extensive, strategic management concept, important not only for the company's image, but also for long-term success reflected in the company's financial results and market value.

CSR derives from the philosophical assumptions according to which freedom carries responsibility for actions. Already at the turn of the eighteenth and nineteenth centuries, philanthropic entrepreneurs appeared in the United States, such as Andrew Carnegie, who in his essay "The Gospel of Wealth" argued that the rich should treat themselves as stewards of the common good, fulfilling their moral duty to societies (Kaczocha, 2009). At that time, such activities were usually of a personal philanthropic nature, but were not directly related to the operational activities of the company. The breakthrough came in the mid-twentieth century – in the 1950s, Howard Bowen published the book "Social Responsibilities of the Businessman", which was the first comprehensive synthesis of the idea that companies should act in accordance with social goals and values, because their activities affect ordinary people (Visser, 2008). At the same time, Peter Drucker, considered one of the fathers of modern management, emphasized the need to take into account the social context of companies' activities, thus laying the foundation for the further development of CSR (Drucker, 1966). The sixties and seventies brought significant development impulses. Social and environmental movements have raised public awareness of the impact of corporations on the environment on the one hand, and on workers' rights on the other. Archie Carroll, on the other hand, developed the famous CSR pyramid, in which the responsibility of the company is divided into the following levels:

economic, legal, ethical and philanthropic (Caroll, 1991). The eighties and nineties brought the institutional sanctioning of CSR. Occupational health and safety management systems were introduced, as well as further codes – e.g. "Responsible Care". During this period, the ISO 14001 standards for environmental management and SA 8000 for social standards were created, as well as the guidelines for social reporting – the Global Reporting Initiative (GRI) – which contributed to the institutionalization of the idea of CSR (Visser, 2008). In 1994, John Elkington introduced the idea of the Triple Bottom Line, which assumed that the performance of a company should be evaluated through the prism of three areas: economics (profit), ecology (planets) and social issues (people) – 3P (World Commission on Environment and Development (1991) [1987]. *Our common future*. Oxford University Press). In Europe, at the turn of the century, CSR has gained importance as part of a sustainable development strategy. At the Lisbon Summit in 2000, the EU set itself the goal of making the EU economy the most competitive and knowledge-based, while ensuring sustainable, sustainable development and social cohesion. In 2001, the European Commission published the "Green Paper on Corporate Social Responsibility", which was intended to stimulate a public debate on responsible business¹.

In 2004, the completion of the "Who Cares Wins" report – prepared by the UN Global Compact – initiated the use of the term ESG. This was a clear shift from the moral values of CSR to a structurally defined and measurable approach, integrating environmental, social and corporate governance factors (Kiziukiewicz, Jaworska, 2017; Lerner et al. 2015). This report indicated that ESG is a value for investors and financial markets and should be treated as an element of assessing their stability and long-term value².

In 2011, the EU updated its approach to CSR, adopting a strategic definition as "the responsibility of companies for their impact on society", with a focus on integrating CSR into the competitiveness of companies³. The next phase of development was related to the departure from the CSR approach to more advanced concepts. In 2006 and 2011, Michael E. Porter and Mark Kramer proposed the concept of "Creating Shared Value" (CSV), which postulates that business activities can simultaneously increase a company's competitiveness and improve social conditions – in other words: combining value creation with responsibility (Porter, Michael, Kramer; 2011).

Undoubtedly, the development of CSR was related to the increase in the importance of legal regulations related to its reporting. In 2010, ISO published ISO 26000 – a guide to the principles of responsible business, covering areas such as governance, human rights, industrial relations, the environment, fair practices, consumer relations and social engagement⁴. From a theoretical perspective, the development of CSR can be observed as an evolution from CSR 1.0 (defensive,

¹ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2001:0366:FIN:EN:PDF>, 1.09.2025.

² <https://www.icl-group.com/blog/the-evolution-from-csr-to-esg/>, 1.09.2025.

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0681>, 1.09.2025.

⁴ <https://www.parp.gov.pl/csr#csr>, 1.09.2025.

charitable, promotional and strategic) to CSR 2.0, understood as a transformational, integrated approach, based on values such as creativity, scalability, globality (combining global and local activities) and circularity; its goal is value creation, good governance, social contribution and environmental integrity (Visser, 2010).

CSR has played an important role in shaping corporate and social awareness for decades, but is now giving way to ESG, which offers a more transparent, measurable and strategically integrated approach. The transformation began to gain momentum in the early 21st century. In 2022-2023, the European Union adopted the CSRD (Corporate Sustainability Reporting Directive) and ESRS standards, and is currently consulting the Corporate Due Diligence Directive (CSDDD) – entering CSR as part of a broad ESG (environmental-social-governance) approach.

The CSRD (*Corporate Sustainability Reporting Directive*) is a European Union directive that aims to increase the transparency of doing business in the field of sustainable development. It introduces the obligation to report information in accordance with the ESRS (*European Sustainability Reporting Standards*).

The CSRD modifies sections of Directive 2013/34/EU (the 'Accounting Directive') with regard to non-financial disclosures initially introduced by the Non-Financial Reporting Directive (NFRD). The sustainability reporting mandates set out in Article 1 of the CSRD are assumed to be phased in between 2024 and 2028 for four different categories of companies.

In the literature, the term ESG refers to a strategy, concept, principle, standard, tool, pattern, system, or model that combines three types of governance aspects: environmental, social, and governance and includes interactions between them. ESG refers to the non-financial aspects of governance that have a material impact on the performance and value of entities (Gemza et al., 2024; EBA, 2021; Ling, Wang, Sueyoshi, Wang, 2021).

Therefore, several key thematic areas can be identified in the literature on the subject (Giemza et al., 2024):

1. Sustainable supply chain (Koberg, Langoni, 2019; Cousins, Lawson, Petersen, Fugate, 2019; Tseng, Wu, Lim, Wong, 2019; Becerra, Mula, Sanchis, 2021; Feng, Lai, Zhu, 2023).
2. Measurement, collection and exchange of data.
3. Impact on business efficiency (Abdallah, Alfar, Alhyari, 2021; Rupa, Saif, 2022).
4. Managing relationships with business partners in the supply chain (Muzaffar, Khurshid, Malik, Azhar, 2019).
5. Decarbonization challenges (Zhang, Alvi, Gong, Wang, 2022).

ESG Regulations

ESG issues are regulated by two cross-cutting standards:

- ESRS 1 – general requirements,
- ESRS 2 – general disclosures.

In addition to the above standards, non-financial reporting will be regulated by ten thematic standards, respectively concerning the environment (ESRS E1-E5), employee and social affairs (ESRS S1-S4) and business conduct rules (ESRS G1).

ESRS Environmental Standards:

- ESRS E1 Climate Change.
- ESRS E2 Pollution.
- ESRS E3 Water and Marine Resources.
- ESRS E4 Biodiversity and Ecosystems.
- ESRS E5 Resource use and circular economy.

ESRS standards in the field of social policy and corporate governance:

- ESRS S1 Employees managed by the organization.
- ESRS S2 Employees in the value chain.
- ESRS S3 Affected Communities.
- ESRS S4 Consumers and end-users.
- ESRS G1 Running a business.

It was also assumed that in addition to universal (baseline) standards, industry (sectoral) standards would be created. It is estimated that there will be about forty of them. Work on these standards will last until mid-2026 and their introduction is expected to reduce the burden on companies obliged to prepare a sustainability report – mainly because there will be clear guidelines for given industries and it will be easier to meet the requirements resulting from the ESRS. Currently, companies are obliged to report on material issues, as the cross-sectional and thematic standards are assumed to apply to all companies that are subject to the CSRD Directive – regardless of the sector in which a given entity operates.

European Sustainability Reporting Standards

The European Sustainability Reporting Standards change the way and, above all, the scope of reporting, focusing on the topics that are relevant, i.e. those through which a given company exerts the greatest impact on the environment or society. At the same time, companies are obliged to identify the key risks and opportunities that may arise for the company from climate change or social issues. For the topics of material and key risks, the financial dimension should

also be estimated. This concept is defined as double materiality and is unique from other non-financial reporting standards currently in force in the world. ESRSs also require, like other global standards, to look at both relevant topics and risks not only through the prism of one's own organization, but also from the perspective of the value chain.

It is these issues concerning the assessment of dual materiality, as well as the value chain perspective, that are described in ESRS 1 – General requirements. ESRS 1 together with ESRS 2 forms the foundation on which all other standards are based.

The ESRS 1 standard contains the most important guidelines concerning, among other things, the structure and content of sustainability reporting. It also defines the most important terms used in all other standards. The ESRS 1 standard requires entities to report in accordance with the principle of double materiality. It also imposes an obligation of consistency with other legal regulations, such as the EU Taxosome and the CSRD, and highlights the role of transparency and reliability of data, e.g. through requirements for the verification of information and the use of appropriate indicators and metrics. Undoubtedly, a useful element of ESRS 1 are the individual add-ons that are at the end of the standard.

ESRS No. 1 defines the qualitative characteristics of the information of the published data. These features should be consistent with the features indicated by the Accounting Act. These are:

- usefulness,
- faithful reflection,
- comparability,
- verifiability,
- intelligibility.

Definitions of the above features are contained in Appendix B to the above Standard. When analysing these features, it should be pointed out that the information will be useful if it influences the decisions of users – in accordance with the principle of materiality.

This information can be divided into two groups: concerning the future and concerning the past. Future data will be used to make your own predictions, while historical data will be used to confirm feedback.

Only information that is neutral, complete and accurate will be a faithful reflection of reality. Another feature mentioned is comparability, which concerns the comparability of different entities, but also the comparability of subsequent periods. Verifiability, in turn, consists in the possibility of confirming information in source documents or output data.

Non-financial reporting obligation

The first solution assumed that for the financial year starting on 01.01.2024, large public-interest entities exceeding the average number of 500 employees in the financial year as of the balance sheet date would be subject to the reporting obligation. The obligation to report ESG in the first year was imposed on the following entities:

- public interest, i.e. listed on the stock exchange,
- more than 500 employees in the financial year,
- meeting at least one of two conditions:
 - a. balance sheet total of more than EUR 20 million,
 - b. net sales revenues of more than 40 million euros.

On the other hand, for the financial year beginning on 01.01.2025, the obligation applies to other large enterprises and other parent companies of a large group.

That is, the obligation to submit a report is imposed on:

1. Entities that are not public-interest entities, but meet at least two of the three conditions:
 - balance sheet total of more than EUR 20 million,
 - net sales revenues of EUR 40 million,
 - average number of employees 250 people.
2. entities that are public-interest entities but employ fewer than 500 people, but meet two of three conditions:
 - balance sheet total of more than EUR 20 million,
 - net sales revenues of EUR 40 million,
 - average number of employees 250 people.

For the financial year starting on 01.01.2026, the reporting obligation also covers small and medium-sized enterprises of public interest and not being micro-entities:

- some issuers defined as small and non-complex institutions,
- some issuers defined as in-house insurance undertakings and in-house reinsurance undertakings.

For the first two years, small and medium-sized public-interest entities will be able to opt out of sustainability information in their activity reports if they provide a reason for their resignation.

The European Union has introduced regulations that are primarily aimed at ensuring transparency in companies. From 2024, ESG reporting was to become a key obligation for many companies in Europe. In June 2025, the Council of Ministers adopted a deregulatory solution regarding ESG reporting for companies. The draft provides for postponing the ESG reporting obligation for companies by two years. The solution adapts Polish law to the regulations of the European Union. Thus, the ESG reporting obligation for companies is postponed by 2 years.

This obligation also applies to companies that were supposed to start reporting in 2026 and 2027, respectively.

Thanks to the postponement of reporting deadlines, companies will have more time to prepare for the new obligations. The solution is also intended to reduce excessive administrative burdens for companies, especially in the face of increasing competition from companies from outside the European Union.

At the same time, the European Union is working intensively on further changes in ESG reporting, including a significant narrowing of the scope of entities obliged to report. At the same time, a new proposal was introduced in 2025 whereby only companies with more than 1000 employees and either revenues of more than €50 million or a net turnover of more than €25 million would be included in the CSRD, removing around 80% of companies from sustainability reporting requirements⁵.

Economic activities can make an important contribution to the environmental objective of protecting and restoring biodiversity and ecosystems in a number of ways, including by protecting, preserving or restoring biodiversity and ecosystems, and thus through the development of ecosystem services. Such services fall into four categories: supply services (food and water supply):

- regulation services (climate and disease control),
- support services (nutrient cycles and oxygen production),
- cultural services (providing spiritual and recreational benefits).

Reporting in the field of society concerns: own employees, employees in the value chain, communities, consumers and end users.

With regard to issues concerning people and society (workers, suppliers, customers, users, etc.), including information on:

- equal opportunities for all, including gender equality and equal pay for equal work or work of equal value,
- training and skills development, as well as employment and integration of persons with disabilities,
- working conditions, including a safe working environment, wages, social dialogue, collective bargaining,
- respect for human rights, fundamental freedoms, democratic principles and norms.

In terms of corporate governance, the ESG report should include information on:

- the role and composition of the administrative, management and supervisory bodies of the entities, including with regard to sustainable development issues,
- business ethics and corporate culture, including anti-corruption and bribery,

⁵ The European Commission has announced the publication of the first 'Omnibus' package, which contains a number of proposals to reduce sustainability reporting requirements for companies, including plans to remove 80% of companies from the scope of the Corporate Governance Directive (CSRD) and to limit the sustainability information that large companies and banks can request.

- the political involvement of the entity, including its lobbying activities,
- managing relationships with business partners and their quality, including payment practices,
- the entity's internal control and risk management systems, including in relation to the entity's reporting process.

Among the indicators in each of the three internal factors appear:

- a) Uniform indicators for all actors,
- b) uniform indicators for industry players,
- c) indicators specified for a given entity.

Metrics are a key part of the ESG reporting process, as they enable you to measure, monitor, and communicate your company's sustainability performance. Their proper selection and use allows for the presentation of reliable, comparable and detailed data that is relevant both for internal management objectives and for stakeholders, including investors, regulators, clients and local communities. When choosing indicators, it is necessary to take into account several basic criteria. Firstly, the indicator must reflect issues relevant to the company's operations and its stakeholders, which is related to the materiality assessment. Secondly, it should be possible to measure precisely, based on available data and standards. Thirdly, the indicator must allow for time-over-time comparisons and with other players in the industry, which requires the use of recognised and well-defined methodologies.

The breakdown of indicators within ESG reports can be made based on their functions and thematic areas. Environmental indicators (E) focus on aspects related to environmental protection. The most commonly used environmental indicators include the level of carbon dioxide emissions per unit of production (e.g. t CO₂/kg of product), the consumption of electricity and other raw materials per unit of production, the waste recycling rate, the share of renewable energy sources in total energy consumption, or the water consumption rate per unit of product or service. Social (S) indicators relate to relationships with workers, communities, human rights and working conditions. Social indicators commonly include the level of employee turnover, the employment rate of women and men, the number of training days per employee, diversity and equality policy, the rate of reported cases of human rights violations or the percentage of suppliers meeting the criteria of responsible production. Corporate governance (G) indicators cover aspects of governance, governance structure, ethics and transparency. Among the corporate governance indicators, the risk management indicator (e.g. the number of reported corruption incidents), the ownership and management structure, the number and qualifications of supervisory board members, the anti-corruption policy, or the transparency index in financial and non-financial reporting are important.

To ensure the reliability and comparability of data, there is an increasing emphasis on the use of standardised indicators developed by international organisations and initiatives. Examples of such standards are the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), or the European ESRS Standards. It is important to

choose metrics that best reflect key aspects of your business and ESG risks, as well as those that are relevant to stakeholders. The selection of indicators should support transparency, credibility and the ability to compare between companies and industries. In the context of ESG reporting, there are imposed or standard indicators that have been developed by international organizations and regulations to ensure the consistency, comparability, and reliability of data. The implementation of these indicators is intended to help stakeholders assess the sustainability performance and performance of companies. Organizations such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Climate Disclosure Standards Board (CDSB), and more recently the European ESRS Standards, have developed sets of indicators that can be mandatory or recommended in ESG reports. In the case of GRI, the guidelines offer a wide catalogue of indicators on various aspects of ESG, with the possibility of choosing the right ones for the specifics of the company's operations. The reports include those that are most relevant, but in some jurisdictions or sectors there may be reporting obligations for a specific set of indicators. European law, in particular the CSRD and ESRS directives, indicates the relevant indicators that companies must report. Although the indicators themselves are defined within the standards and may vary depending on the industry, examples of key areas and values that must be included in the reports are indicated. For example, in a climate context, companies may be required to disclose CO₂ emissions according to certain methodologies, such as Scope 1 (direct emissions), Scope 2 (indirect emissions associated with energy purchases) and Scope 3 (other indirect emissions from the supply chain).

Table 1.

Catalogue of indicators that cover various aspects of sustainability

Organizations	Assumptions	Indicators
Global Reporting Initiative (GRI)	GRI offers a wide catalogue of indicators that cover various aspects of sustainability, and are available under the GRI Standards. These indicators are divided into thematic categories and refer to quantitative and qualitative data. GRI emphasizes reporting with numerical values, measurement methodology, and quality of information.	CO ₂ emission (GHG): GRI 305-1 (Scope 1), GRI 305-2 (Scope 2), GRI 305-3 (Scope 3) – emissions in tons of CO ₂ e. Energy consumption: GRI 302-1 – total energy consumption in kWh. Water consumption: GRI 303-1 – total water consumption in m ³ . Environmental failure rate: The number of environment-related breach incidents. Working conditions: employee turnover rate, absenteeism, accident rate at work.
Sustainability Accounting Standards Board (SASB)	SASB has developed industry standards that contain specific indicators suitable for different sectors of the economy. SASB metrics are particularly useful for investors and focus on ESG risks and opportunities that can impact financial results. Industry standardization makes SASB allow for comparing indicators between companies in the same industry.	Energy: Average CO ₂ emissions per megawatt/h (MJ/power output) – energy sector. Cosmetics: The percentage of products certified as organic or cruelty-free. Mining: Hazardous waste rate per unit of production. Technology: Percentage of products recyclable.

Cont. table 1.

Climate Disclosure Standards Board (CDSB)	The CDSB has developed a reporting framework related mainly to climate issues, particularly in the field of disclosure of information on emissions and climate risk, which have a direct impact on the company's operations. An important aspect here is attention to the quality and comparability of information on emissions and climate risks.	CO ₂ emissions per unit of activity. The value of potential financial losses related to climate risk. The share of renewable energy in the company's energy capital. Impact resulting from extreme weather phenomena – number of interruptions in operations, material damage.
European ESRS Standards	The European ESRS Standards, developed under the CSRD Directive, include detailed guidelines and key indicators to be reported by companies operating in the EU. These standards are based on the latest trends and best practices, combining elements of global standards and local requirements.	Net CO ₂ emissions: the total emissions of both Scope 1, 2 and 3, expressed in tonnes. Renewable and non-renewable energy consumption: percentage of total energy consumption. Impact on the local community: number of social initiatives or supported projects. Working conditions and diversity: the percentage of women on the board, the diversity index. ESG risk management

Source: own study based on **Global Reporting Initiative (GRI)**: GRI Standards. <https://www.globalreporting.org/> **Sustainability Accounting Standards Board (SASB)**: SASB Standards, <https://www.sasb.org/> **Climate Disclosure Standards Board (CDSB)**: Framework and Guidance, <https://www.cdsb.net/> **Europejskie Standardy ESRS**: Draft standards developed by EFRAG, available on the official EFRAG website <https://www.efrag.org/> and in the European Commission's materials on the CSRD Directive.

ESG for small and medium-sized enterprises

The implementation of ESG (Environmental, Social, Governance) principles in the group of small and medium-sized enterprises (SMEs) is currently one of the key challenges for the development of sustainable economies at the local, national and international level. Although the idea of sustainable development has been promoted for years at the level of European Union policies and on the global arena, its effective implementation among SMEs faces a number of unique difficulties, but at the same time creates opportunities that can contribute to improving the competitiveness and long-term stability of companies.

According to the European Commission, the CSRD increases transparency and accountability, including by expanding its scope to include large and listed companies while modernising and strengthening reporting rules⁶. The new requirements ensure that stakeholders have access to the information they need to assess the impact that companies have on people and the environment. Companies subject to reporting obligations must comply with the European Sustainability Reporting Standards (ESRS).

⁶ https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en, 11.09.2025.

The mandatory draft standard – ESRS for Small and Medium-sized Enterprises Exposure Projects (ESRS LSME) – applies to listed SMEs, comprising entities with transferable securities traded on regulated markets in the EU, as well as small and non-complex institutions, internal insurers and reinsurers. At the same time, a voluntary standard for non-listed SMEs is being developed. This standard is a draft of the voluntary European Sustainability Reporting Standard (VSME ESRS), and is drafted explicitly for SMEs not listed on a regulated market in the European Union. It serves as a simple reporting tool to help these SMEs respond to requests for information on sustainability from a variety of stakeholders, including banks, investors and larger companies – for which they serve as suppliers.

While non-listed SMEs are not directly covered by the CSRD, they are likely to be de facto required by their business partners and investors to report accordingly. In other words, even if the CSRD does not explicitly apply to unlisted SMEs, market pressures and stakeholder expectations may prompt them to adopt sustainability reporting practices.

For SMEs, the path to ESG integration is fraught with challenges related primarily to limited resources, lack of expertise and perceived focus on short-term goals, which are different from those of large enterprises, scale of operations, human, capital and organizational resources that often distinguish small companies from large corporations, which is part of the specific challenges related to the implementation of ESG policies. SMEs often operate in limited financial conditions, lack sustainability professionals, and have limited access to competence and knowledge in the latest ESG standards. However, despite these challenges, implementing ESG can be seen as an investment for the future, opening up long-term opportunities for small businesses. In the context of ESG, SMEs typically do not have dedicated sustainability departments, and their activities are often carried out on an ad hoc basis or as part of broader development strategies. This situation means that elements of sustainable development are not always an integral part of the main business goals, and their implementation requires not only a change in organizational culture, but also significant investments, which can be a financial burden for these companies.

Not only will early and voluntary CSRD compliance help SMEs maintain business relationships with their existing customers, but ESG compliance in general presents significant growth opportunities for smaller businesses. Potential benefits include:

- Sustainability-linked loans that tie financial incentives to ESG goals.
- Attracting new customers.
- Positioning ourselves for regulatory benefits.

In addition, the commitment to sustainability reporting provides SMEs with valuable insights into non-financial indicators related to their business activities. This understanding reveals cost-saving opportunities (such as optimizing energy consumption) and potential innovations, as well as increasing clarity on how to comply with mandatory regulations.

CSRD compliance makes organizations more agile and future-proof, giving them a competitive advantage. Therefore, SMEs are encouraged to proactively monitor their sustainability practices as soon as possible in order to include customers and prevent potential contract losses.

Given the growing preference for sustainable businesses, early voluntary compliance by SMEs can provide a competitive advantage, contributing to their forward-looking and environmentally conscious image.

Undoubtedly, the implementation of ESG principles in SMEs brings numerous benefits. Above all, SMEs that engage in ESG initiatives can gain a competitive advantage in the market. Consumers are increasingly choosing products and services from companies that demonstrate social and environmental responsibility, as well as attach importance to the quality of management. ESG activities can also reduce operating costs, for example by optimizing energy and water consumption or reducing waste, which is especially important for companies with limited financial resources. In addition, companies implementing ESG policies can benefit from various forms of public and EU support, which are increasingly available at the national and European level. Financing investments in energy-efficient technologies, environmental certifications, training and development of employee competences in the area of CSR – these are just some of the instruments that are conducive to the development of responsible business in SMEs. For many companies, ESG implementation is also a form of building lasting relationships with stakeholders, which in turn fosters the development of the company's long-term value. The growing importance of ESG in the context of the availability of financing is also an important opportunity – banks, investment funds and other institutions are increasingly requiring small and medium-sized entities to report and be transparent about ESG policies. This, in turn, motivates SMEs to develop a sustainable development strategy as part of building trust and opportunities to raise capital.

Barriers to ESG implementation in SMEs

The barriers to implementing ESG principles in the small and medium-sized enterprises (SMEs) sector are multidimensional and result from various organizational, financial, legal and cultural conditions. Understanding them is crucial for developing effective strategies to support these companies in the process of implementing sustainable practices.

One of the main barriers is the limited knowledge of SME owners and managers about the ESG concept, its scope and the benefits of implementation. Many companies, especially those operating at the local or regional level, are not familiar with the latest international or national frameworks, standards and guidelines for reporting and responsible management. Lack of awareness means that pro-environmental, social and corporate governance activities are not

treated as an element of the development strategy, but as additional obligations or costs, which discourages their introduction. Additionally, owners often do not recognize the direct financial benefits, which affects the limited incentive to invest in these areas.

Another significant challenge is the lack of qualified staff or available ESG specialists who would be able to help develop and implement a sustainable development strategy. SMEs most often do not have their own HR or CSR departments to deal with these issues, which forces them to outsource services or search for knowledge on their own, often to a limited extent. Lack of competence in the measurement, reporting and interpretation of ESG indicators means that the company may not carry out its activities in a consistent, methodologically correct and reliable manner, which weakens their credibility and resistance to criticism or controls.

Implementing ESG policies often involves upfront costs, such as investments in green technologies, certifications, training, infrastructure upgrades, or operational process improvements. For many SMEs, especially those with limited equity or borrowing financing on the basis of short-term liabilities, these are major financial barriers. In addition, access to funding sources targeting ESG-related projects, such as EU funds or loans with preferential pathways, is often limited or requires complex application procedures, which is difficult for smaller companies that do not have their own finance departments or advisors specializing in green and social accounting.

SMEs face difficulties related to the lack of uniform, widely accepted and tailored ESG reporting standards. International frameworks such as the GRI or SASB are mainly aimed at large corporations and generate complex, time-consuming documentation that may be beyond the capabilities of a small or medium-sized enterprise to complete. As a result, many SMEs are concerned that reporting will require a lot of work and at the same time will not bring direct economic benefits, resulting in delays or no action altogether.

Summary

The implementation of ESG principles in the group of small and medium-sized enterprises is a key challenge for the development of sustainable economies. ESG is a response to the expectations of stakeholders regarding the assessment of the impact of economic entities outside the purely economic sphere. The concept of ESG is based on the idea of Corporate Social Responsibility (CSR), but it should be more transparent, measurable and strategically integrated than CSR.

Implementing ESG in SMEs is a key challenge, but it also presents significant opportunities. Among the barriers to implementing ESG in SMEs, it is necessary to point out limited knowledge and lack of awareness, which makes ESG treated as an additional cost, and not an element of the strategy. Lack of qualified staff or ESG specialists and the need to incur start-

up costs (technologies, certifications, training), which are a serious financial barrier for companies with limited capital.

Another problem is access to dedicated sources of funding (e.g. EU funds), which is hampered by complicated application procedures or the lack of adapted standards, as international reporting frameworks (GRI, SASB) are aimed mainly at large corporations and generate time-consuming documentation that exceeds the capabilities of SMEs.

When analysing the chances of implementing ESG in SMEs, it is necessary to point out the competitive advantage, as engaging in ESG allows you to gain an advantage in the market, as consumers prefer socially and environmentally responsible companies. ESG measures can lead to lower operating costs, e.g. by optimizing energy consumption and reducing waste.

In the literature on the subject, it has been pointed out that expanding disclosures is essential for companies to maximize returns on ESG investments. This allows creditors, investors, and other stakeholders to gain deeper insights into a company's ESG assessment in a timely and timely manner, facilitating greater support for their continued growth and success. Various proposals are discussed in the research to ensure the best way to implement the upcoming mandatory ESG reporting. The need for systematic, regulated and measurable ESG-focused disclosures is highlighted. There is a crucial need for SMEs to gain an understanding, awareness and recognition of the importance of ESG and its reporting.

Recommendations for the implementation of ESG principles in the group of small and medium-sized enterprises

In recent years, the ESG concept, which includes environmental, social and corporate governance issues, has become one of the key trends shaping the practice of managing business organizations. Small and medium-sized enterprises are increasingly faced with the need to adapt to new regulatory requirements, investor expectations and stakeholder pressure. The implementation of ESG in this group of entities is not only a response to external obligations, but can also be the basis for building a sustainable competitive advantage. The aim of this study is to present recommendations for the effective implementation of ESG in the SME sector, taking into account the specifics of their scale of operation, organizational structure and available resources. A major challenge in the process of implementing ESG in small and medium-sized enterprises is the reduction of capital, human resources and technological resources. Unlike large corporations, these entities are less likely to have specialized units responsible for sustainable development. Therefore, it is crucial to integrate ESG issues into the overall strategy of the company, so that the responsibility for their implementation is not seen as a separate project, but as an integral part of operational activities. This process should begin with a diagnosis of the current situation, covering both environmental, social and organizational aspects. Only on this basis is it possible to formulate realistic goals, adequate to the scale of the activity and the nature of the industry.

In the environmental area, the identification of key sources of the company's impact on the environment is of particular importance. For many SMEs, the basic issue is the consumption of energy, materials and waste generation. Implementing energy-saving solutions, circular economy or optimization of production processes can bring both environmental and financial benefits. It is important that these activities are based on measurements and data, so that progress can be monitored and future initiatives can be rationally planned. In the absence of internal competencies, it is worth using advisory support or cooperation within clusters and industry organizations.

The social dimension of ESG in SMEs primarily includes relations with employees, the local community and contractors. Building an organizational culture based on respect for employee rights, transparency and equal opportunities is conducive to employment stabilization and increases team engagement. In the conditions of staff shortage, competent management of human resources becomes a decisive factor for competitiveness. At the same time, companies can strengthen their position in the local environment through responsible relationships with suppliers and customers, as well as by participating in initiatives supporting regional development.

The third pillar of ESG is corporate governance, which takes a different form in SMEs than in listed companies. Despite less formalization, transparency of decision-making processes, a clear division of responsibilities and business ethics are crucial. Owners and management should create a governance framework that allows ESG factors to be systematically incorporated into strategic and operational decisions. This includes, but is not limited to, the introduction of compliance procedures, the prevention of conflicts of interest, and the development of a culture based on accountability and trust.

The implementation of ESG is also associated with the need to report on activities and results. In the case of SMEs, proportionality should be sought so that reporting obligations do not impose an excessive burden. The development of a simplified but consistent reporting framework allows for transparent communication with stakeholders and facilitates access to finance, especially in the context of the growing role of sustainable instruments. Reporting should be based on reliable data, which strengthens the company's credibility on the market.

It is also worth emphasizing that the implementation of ESG in SMEs is not a one-time process. It is evolutionary and requires continuous improvement. The involvement of top management and building employee awareness are crucial. Education in the field of sustainable development and sensitivity to ethical and environmental issues are conducive to the permanent rooting of ESG principles in everyday business practice. It is also important to create partnerships between companies, public institutions and social organisations, which allows for the exchange of experiences and reduces the costs associated with the implementation of new solutions.

In conclusion, implementing ESG in the SME sector is both a challenge and an opportunity. A properly designed and implemented process can lead to increased efficiency, improved reputation and increased resilience to changes in the market and regulatory environment. Recommendations for ESG implementation should take into account the proportionality of actions, integration with the company's strategy and systematic monitoring of the effects. In the long term, ESG adaptation can become an important element of building a sustainable model for the development of SMEs, while contributing to the achievement of social and environmental goals at the level of the economy as a whole.

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