

Accounting practitioners' perspectives on small- and medium-sized enterprises' environmental sustainability reporting

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Abstract

Purpose – This research investigates the feasibility, benefits and challenges of environmental sustainability reporting by Small- and Medium-Sized Enterprises (SMEs).

Design/methodology/approach – The authors develop an abridged SME environmental sustainability reporting framework based on the environmental aspects of the Global Reporting Initiative (GRI) Standards for Sustainability Reporting. The authors collect the views of 203 SME accounting practitioners on our proposed reporting framework using a survey questionnaire.

Findings – The authors find that the greatest perceived benefit for firms adopting environmental sustainability reporting is that it leads to an improvement in company image. Lack of knowledge, resources and data capturing tools impede implementation of environmental sustainability reporting for both SMEs and accounting practitioners. While SMEs are not yet required to implement environmental sustainability reporting, the research discusses implications for policy makers and practitioners for adopting environmental sustainability reporting in the SME context.

Research limitations/implications – The main limitation of this study is that environmental sustainability reporting for SMEs is in its infancy. A longitudinal survey, or re-examining this survey over time, could be beneficial to assess the long-term benefits and costs of implementing sustainability reporting.

Practical implications – The findings of this study have practical implications for the future development of SME environmental sustainability reporting in the EU and for regulators considering sustainability reporting regulations with a specific focus on SMEs.

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Originality/value – The study reconstructs the GRI environmental guidelines into a framework for SMEs and provides empirical evidence on the accountant's sustainability reporting role.

Keywords Sustainability reporting, Environmental accounting, Small- and medium-sized accounting practitioners, Small- and medium-sized enterprises, Global reporting initiative

Paper type Research paper

1. Introduction^[1]

While SMEs are not yet required to implement environmental sustainability reporting, the research discusses implications for policy makers and practitioners for adopting environmental sustainability reporting. As addressing climate change becomes more urgent, standard setters have increased their efforts to promulgate better quality standardised guidance. However, with some exceptions (Arena and Azzone, 2012), the impediments and difficulties facing small- and medium-sized enterprises (SMEs) in engaging in sustainability reporting have not received the same attention. Sustainability reporting has come to be regarded as standard corporate practice in larger firms, yet due to a lack of operational resources, SMEs continue to be regarded as newcomers to the practice (Rodríguez-Gutiérrez *et al.*, 2021). This creates issues as to whether SMEs are able to engage in sustainability reporting in an effective manner, which may positively influence key stakeholders (Thoradeniya *et al.*, 2022). Our research assesses the feasibility of a sustainability reporting framework for SMEs and addresses the benefits and challenges associated with sustainability reporting (Buallay, 2019).

We focus on environmental sustainability reporting for several reasons. Accounting and finance research on sustainability has tended to converge on disclosure of environmental information (Chung and Cho, 2018). Environmental reporting may be considered more fundamentally linked to financial performance, as policy discourse on climate-action urgency encourages companies to report on environmentally responsible profitability (Arvidsson and Sabelfeld, 2023). As influential stakeholders such as the International Financial Reporting Standards (IFRS) Foundation prioritise environmental issues including climate change (IFRS, 2023), reporting on environmental matters will inevitably be a primary focus for the accounting profession. Moreover, as environmental problems are considered to drive several social issues (Goel *et al.*, 2022), environmental sustainability reporting may appear a logical starting point for companies engaging in sustainability reporting for the first time. Environmental reporting occupies a central position in all major reporting frameworks, including the Global Reporting Initiative (GRI). Many metrics, indicators and data points revolve around environmental aspects of sustainability reporting.

Most research and policy considerations on sustainability reporting consider large and multinational businesses (Krawczyk, 2021). The EU suggests 2026 [2] as a likely timeline for sustainability reporting to affect SMEs. In addition to this timeline, there are further pressures on SMEs to engage in sustainability reporting. First, large companies with concerns about their supply chains may pressurise SMEs to provide metrics on their environmental impact and demand more reporting of SMEs' sustainability issues in the near future (Centobelli *et al.*, 2021; Graafland, 2018; Johnson and Schaltegger, 2016; Krawczyk, 2021). Second, SMEs represent over 90% of businesses globally (Corazza, 2018; World Bank, 2022). Measuring SMEs' impact on the environment would help meet national and international climate objectives, particularly concerning enterprises with sizeable operations.

Afolabi *et al.* (2023) explore the practicalities of SMEs assessing and disclosing their impact on the environment. Our research considers these issues from the perspective of accounting practitioners rather than the SMEs themselves. SMEs have typically relied on their accounting practitioners to support these endeavours (Collins *et al.*, 2011). Ortiz *et al.* (2023) consider accounting practitioners to be to be the most important and trusted business and personal advisors to SMEs. Several studies highlight the important role of accounting practitioners, sometimes called SMEs' "most trusted advisor" (Arnold, 2021; Spence *et al.*, 2012). Trusted

accounting practitioners can support their clients and help them operate sustainably henceforth (Arnold, 2021). Accounting practitioners have opportunities to report sustainability data for their SME clients (IFAC, 2021). IFAC (2021) suggests that accounting practitioners can support SMEs by providing them with information on their sustainability practices, which will help them make better decisions, and support their strategy development, leading to SMEs adopting an integrated approach to sustainability. IFAC believes that the input of accounting practitioners will help SMEs report their sustainability performance to relevant external parties.

Notwithstanding this commentary, the role performed by accounting practitioners concerning their involvement in sustainability reporting has not been considered (Humphrey *et al.*, 2017; Rinaldi *et al.*, 2018). Our research focuses on the role of accounting practitioners for SMEs in environmental sustainability reporting. We investigate two research questions: (1) what environmental sustainability information do accounting practitioners consider feasible for SMEs to report? (2) what benefits and challenges do accounting practitioners anticipate for SMEs implementing environmental sustainability reporting?

We develop a SME environmental sustainability reporting framework based on the environmental aspects of the GRI Standards for Sustainability Reporting. We derive our SME environmental sustainability reporting framework from the GRI guidelines. To address our research questions, we ask respondents to review our GRI framework in advance of completing a detailed survey questionnaire.

The GRI is the most widely used framework for sustainability reporting (KPMG, 2017). In April 2021, the EU Commission adopted a Corporate Sustainability Reporting Directive (CSRD), which makes substantial changes to the Non-Financial Reporting Directive (NFRD) (European Commission, 2021a). Of particular relevance to this paper, it extends the reporting obligations to EU listed SMEs, capturing an estimated 49,000 companies (European Commission, 2021b). The European Financial Reporting Advisory Group (EFRAG) issues European Sustainability Reporting Standards (ESRSs). In September 2023, the GRI and EFRAG issued a joint statement of interoperability between their respective standards (EFRAG/GRI, 2023), responding to Krawczyk's (2021) call for standardised non-financial reporting for SMEs. While international regulators have developed sustainability frameworks, few of these frameworks are customised to an SME context. An exception is EFRAG's (2024a, b) two proposed sets of European Sustainability Reporting Standards (ESRSs) for listed and unlisted SMEs.

The GRI (2018) developed a policy paper on efficient and effective ways to help SMEs become involved in the responsible business movement. Sustainability reporting regulations do not currently apply to most SMEs. The metrics for assessing environmental impact, such as GRI metrics, need to be customised to SMEs for them to make good quality environmental sustainability disclosures (Del Baldo, 2017). However, there is disagreement around how suitable GRI metrics are for SMEs. Implementing the GRI's Key Performance Indicators (KPIs) for SMEs is complex (Arena and Azzone, 2012).

Relatively few studies examine environmental sustainability reporting from the perspective of preparers. Fewer still consider the unique challenges for SMEs. Research on sustainability reporting in SMEs is limited (Dinh *et al.*, 2023). Lisi *et al.* (2023) conduct a systematic literature review of non-financial reporting initiatives in SMEs, identifying the drivers, enabling factors and challenges for such initiatives.

We have little understanding of SMEs' ability to effectively engage in environmental sustainability reporting. In a conceptual study, Arena and Azzone (2012) consider the applicability of GRI to SMEs. Adopting a case study approach, Rossi and Luque-Vílchez (2021) examine the application of integrated thinking to sustainability reporting in an Italian SME. Guidi *et al.* (2024) consider the impact of SME sustainability strategy on sustainability reporting, also using a case study approach for four Italian SMEs. Dinh *et al.* (2023) call for more research on unlisted companies such as SMEs, arguing that SMEs are the backbone of the economy.

Based on cultural differences between large and small organisations, [Jenkins \(2004\)](#) studies the divergence between corporate social responsibility (CSR) in large companies versus SMEs. SME responses may be different arising from these divergences, meriting study of SMEs separate from large companies.

[Gerwanski \(2020\)](#) interviews 16 SME managers who have not yet implemented integrated reporting on the factors influencing them to do so. Reflecting the difficulty of access to practitioners, [Castilla-Polo and Guerrero-Baena \(2023\)](#) interview 12 Spanish consultants and academics. The most similar study to ours is [Afolabi et al. \(2023\)](#) who interview SME owners and managers on their perceptions of the feasibility of SMEs meeting government net zero carbon emissions targets. We contribute to the prior literature by focussing on the feasibility of SMEs as preparers engaging in environmental sustainability reporting. Our preparers are a unique group: accounting practitioners advising SMEs.

We make three contributions to the prior literature: (1) We provide first time evidence of accounting practitioners' perspectives on sustainability reporting for the largest segment of the private sector economy. This is, to the best of our knowledge, the first study to report the views of accounting practitioners, who have the most important role in the implementation of, and reporting within, the sustainability framework for SMEs. (2) We develop/propose a framework for sustainability reporting for SMEs, and run a practical test on its validity, potential and implementability with practitioners. We believe that our study provides important practical information for all stakeholders in designing and implementing the GRI framework, and reveals the ability and potential of SMEs to adopt responsible business practices and effectively engage in environmental sustainability reporting. (3) We believe our methodology is innovative, in that we seek practitioners' views on a potential reporting framework, rather than eliciting their views on environmental sustainability in the abstract. While previous studies have developed theoretical models (e.g. [Brink and Steenkamp, 2023](#)) and elicited practitioners' views (e.g. [Saastamoinen et al., 2020](#)), our study both develops a reporting framework and elicits practitioners' views on its design and potential for implementation.

To address our research questions, we survey accounting practitioners who prepare sustainability reports and thereby add insights to the topic from a practitioner perspective. We build on [O'Reilly et al. \(2023\)](#) who surveyed 192 accounting practitioners for their views on the feasibility of implementing the European Union's (EU) Green Taxonomy. We develop an amended version of the GRI as a template, designed to assist accounting practitioners and SMEs embarking on sustainability reporting. The GRI contains considerably more detail than the EU's Green Taxonomy.

2. Theory and prior literature

2.1 Theoretical context

We frame our research in the context of difficulties for business and professionals in incorporating sustainability into corporate reporting. Accounting practitioners have been characterised as being in a "fourth phase" in implementing sustainability reporting ([Lai and Stacchezzini, 2021](#)). The first phase neglected sustainability. The second phase experimented with sustainability. The third phase enhanced sustainability. The fourth phase integrated sustainability, with a more holistic approach to financial and other non-financial reporting. An integrated approach will lead to new regulations and standards from policy makers, with which clients and accounting practitioners will have to familiarise themselves. These new policies create a challenge for SME accounting practitioners, and for their SME clients. We need to explore the precise role SME accounting practitioners will adopt in sustainability reporting for their SME clients, and the feasibility of adopting those roles.

It is widely assumed that non-financial reporting will provide companies with advantages, such as a lower cost of capital arising from better communication with shareholders on how wealth is being generated, with a greater focus on purpose (Zhou *et al.*, 2017). A wide variety of stakeholders demand information on the impact of corporate activities on the environment and their actions to mitigate the effect of those activities on climate change. Internationally, sustainability reporting standards have developed to help corporates address these demands.

A key research issue is the precise nature of the role, and the feasibility of the role, accounting practitioners will play in sustainability reporting for SMEs. Multinational businesses are motivated to enhance their sustainability reporting as more investors are including Environmental, Social and Governance (ESG) considerations in their investment decisions (Adams and Abhayawansa, 2022). However, SMEs' need for capital is quite different to the needs of large business, and so the benefits from sustainability reporting will also differ (Loucks *et al.*, 2010). Contrary to the findings in large companies, SMEs that invest in ESG disclosures experience a higher cost of capital (Gjergji *et al.*, 2021) with the exception of family SMEs. SMEs enjoy fewer benefits and experience higher costs from ESG disclosure.

2.2 The benefits arising from sustainability reporting for SMEs

From accounting practitioners' expertise, communication of the benefits arising from sustainability reporting is likely to enhance collaboration with clients concerning their proficiency with handling and managing large data and the standard of sustainability reporting. Sustainability reporting can benefit SMEs by overcoming information asymmetries between SMEs and their stakeholders and can enhance the legitimacy of SME managers (Rodríguez-Gutiérrez *et al.*, 2021).

Conventional wisdom in accounting is that a primary user of company financial reports, together with management accounts is the company itself. However, companies may use their own reports within the firm for the purpose of internal efficiencies, including increased productivity by using natural resources more efficiently. Companies may employ environmental sustainability reporting similarly.

Businesses have found that sustainability metrics can result in energy conservation (Tsalis *et al.*, 2013) and waste management (Mattila *et al.*, 2020; Redmond *et al.*, 2008). SMEs that assess and disclose their environmental sustainability metrics experience benefits such as supply chain innovation and participation in new business networks. They may be motivated to do so to gain legitimacy with employees, customers and the community (Guidi *et al.*, 2024). Cariola *et al.* (2020) study the influence of country disposition to environmental sustainability on the valuation effect of energy SMEs' use of debt to finance sustainability initiatives. They recommend that governments introduce policies to improve access to debt to develop sustainability initiatives to support growth of energy businesses. The European Commission (2021a) has encouraged financial institutions to lend to SMEs to provide them with finance to invest in environmentally friendly projects in transitioning to sustainable business practices. Furthermore, EU funding and grant initiatives may incentivise SMEs to disclose their environmental sustainability metrics. Accordingly, Allgeier and Feldmann (2023) note that SMEs engaging in sustainability reporting may expect to enjoy greater access to finance.

Renwick *et al.* (2013) discuss the integration of environmental considerations and human resource management, what they call "green human resource management". They consider this approach to be important in recruiting and retaining younger staff. Companies adopting green human resource management practices experience improved financial performance (O'Donoghue and Torgusa, 2016). This also motivates green employees, and develops their ability, commitment and involvement in firms' environmental goals.

Many SMEs appreciate the positive effects of environmentally sustainable green activities, including reducing costs and better interactions with stakeholders. Multiple frameworks result in sustainability reports that deliver at a micro level distinctively different representations of SMEs' sustainable development (Girella *et al.*, 2019). SME managers do not possess the expertise to report these positive economic gains from reducing costs. Accounting practitioners can help SMEs produce sustainability reports that reflect SME strategies that fulfil the needs of stakeholder groups (Collins *et al.*, 2011). Synergies between traditional financial metrics employed in SMEs and those measuring and reporting environmental impact (Johnstone, 2020) suggest a role for accounting practitioners in reporting on environmental performance. Thus, exploring the practicalities of sustainability reporting by SMEs is an important research topic.

2.3 The challenges arising from sustainability reporting for SMEs

A thorough assessment of the feasibility of sustainability reporting for SMEs invariably addresses the challenges faced by accounting practitioners in adapting to this form of non-financial reporting. These challenges may be considered in three broad categories: (1) an absence of sustainability reporting guidelines appropriate to SMEs, (2) accounting practitioners' literacy in, and access to relevant data and (3) a lack of incentives to meaningfully engage.

SMEs tackle the challenge of sustainability reporting in the context of policies mainly oriented towards large companies. However, prior research finds that SMEs have difficulty operating within current sustainability reporting guidelines. They would find simpler guidelines more user-friendly and effective (Del Baldo, 2017). Research also finds that sustainability reporting is oriented towards investor needs and shareholder value creation, when nowadays firms have duties towards a wider group of stakeholders, which is more relevant to SMEs (Reuter and Messner, 2015).

Generally, SMEs have fewer financial reporting demands, which accounting practitioners address on behalf of their clients.

Most SMEs, such as family-owned businesses, rely less on external shareholders for finance. They do not have well-developed accounting and governance systems. Thus, they do not have the expertise in preparing financial and sustainability reports or in handling large amounts of financial and non-financial information, and passing that information to their accounting practitioners (Giovannoni and Maraghini, 2013).

These issues point to more flexible guidelines that reflect the unique SME context, including limited management resources and a variety of operational circumstances. These challenges have manifested in EU member states opposing regulations to require SMEs to prepare non-financial reports because SMEs cannot afford the additional reporting costs (Kinderman, 2020). Yet, Rodríguez-Gutiérrez *et al.* (2021) found economic cost to be the least relevant criterion for SMEs. Policy customised to an SME context would provide clearer guidance to those firms and their accounting practitioners, helping them to understand best practice in this less familiar corporate reporting situation (Calabrese *et al.*, 2016; Del Baldo, 2017; Dumay *et al.*, 2016). The literature on management and assurance of environmental data tends to focus on larger firms (Farooq and De Villiers, 2017; Kaenzig *et al.*, 2011; Park and Brorson, 2005), and generally suggests that management information systems are employed. Galli *et al.* (2023) report that recording accurate data is a particular challenge faced by SMEs in reporting on their sustainability performance. SMEs are less able to finance sustainability reporting through investment in IT systems, resulting in poor quality data and insufficiently trained accounting practitioners to interpret the information.

While guidance is available on efficient means of collecting and storing data for environmental management accounting purposes (Jasch, 2003; Olsthoorn *et al.*, 2001), only a

minority of SMEs have such systems (Garengo and Biazzo, 2013). Accounting practitioners have limited experience of interpreting and reporting of environmental sustainability information. SMEs' inability to handle the necessary data adds to the difficulties for accounting practitioners. A primary issue is that accounting practitioners have not been educated or trained in how to measure environmental sustainability, either at university or professionally (Cho *et al.*, 2020; Lamberton, 2005; Thoradeniya *et al.*, 2015). The need for additional professional training likely ultimately adds to the costs for clients.

Adding to the difficulties in assembling appropriate environmental data, and the extra work for accounting practitioners, costing sustainability reporting for SMEs is problematic. Finally, SMEs may not be willing to engage in sustainability reporting, which accounting practitioners may not be able to address. Accounting practitioners rely on their SME clients for accurate and reliable data to prepare environmental sustainability reports and their clients may not be willing to record the necessary data.

The bureaucratic weight of collecting and managing the environmental data may explain why SMEs will not engage. The European Central Bank's (ECB, 2021) survey on the access to finance of enterprises reports that between April and September 2021, one in ten European SMEs experienced administrative burdens relating to regulatory compliance, while almost one-third lacked a sufficiently skilled labour force (ECB, 2021). Although the ECB does not consider the resources required to adapt to environmentally sustainable business practices, prior research highlights internal as well as external barriers to implementation. Internal barriers include lack of awareness of sustainability issues, appreciation of the benefits therefrom, knowledge and expertise and human and financial resources (Johnson and Schaltegger, 2016). Similarly, Arena and Azzone (2012) identify resources and time as constraints for SMEs to implement sustainability reporting. Due to a lack of resources, expertise, clarity on reporting standards and certainty of benefits, SMEs are discouraged from sustainability reporting (Afolabi *et al.*, 2023). For accounting practitioners to be able to contribute to sustainability reporting, their clients need to be engaged in the process. Client engagement influences data management and data availability to their advisors. This leads to the first research question:

RQ1. What environmental sustainability information do accounting practitioners consider feasible for SMEs to report?

As stated above, there are conflicting findings on the benefits and challenges of sustainability reporting for SMEs and whether these challenges can be managed appropriately. Accounting practitioners' perceptions are unknown, and thus we pose our second research question:

RQ2. What benefits and challenges do accounting practitioners anticipate for SMEs implementing environmental sustainability reporting?

3. Methodology

In this section, we describe our respondents, survey questionnaire and administering the survey.

3.1 Sample frame

Two of the authors work with the professional accounting bodies in Ireland which provided access to our sample frame. The population consists of all accounting practitioners registered with a professional accounting body in Ireland. Our dataset consists of survey responses from accounting professionals, who advise SMEs. Such professionals are more likely to know about the sustainability reporting requirements applicable to SMEs (IFAC, 2021). Also, we

believe accounting professionals to be more suitable as our unit of analysis, as they are likely to advise multiple SMEs clients.

3.2 SME environmental sustainability reporting framework and survey questionnaire

We believe that a survey based on an abridged SME environmental sustainability reporting framework would be more successful than asking respondents abstract questions. Our approach has two advantages: First, our framework is customised to an SME context. Second, survey responses are based on a concrete framework, lessening the likelihood of respondent subjectivity in assessing the feasibility of environmental sustainability reporting.

We developed an abridged SME environmental sustainability reporting framework ([Appendix 1](#)) based on key GRI environmental indicators used by large corporates, more appropriate for SMEs. To compile our abridged version, we sought feedback from accounting practitioners on the subsections on each GRI standard subsection that might apply. [Online Appendix 1](#) shows what we included/excluded from our abridged framework. We excluded some items as some of the metrics required are too challenging for SMEs to capture, such as their Scope 3 emissions. However, we excluded most items because they are highly narrative based (e.g. GRI 304 – Biodiversity). Our aim was to have a short one-page document with mainly quantitative metrics. To obtain this feedback, we conducted two pilot studies with 13 ACCA Ireland accounting practitioners in August 2021 at which we presented them with the complete GRI standards fully applicable to big businesses. Using their feedback, we selected the main measures in the GRI subsections by reference to how feasible and practical they are in terms of SMEs assembling the relevant information. Our abridged SME environmental sustainability reporting framework (see [Appendix 1](#)) encompasses the key measurements, which correspond with the GRI metrics.

Alongside our abridged SME environmental sustainability reporting framework, we developed a semi-structured survey questionnaire to address our research questions. As shown in [Online Appendix 2](#), we developed our survey questionnaire from the prior literature and from our abridged framework. We cross-reference our survey questionnaire to our abridged framework. Because of length constraints, we only use three questions from the survey questionnaire in this paper. The survey questions are reproduced in each table in the findings section to follow.

3.3 Administering the SME environmental sustainability reporting framework and survey questionnaire

We distributed our abridged SME environmental sustainability reporting framework and accompanying survey questionnaire electronically to our sample frame, 600 accounting practitioners. We instructed our respondents to consider our abridged SME environmental sustainability reporting framework in the context of the particularities of their SME clients when completing the survey. We sent several reminders by email to our sample to improve the response rate. This process yielded 52 completed surveys. Also, in September 2021, we took part in an ACCA Ireland meeting for members who advise SMEs, which yielded 41 further responses from 49 attendees. We also presented our abridged framework and survey questionnaire at a Chartered Accountants Ireland Sustainable Finance event in September 2021, for accounting practitioners with their own practices or who advise SMEs. We received 67 responses from 266 attendees. Finally, we participated in a continuing professional development event with CPA Ireland which generated 43 responses from 55 attendees. We excluded survey responses not fully completed, leaving a sample of 203 completed surveys, as described above. We used Survey Monkey to deliver the questionnaire and collect data. We extracted the responses to the survey to compile the tables of findings reported in the next section.

4. Findings and discussion

4.1 Information feasible for SMEs to report (RQ1)

We invited survey respondents to consider our abridged SME environmental sustainability reporting framework (Appendix 1) and invited them to evaluate the practicalities for their clients to capture and report information on the central measures (Table 1, Survey question 1).

According to our respondents the most feasible metrics in terms of SME data collection comprise materials (95%), waste (95%), energy (94%), water (91%) and biodiversity (85%) (Table 1). We found 22% of respondents expressing the view that their SME clients would have difficulty capturing data on greenhouse gas (GHG) emissions. These responses suggest that SMEs would find implementing environmental sustainability reporting to be feasible, as SMEs have the necessary data. Survey responses suggest that our abridgement of the GRI framework is suitable to an SME context. Yet, the finding on SME difficulties with monitoring Scope 3 GHG emissions is concerning, especially as international regulators have promoted such monitoring.

Table 2 presents respondents' views ranking feasibility in terms of five dimensions: cost, willingness to provide data, availability and reliability of data and the suitability of the metrics (Table 2, Survey question 2). Consistent with our findings above, a majority of respondents (62%) ranked the dimension, suitability of metrics, highest in terms of feasibility. This reinforces the pragmatic and accessible nature of the framework presented for SMEs. Such a positive response highlights the alignment between the framework's design and the practical needs of SMEs. We also find that a large proportion (48%) of respondents (ranking 1 and 2 combined) consider that their SME clients would be willing to supply the necessary

	Yes		No	
	<i>N</i>	%	<i>N</i>	%
Materials	193	95	10	5
Energy	190	94	13	6
Water	185	91	18	9
Biodiversity	173	85	30	15
Emissions	158	78	45	22
Waste	193	95	10	5

Note(s): Survey question 1: Based on the attached framework, do you consider the key headings feasible for SMEs to report?

Source(s): Table created by authors

Table 1.
Feasibility of key
metrics (RQ1)

Item	1		2		3		4		5		Total <i>N</i>	Average score
	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%		
1. Suitability of metrics	125	62	25	12	21	11	16	8	16	8	203	4.12
2. Willingness to provide data	36	18	61	30	35	17	54	27	17	9	203	3.22
3. Availability of data	9	5	57	28	73	36	53	26	11	5	203	3.01
4. Reliability of data	6	3	50	24	66	33	58	28	23	12	203	2.78
5. Cost	26	13	11	6	13	6	26	13	127	62	203	1.94

Note(s): Survey question 2 Do you believe the framework attached to this survey is feasible in terms of the following dimensions? (Please rank 1–5, 1 = most feasible; 5 = least feasible)

Source(s): Table created by authors

Table 2.
Feasibility of
framework (RQ1)

data. Our respondents reflect the view that their SME clients recognise the value in reporting sustainability data. In terms of impediments to implementation, 62% of respondents ranked cost as the least feasible implementation dimension. Including the next ranking (ranking of 4), this proportion increased to 75%. These findings are consistent with the argument that sustainability reporting is an investment that SMEs cannot afford (Kinderman, 2020). Our findings diverge from those reported by Rodríguez-Gutiérrez *et al.* (2021) who found SMEs valued cost least of their criteria. Despite the favourable response to the framework, associated costs will be a problem for SMEs. This outcome highlights the importance of addressing cost effectiveness when designing any environmental sustainability reporting framework for SMEs. A more innovative and economical approach is vital to ensure broader SME participation in sustainability reporting in the future.

To summarise, findings on RQ1 reveal a promising landscape for SME engagement from the perspective of their accounting practitioners and what is considered feasible to report under the GRI. Evident in the participants' responses is an enthusiasm for the feasibility of the outlined metrics, indicating potential for SMEs to effectively adopt sustainability reporting. Additionally, the willingness expressed by a majority of respondents to share environmental data shows a positive inclination toward transparency and collaboration. However, we acknowledge a potential impediment that emerged, the concern over associated costs with a considerable 62% expressing apprehensions related to cost as the least feasible of the options presented. Balancing these promising signs of enthusiasm with the financial constraints presents uncertainty for SMEs. It will be important to identify the benefits and challenges for SMEs in order to assist with and encourage engagement with sustainability reporting.

4.2 Perceived benefits of environmental sustainability reporting (RQ2)

Respondents also ranked perceived benefits of implementing the SME environmental sustainability reporting framework and engaging in sustainability reporting (Table 3, Survey question 3). The highest-ranked benefit (31% of respondents) is to "improve company image", which rises to 55% (ranking 1 and 2 combined) when including the next highest benefit. While respondents' emphasis on company image may reflect a wish to enhance SME relations with their stakeholders, it might also suggest a practice of greenwashing. Despite the positive response on the framework presented in terms of the feasibility, it seems that changing the mindset of SMEs might be one of the more challenging aspects of implementing sustainability reporting. It is an interesting yet concerning finding, that accounting practitioners feel their SME clients would only engage in sustainability reporting voluntarily to improve their own image. While studies have suggested engagement in sustainability reporting is for the perceived legitimacy of company managers (Rodríguez-Gutiérrez *et al.*, 2021; Romero *et al.*, 2019), our findings provide first time evidence that SMEs would engage in sustainability reporting to improve their company image.

We find that the next-most-favoured benefits include "increase productivity in an environmentally friendly manner", "prepare for future regulatory compliance" and "increase consumer and supplier demands", in that order. SME advisors appear to appreciate that sustainability reporting can improve SME usage of natural resources.

The relatively high ranking of "prepare for future regulatory compliance" indicates that accounting practitioners expect sustainability reporting to feature in future SME accounting systems. The dominance of supply chain pressures is reflected in the high ranking of the benefit of implementing sustainability reporting being "increased consumer and supplier demands". The UK retailer, Tesco, exemplifies this in the four actions it expects from its suppliers (Hegarty, 2021). The benefits ranked least include "attracting employees", "access to finance" and "reducing costs". We note the high ranking earlier of enhanced productivity,

Benefit	1		2		3		4		5		6		7		Total		Average Score
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	
1. Improve company image	64	31	48	24	25	12	22	11	17	8	20	10	7	4	203	4	5.14
2. Increase productivity in environmental friendly manner	31	15	39	19	41	20	19	9	19	9	37	18	17	8	203	8	4.33
3. Prepare for regulatory compliance	33	16	39	19	28	14	27	13	28	14	30	15	18	9	203	9	4.31
4. Increased consumer and supplier demands	28	14	24	12	37	19	33	16	35	17	19	9	27	13	203	13	4.09
5. Attract employees	9	5	17	9	30	15	47	23	41	20	35	17	24	12	203	12	4.09
6. Access to finance	12	6	23	12	20	10	27	13	49	24	41	20	31	15	203	15	3.42
7. Reduce costs	31	16	19	9	20	10	25	12	16	8	17	8	75	36	203	36	3.41
Note(s): Survey question 3: What are the benefits to your clients (SMEs) in implementing sustainability reporting? (Please rank 1–7, 1 = most beneficial; 7 = least beneficial)																	
Source(s): Table created by authors																	

Table 3.
Benefits of
implementing
sustainability
reporting (RQ2)

which may contradict the low ranking on “reduce costs”. Thus, we conclude that this contradiction suggests that accounting practitioners expect implementation costs will exceed cost savings. As accounting practitioners expect that sustainability reporting will increase costs, it is unsurprising that “reducing costs” is ranked so low from a benefits perspective. These findings coincide with studies that anticipate that the costs will likely outweigh the economic benefits derived. Prior research has also reported expectations that costs will exceed benefits (Ortiz *et al.*, 2023). Perhaps the initial upfront cost to develop and implement environmental sustainability reporting is a major concern for SMEs. The low benefit ranking of “access to finance” may contradict the belief that SMEs will face difficulties in obtaining finance unless they embrace sustainability (European Commission, 2021b).

Findings on RQ2 show that accounting practitioners acknowledge several benefits for SMEs engaging in environmental sustainability reporting. Accounting practitioners’ high benefit ranking of “improve company image” suggests that impression management is a high priority for SMEs in terms of their relations with stakeholders. This raises concerns that sustainability reports may include more superficial than substantive disclosures, which further suggests the need for these reports to be assured.

4.3 Perceived challenges of environmental sustainability reporting (RQ2)

Based on the previous ranking-based questions (Tables 2 and 3, survey questions 2 and 3), the least feasible dimension of the proposed framework is the cost of environmental sustainability reporting. Accounting practitioners do not see how the framework could result in a reduction of cost for SMEs. This finding suggests that cost-related activities are major challenges. Accounting practitioners perceive the financial burden associated with sustainability reporting to be the greatest challenge to SMEs. As stated previously, our findings corroborate prior studies that highlight the issue of costs for SMEs (Kinderman, 2020).

Therefore, we invited respondents to indicate the most significant implementation challenges for SME sustainability reporting other than the costs. Of our respondents, 60%/30%/25% expressed the view that insufficient time/absence of employees with the skills to collect environmental data/absence of mandatory regulations currently for SMEs to adopt sustainability reporting, means that SMEs will not voluntarily engage because of the extra bureaucratic burden were the most challenging issues for SMEs (untabulated). The issues for SMEs concerning the administrative burden relating to regulatory compliance and reporting have been documented (ECB, 2021). In conclusion, insufficient staff with the necessary expertise and insufficient resources impede implementation of sustainability reporting by SMEs, not environmental issues *per se*. Previous studies indicate that SMEs do not have the time and financial resources to train staff, or to employ staff with the necessary expertise. These findings are consistent with studies that highlight that inadequate time and insufficient human resources expertise are barriers to SMEs adopting sustainability innovations (Afolabi *et al.*, 2023).

This challenge emphasises the practical constraints SMEs face, as the absence of necessary technological resources can impede their ability to effectively measure, track and report on sustainability-related metrics. The issues around technological resources and data management capabilities (Galli *et al.*, 2023; Garengo and Biazzo, 2013; Jasch, 2003) have been documented. Addressing this gap is going to be important in creating an enabling environment that empowers SMEs to actively participate in sustainability reporting.

5. Conclusion

Over time, SMEs will report additional non-financial sustainability data motivated by financial and environmental issues. In the absence of formal regulatory guidance for SMEs, we developed an abridged SME environmental sustainability reporting framework based upon the GRI, customised to SMEs capacities. As trusted advisors to SMEs, accounting practitioners can assess the feasibility of SMEs implementing environmental sustainability reporting. Policy makers are under pressure to assess the feasibility of sustainability reporting. Our respondents confirm this, opining that SMEs can prepare data on materials, waste, energy, water and biodiversity, on condition they receive supports to do so. SME clients can thus make it possible for accounting practitioners to assemble credible sustainability reports.

While data may not be conveniently available, our findings suggest implementation of sustainability reporting by SMEs is feasible. Respondents also viewed our abridged framework positively, as appropriate and suitable for implementation in SMEs. This suggests that full frameworks applicable to large companies should be adapted for SMEs. Our findings reveal a nuanced perspective among respondents, wherein the feasibility and potential benefits of SME engagement in sustainability reporting are acknowledged, alongside substantial concerns on implementation challenges.

Respondents consider cost, lack of time and employee expertise to be constraints in SMEs implementing sustainability reporting. This lack of staff and other resources, and not environmental issues *per se* comprise key impediments. Accounting practitioners believe they have an important role to play in implementing sustainability reporting, and this role can more easily be facilitated if their SME clients have reliable data-capturing capabilities. Thus, while SMEs' adoption of sustainability reporting may be more efficiently accomplished were accounting practitioners to complete the required disclosures on their clients' behalf, the challenges associated with environmental data must first be overcome.

Respondents view the primary benefit for SME implementation of sustainability reporting to be improved company image from enhanced environmental disclosure. Improving green productivity, complying with regulations and meeting stakeholder expectations comprise further benefits. Our finding suggests that accounting practitioners are more sensitive to market and commercial issues. While sustainability reporting costs may be significant, there are likely supplementary benefits, such as reputational and commercial benefits. At the same time, care will be needed to ensure that the objective of portraying SMEs as green does not compromise the quality of the sustainability metrics reported.

We have assessed the impediments for accounting practitioners in helping SMEs embrace a sustainability reporting positioning. We make two contributions to prior research. First, we take existing guidelines and adapt them to an SME context in a simple and flexible way. Second, we provide empirical data on the role of accounting practitioners in sustainability reporting (Humphrey *et al.*, 2017; Rinaldi *et al.*, 2018) by analysing the opinions of a large sample of accounting practitioners. We are encouraged by our findings of accounting practitioners' positive disposition to assist SMEs in sustainability reporting, while we remain cautious on the issue of costs.

Our study has limitations. First, we based our SME sustainability reporting framework on the GRI, and in addition on an abridged and simplified version of the GRI. Second, we collected our survey from accounting practitioners in Ireland. Third, as sustainability reporting is at an early stage, it is too soon to collect in-depth responses at this point. Finally, we acknowledge that we survey accounting practitioners, not SMEs directly.

To address some of these limitations, future research might incorporate standards and frameworks other than the GRI standards. Examining other European jurisdictions could add value by assessing differences in attitudes towards SME sustainability reporting. Surveying views on implementing sustainability reporting longitudinally might be

worthwhile to evaluate costs and benefits over the long run. Finally, our study surveys SME accounting practitioners. Surveying SMEs directly for their views on sustainability reporting would complement our study. However, SMEs may not be sufficiently informed or aware of developments to enable them complete such a survey. More likely, they might pass the survey to their accounting practitioners for completion.

6. Practical and policy implications

In December 2023, [EFRAG \(2023\)](#) issued a call for participation in field tests of two of its sustainability reporting exposure drafts for SMEs ([EFRAG, 2024a, b](#)). Our research anticipates and reflects EFRAG's planned field tests with SME preparers and other stakeholders. EFRAG's field tests will consist of a questionnaire and preparing (part of) the disclosures contained in the exposure drafts. Like our study using an abridged GRI framework, EFRAG considers it unnecessary to test the entire standard and compromises by selectively testing disclosures. In addition, EFRAG plans interviews with SMEs to obtain views on the feasibility, costs, challenges, benefits and usefulness of the individual disclosures and their suggested improvements to the sustainability exposure drafts.

Thus, we contribute to policy and practice in a number of ways. We developed a SME environmental sustainability reporting framework designed to assist accounting practitioners and SMEs embarking on sustainability reporting. This framework could be used for SMEs as a template to voluntarily engage in environmental sustainability reporting. We assess the feasibility of our abridged framework for SMEs and examine the benefits and challenges of implementing sustainability reporting from the perspective of accounting practitioners.

It is clear from our findings that there is belief the framework presented is feasible in terms of expectations of the sustainability reporting data required. While respondents recognise the positive outcomes that can stem from embracing sustainability reporting, it is evident that a concerted effort is required to effectively address the obstacles faced by SMEs. Our paper calls for a proactive approach to extend tailored support, resources and guidance, enabling SMEs to navigate the complexities and financial implications associated with sustainability reporting. We suggest that relevant parties co-operate and collaborate in developing a system of education, training and supports to address SME needs.

There is a clear role for the professional accounting bodies to act as leaders in this area, providing specialised training, aided by online tools such as webinars and virtual workshops to encourage and assist SMEs in their sustainability reporting journey. Toolkits that provide practical guidance on overcoming implementation obstacles would be beneficial. These resources could include templates, best practices and step-by-step guides to streamline the process for accounting practitioners. Universities can also help in this respect by developing and enhancing curricula to include sustainability reporting considerations, especially in management and accounting-related courses. We submit that sustainability should be incorporated into all major business and accounting-related programmes. Governments internationally also have to substantially partake in encouraging sustainability reporting.

Recognising the challenges highlighted by respondents in our study, there is a need for the creation of accessible resources and ultimately IT solutions that can assist in data capturing and management. The accounting profession will be required to collaborate with larger entities, networks and software developers to try and assist in the creation of technological solutions that can assist with the data capturing which was a major obstacle for the respondents in our study.

Notes

1. This paper is derived from [O'Reilly \(2023\)](#)
2. EC Interinstitutional File: 2021/0104(COD)

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(The Appendix follows overleaf)

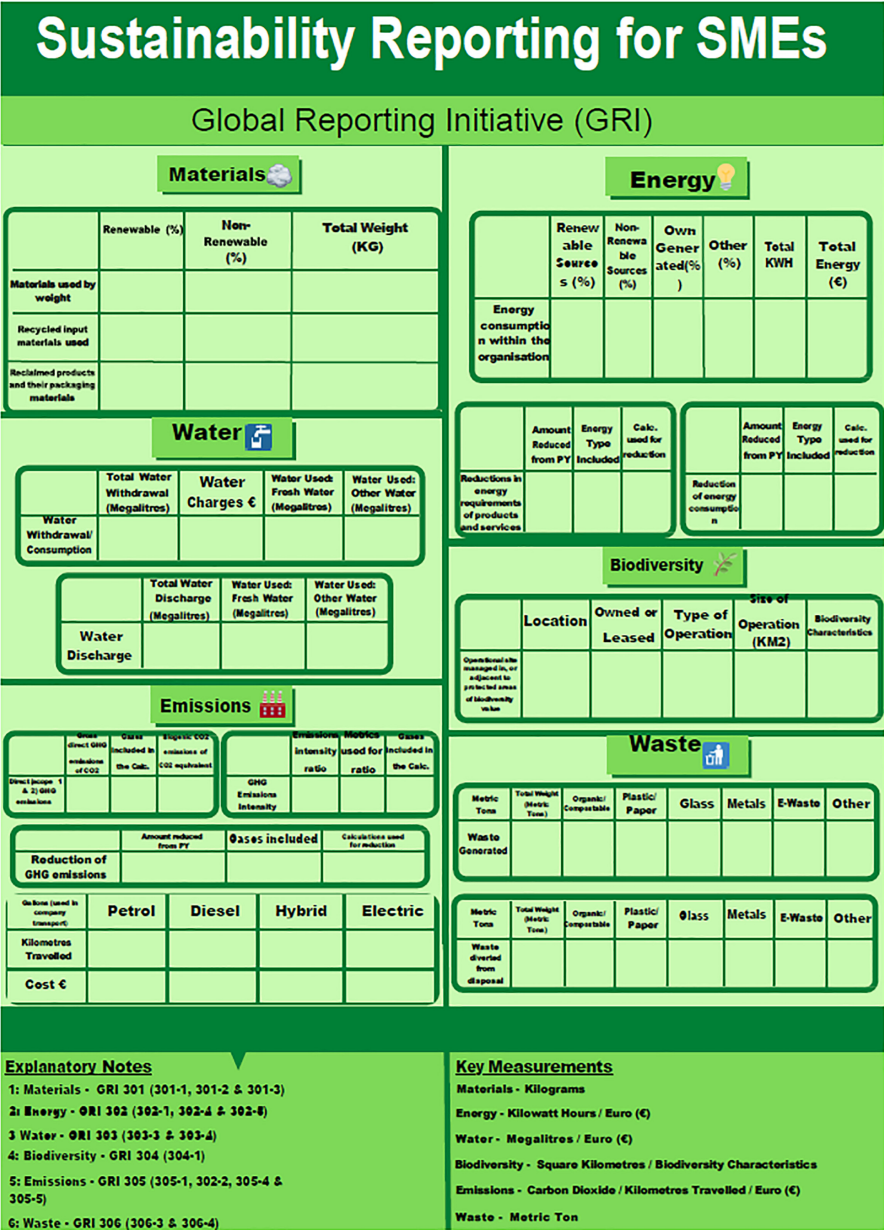


Figure A1.
Abridged SME
environmental
sustainability
reporting framework

Source(s): Framework created by authors

Online Appendix

The supplementary material for this article can be found online.

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