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**The Impact of the EU Corporate
Sustainability Reporting Directive on
Small and Medium Enterprises in the EU:
Challenges and Opportunities**

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Abstract

This thesis examines the broader impact of the EU Corporate Sustainability Reporting Directive (CSRD) on SMEs, including effects not reflected by formal reporting obligations. It analyzes sustainability transparency as a framework structured by legal design, market-based information demands and organizational capacity. The thesis demonstrates that CSRD-related effects on SMEs are not determined by formal scope alone, but arise through exposure pathways that generate unequally distributed burdens and opportunities across firms.

Based on legal-doctrinal analysis, academic and policy literature and illustrative case studies of listed and non-listed SMEs, the study illustrates that sustainability transparency produces cumulative pressures linked to CSRD complexity, data availability, assurance readiness, and value-chain information requests. At the same time, reporting capacity may stabilize market participation and reduce informational frictions, but its effects remain largely risk-limiting and do not lead to systematic upgrading. The thesis concludes that proportionality under the CSRD depends on the coordination of sustainability information flows across legal, market and organizational interfaces.

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ABBREVIATIONS

- CSRD – Corporate Sustainability Reporting Directive
- NFRD – Non-Financial Reporting Directive
- ESRS – European Sustainability Reporting Standards
- SME / SMEs – Small and Medium-Sized Enterprise(s)
- EU – European Union
- EEA – European Economic Area
- ESG – Environmental, Social and Governance
- EFRAG – European Financial Reporting Advisory Group
- VSME – Voluntary Sustainability Reporting Standard for SMEs
- ISSB – International Sustainability Standards Board
- SFDR – Sustainable Finance Disclosure Regulation
- EU Taxonomy / Taxonomy Regulation – Regulation (EU) 2020/852
- GDPR – General Data Protection Regulation

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CHAPTER 1

Introduction

1.1 The Corporate Sustainability Reporting Directive (CSRD) and EU SMEs

The Corporate Sustainability Reporting Directive (CSRD) has a crucial impact on the European Union's strategy to align financial markets and corporate behaviour with its environmental and social objectives.¹ It replaces the earlier Non-Financial Reporting Directive and broadens its scope, which had been criticised for its limited coverage and the inconsistency of the information disclosed.² The CSRD extends sustainability reporting requirements to more companies, introduces the detailed ESRS framework, and integrates double materiality in EU company law.³ This means that a considerably broader share of European companies, including many listed SMEs, is now obliged to assemble and report structured environmental, social, and governance (ESG) data in a uniform manner.⁴ This shift has major implications for both large listed corporations and for SMEs that constitute the pillar of the EU economy.⁵

¹ Rzepecka J and others, The Impact of EU Legislation in the Area of Digital and Green Transition, particularly on SMEs (Study for the Committee on Internal Market and Consumer Protection, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament 2024) 13-16.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754213/IPOL_STU\(2024\)754213_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754213/IPOL_STU(2024)754213_EN.pdf) accessed 25 November 2025

² *ibid*

³ Mathilde Bossut and others, Why It Would Be Important to Expand the Scope of the Corporate Sustainability Reporting Directive and Make It Work for SMEs (Sustainable Finance Research Platform, Policy Brief 8/2021); European Commission, 'Corporate Sustainability Reporting Directive (CSRD)' (EUR-Lex, 2025) 2-7

https://wpsf.de/wp-content/uploads/2021/09/WPSF_PolicyBrief_8-2021_Scope.pdf accessed 25 November 2025

⁴ *ibid*

⁵ *ibid*

SMEs are the majority of EU enterprises and a major source of employment and value added; however, they have been subject to more limited reporting requirements compared with large companies.⁶ In many Member States, SME sustainability practices have evolved informally, influenced by management, sector norms, or local stakeholder expectations rather than formal legal standard.⁷ The CSRD disrupts this existing situation in two key ways. First, after a transitional period, listed SMEs will be directly obliged to comply with mandatory sustainability reporting requirements, certain proportionality measures and a phased implementation.⁸ Second, even non-listed SMEs that are not formally within the directive's scope are increasingly affected indirectly through value chains, because larger reporting entities must disclose information regarding their incoming and outgoing activities.⁹ As a result, SMEs are facing new demands for ESG data from customers, banks, investors and other business partners who themselves must comply with the CSRD.

Furthermore, this evolving framework creates some complex risks and opportunities. From one perspective, the directive creates organisational, financial and technical challenges. Many SMEs have limited resources, not enough specialised expertise, and information systems that cannot sufficiently support the data requirement of the CSRD.¹⁰ Significant administrative burdens

⁶ Eurostat, 'Micro & small businesses make up 99% of enterprises in the EU' (Eurostat News, 24 October 2024); European Commission and EASME, Annual Report on European SMEs 2021/2022: SMEs and Environmental Sustainability (Publications Office of the EU 2022) 10-12; European Commission and EISMEA, Annual Report on European SMEs 2024/2025: SME Performance Review (JRC Technical Report, 2025) 7-9.

⁷ European Commission, Proposal for a Directive amending Directive (EU) 2022/2464 as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings COM(2025) 80 final, 2-4; Andreas Moursellas, Emmanouil Trivellas and George Halkos, 'Sustainability Practices and Performance in European SMEs: Insights from Multiple Case Studies' (2023) Sustainability 1-2. <https://link.springer.com/article/10.1007/s43615-022-00224-3> accessed 2 December

⁸ *ibid*

⁹ *ibid*

¹⁰ Small players, big impact? Unveiling practices and challenges of sustainability reporting by German SMEs (2025) Discover Sustainability. 1-2; Accounting practitioners' perspectives on small- and medium-sized enterprises' environmental sustainability reporting (2025) Journal of Applied Accounting Research 26(6) 26-46, para 2.3.

arise from CSRD, such as assessing double materiality, establishing data collection processes, and working with external verification providers, which may cause economic issues.¹¹ These administrative demands may be most significant in low-margin sectors or smaller markets with limited access to advisory and software solutions. Furthermore, systematic collaboration with sustainability reporting can generate strategic advantages. SMEs may evolve their position in supply chains, improve access to sustainable finance, enhance their reputation with customers and employees, and identify efficiency gains and any other opportunities that support long-term resilience by adopting CSRD's required practices.¹²

1.2 Context, Problem Statement and Research Gap

Although SMEs are key to fulfilling the CSRD's broader policy goals, comparatively little attention has been paid in the academic literature to them.¹³ Sustainability reporting research has historically emphasized large listed companies, where disclosure practices are more established and data are more accessible¹⁴. Studies often examine voluntary reporting, or the initial implementation of non-financial disclosure rules, nevertheless they tend not to examine the specific rules and operational mechanisms implemented by the CSRD¹⁵. When SMEs are considered in the literature, they are often treated as a secondary category or examined only within

https://www.researchgate.net/publication/381304257_Accounting_practitioners'_perspectives_on_small-and_medium-sized_enterprises'_environmental_sustainability_reporting accessed 3 December

¹¹ OECD, Fostering convergence in SME sustainability reporting (OECD Publishing 2025); Small players, big impact (2025) Discover Sustainability

¹² Ibid

¹³ Sustainability in Small- and Medium-Sized Enterprises (2023) Journal of the Knowledge Economy 15: 7497–7522, 7500–7503 (discusses under-representation of SMEs in sustainability reporting literature).

¹⁴ Ibid

¹⁵ Sustainability in Small and Medium-Sized Enterprises: A Systematic Literature Review and Future Research Agenda (2022) Sustainability 14(11), 6493, 6495-6498

the context of specific Member States or sectors¹⁶. As a result, the directive's legal framework, the ESRS, and the double materiality principle remain largely unexplored also understanding of how both listed and non-listed SMEs navigate and respond to the new reporting requirements remains limited.

The research addresses the existing research gap by examining CSRD influences on sustainability practices in EU SMEs by exploring the balance between regulatory obligations and strategic opportunities. It highlights that SMEs are a highly diverse group, have different sizes, sectors, ownership structures, international activity, and resource capacity¹⁷. These distinctions affect their liability to CSRD requirements and their ability for respond effectively. Instead of viewing SMEs as a uniform group, the study examines how the directive affects firms differently and how they respond, for instance, the contrasts between listed and non-listed SMEs, as well as variations across sectors in which sustainability plays a more or less central role in the business model. By focusing specifically on medium-sized enterprises, as defined by the European Commission, the research highlights firms that, while still constrained in resources relative to large corporations, are nevertheless substantial enough to face significant CSRD-related expectations from stakeholders.¹⁸

1.3 Research Questions and Methodology

The thesis develops four main research questions, within this conceptual and empirical context. First, it examines the specific regulatory and operational challenges that SMEs face under

¹⁶ Small players, big impact? (2025) Discover Sustainability (n 10) 1–2

¹⁷ OECD, Fostering convergence in SME sustainability reporting (2025) (n11), pp. 6–10.

¹⁸ Ibid 10-12

the CSRD, such as interpretation of the ESRS, the application of double materiality assessments, and the development of data collection and verification processes. Second, it investigates how SMEs can use CSRD's required reporting to create business opportunities and competitive advantages, for example by improving their attractiveness to sustainable investors, meeting the ESG expectations of key customers or identifying operational efficiencies. Third, analysis is about the differences between listed and non-listed SMEs, focusing especially on indirect obligations applied through supply chains and financial institutions. Fourth, as an important factor it examines which policy measures, guidance instruments and support are most effective in helping SMEs overcome reporting barriers and in ensuring that CSRD compliance not unfairly disadvantage smaller enterprises.

To address these questions, the thesis applies a qualitative, multi-method research design that combines three complementary elements. A legal-doctrinal analysis of the CSRD framework and its links to the Accounting Directive, the former NFRD, the ESRS and the double-materiality requirements presents the basis for answering the first research question on the structure and scope of SMEs' regulatory obligations. A systematic review of academic and policy literature on SME sustainability reporting and EU sustainable-finance regulation is used to contextualise these legal findings, identify existing evidence on SME burdens and opportunities, and identify remaining gaps relevant to the second and fourth research questions. Finally, exemplary case studies of medium-sized enterprises, selected from CSRD-relevant sectors and defined using the EU's SME criteria, are analysed on the basis of public sustainability reports, annual reports and sectoral publications to explore how different SMEs experience CSRD-related demands in practice. These illustrative cases are not intended to be statistically representative, but to clarify the mechanisms

through which listed and non-listed SMEs perceive challenges and opportunities and how stakeholder environments and internal resources shape their reporting responses.

CHAPTER 2

Legal Framework of the CSRD

2.1 Legislative background and objectives

CSRD stands as the foundation of the European Union's updated sustainability reporting framework, which represents a significant evolution from the earlier Non-Financial Reporting Directive (NFRD).¹⁹ The NFRD required mandatory non-financial disclosures from a relatively narrow group of large public-interest entities; however, the CSRD broadens reporting obligations in both scope and detail, establishes more solid assurance requirements, and aligns sustainability reporting with the EU's fundamental accounting framework.²⁰

The CSRD has been proposed within the EU's Sustainable Finance Package to deal with problems raised by NFRD in that it produced sustainability information that was often inadequate,

¹⁹ European Commission, Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting COM(2021) 189 final arts 1, 19a; Josef Baumüller and Stefan O Grbenic, 'Moving from Non-Financial to Sustainability Reporting: Analyzing the EU Commission's Proposal for a Corporate Sustainability Reporting Directive (CSRD)' (2021) 18 *Facta Universitatis, Series: Economics and Organization* 369–381, 370–372.

²⁰ European Commission, Proposal for a Directive of the European Parliament (n 19); Josef Baumüller and Karina Sopp, 'Double materiality and the shift from non-financial to European sustainability reporting: review, outlook and implications' (2022) 23 *Journal of Applied Accounting Research* 8–28, 8–10, 12–15.

inconsistent or unreliable for investors, civil society and other interested parties.²¹ The investigation conducted by the European Commission highlighted key obstacles, including information asymmetries, non-uniformity, and insufficient coverage of companies, which were the main barriers for the alignment of capital flows with the objectives of the European Green Deal and the Paris Agreement.²² Therefore, the purpose of the CSRD is to enhance the quality of sustainability information, broaden entities that are required to report and ensure that sustainability disclosures are consistent with financial reporting and corporate governance standards.

2.2 Accounting Directive and NFRD; crucial amendments

By revising Accounting Directive 2013/34/EU, the CSRD reforms the legal framework that governs annual and combined financial statements.²³ Under the NFRD (Directive 2014/95/EU), large public-interest entities with more than 500 employees were obliged to report on non-financial information concerning environmental and social issues, including employment, respect for human rights, anti-corruption.²⁴ However, the NFRD allowed considerable freedom in the selection of

²¹ NingShan Hao, Voicu D Dragomir and Oana Marina Radu, 'Effects on Corporate Stakeholders and Limitations of the Implementation of the Non-Financial Reporting Directive (2014/95/EU)' (2023) 22 *Journal of Accounting and Management Information Systems* 609–630, 609-615

²² European Commission, Proposal for a Directive (n 19), 1–2, 8–10, 15–16

²³ Council of the EU, 'Council gives final green light to corporate sustainability reporting directive (CSRD)' (Press release, 28 November 2022) <https://www.consilium.europa.eu/en/press/press-releases/2022/11/28/council-gives-final-green-light-to-corporate-sustainability-reporting-directive/> accessed 6 December 2025

²⁴ Hummel K and Jobst D, 'An Overview of Corporate Sustainability Reporting Legislation in the European Union' (2024) 21 *Accounting in Europe* 320–355, 322–330; European Autorité des Marchés Financiers (AMF), 'Publication of the new directive on corporate sustainability reporting (CSRD)' (17 January 2023) <https://www.amf-france.org/en/news-publications/news/publication-new-directive-corporate-sustainability-reporting-csrd> accessed 6 December 2025

reporting frameworks and did not provide detailed requirements, resulting in inconsistent practices across Member States and sectors.²⁵

Directive (EU) 2022/2464 replaces the former requirement which was “non-financial statement” with a more comprehensive framework for “sustainability reporting” and significantly modifies the relevant provisions of the Accounting Directive. Articles 19a and 29a of the Accounting Directive establish the obligation for companies to include a “sustainability reporting” part in their management report, prepared in accordance with European Sustainability Reporting Standards (ESRS) adopted by the Commission through delegated acts.²⁶ The CSRD, therefore, moves from a principles-based, framework-agnostic regime to a standards-based system with harmonised disclosure requirements, accompanied by digital tagging and mandatory assurance.²⁷

2.3 CSRD Reporting Obligations and Implementation Schedule

A central innovation of the CSRD is the major extension of its personal scope. The directive covers all large entities governed by the law of an EU Member State, all companies with securities listed on an EU-regulated market, including listed SMEs but without listed micro-undertakings; and certain large non-EU entities that have activity and some impact in the EU.²⁸ Large companies are determined based on the size criteria in the Accounting Directive (“balance sheet total, net

²⁵ *ibid*

²⁶ European Commission, Frequently Asked Questions on the Implementation of the EU Corporate Sustainability Reporting Directive (CSRD) 5-8 https://finance.ec.europa.eu/document/download/c4e40e92-8633-4bda-97cf-0af13e70bc3f_en?filename=240807-faqs-corporate-sustainability-reporting_en.pdf accessed 9 December 2025

²⁷ Hummel and Jobst (2024) (n 24) 320–355, 329; European Commission Proposal for a Directive (n 19), CSRD FAQs 6-7

²⁸ Tania Pantazi, ‘The Introduction of Mandatory Corporate Sustainability Reporting in the EU and the Question of Enforcement’ (2024) 25 *European Business Organization Law Review* 509–532, 510-514; Directive (EU) 2022/2464 ... OJ L322/15, arts 1, 19a, 29a

turnover and average number of employees”), and as a result, covering both listed and non-listed entities that are above the thresholds.²⁹

The CSRD provides for a progressive approach to implementation.³⁰ Large listed public-interest entities with over 500 employees that were already under the NFRD will be obliged to report under the CSRD “for financial years beginning on or after 1 January 2024”; however, other large companies that were not before subject to the NFRD follow one year later.³¹ The CSRD applies to all listed SMEs, except listed micro-undertakings, for financial years commencing on or after 1 January 2026, although these SMEs may postpone application until 2028, provided they provide a justification for the absence of sustainability reporting.³² Non-EU undertakings with significant EU turnover or at least one large or listed EU subsidiary or branch are brought into scope later, reflecting concerns about competitive neutrality and information needs of EU-based investors.³³

Besides mandatory reporting obligations, the CSRD framework provides for the improvement of voluntary sustainability reporting standards applicable to non-listed SMEs.³⁴ These standards are part of the wider regulatory framework that accompanies the Directive. The

²⁹ *ibid*

³⁰ European Commission Proposal for a Directive (n 19), CSRD FAQs, 9–11 (n 26); Pantazi (n 28), 512–513

³¹ *ibid*

³² Council of the European Union, ‘Council gives final green light to corporate sustainability reporting directive’ (Press Release, 28 November 2022) (section ‘New reporting rules for companies’); Accountancy Europe, ‘CSRD & CSDDD: key provisions and concepts’ (2025)

<https://accountancyeurope.eu/publications/csrd-csddd-key-provisions-and-concepts/> accessed 11 December 2025

³³ Pantazi (n 28), 514-515

³⁴ S Allgeier and R Feldmann, ‘CSRD Sustainability Reporting for Non-Listed SMEs: European Regulators Remain Challenged’ (2025) *Journal of Accounting and Management Information Systems* 439, 439–445

practical implications of indirect exposure for non-listed SMEs, and the role of voluntary SME-oriented standards in addressing such effects, are examined in Chapter 3.³⁵

2.4 Substantive reporting requirements and ESRS

The CSRD establishes a reporting duty whereby undertakings must specify both the sustainability impacts arising from their activities and the corresponding influence that sustainability obstacles have on the company's development, performance and situational context³⁶. This dual perspective is built into the ESRS framework, which turns the CSRD's broad aims into detailed disclosure requirements and concrete data points across environmental, social and governance areas.³⁷ The first set of ESRS standards, adopted in 2023, includes two general standards (ESRS 1 and ESRS 2) and a range of topic-specific standards covering climate change, pollution, water resources, biodiversity, resource use and the circular economy, the company's own workers in the value chain, impacted communities, consumers and end-users, and business practices.³⁸

The cross-cutting ESRS include: an explanation of the company's business model and plan, considering sustainability issues; the undertaking's governance and organisational structure for sustainability-related responsibilities; and processes to determine and manage significant

³⁵ *ibid*

³⁶ D Ahern, 'The Sustainability Reporting Ripple: Direct and Indirect Implications of the EU Corporate Sustainability Reporting Directive for SME Actors' (2023) SSRN Paper No 4517356, 13–16.

³⁷ *ibid*

³⁸ Directive (EU) 2022/2464, art 29b(1)–(5) (empowering the Commission to adopt ESRS by delegated act); Commission Delegated Regulation (EU) 2023/2772 (adopting the first set of ESRS); W Leal Filho et al, 'European sustainability reporting standards: An assessment of requirements and preparedness of EU companies' (2025) 380 *Journal of Environmental Management* 125008, 1–4 (PDF).

impacts, risks and opportunities.³⁹ The topical standards alter these general concepts into specific measures and narrative disclosures, such as greenhouse gas emissions by scope, transition plans, climate objectives, workforce diversity indicators, and due-diligence processes for human rights impacts⁴⁰. The ESRS therefore form the technical foundation of CSRD reporting and support the comparability and reliability of sustainability information across companies and Member States⁴¹.

2.5 Double Materiality

One of the CSRD's most discussed innovations is the codification of "double materiality" as the guiding principle for determining which sustainability matters must be reported⁴². Double materiality requires undertakings to evaluate sustainability topics from two complementary perspectives such as: the "impact materiality" perspective, which mainly focuses on potential or current positive and negative effects of the company on people and the environment, the second is the "financial materiality" perspective, considering how sustainability issues influence, or could be expected to affect, the company's cash flows, development, performance and position⁴³.

Academic commentators have traced the evolution of materiality within the EU's non-financial reporting framework, from the Modernisation Directive through the NFRD to the CSRD.

³⁹ Ahern, (n 36), 17-22; Leal Filho and others, 'European Sustainability Reporting Standards' (2025) 380 J Environ Manage 125008

⁴⁰ *ibid*

⁴¹ *ibid*

⁴² Måns Dunfjäll, 'Materiality in Transition: Challenges and Opportunities in Corporate Sustainability Reporting under the CSRD' (2025) 16 European Journal of Risk Regulation 927; Félix E Mezzanotte, 'Corporate Sustainability Reporting: Double Materiality, Impacts, and Legal Risk' (2023) 23 Journal of Corporate Law Studies 633

⁴³ Måns Dunfjäll's (n 42) ; Félix E Mezzanotte's (n 42); EFRAG, ESRS IG 1 – Materiality Assessment Implementation Guidance (May 2024) 5–6; EFRAG, [Draft] ESRS 1 General Principles (Exposure Draft, April 2022) 5–7.

⁴⁴The authors explain that organizations now use double materiality to link their financial risk management with their external impact reporting responsibilities⁴⁵. The reporting requirement under double materiality exists because organizations need to disclose issues that create substantial environmental or social effects regardless of their current financial value⁴⁶. Conversely, other issues may be considered material mainly because they make the company to have sustainability-related risks or opportunities with financial implications⁴⁷. The ESRS implement this principle into detailed guidance on materiality assessment processes, stakeholder engagement and documentation⁴⁸. However, empirical evidence emphasizes that many companies, particularly SMEs find these assessments complex and demanding in terms of resources⁴⁹.

2.6 Assurance, digital reporting and enforcement

The CSRD differs from the NFRD in two significant ways: first, it requires sustainability reports to be independently verified; second, to be presented in digital, machine-readable formats.⁵⁰ The first requirement for sustainability information involves independent assurance from a limited assurance provider who can be either the financial statements statutory auditor or an accredited assurance body⁵¹. Under the CSRD, organizations may progress to reasonable assurance when they fulfil specific goals set out in the framework⁵². The assurance process needs

⁴⁴ Baumüller and Sopp (n 19), 8- 9

⁴⁵ Måns Dunfjäll (n 42), 935-936

⁴⁶ European Commission, 2019 Guidelines on Non-Financial Reporting: Supplement on Reporting Climate-Related Information (2019) 4.

⁴⁷ European Commission, 2019 Guidelines (n 45), 4; Dunfjäll (n 42) 937

⁴⁸ Dunfjäll (n 42) 939; EFRAG, IG 1: Materiality Assessment (n43) paras 102–104.

⁴⁹ European Commission, Public Consultation on the Review of the Non-Financial Reporting Directive (2020) 11; Dunfjäll (n 42) 936.

⁵⁰ European Commission, FAQs on CSRD (n 26).

⁵¹ Pantazi (n 28), 519-520

⁵² *ibid*

to verify that organizations follow ESRS regulations and demonstrate proper execution of materiality assessments and maintain sustainability data consistency with financial statements and management report information.⁵³

The CSRD demands organizations to submit their sustainability reports through a unified electronic system, which enables digital tagging of information for automatic analysis by investors, regulators, and other users through the European Single Access Point⁵⁴. Member States are supposed to implement the directive through their legal systems and they must also establish appropriate penalties which should be both sufficient to prevent violations and proportionate to the offences.⁵⁵ The European supervisory authorities together with national regulators work to achieve supervisory practice uniformity.⁵⁶

2.7 Interaction with other EU sustainable-finance instruments

The CSRD is an essential part of the EU’s broader sustainable-finance framework that works with the “EU Taxonomy Regulation” and the “Sustainable Finance Disclosure Regulation” (SFDR), and its legal structure reflects these close interconnections⁵⁷. The EU Taxonomy establishes a system for determining environmentally sustainable economic activities and obliges both financial and non-financial entities to report the proportion of their activities or exposures

⁵³ EFRAG, IG 1: Materiality Assessment (n 43), 7,24-25; A Wagenhofer, ‘Sustainability Reporting: A Financial Reporting Perspective’ (2024) 21 Accounting in Europe 1–13, pp 1–4.

⁵⁴ Directive (EU) 2022/2464, art 29d; J Novicka and T Volkova, ‘Regulation of Sustainability Reporting Requirements—Digitalisation Path’ (2025) 17 Sustainability 138, sections 1.1,1.2, 3.1

⁵⁵ Directive (EU) 2022/2464, art 27

⁵⁶ ESMA, Public Statement on ESRS supervision in the Omnibus environment (20 June 2025)

⁵⁷ Regulation (EU) 2020/852 (Taxonomy), arts 1, 3–9; Regulation (EU) 2019/2088 (SFDR), arts 3, 4, 8, 9; Directive (EU) 2022/2464 (CSRD), arts 1, 19a, 29a and Annex I; Mindy Hauman, Mind the Gap: A Comparative Analysis of the CSRD, the CSDDD and the SFDR as Green Deal 2.0 (2024 to 2029) unfolds (White & Case LLP, 8 July 2024)

that align with its criteria.⁵⁸ The CSRD ensures that companies include taxonomy-related Key Performance Indicators in their sustainability reports, supplying financial institutions with the data needed to fulfill SFDR disclosure obligations for products and entities.⁵⁹

From a legal-system perspective, the CSRD, the Taxonomy Regulation, and the SFDR function as mutually reinforcing instruments.⁶⁰ The Taxonomy Regulation defines what qualifies as “green,” the CSRD obliges undertakings to report their sustainability performance and Taxonomy-aligned measures, and the SFDR ensures that financial market participants report this information to end investors.⁶¹ Experts mention that the aim of this framework is to reduce greenwashing risks and ensure consistent information flows throughout the investment chain from corporate issuers, through asset managers, to investors.⁶² Moreover, these requirements also expand the complexity of compliance, especially for smaller firms and financial intermediaries that are required to manage multiple legal acts and reporting standards.⁶³

⁵⁸ N Garcia-Torea, M Luque-Vílchez and P Rodríguez-Gutiérrez, ‘The EU Taxonomy, Sustainability Reporting and Financial Institutions: Understanding the Elements Driving Regulatory Uncertainty’ (2024) 48 *Accounting Forum* 427, 427–430; K Hummel, ‘Consequences of sustainability reporting mandates’ (2024) 40 *Business Strategy and the Environment* 1, 1–4; Franziska Schütze and Benedikte Sandbaek, ‘Taxonomy Disclosure in the EU – A Useful Framework, Despite Current Challenges’ (2025) 22 *The Economists’ Voice* 161, 161–164.

⁵⁹ Regulation (EU) 2020/852 (Taxonomy) recital 22; Schütze and Sandbaek, *Taxonomy Disclosure in the EU*, 164.

⁶⁰ Hummel and Jobst (2024) (n 24) 330-335; S Jenei and others, ‘EU sustainable finance framework’ (2024) 8(15) *Journal of Infrastructure, Policy and Development* 9485, 1-4; Felix E Mezzanotte, ‘Recent Law Reforms in EU Sustainable Finance: Regulating Sustainability Risk and Sustainable Investments’ (2023) 11 *American University Business Law Review* 215–276, 220-225.

⁶¹ *ibid*

⁶² Mezzanotte, (n 60) 230-233

⁶³ Mezzanotte, (n60) 240-243

2.8 Implications for SMEs and future developments

Although non-listed SMEs are generally not subject to mandatory sustainability reporting under the CSRD, the Directive formally recognises their role within the broader sustainability reporting framework.⁶⁴ Moreover, the CSRD framework provides for the development of voluntary sustainability reporting standards for non-listed SMEs and introduces proportionate ESRS for listed SMEs.⁶⁵ These instruments are part of the Directive’s regulatory design and reflect the EU legislator’s intention to recognise that undertakings of different sizes have different capacities within a fixed reporting regime.⁶⁶

Beyond its initial legislative design, the CSRD should be understood as part of an evolving regulatory framework.⁶⁷ Current legislative and standard-setting debates suggest that certain elements of the CSRD and the ESRS may be subject to further adjustment over time.⁶⁸ In particular, ongoing debates concerning the simplification or postponement of selected reporting requirements, the calibration of assurance obligations, and the alignment of EU sustainability reporting with emerging international baseline standards, especially those developed by the “International Sustainability Standards Board” (ISSB), illustrate the dynamic nature of the CSRD.⁶⁹ As these discussions show, the Directive should not be understood as a static regulatory instrument. Understanding this dynamic context is essential for grasping both the current scope of

⁶⁴ Directive (EU) 2022/2464 (CSRD), arts 1(3)–1(4) and recital 21;), CSRD FAQs (n 26) ,4

⁶⁵ European Commission, *Annual SME Performance Review 2023* (EC 2023) 6–9; OECD, *OECD SME and Entrepreneurship Outlook 2023* (OECD Publishing 2023) 23-55

⁶⁶ Szonja Jenei and others, ‘EU Sustainable Finance Framework’ (2024) 8(15) *Journal of Infrastructure, Policy and Development* 9485, 14-15; European Commission, *CSRD FAQs* (2023) (n26) 9–11;

⁶⁷ Pantazi, (n 28) section 4.3-4.4

⁶⁸ Pantazi (n 28), section 4.3-4.4; Ruohonen and Kullas, ‘The Assurance of Corporate Sustainability Reports and the Renewed Role of Certified Auditors 446–450, 452–454

⁶⁹ M-D Mangiuc and M Kagitci, ‘CSRD as a Paradigm Shift in Sustainability Reporting: From Voluntary Practice to Legal Requirement’ (2025) 27 *Amfiteatru Economic* 1193, 1202-1203.

sustainability reporting obligations and the direction of future regulatory developments, including those relevant to SMEs.⁷⁰

CHAPTER 3

Key Challenges for SMEs

3.1 Scope, Timing and Legal Uncertainty

One of the key challenges that SMEs face is determining whether they fall within the scope of CSRD reporting requirements, as well as understanding when and how these obligations apply, given that eligibility depends on legal form, listing status, and company size under EU accounting law⁷¹. In contrast to traditional regulatory regimes with clearly defined boundaries, the CSRD adopts a phased and conditional framework that obliges SMEs to assess both their present obligations and their potential future regulatory scope⁷². This interpretative burden is particularly significant for firms operating at or near the relevant thresholds, as well as for those contemplating changes in corporate structure, growth, or listing status⁷³.

⁷⁰ EFRAG, Voluntary Standard for Non-Listed Micro-, Small- and Medium-Sized Undertakings (VSME Standard) (EFRAG 2024) 4–5.; EFRAG, Cover Letter and Cost-Benefit Analysis of the Voluntary Standard for SMEs (VSME) (EFRAG 2024) 3–5, 9–11.

⁷¹ Latham & Watkins, The EU Corporate Sustainability Reporting Directive — How Companies Need to Prepare (Client Alert No 3059, 27 January 2023) pp 1-3; Sina Allgeier & Robert Feldmann, ‘CSRD Sustainability Reporting For Non-listed SMEs: European Regulators Remain Challenged’ (2023) *European Company and Financial Law Review* 20(3) 438-440; Massimiliano Celli, Simona Arduini & Tommaso Beck, ‘Corporate Sustainability Reporting Directive (CSRD) and His Future Application Scenario for Italian SMEs’ (2024) *International Journal of Business and Management* 19(4) 44-53.

⁷² *ibid*

⁷³ *ibid*

For listed SMEs, the deferred application of CSRD reporting obligations does not eliminate the need for early compliance planning. Although mandatory reporting applies from financial years beginning on or after 1 January 2026, firms must typically initiate investments in data infrastructure, internal controls, and governance arrangements well in advance of the first reporting period.⁷⁴ These initial steps are commonly undertaken in the absence of clarity regarding the final national transposition measures and supervisory expectations, increasing the complexity of compliance planning for smaller firms with limited administrative capacity⁷⁵.

Regulatory uncertainty further increases these challenges, as the CSRD regime continues to evolve through secondary legislation, interpretative guidance, and developing assurance standards, therefore, SMEs are required to make investment and organisational decisions within shifting expectations⁷⁶. When the broader policy environment points toward possible “simplification” or recalibration of sustainability reporting requirements, SMEs may respond by postponing investments in the development of internal capacities⁷⁷. Such postponement may result in a last concentration of compliance, especially where the deadlines overlap with increased contractual and financing-related reporting demands⁷⁸.

⁷⁴ Council of the European Union, ‘Council gives final green light to corporate sustainability reporting directive; Accountancy Europe, ‘CSRD & CSDDD: key provisions and concepts’ (2025); Allgeier and Feldmann (n 71), 439-440

⁷⁵ European Parliament, The impact of EU legislation in the area of digital and green transition, particularly on SMEs (Policy Department for Economic, Scientific and Quality of Life Policies, PE 754.213, 2024) 9–10, 13; Allgeier and Feldmann (n 71), 441-444

⁷⁶ Ahern, ‘The Sustainability Reporting Ripple, (n 36) 6-7, 14-15; Allgeier & Feldmann (2023) (n 71) 439-440, 443-444; U Kosi and P Relard, ‘Are Firms (Getting) Ready for the Corporate Sustainability Reporting Directive?’ (2024) 32:5 Sustainability Nexus Forum, 4, 9–10

⁷⁷ *ibid*

⁷⁸ *ibid*

3.2 ESRS Requirements and SME Capacity

Another challenging issue for SMEs is navigating the technical complexity of the European Sustainability Reporting Standards (ESRS), which convert the CSRD's broad policy aims into highly detailed disclosure requirements across governance, strategy, risk management, and performance measures.⁷⁹ The detailed framework of the directive aims to make disclosures more consistent and useful; however, the ESRS were largely designed for large undertakings that already have the necessary compliance, legal, and sustainability reporting infrastructure.⁸⁰ By contrast, SMEs often have a shortage of the internal legal, accounting, and sustainability expertise necessary for the consistent and defensible interpretation of complex definitions, materiality thresholds, and reporting boundaries.⁸¹ In practice, the interpretive burden extends beyond understanding the wording of the standards to implementing abstract requirements into concrete organisational processes capable of satisfying review from auditors, lenders, and business partners⁸².

In consequence, SMEs frequently depend on external consultants or software providers because of limited financial resources.⁸³ While use of external sources can offer short-term compliance solutions, it may also create forms of dependency and lead to inconsistent

⁷⁹ Commission Delegated Regulation (EU) 2023/2772 supplementing Directive 2013/34/EU, Annex I (ESRS 1–ESRS 2); Hummel and Jobst (2024) (n 24), 336–337

⁸⁰ Garyfallos Fragidis and Triantafyllos Papafloratos, 'An Information Architecture for the European Sustainability Reporting Standards (ESRS)' (2025) 17 Sustainability art 7675, OECD, Fostering Convergence in SME Sustainability Reporting 8–11 (n 11)

⁸¹ *ibid*

⁸² United Nations Conference on Trade and Development, Shaping the Future of SME Sustainability Disclosure: A Holistic Approach (UNCTAD Input Paper for the G20 Sustainable Finance Working Group, June 2024) pp 7–9; Walter Leal Filho and others, 'European Sustainability Reporting Standards: An Assessment of Requirements and Preparedness of EU Companies' (2025) 380 Journal of Environmental Management 125008, 1

⁸³ UNCTAD Shaping the Future of SME Sustainability Disclosure (n88) 9–14, 21–23; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 12–13.

implementation quality across sectors and Member States.⁸⁴ A commonly identified risk is “procedural compliance,” which SMEs meet formal disclosure requirements by following templates that cause a failure to integrating the governance, risk-management, and strategic practices the CSRD aims to foster.⁸⁵ This risk is particularly pronounced in owner-managed firms that view sustainability reporting as an external regulatory obligation rather than a management tool, reducing its influence on strategic and operational decision-making.⁸⁶

3.3 Double Materiality as Method and Governance Challenge

Double materiality is among the most challenging CSRD innovations for SMEs, as it requires the concurrent assessment of impact and financial materiality within a single, integrated framework.⁸⁷ The challenge is mostly methodological because SMEs are required to establish a clear, documented process for identifying and reviewing sustainability issues, instead of just listing topics, which is more in line with the due-diligence practices of larger firms.⁸⁸ This requirement places significant strain on SMEs with limited internal expertise and documentation practices.⁸⁹ This is the consequence of governance challenge, because effective materiality assessments usually require formal oversight, coordination across functions, and structured stakeholder engagement, which are often informal or missing in smaller firms.⁹⁰

⁸⁴ *ibid*

⁸⁵ Hummel and Jobst (2024) (n 24) 323–326, 333–334,

⁸⁶ Hummel and Jobst (2024) (n 24) 323–326, 333–334; Marc E Betton, J Robert Branston and Philip R Tomlinson, ‘Owner–Manager Perceptions of Regulation and Micro-Firm Performance: An Exploratory View’ (2021) 25(1) *Competition & Change* 73, 74–77, 85–87

⁸⁷ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 21-27; EFRAG, *ESRS 1 – General Requirements* (November 2025);

⁸⁸ EFRAG, *IG 1: Materiality Assessment* (May 2024) (n 43) 9–12, 19–22.

⁸⁹ *ibid*

⁹⁰ OECD, *Fostering Convergence in SME Sustainability Reporting*, (n 11) 7-8

For SMEs involved in complex or cross-border supply chains, assessing impact materiality is often challenging because upstream and downstream impacts are only partly visible or within their control⁹¹. These governance pressures become even more pronounced when larger partners or financial institutions expect SMEs to justify their materiality assessments using the frameworks and assumptions of much larger organisations, despite SMEs' more limited resources and influence⁹². In these situations, SMEs often depend on information from lead firms or standard forms which limit their ability to exercise independent judgement and narrow their materiality assessments⁹³. Moreover, the power imbalance with large entities in supply chains can make SMEs use cautious or defensive materiality choices while trying to appeal to the risk expectations of larger partners⁹⁴. Over time, this may reduce materiality assessment to a compliance-focused exercise for external validation instead of informing internal strategy, risk management, and operational improvement⁹⁵.

3.4 Data Availability, Measurement Quality and the Digital Gap in practice

The practical challenges SMEs face in producing sustainability information will be analysed in this section, without restating the policy rationale or formal scope of the CSRD.

For SMEs, a key challenge under the CSRD is managing the process of producing

⁹¹ EFRAG, IG 1: Materiality Assessment (May 2024) (n 43) 19–21.

⁹² Hummel & Jobst (2024) (n 24) 324-326, 333-334; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 27-30

⁹³ OECD, OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD Publishing 2018), 64-65

⁹⁴ Denise A Baden, Ian A Harwood and David G Woodward, 'The Effect of Buyer Pressure on Suppliers in SMEs to Demonstrate CSR Practices: An Added Incentive or Counter-Productive?' (2009) 27 *European Management Journal* 429–441, 429–433, 437–439; Aoife Hanley, and others, *The Cumulative Effect of Due Diligence EU Legislation on SMEs* (European Parliament, Directorate-General for External Policies, Policy Department for External Relations, September 2023), 15-18

⁹⁵ *ibid*

sustainability information, rather than understanding the legal obligations⁹⁶. Instead of relying on established reporting infrastructures, many SMEs need to first identify where relevant data are actually located within the organisation and then adapt them into formats that can be used for ESRS-aligned disclosures⁹⁷. In practice, information about energy use, emissions or workforce characteristics is often spread across invoices, supplier contracts and payroll records; however, none of them was designed for sustainability reporting purposes⁹⁸.

Fragmented information makes it harder to produce indicators that are consistent and verifiable over time. For example, SMEs may use one method to calculate greenhouse-gas emissions when responding to a major customer survey and a different method when applying for a public grant, simply because the templates and underlying assumptions are not aligned⁹⁹. When these data are later brought together in a CSRD-oriented report, differences in methodology may give the impression of improvement or decline driven by how the data are measured, without any corresponding real changes in performance. Limited internal expertise also affects how SMEs decide which of the many data points requested by business partners or financial institutions to prioritise. In these situations, staff are frequently required to exercise judgement in deciding which indicators to track systematically and which to approximate through sector averages or qualitative explanations¹⁰⁰. Such pragmatic decisions are rational from a resource perspective, but they may shift attention away from issues that are significant for an SME's specific impact or risk profile

⁹⁶ UNCTAD, Sustainability Disclosure for Small and Medium-Sized Enterprises in Developing Economies (UNCTAD 2025) 10-12 https://unctad.org/system/files/official-document/diae2024d3_en.pdf accessed 8 December 2025

⁹⁷ UNCTAD, Sustainability Disclosure (n 96) 10-12; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 13-19

⁹⁸ OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 22-23; Seán O'Reilly and others, 'Accounting Practitioners' Perspectives on Small- and Medium-Sized Enterprises' Environmental Sustainability Reporting' (2025) 26(6) Journal of Applied Accounting Research 26.

⁹⁹ UNCTAD, Sustainability Disclosure (n 96) , 18-19

¹⁰⁰ EFRAG, IG 1: Materiality Assessment paras (n 43) 102-104

and weaken the link between reporting and internal strategy. Over time, this can lead to a situation where data are gathered primarily to meet external questionnaire requirements, instead of being used within management control systems.

Digitalisation requirements further compound this challenge, since the CSRD's transition to machine-readable and tagged reporting presupposes the availability of relatively structured data suitable for reporting systems¹⁰¹. However, for many SMEs, the first step is not selecting an appropriate tagging tool but moving from paper files and basic spreadsheets to any form of centralised data management¹⁰². When SMEs use standard ESG tools without adapting them, they may be forced to input rough estimates into inflexible templates built for larger firms, reducing the usefulness of the disclosures¹⁰³. These dynamics also have implications that extend beyond individual firms. Heavy reliance on templates or portals provided by large customers or banks allows those providers to effectively shape de facto standards governing both the scope and methods of measurement¹⁰⁴. This practice may lock smaller firms into particular indicator sets or calculation methodologies that later prove inconsistent with revisions to the ESRS or national guidance. From this perspective, deficiencies in data availability and digital capabilities extend beyond implementation delays and influence the allocation of power to define “good” sustainability performance within SME-dominated value chains.

¹⁰¹ Directive (EU) 2022/2464, art 29d

¹⁰² UNCTAD, Sustainability Disclosure (n 96) 18-19, 22- 23; Marcela Marçal Alves Pinto Mick and others, 'Developing a Sustainable Digital Transformation Roadmap for SMEs: Integrating Digital Maturity and Strategic Alignment' (2024) 16(20) *Sustainability* 8745, 1-3.

¹⁰³ OECD, Fostering Convergence in SME Sustainability Reporting, (n 11) 11-12, 23-25; Santi Setyaningsih, Rosita Widjojo and Peter Kelle, 'Challenges and Opportunities in Sustainability Reporting: A Focus on Small and Medium Enterprises (SMEs)' (2024) 11(1) *Cogent Business & Management* 2298215 3-4, 6-7, 11-12. https://www.researchgate.net/publication/378212581_Challenges_and_opportunities_in_sustainability_reporting_a_focus_on_small_and_medium_enterprises_SMEs

¹⁰⁴ UNCTAD, Sustainability Disclosure (n 96), 16-19, 22-23; Ludger Niemann, et al, 'Data Requests in Value Chains: The Effects of Corporate Sustainability Reporting on SMEs in the Netherlands' (2025) 17 *Sustainability* 8029.9, section 4 (discussion)

3.5 Value-Chain Information Requests and Contractual Pressure

In addition to the data-production and digitalisation challenges discussed above, a further and distinct difficulty for SMEs arises from the way CSRD-related information requirements are transmitted through contractual and financial relationships. Although the directive formally applies only to large undertakings and listed SMEs, sustainability reporting expectations increasingly extend to non-listed SMEs through value-chain information requests, bank questionnaires and due-diligence processes¹⁰⁵. As a result, many SMEs do not encounter CSRD requirements as one clear legal obligation, but rather as a continuous and fragmented set of functionally obligatory demands arising through commercial relationships.

Even when SMEs are not formally subject to mandatory reporting, the CSRD's strong value-chain focus enables sustainability reporting requirements to be transmitted from large reporting entities to smaller counterparties.¹⁰⁶ Large companies must report on impacts, risks, and opportunities arising from their upstream and downstream relationships, which encourages systematic data collection from suppliers and distributors.¹⁰⁷ As a result, SMEs may be subject to sustainability reporting demands that are functionally equivalent to formal compliance obligations, even though they do not benefit from the legal status and support mechanisms available to in-scope entities.

¹⁰⁵ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 10-12; Ahern, 'The Sustainability Reporting Ripple', (n 36) page 2

¹⁰⁶ Niemann and others, 'Data Requests in Value Chains' (2025) (n 106) sections 4; Allgeier and Feldmann, (n 71) 439-440.

¹⁰⁷ Niemann and others, 'Data Requests in Value Chains' (2025) (n 106) sections 1, 4-5; Ahern, 'The Sustainability Reporting Ripple', (n 36) 1-3; Allgeier and Feldmann, (n 71) 441-444

Empirical studies show that large buyers and financial institutions frequently rely on standardised ESG questionnaires and data portals to collect information from SME counterparties, often based directly on ESRS concepts and indicators¹⁰⁸. Such requests may both overlap with and exceed existing disclosure requirements, while employing definitions, calculation methods, and reference periods that differ across counterparties¹⁰⁹. For SMEs with limited administrative capacity, responding to multiple parallel requests can generate significant compliance costs and managerial distraction, even in the absence of a formal reporting duty under the CSRD itself¹¹⁰.

Contractual pressure within value chains further intensifies these effects. Research on buyer–supplier relationships suggests that lead firms subject to CSRD-driven risk management and due-diligence requirements may tighten supplier selection and monitoring practices, favouring counterparts that can provide standardised and verifiable sustainability data¹¹¹. SMEs that lack the resources to implement formalised reporting systems or having difficulties adapting quickly to evolving templates may therefore face disadvantages in contract renewal, pricing negotiations or access to finance¹¹². In extreme cases, this pattern may confine smaller firms to lower-value supply-chain segments and reinforce structural imbalances between large and small market participants.

¹⁰⁸ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 10-12; Felix Rossmann, Jan Greitens and Lisa Knoll, *SMEs within a Data-Driven Sustainable Finance Framework: A European Survey* (CFS Working Paper Series No 735, Center for Financial Studies, Goethe University Frankfurt 2025); UNCTAD, *Sustainability Disclosure* (n 98), 17-23

¹⁰⁹ *Ibid*

¹¹⁰ Eurochambres and SMEUnited, *Access to Sustainable Finance for SMEs: A European Survey* (2023) 4–5, 15–16, 21–22; Rossmann, Greitens and Knoll (n 108) 7–8, 10–11.

¹¹¹ Baden and others (n 94), 430–431, 434–435; Niemann and others, ‘Data Requests in Value Chains’ (2025) (n 76) 2–3, 6, 10–11, 15

¹¹² European Parliament (n 98) 9, 14–16; Kristina Rudžionienė and Šarūnas Brazdžius, ‘Cost and Benefits of Sustainability Reporting: Literature Review’ in *Sustainable Performance in Business Organisations and Institutions: Measurement, Reporting and Management* (Springer 2023) 56–72, 60–66

These pressures as a cumulative impact may raise concerns about competitive neutrality and proportionality. Parliamentary and policy analyses warn that, without sufficient coordination and support mechanisms, the indirect transmission of CSRD-related requirements could contribute to regulatory overload for SMEs and accelerate market concentration by increasing fixed compliance costs¹¹³. This risk is particularly pronounced in sectors characterised by high levels of SME participation and strong buyer dominance, where individual firms have limited bargaining power to negotiate the scope or format of information requests¹¹⁴.

Overall, value-chain information requests and contractual pressures pose a challenge that is qualitatively distinct from the legal design of the CSRD itself. For SMEs, the core concern is not limited to formal compliance with sustainability reporting standards to the preservation of strategic autonomy and competitive positioning in an environment where data-intensive transparency requirements are increasingly defined by larger market actors. Addressing these dynamics therefore requires attention not only to the formal scope of the CSRD, but also to the governance of sustainability information flows within value chains and financial markets.

3.6 Compliance with assurance requirements and Compliance Cost Structures for SMEs

Another significant challenge for SMEs arises from the CSRD's increasing focus on externally assured sustainability information and the expectation that sustainability data be ready

¹¹³ European Parliament (n 96) 6–7, 9–10, 15–16, 18–19; Malgosia Fitzmaurice and Daniel Gros, 'We Have a Case of Sustainability Reporting Overload: The EU Needs a Smarter Fix' (CEPS Expert Commentary, 23 October 2024) <https://www.ceps.eu/we-have-a-case-of-sustainability-reporting-overload-the-eu-needs-a-smarter-fix/> accessed 9 December 2025.

¹¹⁴ Zenani Ndzabukelwako and others, 'The Impact of Porter's Five Forces Model on SMEs Performance: A Systematic Review' (Preprints.org, 2024) 4–5, 18–21; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 10-12; Niemann and others, (n76) 9-15

for audit. Even where SMEs are not formally subject to statutory assurance requirements, customers, banks, and investors increasingly expect sustainability information to be traceable, consistent, and capable of external verification¹¹⁵. In practice, the main challenge is not the assurance requirement itself, but the organisational effort involved in making sustainability information verifiable, including documenting methods, assumptions, and internal controls¹¹⁶. These expectations interact closely with the data-fragmentation issues mentioned before: where relevant information is dispersed across invoices, payroll systems and informal records, producing assurance-ready disclosures often requires SMEs to establish reporting routines that exceed their traditional administrative practices¹¹⁷.

For SMEs, the main costs associated with assurance readiness tend to arise from structural factors and accumulate over time. First, firms face fixed internal costs related to assigning responsibilities, establishing documentation standards, and performing basic consistency checks across datasets.¹¹⁸ Second, SMEs may incur external costs where they depend on assurance providers or consultants to design reporting processes, interpret templates, and adapt existing records for verification.¹¹⁹ Third, SMEs face additional coordination and rework costs when they must respond to several overlapping information requests from different counterparties that use different definitions and assumptions.¹²⁰ These burdens are particularly visible in areas such as

¹¹⁵ Committee of European Auditing Oversight Bodies (CEAOB), Guidelines on Limited Assurance on Sustainability Reporting (30 September 2024) 2–3, 4–5, 7–8; UNCTAD, Sustainability Disclosure (n 96) 1,6–8,12,18–19,22

¹¹⁶ CEOB, Guidelines (n 115) 3–5,10; Accountancy Europe, Sustainability Assurance under the CSRD (Discussion Paper, May 2022) 5–7, 10–12.

¹¹⁷ OECD, Fostering Convergence in SME Sustainability Reporting 22–23 (n); O’Reilly and others (n 100) 26.

¹¹⁸ European Parliament (n 96) 9, 15–16; Setyaningsih, Widjojo and Kelle (n 105), 7–13

¹¹⁹ UNCTAD Shaping the Future of SME Sustainability Disclosure (n 86) 12–13, 22–23, 25–26

¹²⁰ Niemann et al, ‘Data Requests in Value Chains’ (2025) (n 76) 13–14; OECD, Fostering convergence in SME sustainability reporting (2025) (n11)

greenhouse-gas emissions and workforce data, where methodological choices may be defensible individually but difficult to align with reporting channels.¹²¹

These pressures are intensified by market dynamics that disadvantage smaller firms. Because assurance capacity is limited, SMEs may experience higher relative costs or delays when external verification is expected. At the same time, digitalisation brings costs forward, since moving from simple record-keeping to structured, machine-readable data usually requires early investment in systems and staff training, before assurance is required.¹²² This creates uncertainty for SMEs, particularly where it remains unclear which data points or reliability will ultimately be demanded by customers or financial institutions. In this sense, assurance readiness functions as a transmission mechanism that transforms sustainability reporting from a disclosure exercise into an ongoing discipline of data governance, with cost implications that resemble internal control development rather than narrative reporting.

The broader implication is that assurance-driven expectations may reinforce competitive asymmetries within value chains. As buyers and financiers increasingly prefer standardised and verifiable ESG information, SMEs that cannot show audit-ready processes may face disadvantages in procurement, contracting, or access to finance, even if they are not formally subject to reporting obligations.¹²³ This raises proportionality concerns, as fixed investments in systems and documentation are harder for SMEs to absorb and may determine who is able to participate competitively in sustainability-driven markets.¹²⁴

¹²¹ *ibid*

¹²² Selvi Kannan and Nicolás Gambetta, 'Technology-driven Sustainability in Small and Medium-sized Enterprises: A Systematic Literature Review' (2025) 35(1) *Journal of Small Business Strategy* 2–3, 7–10; OECD, *SMEs Going Digital: Policy Challenges and Recommendations* (OECD Publishing 2021) 5, 9–10.

¹²³ Baden and others (n 94) 429–432.

¹²⁴ OECD, *Fostering Convergence in SME Sustainability Reporting* 22-23 (n 11) 7-8, 9-11, 20-22

3.7 Interoperability Challenges and Multi-Framework Reporting Risk for SMEs

Furthermore, increasing fragmentation of sustainability reporting frameworks and the limited interoperability between SMEs, cause an additional and structurally distinct challenge for them. As discussed above, SMEs receive sustainability information requests from multiple sources, including large customers, financial institutions, and public bodies.¹²⁵ In practice, these requests often use different reporting approaches and indicators, even when they concern similar sustainability risks or impacts.¹²⁶ Compliance is therefore characterised by the need to manage partially overlapping and weakly coordinated frameworks, rather than a single reporting obligation.

From a practical perspective, the absence of full interoperability creates a risk that SMEs must maintain parallel datasets or repeatedly adapt the same underlying information to fit different templates.¹²⁷ Empirical studies indicate that banks and large undertakings often collect sustainability information through standardised questionnaires or digital portals designed for their internal reporting needs.¹²⁸ For SMEs, sustainability information prepared for one counterparty is often not directly usable for another and requires further adaptation or modification, even where the substantive issues addressed are similar.¹²⁹ Over time, this may weaken methodological consistency and cause indicators to differ between reporting channels because of non-uniform

¹²⁵ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 10-12; Ahern, 'The Sustainability Reporting Ripple', (n 36) page 2

¹²⁶ *ibid*

¹²⁷ *ibid*

¹²⁸ Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2; European Banking Authority, *Report on Data Availability and Feasibility of a Common Methodology for ESG Exposures* (EBA/REP/2025/06, February 2025) 10–11, 22, 51

¹²⁹ Niemann et al, 'Data Requests in Value Chains' (2025) (n 76) 2-8; Setyaningsih, Widjojo and Kelle (n 105) 8-10

definitions, assumptions, or calculation methods, even where underlying performance remains unchanged.

Interoperability problems are more evident when SMEs adopt simplified or SME-oriented reporting frameworks because of limited capacity. Although voluntary SME sustainability standards are supposed to simplify reporting, but their effectiveness depends on whether dominant market parties recognise and accept them.¹³⁰ This dynamic can place SMEs in a reactive compliance position, in which reporting decisions are driven primarily by the expectations of the most demanding counterparty not by a coherent internal assessment of sustainability priorities.

Beyond administrative burden, compliance with multiple frameworks also has strategic consequences. SMEs that make early investments in data structures designed around a single framework may later discover that these investments no longer align well with revised standards, sector-specific guidance, or changing supervisory expectations¹³¹. From this perspective, interoperability challenges risk making sustainability reporting influenced by earlier choices, thereby limiting SMEs' capacity to adjust efficiently to evolving regulatory and market conditions¹³². The risk is not just inefficiency, but a progressive reduction of strategic decision making ability, as reporting practices are increasingly shaped by external supply-chain and financing pressures.

¹³⁰ EFRAG explicitly: voluntary standard relies on market acceptance; EFRAG, VSME Market Acceptance Survey Report (EFRAG December 2025) 6 (para 18)

¹³¹ Michele Guidi and others, 'Understanding the Interplay between Sustainability Strategy and the Approach to Sustainability Reporting in SMEs' (2025) 31 *Journal of Management & Organization* 1137, 1138-1139, 1151-1152 <https://www.cambridge.org/core/journals/journal-of-management-and-organization/article/understanding-the-interplay-between-sustainability-strategy-and-the-approach-to-sustainability-reporting-in-smes/35CFD0DCC0913A7EB64009EAE4E118A> ; Setyaningsih, Widjojo and Kelle (n 105) 6-7; Niemann et al, 'Data Requests in Value Chains' (2025) (n76), 14-16

¹³² Ibid

These challenges demonstrate that interoperability is not only a technical issue, but a governance problem with significant distributional effects. SMEs face higher costs and fewer opportunities to influence standards because large undertakings are in a strong position to absorb the costs of adapting between frameworks and to influence the design of reporting tools¹³³. Without the capacity to have coordination between standard-setting bodies, regulators, and market participants, the use of multiple reporting frameworks may maintain the complexity and fragmentation that CSRD reforms seek to overcome¹³⁴. For SMEs, the central issue is therefore not simply compliance with any framework, but managing the cumulative risk created by inconsistent and evolving reporting expectations across markets and value chains.

3.8 Confidentiality, Trade Secrets and Data Protection Constraints in Value-Chain Reporting

A less visible, but legally significant, limitation on the diffusion of CSRD-related reporting requirements concerns the limits of lawful and commercially safe data sharing by SMEs. As sustainability reporting expectations are transmitted along value chains, SMEs are increasingly asked to provide detailed and verifiable information on workforce characteristics, supplier practices, incidents, energy use and emissions¹³⁵. However, in practice, much of the information most frequently requested by banks, large customers and corporate groups overlaps with data that is commercially sensitive, such as supplier pricing structures, production output, sourcing strategies, audit findings or incident records or that relates to identifiable individuals, including

¹³³ Niemann et al, 'Data Requests in Value Chains' (2025) (n76), 13-16; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 10-12, 18-19; VSME Market Acceptance Survey Report (n 130), 4-5,16-18

¹³⁴ *ibid*

¹³⁵ OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 6-7, 10-11, 18-19; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 13-14; EBA, Report on ESG Exposures (n 128) (2025) 10-11, 22, 66-69,

workforce composition, attendance records of employees, training records and health and safety events¹³⁶. This creates a compliance confidentiality pressure that, SMEs are expected to supply decision-useful and audit-ready inputs, yet doing that may expose trade secrets, weaken bargaining positions or trigger data-protection obligations that previously operated at a significantly lower degree. The difficulty, therefore, lies not only in collecting sustainability data, but in determining what can be lawfully and prudently disclosed, to whom, and under which safeguards.

From a legal-risk perspective, SMEs face two constraints. First, trade-secret protection may be undermined once sensitive business information is disclosed outside the firm without robust contractual controls, including clear purpose limitation, confidentiality obligations, restrictions on onward transfer and retention, and effective remedies in case of misuse¹³⁷. Second, a significant share of sustainability-related datasets qualifies as personal data, and in some cases as special-category data, meaning that SMEs supplying “supporting evidence” can become responsible for ensuring a lawful basis for processing, compliance with data-minimisation principles, appropriate access controls and, where relevant, enhanced safeguards¹³⁸. These constraints become particularly pronounced because sustainability reporting processes often try to adapt internal systems that were designed for other objectives, such as payroll administration,

¹³⁶ *ibid*

¹³⁷ Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) [2016] OJ L157/1, arts 2(1), 3(1), 4, 6.; Deepa Varadarajan, ‘The Trade Secret–Contract Interface’ (2018) 103 *Iowa L Rev* 1556–1560

https://heinonlineorg.uaccess.univie.ac.at/HOL/Page?collection=journals&handle=hein.journals/ilr103&id=1587&men_tab=srchresults

¹³⁸ Regulation (EU) 2016/679 (General Data Protection Regulation) [2016] OJ L119/1, arts 4(1), 5(1)(b)–(c), 6(1), 9(1), 24, 32; Pierre Dewitte, ‘The Many Shades of Impact Assessments: An Analysis of Data Protection by Design in the Case Law of National Supervisory Authorities’ (2024) *Technology and Regulation* 209–216

employee surveys or supplier management into reporting and assurance processes, thereby exposing governance weaknesses once information must be prepared for external users.

Operational responses by SMEs frequently aim to reduce disclosure risk. Common strategies include providing high-level indicators or ranges rather than raw data, separating commercially sensitive information from sustainability metrics, anonymising datasets where possible, or relying on controlled digital portals with role-based access instead of informal data transfers¹³⁹. However, these protective measures can conflict with counterparties demand for comparability, traceability and documentary evidence, especially where sustainability information is intended to inform group-level reporting or assurance processes¹⁴⁰. The result is less visible but it has important distributional effect: larger undertakings can externalise information-governance costs by demanding highly specific inputs, while SMEs must bear the expense of legal review, redaction, system controls and contractual infrastructure required to share data without reducing confidentiality or breaching data-protection rules¹⁴¹. In this sense, confidentiality and GDPR readiness function as hidden transaction costs of CSRD diffusion costs that are analytically distinct from interoperability problems, because they concern the legal boundaries of permissible disclosure instead of the technical alignment of reporting formats.

¹³⁹ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 9-12, 20-24; European Data Protection Board, *Guidelines 4/2019 on Article 25 Data Protection by Design and by Default (Version 2.0, 2020)* 6-7, 11-12, 26-27.

¹⁴⁰ Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 6-7, 10; VSME Market Acceptance Survey Report (n 132) 4-5, 18-19

¹⁴¹ EBA, *Report on ESG Exposures (2025)* (n 128) 42-43, 66-69. Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 8-9

3.9 Recent Developments in CSRD Obligations and SME Compliance Planning

Firstly, because the CSRD is recent and still evolving nature of the CSRD simplification policy, analysis in this section necessarily relies on institutional communications and practitioner commentary, which currently constitute the primary sources documenting policy discussions and proposed adjustments affecting SMEs. A final challenge for SMEs arises from the fact that CSRD compliance planning is increasingly situated within a policy environment marked by regulatory recalibration and ongoing “simplification” initiatives. While the CSRD initially relied on a progressive application that gradually extended reporting obligations to listed SMEs, recent institutional discussions signal that core parameters of sustainability reporting may be adjusted further, including through proposals to narrow the category of formally covered undertakings and to reduce the volume of mandatory datapoints¹⁴². For SMEs, this evolving context is particularly consequential because compliance costs are largely arising at an early stage¹⁴³. Investments in data infrastructure, internal responsibilities and documentation routines must be made well in advance of any reporting obligation, even where final requirements remain uncertain¹⁴⁴. In this context, regulatory uncertainty can rationally encourage SMEs to delay capability development decisions, as early investments risk being inconsistent with revised standards or altered scope thresholds.

However, such strategic postponements are inherently fragile. Even where formal legal obligations are postponed or softened, sustainability transparency continues to function as a market

¹⁴² Directive (EU) 2022/2464, arts 5–7; Dechert LLP, ‘European Commission Proposes Simplification of the CSRD and Certain Other Sustainability-Related Initiatives’ (6 March 2025), <https://www.dechert.com/knowledge/onpoint/2025/3/european-commission-proposes-simplification-of-the-csrd-and-cert.html> accessed 15 December 2025.

¹⁴³ See Section 3.2

¹⁴⁴ Latham & Watkins, The EU Corporate Sustainability Reporting Directive — How Companies Need to Prepare (Client Alert No 3059, 27 January 2023) 1, 10. <https://www.lw.com/admin/upload/SiteAttachments/Alert%203059.pdf> accessed 15 December 2025.

expectation as opposed to a purely regulatory one¹⁴⁵. Large buyers, financial institutions and other lead actors in SME-dominated value chains remain subject to their own disclosure, risk-management and due-diligence requirements, and therefore continue to rely on sustainability information obtained from smaller counterparties¹⁴⁶. As a result, SMEs may encounter a reality in which formal legal exposure is temporarily reduced, yet commercial expectations regarding traceable and verification-ready sustainability data persist or even intensify as mentioned in section 3.5 and 3.6. Delayed internal preparation can therefore result in late compliance obstacles, reduced bargaining leverage and heightened dependence on externally defined reporting formats.

Against this background, recent policy efforts have increasingly emphasised proportionality tools designed to stabilise expectations rather than merely reduce formal scope.¹⁴⁷ The development of simplified SME-oriented frameworks, most notably the voluntary VSME standard, can be understood as an attempt to provide a common reference point for sustainability information in contexts where legal obligations, market practices and value-chain demands intersect¹⁴⁸. By offering a recognised minimum standard, such tools have the potential to reduce repeated re-working and to mitigate imbalances in negotiating sustainability information requests. However, their effectiveness, depends on adoption. Also, absent alignment among regulators,

¹⁴⁵ EU Platform on Sustainable Finance, Report on SMEs and Sustainable Finance (March 2025) 4–5, 8–9

¹⁴⁶ UNCTAD, Sustainability Disclosure (n100) 4-6; EU Platform on Sustainable Finance (n 145) 8-10

¹⁴⁷ European Parliament, Sustainability reporting and due diligence: MEPs back simplification changes (13 November 2025) <https://www.europarl.europa.eu/news/en/press-room/20251106IPR31296/sustainability-reporting-and-due-diligence-meps-back-simplification-changes> 15 December 2025

¹⁴⁸ EFRAG, Cover Letter and Cost-Benefit Analysis (n 67)- 3-4, 49-50; European Commission, Questions and Answers on the Recommendation on a Voluntary Sustainability Reporting Standard for Small and Medium-Sized Undertakings (30 July 2025) 1–2, https://finance.ec.europa.eu/document/download/99e7ff59-ff8a-445b-8f48-eb7648941712_en?filename=250730-recommendation-vsme-questions-answers_en.pdf accessed 15 December 2025

standard-setters and market participants, simplified SME standards risk becoming an additional layer of reporting. But it should be a genuine mechanism for reducing uncertainty.

From the perspective of this research, the evolving CSRD regime therefore cannot be assessed through a distinction between SMEs subject to the CSRD and those not covered by its formal scope. Instead, SMEs' practical impact is increasingly shaped by the interaction between regulatory design, standard-setting choices and contract based regulation within value chains and finance. While simplification initiatives may reduce direct legal burdens for certain undertakings, they do not remove the central challenge identified. Finally, maintaining competitiveness and strategic autonomy in an environment where sustainability transparency is increasingly treated as a necessary condition for market participation.

CHAPTER 4

Market Opportunities and Strategic Effects of CSRD-Related Transparency

4.1 Market Access and Supplier Positioning

As discussed in Chapter 3, sustainability information is increasingly integrated into credit-risk assessment and supervisory reporting frameworks, even where SMEs are not formally subject to CSRD obligations. The question addressed here is whether the provision of structured sustainability information can generate any stabilising effects for SMEs in their interactions with banks and other providers of capital.

Rather than opening new markets or strengthening bargaining positions, potential opportunities arise primarily where reporting capacity reduces informational frictions in existing

commercial relationships.¹⁴⁹ In such cases, the ability to provide coherent and reusable sustainability information may help SMEs meet baseline expectations imposed by buyers or platform operators, thereby mitigating exclusion risks and stabilising access to key supply chains.

These effects are not automatic.¹⁵⁰ Rather, it operates as a threshold mechanism closely aligned with the selection effects analysed in Section 3.5. They depend on whether sustainability information requests are sufficiently coordinated and whether reporting outputs are recognised as adequate by dominant counterparties.¹⁵¹ Where such coordination is absent, the same transparency expectations continue to operate as a source of cumulative burden not as a stabilising mechanism.¹⁵²

Supplier-positioning effects nevertheless remain uneven and structurally constrained. As shown in Section 3.5, sustainability information requirements are generally defined by lead firms alone, reflecting underlying bargaining asymmetries not negotiated standards. While readiness may reduce follow-up requests or the risk of sudden delisting, it rarely translates into greater influence over the scope, frequency or format of information demanded.¹⁵³ Market-access gains

¹⁴⁹ OECD, *Due Diligence Guidance for Responsible Business Conduct* (OECD Publishing 2018) 60–61. . https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/02/oecd-due-diligence-guidance-for-responsible-business-conduct_c669bd57/15f5f4b3-en.pdf accessed 17 December 2025; United Nations Conference on Trade and Development, *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* (UNCTAD 2019) 27, 29–31.

¹⁵⁰ Stephen Oduro and Leul Girma Haylemariam, ‘Effect of Social and Environmental Sustainability on SME Competitiveness: A Meta-Analytic Review’ (2025) *Management Review Quarterly* 1, 3–4; Esther Ortiz-Martínez and Salvador Marín-Hernández, ‘Sustainability Information in European Small- and Medium-Sized Enterprises’ (2024) 15 *Journal of the Knowledge Economy* 7497, 7498–7500, 7504–7505.

¹⁵¹ Božidar Lenarčič, ‘Integrating Sustainability Criteria into Supplier Selection Processes: Insights from a PRISMA Review’ (2024) 13(2) *Journal of Universal Excellence* 101–103, 104–106; European Commission FAQs 27-28, 38-44

¹⁵² OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 6-7, 9-11; Setyaningsih, Widjojo and Kelle (n 105) 3-4, 6-7

¹⁵³ European Commission, *Impact Assessment Accompanying the Proposal for a Corporate Sustainability Reporting Directive* (SWD(2021) 150 final) 19–20, 175–176, 217–218; UNCTAD, *Sustainability Disclosure* (n 96)

must therefore be understood as relative to other SMEs, not as a rebalancing of power between SMEs and dominant buyers.

Within these constraints, limited positional advantages may emerge over time. SMEs that demonstrate stable and intelligible reporting practices may be perceived as lower-risk counterparties, particularly in long-term contractual relationships where buyers seek to minimise reputational and compliance exposure across their supplier base¹⁵⁴. As noted in Section 3.6, audit-readiness and traceability increasingly shape counterparties' expectations even beyond formal reporting cycles. In such contexts, sustainability transparency may strengthen existing measures of reliability without fundamentally altering contractual risk allocation or pricing mechanisms.¹⁵⁵

These effects also extend beyond direct buyer–supplier relationships. As discussed in Sections 3.5 and 3.7, sustainability reporting capacity may condition SMEs' participation in collaborative platforms, preferred-supplier programmes or sector-specific initiatives that rely on standardised ESG inputs. Here again, the opportunity lies less in proactive differentiation than in maintaining eligibility within increasingly formalised market environments.

Recognising these conditional opportunities does not undermine the findings of Chapter 3, but rather reinforces them. Market-access effects tend to benefit SMEs with greater organisational capacity, digital maturity or access to external expertise, while more resource-constrained firms may struggle to convert comparable compliance efforts into positional gains.¹⁵⁶ Opportunities

¹⁵⁴ S Lisi, B Mignacca and M Grimaldi, 'Non-Financial Reporting and SMEs: A Systematic Review, Research Agenda, and Novel Conceptualization' (2024) 30 *Journal of Management & Organization* 604–607, 609; UNCTAD, *Sustainability Disclosure* (n 96) 17-19

¹⁵⁵ H B Christensen, L Hail and C Leuz, 'Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review' (2021) 26 *Review of Accounting Studies* 1186–1189, 1191–1193.

¹⁵⁶ European Commission, *Impact Assessment* (n 153) 129-131, 133-135; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 7-12, 24-27

associated with CSRD-driven transparency are therefore closely linked to the proportionality concerns that inform the broader analysis of SME exposure.

4.2 Financing implications of Sustainability Reporting for SMEs

A similar conditional opportunity structure can be observed in financing relationships.¹⁵⁷ As discussed in Chapter 3, sustainability information is increasingly integrated into credit-risk assessment and supervisory reporting frameworks, even where SMEs are not formally subject to CSRD obligations.¹⁵⁸ The question addressed is whether the provision of structured sustainability information can generate any stabilising effects for SMEs in their interactions with banks and other providers of capital.¹⁵⁹

In practice, sustainability reporting capacity may reduce informational uncertainty during loan origination, credit reviews, or covenant monitoring processes. Where SMEs are able to respond to ESG-related information requests in a consistent and intelligible manner, financing procedures may become more predictable and administratively smoother.¹⁶⁰ However, these effects remain limited in scope and do not typically translate into preferential financing terms. Instead, they function primarily to normalise SMEs' position within increasingly data-driven risk assessment frameworks.

¹⁵⁷Christensen, Hail and Leuz (n 155) 1186–1187 ;European Commission, Impact Assessment (n 153); OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 10-12

¹⁵⁸ European Banking Authority, Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms (EBA/REP/2021/18) 10–12, 87–91, 143–145; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 6-7, 9-11; Laura Bonacorsi and others, 'ESG Factors and Firms' Credit Risk' (2024) 6 Journal of Climate Finance 2–3, 9–10.

¹⁵⁹ *ibid*

¹⁶⁰ EBA, ESG Risks Report (n 158) 10–12, 143–145; European Commission, Impact Assessment (n 153) 18-20, 94-95

For SMEs that can provide basic, consistent and clear sustainability information, this shift may translate into limited but tangible advantages.¹⁶¹ Reporting capacity can reduce informational obstacles during financing processes, shorten due-diligence phases and lower the need for informal clarifications or repeated data requests.¹⁶² In particular, where sustainability information aligns with lenders’ internal risk taxonomies or reporting templates, SMEs may be perceived as more predictable counterparties.¹⁶³ Sustainability transparency contributes primarily to stabilisation, for instance by supporting access to standard financing, without fundamentally affecting bargaining power or pricing conditions.

In financial contexts, sustainability reporting functions primarily as a risk-signalling mechanism and does not operate as an indicator of performance. Financial institutions generally use ESG information to identify exposure to transition risks, regulatory risks or reputational risks, rather than to reward superior sustainability outcomes at the SME level.¹⁶⁴ Consequently, the absence of reporting capacity may function as a negative factor, increasing perceived uncertainty, while the presence of reporting capacity primarily serves to neutralise that disadvantage.¹⁶⁵ In this sense, CSRD-related transparency reshapes what is understood as “baseline” information in SME financing, instead of opening up a new source of competitive advantage.

These effects also exhibit clear distributional effects. SMEs that benefit from stronger organisational capacity, access to advisory support, or established reporting practices are better

¹⁶¹ Lisi, Mignacca and Grimaldi (2024) (n154) 604–606, 608–609; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 6-11; EBA, *ESG Risks Report* (n 158) 87-91, 143-145

¹⁶² *ibid*

¹⁶³ *ibid*

¹⁶⁴ Zbigniew Korzeb and others, ‘ESG and Climate-Related Risks versus Traditional Risks in Commercial Banking’ (2024) 10 *Future Business Journal* 2–4, 10–11, 14–15; EBA, *ESG Risks Report* (n 158); European Central Bank, *Guide on Climate-Related and Environmental Risks* (ECB 2020) 7–9, 14–16.

¹⁶⁵ *ibid*

positioned to apply sustainability transparency as a method of reducing financing frictions.¹⁶⁶ By contrast, resource-limited SMEs may struggle to meet evolving information expectations despite having comparable actual sustainability performance.¹⁶⁷ Financing-related opportunities linked to CSRD-driven transparency therefore remain uneven and closely tied to broader proportionality concerns addressed in Chapter 3.

Overall, while sustainability reporting capacity may improve SMEs' interaction with financial institutions by reducing informational risk and enhancing predictability, its opportunity-creating potential remains constrained. CSRD-related transparency does not open new financing channels, it increasingly functions as a condition for continued participation in mainstream financial markets. As with supplier relationships, the primary benefit for SMEs is the avoidance of exclusion or disadvantage, highlighting that financing effects should be understood as defensive and conditional rather than as sources of independent strategic gain.

4.3 Internal Governance Effects of Sustainability Reporting

In addition to external market and financing effects, and against the organisational constraints analysed in Chapter 3, CSRD-related reporting processes may generate less visible opportunities for SMEs at the organisational level. These opportunities do not arise from compliance as a goal in itself, but from the internal learning effects associated with structured sustainability information gathering, coordination and review.¹⁶⁸ From this perspective,

¹⁶⁶ Lisi, Mignacca and Grimaldi (2024) (n 154) 604–606, 611; ; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11); European Commission, *Impact Assessment* (n 153) 129-131, 171-176

¹⁶⁷ *ibid*

¹⁶⁸ Lisi, Mignacca and Grimaldi (2024)(n 154) 602-604, 606-607; EFRAG, *ESRS 1 – General Requirements* (n 87) paras 19-21, 22-25; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 26-31

sustainability reporting can function as an internal governance method that enhances strategic clarity when reporting efforts are proportionate and integrated into existing decision-making processes.¹⁶⁹

For many SMEs, sustainability-related information has been functionally separated across operational, financial and compliance functions, or embedded informally in management knowledge without systematically documented.¹⁷⁰ As outlined in Section 3.3, the CSRD's double materiality framework requires entities to explain how sustainability risks and impacts are related to business strategy, operations and financial performance. Even in cases SMEs apply simplified or voluntary standards, the process of identifying activities, policies and exposures can encourage internal reflection on risk concentration, resource dependencies and long-term vulnerabilities that may otherwise remain implicit.

In this sense, reporting processes may support organisational learning by making sustainability-related balancing decisions more visible and communicable within the firm. The development of internal documentation routines, responsibility allocation and data collection processes can improve coordination between management, operational staff and external advisers.¹⁷¹ For some SMEs, this may lead to clearer prioritisation of sustainability issues that are material to the business model, not as reactive responses to unsystematic information requests from external counterparties, as described in Section 3.5.

¹⁶⁹ Ibid

¹⁷⁰ Lisi, Mignacca and Grimaldi (2024)(n 154) 608-614; Elias Appiah-Kubi, 'Management Knowledge and Sustainability Reporting in SMEs: The Role of Perceived Benefit and Stakeholder Pressure' (2024) 434 *Journal of Cleaner Production* 140067, 1-4, 6-7.

¹⁷¹ Lisi, Mignacca and Grimaldi (2024)(n 154), 606-609; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11), 24-27, 31-32

Nevertheless, these learning effects from the new regulation should not be exaggerated. In fact, as explained in Section 3.4, the limitations in the administrative capacity, data availability, and digital infrastructure make it more challenging for SMEs to transform reporting requirements into strategic insights. Externally governed reporting templates and compliance deadlines frequently try to restrict internal learning to data extraction, limiting strategic integration.¹⁷² In these cases, reporting risks becoming an externally required process with limited relevance for managerial decision-making.

Where organisational learning occurs, its strategic value tends to be indirect and progressive.¹⁷³ Enhanced understanding of environmental risks and the related processes can help an organisation to have more uniform communication with stakeholders, decrease the level of internal uncertainty when it is necessary to respond to information requests, and make it easier to agree on how sustainability issues are coordinated with the rest of business planning.¹⁷⁴ These impacts can lead to more internal coherence, however, by themselves, they cannot create new competitive advantages or change the dynamics of market power, as explained in Sections 4.1 and 4.2.

Accordingly, organisational learning should be understood as a conditional and internal opportunity linked to CSRD-driven transparency. The possibility of such a scenario is the most significant when SMEs take on proportionate reporting approaches, coordinate sustainability information with current management systems, and do not overly fragment themselves due to the

¹⁷² *ibid*

¹⁷³ M Contrafatto, 'The Institutionalisation of Social and Environmental Reporting: An Italian Narrative' (2014) 27 *Accounting, Auditing & Accountability Journal* 424–427; Rodrigo Lozano, Benjamin Nummert and Kim Ceulemans, 'Elucidating the Relationship between Sustainability Reporting and Organisational Change Management for Sustainability' (2016) 125 *Journal of Cleaner Production* 168–171.180-181; Lisi, Mignacca and Grimaldi (2024)(n 154) 604-609, 611-613

¹⁷⁴ *ibid*

intersection of several external demands. Although such learning effects may enhance SMEs' ability to meet sustainability requirements, they still depend on the availability of resources and cannot compensate for the structural limitations identified in Chapter 3.

4.4 Limits and Distributional Effects of CSRD-Related Opportunities for SMEs

The opportunities arising from the CSRD directive outlined in Sections 4.1 to 4.3 remain conditional and unequally distributed among SMEs. The capacity of sustainability reporting to support market access, reduce financing obstacles, or enhance internal coordination is critically conditioned by pre-existing organisational resources, sectoral positioning, and the ability to absorb fixed compliance costs.¹⁷⁵ As demonstrated in Chapter 3, SMEs are characterised by significant diversity in administrative capacity, digital capability, governance structures and access to external expertise. These structural differences shape not only SMEs' exposure to CSRD-related demands, but also their ability to convert reporting efforts into stabilising or opportunity-enhancing outcomes.

Across supplier relationships, financing contexts and internal governance processes, sustainability transparency primarily functions as a threshold condition not as a source of positive differentiation.¹⁷⁶ SMEs that fail to meet minimum expectations regarding documentation, traceability and internal consistency may face exclusion risks, delayed transactions or heightened

¹⁷⁵ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 7-12, 21-22; EBAReport on ESG Exposures (n 128) 31-32, 50-51, 102-103; Jan Greitens, 'Sustainable Finance and Small and Medium Enterprises: Germany's Bank-Based Financial System and EU Disclosure Requirements' (2023) 58(4) *Intereconomics* 222.

¹⁷⁶ Francisca Castilla-Polo and M Dolores Guerrero-Baena, 'The Business Case for Sustainability Reporting in SMEs: Consultants' and Academics' Perceptions' (2023) 31 *Sustainable Development* 3224, 3226-3227, 3229-3232; Setyaningsih, Widjojo and Kelle (n 105), 8-12.

review, in contrast those that meet such expectations are typically rewarded only with continued participation on standard terms.¹⁷⁷ As discussed in Sections 4.1 and 4.2, reporting readiness may reduce issues and uncertainty in commercial and financial relationships, but it rarely enables SMEs to revise contractual terms, influence information formats or secure preferential pricing or financing conditions. In this sense, CSRD-related opportunities are predominantly defensive, operating to prevent disadvantage rather than to generate independent market power.

These factors also produce distributional effects within the SME population itself. Firms with stronger internal governance, established documentation routines or access to advisory and digital reporting solutions are better positioned to internalise sustainability reporting as a manageable organisational process.¹⁷⁸ By contrast, more resource-constrained SMEs may face proportionally higher adjustment costs while achieving only limited stabilising benefits.¹⁷⁹ As a result, sustainability transparency may unintentionally reinforce existing asymmetries between SMEs, particularly between firms integrated into structured value chains or regulated financial markets and those operating in less formalised or more price-competitive environments.

At the same time, the opportunity effects associated with CSRD-related transparency are shaped by external coordination failures. If sustainability information requests are fragmented between buyers, lenders and platforms, SMEs may find it difficult to achieve efficiency gains even if they invest in reporting capacity.¹⁸⁰ On the other hand, if reporting expectations are aligned with

¹⁷⁷ UNCTAD, Sustainability Disclosure (n 96) 11-12, 17-19 ; OECD, Fostering Convergence in SME Sustainability Reporting (n 11), 6-10, 18; EBA, Report on ESG Exposures (n 128) 31-33, 101-103; Jan Greitens, 'Sustainable Finance and Small and Medium Enterprises: Germany's Bank-Based Financial System and EU Disclosure Requirements' (2023) 58(4) *Intereconomics* 222, 224-225

¹⁷⁸ OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 7-8, 20-26, 31; Castilla-Polo & Guerrero-Baena – (n178) 3224-3231; Setyaningsih, Widjojo and Kelle (n 105), 8-12

¹⁷⁹ *ibid*

¹⁸⁰ EBA, Report on ESG Exposures (n 128) 31-32, 98-103; UNCTAD, Sustainability Disclosure (n 96) 10-11; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 8-9, 13-14

shared templates or baseline standards, transparency can lower duplication and increase predictability.¹⁸¹ The realisation of opportunities therefore depends not only on SME behaviour, but also on how sustainability information flows are governed within markets, as highlighted in Chapter 3.

Importantly, recognising the existence of conditional opportunities does not diminish the proportionality concerns identified earlier in this thesis. Rather, it clarifies that opportunity and burden are not opposing outcomes, but often coexist. SMEs may experience stabilising effects in financing contexts while facing increased pressure in others, including supply-chain reporting or assurance expectations. CSRD-related transparency thus reshapes the risk environment in which SMEs operate, without fundamentally altering the structural constraints associated with size, bargaining power and regulatory dependence.

Accordingly, the contribution of CSRD-related transparency to SME competitiveness should be understood in relative, contextual and dynamic terms. Sustainability reporting may support continued participation in markets, finance and stakeholder relationships, but it does not constitute a universal method to stabilisation without structural upgrading. The analytical value of Chapter 4 therefore lies not in identifying sustainability reporting as a source of uniform opportunity, but in clarifying the conditions under which transparency mitigates risk, stabilises expectations and preserves limited strategic room for manoeuvre for certain categories of SMEs within an evolving regulatory and market environment.

¹⁸¹ *ibid*

4.5 Digitalisation, Interoperability and the Governance of Sustainability Information

In addition to market access, financing and organisational effects, CSRD-related transparency may generate indirect spillovers through the increasing digitalisation of sustainability information and the gradual standardisation of data formats.¹⁸² These spillovers do not arise from reporting obligations, but from the way sustainability information is produced, transmitted and reused across corporate, financial and regulatory systems.¹⁸³ For SMEs, the relevance of digitalisation is the potential to reduce fragmentation and uncertainty in sustainability-related information flows.

A central feature of the CSRD framework is the emphasis on structured, machine-readable and comparable sustainability information. Sustainability information is increasingly collected by large corporations and financial institutions through digital questionnaires, reporting portals, and platform-based data collection tools directed at their suppliers and clients.¹⁸⁴ As discussed in Chapter 3, these systems are often designed around ESRS concepts or closely aligned frameworks, reflecting the reporting and assurance requirements of reporting entities, with limited regard to SMEs' capacities. Nevertheless, where digital tools converge around shared definitions and core indicators, SMEs may benefit from less duplication of their data and a higher level of predictability in information requests.¹⁸⁵

¹⁸² Ruibing Ji and others, 'Data Assets, Supply Chain Spillovers, and Corporate ESG Development: Evidence from Chinese Listed Companies' (2025) 75 *Structural Change and Economic Dynamics* 880, 880–885; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 24-25

¹⁸³ *ibid*

¹⁸⁴ Niemann and others, (n 76) 2-3,10

¹⁸⁵ Yiyang Wang, Derek D Wang and Rongxuan Liu, 'Impact of Digital Technology Adoption on the Similarity of Sustainability Reports' (2025) 17 *Sustainability* 3728, 2, 5, 16; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 24-25

From an SME perspective, interoperability represents a potential efficiency gain more than a strategic advantage. Where sustainability information prepared for one counterparty can be reused, with limited modification, for other commercial or financial relationships, the marginal cost of responding to additional requests may decrease.¹⁸⁶ Over time, this may reduce the cumulative burden associated with parallel questionnaires, inconsistent templates and repeated clarification requests, issues that have been identified as key sources of administrative pressure in Chapter 3. However, such benefits are contingent on the scope of coordination among buyers, lenders and platform providers.

At the same time, digitalisation can generate new constraints. Where sustainability information is embedded in closed platforms, sector-specific tools or firm-specific questionnaires, SMEs may face increased dependency on externally defined systems over which they have little influence.¹⁸⁷ In such cases, digitalisation may be associated with increased fragmentation, requiring SMEs to maintain multiple datasets or adapt the same underlying information to non-aligned formats.¹⁸⁸ As a result, the efficiency gains associated with digital reporting are unevenly distributed and may benefit primarily larger actors that control data structures and reporting interfaces.

Importantly, digital spillovers interact with the distributional effects identified in Section 4.4. SMEs which are digitally mature, have access to specialised software or external advisory

¹⁸⁶ EFRAG, Draft Basis for Conclusions: Voluntary ESRS for Non-Listed Small and Medium-Sized Enterprises (VSME ED) (January 2024) 5–6, 9–11; UNCTAD, Sustainability Disclosure (n 96) 6-8, 25-26

¹⁸⁷ EFRAG, Mapping of Digital Platforms and Initiatives for SME Sustainability Reporting (25 September 2025) 2–5; Chen Zhang, Tao Bai, Abby Jingzi Zhou and Steven Shijin Zhou, ‘Digital platforms, internal digitalization, and internationalization of SMEs’ (2025) Long Range Planning 102588 5-6; OECD, The Digital Transformation of SMEs (OECD 2021) Chapter on digital barriers and platform reliance.

¹⁸⁸ *ibid*

support are better positioned to benefit from interoperable reporting systems. Conversely, SMEs with limited IT capacity may experience digitalisation as an additional complexity not as a source of simplification.¹⁸⁹ In this sense, digitalisation does not neutralise proportionality concerns, but reshapes them, shifting pressure from data collection to data management and system compatibility.¹⁹⁰

Accordingly, the opportunity dimension of CSRD-related digitalisation should be understood in conditional and relational terms. Where sustainability information flows are coordinated and interoperable, digital reporting may contribute to reduced administrative friction and greater stability in SME-counterparty interactions. Where such coordination is absent, digitalisation risks reinforcing existing asymmetries and dependence on legacy systems. As with other opportunity channels examined in this chapter, digital spillovers do not eliminate the structural constraints faced by SMEs, but may modestly improve their ability to navigate an increasingly data-driven sustainability reporting environment.

CHAPTER 5

Case Studies on SME Responses to CSRD- Related Transparency

5.1 Methodology and Scope of the Case Studies

This chapter employs qualitative case studies to illustrate how CSRD-related obligations and spillover effects are experienced and operationalised by SMEs in practice. The purpose of the

¹⁸⁹ UNCTAD, Sustainability Disclosure (n 96) 7-8, 18; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 7-8, 11-12

¹⁹⁰ *ibid*

case studies is not to evaluate firm performance or to identify optimal compliance strategies, but to contextualise the legal and institutional dynamics analysed in Chapters 3 and 4. In particular, the case studies serve to demonstrate how formal legal design, indirect value-chain transmission and evolving market expectations interact at the level of individual firms.

The selection of case studies follows an illustrative and analytical logic rather than a representative one. Because SMEs differ widely across sectors, jurisdictions, and organisational structures, the case studies do not aim to support statistical generalisation. Instead, they are chosen to reflect distinct exposure profiles corresponding to the two main channels identified in this thesis, namely direct legal applicability and indirect transmission through market and financing relationships. This approach creates a chance for a focused examination of how differences in listing status, governance capacity and counterparty relationships shape SMEs' interaction with CSRD-related transparency requirements.

The cases include both listed and non-listed SMEs, reflecting the dual structure of the CSRD framework. Listed SMEs are entities that are formally analyzed within the scope of the Directive and are subject to proportionate ESRS requirements, however, non-listed SMEs are considered in contexts where sustainability reporting demands arise indirectly through supply chains, financing arrangements or platform-based information requests.¹⁹¹ This distinction enables a comparison between formal legal obligations and functionally equivalent pressures generated through private ordering.

¹⁹¹ Directive (EU) 2022/2464 recital 21 ; UNCTAD, Sustainability Disclosure (n 96) 6-8, 18-19; OECD, Fostering Convergence in SME Sustainability Reporting (n 11) 7-8, 19-21

From a methodological perspective, the case studies are based on publicly available sources, including sustainability reports, company disclosures, annual reports sectoral publications, and policy documents. Where such sources exist, supplementary materials such as “supplier codes of conduct”, ESG questionnaires or financing-related disclosures are used to illustrate how sustainability information is requested, structured and reused across different contexts. The analysis focuses on observable organisational responses without internal managerial motivations, to remain situated in legally and institutionally verifiable practices.

Importantly, the case studies are analysed through the legal concepts and analytical categories developed earlier in the thesis, including scope and timing uncertainty, indirect transmission mechanisms, proportionality constraints and the conditional nature of opportunity effects. They are used to illustrate and qualify these analytical claims, rather than to establish them independently. The cases are not presented as examples of “best practice” in a normative sense, but as practice-based responses shaped by regulatory design and asymmetric market relationships. Where stabilising or opportunity-enhancing effects are observed, these are assessed in light of the distributional and structural limits identified in Chapter 4.

Finally, the inclusion of case studies serves a bridging function between doctrinal analysis and concluding evaluation. By demonstrating the operation of CSRD-related transparency in different SME contexts, the case material provides an empirical grounding for the arguments developed in Chapter 6 concerning the effectiveness, limits and proportionality of the CSRD framework for SMEs.

5.2 A Listed SME's Experience with CSRD-Related Reporting Requirements

This section examines publicly available disclosures of Vow ASA as an illustrative example of how a listed issuer prepares for CSRD- and ESRS-aligned sustainability reporting requirements in a context of regulatory uncertainty.¹⁹² Although Vow ASA is established in Norway, an EEA country, its public disclosures are analysed here as representative of how companies operating within the EU sustainability reporting ecosystem respond to emerging regulatory expectations.¹⁹³

Vow ASA is selected because it provides unusually detailed public disclosures on CSRD- and ESRS-related reporting preparation, including governance arrangements and the conduct of a double materiality assessment, at a stage where formal reporting obligations remain uncertain.¹⁹⁴ The reporting is used to analyse organisational responses to expected sustainability reporting obligations rather than to assess compliance outcomes or firm performance. Therefore, it serves an illustrative and analytical function, consistent with the methodological approach outlined in Section 5.1.

Vow ASA's 2024 Annual and Sustainability Report documents the early integration of sustainability reporting into the company's organisational governance structures.¹⁹⁵ Responsibility for sustainability-related matters is linked to existing oversight mechanisms, including board-level review and internal control processes.¹⁹⁶ This reflects a broader tendency among listed SMEs to align sustainability reporting preparation with audit-oriented governance frameworks, even before

¹⁹² Vow ASA, Annual and Sustainability Report 2024 (Vow ASA 2025)

¹⁹³ WR ESG Alert, EU Corporate Sustainability Reporting Directive implemented into Norwegian law, while other EU sustainability acts enter into force (Wikborg Rein, 30 August 2024) <https://www.wr.no/en/news/wr-esg-alert-eu-corporate-sustainability-reporting-directive-implemented-into-norwegian-law-while-other-eu-sustainability-acts-enter-into-force> accessed 25 December 20265

¹⁹⁴ Vow ASA (n 192) 26-29, 51-52

¹⁹⁵ *ibid*

¹⁹⁶ Vow ASA (n 192), 51-52

the formal application of CSRD reporting obligations.¹⁹⁷ Such arrangements reflect a cautious approach to regulatory compliance, particularly in environments characterised by evolving legal requirements and heightened expectations regarding assurance readiness.

The report further describes the initiation of a double materiality assessment aligned with ESRS methodology. This process involved the identification of relevant sustainability impacts, risks and opportunities, and their connection to the company's strategy and operations. The use of structured assessment methods, informed by EFRAG guidance and supported by external expertise, demonstrates how ESRS concepts may function as organising tools for internal analysis prior to mandatory reporting. Rather than constituting voluntary sustainability disclosure in a traditional sense, the assessment is framed as preparatory work aimed at aligning internal processes with an anticipated regulatory reporting logic.

At the same time, the case illustrates the challenges of compliance planning in a shifting policy environment.¹⁹⁸ Vow ASA's disclosures explicitly acknowledge ongoing institutional discussions regarding the simplification and recalibration of the CSRD framework, including proposals that could potentially remove the company from the Directive's formal scope.¹⁹⁹ Despite this uncertainty, the company indicates an intention to continue developing its sustainability reporting capacity, including through the use of voluntary standards.²⁰⁰ This highlights the distinction between formal legal scope and practical exposure to sustainability transparency

¹⁹⁷ EFRAG, Cover Letter and Cost-Benefit Analysis (n 67); EFRAG, ESRS 1 – General Requirements (n 87) paras 118-123

¹⁹⁸ Vow ASA (n 192), 51-52

¹⁹⁹ *ibid*

²⁰⁰ *ibid*

expectations, particularly for listed SMEs operating in capital markets where investor, lender and counterparty information demands persist regardless of regulatory recalibration.

From an analytical perspective, the case demonstrates three interrelated dynamics relevant to this thesis. First, investments in governance structures and documentation routines may occur at an early stage, before the final boundaries of legal obligations are settled. Second, ESRS concepts, and particularly the double materiality framework, may influence organisational practices even in the absence of immediate reporting duties. Third, regulatory uncertainty does not necessarily lead to disengagement from sustainability reporting preparation, but may instead encourage flexible and adaptive strategies that combine observation of legal developments with continued capability development.

Taken together, the Vow ASA case supports the broader argument developed in Chapters 3 and 4 that CSRD-related transparency reshapes organisational behaviour through a combination of formal legal design and market-based expectations. It illustrates how listed SMEs may respond to this environment by developing reporting-related capacities that are resilient to changes in formal scope, while remaining constrained by structural factors such as size, resource availability and dependence on external standards and information infrastructures.

5.3 Indirect CSRD Exposure of a Non-Listed SME: An Illustrative Composite Case

This section examines an illustrative non-listed SME operating outside the formal scope of the CSRD in order to demonstrate how sustainability reporting expectations are experienced in practice through contractual and financing relationships. Unlike the listed issuer discussed in Section 5.2, the undertaking considered here does not publish a sustainability report and is not

legally required to apply the ESRS. Real life examples are used to illustrate how CSRD-related transparency requirements are faced by non-listed SMEs as functional conditions of market participation instead of as direct legal obligations, in line with the methodological approach outlined in Section 5.1.

In practice, sustainability information requests are most frequently transmitted through commercial relationships with larger customers.²⁰¹ For example, SMEs supplying components to manufacturing or construction firms increasingly receive standardised supplier questionnaires as part of initial supplier qualification or annual supplier reviews.²⁰² These questionnaires usually ask for information on environmental policies, workforce composition, health and safety incidents, and basic emissions data.²⁰³ Although they are not formally presented as CSRD-related, their structure and terminology often reflect ESRS categories, resulting in SMEs to provide information that aligns with reporting frameworks developed for regulated entities.

Similar dynamics arise in financing relationships. Non-listed SMEs want to renew credit facilities or apply for investment-linked loans are often asked by banks to complete ESG assessment forms or platform-based disclosures as part of credit risk evaluation.²⁰⁴ In several documented cases, banks require SMEs to disclose environmental risk exposure, governance arrangements, and compliance policies, even where such information has not previously been

²⁰¹ Baden and others (n 94) 430-432; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 7-11; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 5.

²⁰² Francesco Ciliberti, Pierpaolo Pontrandolfo and Barbara Scozzi, 'Investigating Corporate Social Responsibility in Supply Chains: A SME Perspective' (2008) 16 *Journal of Cleaner Production* 1579, 1581-1584; Drive Sustainability, *Self-Assessment Questionnaire (SAQ) Version 5.0* (2022) 1-2, 4-6; Sukanlaya Sawang and others, 'Examining the Influence of Customers, Suppliers, and Regulators on Environmental Practices of SMEs' (2024) 33 *Business Strategy and the Environment* 6533, 6533-6535; Baden and others (n 94) 430-432

²⁰³ *ibid*

²⁰⁴ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 9-12; EBA, *Report on ESG Exposures* (n 128) 113-117, 143-145

requested.²⁰⁵ These sustainability-related questions are included within broader credit documentation and are treated as part of standard due-diligence processes, with exceptional reporting obligations playing no independent role.²⁰⁶

Across these interactions, a recurring feature is a lack of integration.²⁰⁷ Different counterparties rely on distinct templates, portals, and reporting cycles, forcing SMEs to adapt the same underlying information repeatedly.²⁰⁸ For instance, an SME may be required to provide workforce and emissions data to a key customer via a proprietary supplier platform, while submitting similar information to a bank through a separate ESG questionnaire using different reference periods and calculation assumptions.²⁰⁹ The absence of a commonly recognised reporting format for non-listed SMEs results in unsystematic data production and limits the scope for systematic internal reporting routines.

The use of voluntary SME-oriented standards remains uneven in this context. Although the VSME framework is available as a proportionate reference, counterparties rarely request information explicitly structured according to that standard.²¹⁰ In practice, non-listed SMEs may use elements of the VSME internally to organise data, but external requests continue to be defined by buyer- or lender-specific formats.²¹¹ As a result, voluntary standards function more as internal

²⁰⁵ *ibid*

²⁰⁶ *ibid*

²⁰⁷ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 10-14; Niemann and others, (n 76) 2-3; 6-7; European Commission, *Commission Recommendation of 30 July 2025 on a voluntary sustainability reporting standard for small and medium-sized undertakings* C(2025) 4984 final, recitals 5, 8-9.

²⁰⁸ *ibid*

²⁰⁹ *ibid*

²¹⁰ *Commission Recommendation on the VSME* (n 207) recitals 8-10; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 10-14; Niemann and others, (n 76) 2-3; 6-7; Cuatrecasas, *Voluntary sustainability reporting standard for SMEs* (Legal Flash, January 2025) 1-3.

²¹¹ *ibid*

risk-management devices than as effective replacements for fragmented external information demands.

From an organisational perspective, these indirect pressures shape how reporting capacity is developed. Non-listed SMEs generally prioritise responsiveness to key customers or financial partners over comprehensive sustainability documentation.²¹² Responsibility for sustainability information is often distributed across operational and administrative functions, with limited formalisation.²¹³ This reflects a pragmatic approach aimed at maintaining contractual relationships in preference to preparing for future regulatory reporting obligations. The case shows that non-listed SMEs experience CSRD-related transparency mainly through private ordering mechanisms not through direct regulatory compliance. Therefore, sustainability reporting is treated as an ongoing set of information expectations linked to market access and financing, rather than as a distinct legal requirement.

5.4 Comparative Analysis of SME Exposure to CSRD-Related Transparency

Without restating the challenges and opportunity structures analysed in Chapters 3 and 4, this section compares how those dynamics materialise across different SME exposure profiles. Together, the listed and non-listed SME cases demonstrate that the impact of the CSRD on SMEs cannot be explained by formal legal applicability alone, but must be analysed through the differentiated mechanisms by which sustainability transparency expectations reach firms in

²¹² OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 6-7, 10-12 ; Baden and others (n 94) 430-433; Sukanlaya Sawang and others (n 202) 6534-6535

²¹³ *ibid*

practice.²¹⁴ Although both cases operate within the same EU sustainability reporting ecosystem, they are exposed to that ecosystem in structurally distinct ways. Therefore, the comparison moves the analytical focus away from formal compliance status and towards the pathways through which firms are exposed to sustainability transparency requirements, showing how CSRD-related effects can arise even without a direct reporting obligation and why similar expectations lead to different organisational responses among SMEs.

In the listed SME case, sustainability reporting preparation is based on the expectation of alignment with an evolving regulatory and verification logic. The firm's public visibility, interaction with capital markets, and exposure to investor and lender assessment mean that sustainability reporting capacity functions as a signal of governance readiness and organisational stability.²¹⁵ As a result, initial investments in governance structures, internal controls, and structured assessment processes may occur before legal obligations are conclusively defined. Therefore, in this context, market scope extends beyond legal scope mainly in time, prompting organisational adaptation before formal applicability and reinforcing the relevance of CSRD-related concepts even where regulatory requirements remain uncertain.

By contrast, the non-listed SME case illustrates a different exposure structure, in which CSRD-related transparency expectations are transmitted indirectly through commercial and

²¹⁴ Commission Recommendation on the VSME (n 207) recitals 4-5; OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 6,10-11; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 6-7

²¹⁵ Khayria Amarna and others, 'The Effect of Environmental, Social, and Governance Disclosure and Real Earnings Management on the Cost of Financing' (2024) 31 *Corporate Social Responsibility and Environmental Management* 3181, 3181-3182; Muhammad Mubeen and others, 'Bridging the Sustainability Gap: Unravelling the Interplay of Sustainability Disclosure and Cost of Debt' (2024) 18(1) *Pakistan Journal of Commerce and Social Sciences* 181, 182, 184.

financing relationships rather than through public reporting requirements.²¹⁶ Here, sustainability information is requested as part of routine contractual and credit-risk processes and is shaped by the documentation practices of buyers, banks, and platform operators.²¹⁷ Although these requests often draw on ESRS-related categories, they do not converge around a single reporting framework, and the firm's engagement with sustainability reporting remains inconsistent and driven by external requests.²¹⁸ Under these conditions, market scope is broader than legal scope in material terms rather than temporal ones, effectively creating reporting-like obligations for firms that remain formally outside the Directive's scope.

The comparison shows that these differences are not merely descriptive but reflect underlying structural factors. Listed SMEs operate in institutional environments where sustainability expectations are increasingly coordinated around recognised reporting and assurance logics, while non-listed SMEs function in more plural market environments shaped by private ordering and limited standardisation. This divergence explains why reporting capacity in the listed case can be integrated into governance routines that are relatively robust to changes in formal scope, whereas in the non-listed case similar capacity-building efforts are restricted by the need to respond to multiple, unaligned information demands defined by external actors.

From the perspective of opportunity creation, the comparative analysis reinforces the argument developed in Chapter 4 that CSRD-related transparency primarily functions as a defensive threshold not as a uniform upgrading mechanism. In the listed SME case, early reporting preparation can reduce uncertainty exposure and support continued access to capital and

²¹⁶ OECD, *Fostering Convergence in SME Sustainability Reporting* (n 11) 6,10-11; Niemann and others, 'Data Requests in Value Chains' (2025) (n 76) 2-3, 6-7; Commission Recommendation on the VSME (n 207) recitals 4-5

²¹⁷ *ibid*

²¹⁸ *ibid*

counterparties, but it does not eliminate structural constraints linked to firm size and resource availability. In the non-listed SME case, potential benefits are even more conditional, as efficiency gains from internal data organisation depend on whether counterparties accept shared reporting interfaces. Where such coordination is absent, sustainability reporting capacity mainly serves to maintain market access and does not generate strategic advantage.

Taken as a whole, the comparative analysis demonstrates that the effects of the CSRD on SMEs are produced through the interaction of legal design and market-based transmission mechanisms, without formal scope alone. By showing how similar transparency expectations generate distinct organisational outcomes depending on exposure profile and institutional context, this section advances the thesis' central claim that CSRD-related opportunities are unevenly distributed and depend on governance of external sustainability information flows. In the process, it clarifies the limits of sustainability transparency as a tool for SME upgrading while preserving its relevance as a mechanism for risk mitigation and market participation.

5.5 Implications for Legal Design and Proportionality

The comparative case analysis indicates that proportionality under the CSRD cannot be assessed only by reference to formal scope thresholds, because the practical impact on SMEs is shaped by the market interfaces through which sustainability information expectations reach firms. Legal applicability determines reporting obligations in a narrow sense, however; exposure in practice is mediated by how sustainability information is requested, assessed, and reused across commercial and financial relationships.

In the listed SME case, the CSRD framework provides a relatively coherent orientation. Alignment with an evolving reporting and assurance logic allows sustainability reporting capacity to be integrated into existing governance structures and to function as a signal of organisational readiness in interactions with investors, lenders, and counterparties. In this situation, early preparation can reduce uncertainty and stabilise participation even where the final details of legal obligation remain unsettled.

By contrast, the non-listed SME case highlights the limits of this coherence. Sustainability transparency is implemented primarily through private ordering mechanisms, such as buyer questionnaires, lender risk assessments, and platform-based disclosures. Although these practices often rely on ESRS-related categories, they do not come together around a single reporting framework. Instead, sustainability engagement remains externally driven and shaped by fragmented information demands defined by counterparties not by an internally consolidated reporting logic.

From a legal design perspective, this suggests that the main proportionality challenge lies not in the availability of simplified or voluntary standards, but in their limited ability to coordinate counterparty-specific documentation practices. In the absence of alignment across buyers, banks, and intermediaries, reporting-related capacity-building tends to focus on responsiveness rather than on the development of stable internal systems with clear efficiency gains.

As a conclusion, these observations suggest that simplifying formal obligations is not sufficient to address the uneven effects observed in practice unless it is accompanied by stronger coordination of sustainability information flows downstream. Therefore, it is the governance of how sustainability information is requested and reused, not formal scope alone, that determines

whether transparency functions as a manageable threshold for participation or as an externally defined constraint on SME discretion.

CHAPTER 6

Discussion and Implications of the Research Findings

6.1 Overview of the Main Findings

This thesis examines how the Corporate Sustainability Reporting Directive affects SME undertakings, both through its formal reporting obligations and the broader mechanisms by which sustainability transparency expectations arise and are transmitted in practice. Instead of treating the CSRD as a uniform compliance regime, the analysis shows its effects on SMEs arise from the interaction of legal design, market-based information demands, and organisational capacity, leading to differentiated outcomes across firms.

The legal and doctrinal analysis in Chapter 2 established that the CSRD introduces a structured and assurance-oriented sustainability reporting framework that is formally addressed to large undertakings and listed SMEs. However, as shown in Chapter 3, this formal allocation of reporting duties does not fully reflect the Directive's practical relevance for SMEs. Sustainability information requirements increasingly arise through value-chain relationships, financing arrangements, and platform-based disclosure practices, which transmit CSRD- and ESRS-related expectations beyond the Directive's legal scope. The resulting burden profile is therefore shaped less by the existence of a direct reporting obligation than by the interaction between ESRS

complexity, data availability, assurance readiness, and the timing of investments under regulatory uncertainty.

In this context, the thesis examined whether sustainability transparency also generates opportunities for SMEs. The findings indicate that such opportunities exist, but in a limited and conditional form. As discussed in Chapter 4 and illustrated in the case material, transparency-related investments may stabilise access to finance, support continued participation in key supply chains, and facilitate internal learning processes. However, these effects depend on SMEs' ability to translate broad sustainability expectations into workable governance and documentation routines, as well as on whether external actors recognise and accept those routines as adequate for risk assessment and due diligence. In the absence of these conditions, transparency tends to function as a baseline condition for continued participation, not as a tool for systematic capability upgrading or stronger bargaining power.

The comparative case analysis in Chapter 5 further clarifies how these dynamics vary depending on exposure structure. The listed SME case illustrates how public visibility and capital-market interaction can anchor sustainability reporting preparation in an evolving regulatory and assurance logic, even where the precise details of legal obligation remain unsettled. By contrast, the non-listed SME analysis shows how reporting-like expectations are transmitted indirectly through commercial and financing relationships, resulting in fragmented and externally defined information demands. These cases are not presented as representative in a statistical sense; rather, they are selected to make visible the mechanisms through which CSRD-related transparency operates under different institutional conditions, thus strengthening the analytical claims developed earlier in the thesis.

To summarize, the findings shows that the impact of the CSRD on SMEs cannot be understood by reference to formal scope alone. Instead, outcomes depend on how sustainability information flows are governed across legal, market, and organisational interfaces. This insight provides the basis for the discussion that follows, which integrates the burden and opportunity dimensions of sustainability transparency and evaluates their implications for proportionality, competitive effects, and the design of supporting legal and institutional tools.

6.2 Integrated Discussion of SME Burdens under the CSRD

Building on this integrated perspective, the following section examines how these interacting pressures translate into practical burdens for SMEs in practice. A first common feature is that costs are incurred early under uncertainty. As mentioned before, SMEs particularly listed firms and those operating close to scope thresholds are required to make early investments in governance structures, documentation routines, and data systems well before reporting duties are conclusively defined. This temporal gap between investment decisions and legal certainty increases risk for smaller firms, as non-recoverable costs may later prove misaligned with revised standards, delayed application, or shifting supervisory expectations. Crucially, this burden is not limited to firms formally within scope. Non-listed SMEs face similar pressures where customers or lenders expect assurance-ready information, which in practice extends CSRD-related cost structures beyond formal legal boundaries.

Second, technical complexity and organisational capacity constraints function as an intensifying factor of other burdens. The ESRS framework and the double materiality methodology require SMEs to translate abstract legal concepts into structured, reviewable processes. When

firms lack internal expertise, they frequently rely on external consultants, software providers, or templates supplied by counterparties. While this can enable short-term compliance, it often limits internal ownership of sustainability information and weakens its use in management decision-making. As a result, reporting efforts may fulfil external expectations without delivering corresponding internal efficiencies, leading to higher administrative burdens without proportional benefits.

Third, data fragmentation and digitalisation pressures further increase the cumulative burden. Sustainability information relevant for ESRS-aligned disclosures is rarely generated through a single system in SMEs. Instead, it is dispersed across operational records, financial documentation, and approximate estimates. When combined with the CSRD's emphasis on structured, machine-readable and verifiable data, this fragmentation transforms reporting into a data-governance challenge not as a disclosure exercise. The burden is further compounded where SMEs must adapt the same underlying information to multiple, non-aligned templates used by different buyers, banks, or platforms. In such contexts, digitalisation does not automatically reduce workload, but may shift it from data collection to repeated data adaptation and reconciliation.

Fourth, assurance-driven expectations and interoperability failures create fixed costs that are particularly difficult for SMEs to manage. Even where statutory assurance is not formally required, sustainability information is increasingly expected to be verifiable, documented and capable of external verification. Preparing information to this standard requires internal controls, consistency checks, and methodological justification, which resemble elements of financial reporting systems. When these efforts must be repeated across parallel reporting channels that lack interoperability, SMEs face repeated work that does not benefit from scale with firm size. This

dynamic helps explain why similar reporting efforts may be manageable for larger undertakings but disproportionately costly for SMEs.

Finally, value-chain transmission mechanisms extend these burdens into broader distributional effects. Sustainability transparency requirements are often defined independently by dominant buyers, financial institutions, or platform operators, reflecting their own regulatory exposure without the capacities of SMEs. Therefore, SMEs encounter reporting demands as conditions of market participation rather than as negotiated obligations, limiting their ability to influence scope, format or timing. Over time, this can narrow strategic discretion, as reporting practices are shaped externally and prioritised according to counterparty expectations instead of internal assessments of materiality or relevance.

As a summary, these dynamics show that SME burdens under the CSRD cannot be reduced to the volume of required disclosures or to formal scope thresholds. The central issue is the interaction between legal design and market transmission, which determines whether sustainability reporting becomes a manageable organisational process or an externally imposed and fragmented compliance task. This integrated perspective refines the answer to the first research question on the nature and drivers of SME burdens under the CSRD.

6.3 Opportunities and strategic responses for SMEs

While Chapter 3 demonstrates that CSRD-related transparency generates significant burdens for SMEs, the analysis in Chapter 4 shows that these pressures are not purely constraining. Under certain conditions, sustainability reporting capacity may also generate stabilising effects and limited opportunities. However, these effects do not arise automatically from compliance with

reporting requirements. Rather, they depend on how SMEs respond to transparency expectations and on whether external actors recognise and take into consideration those responses.

A first opportunity mechanism concerns the stabilisation of market participation. For many SMEs, particularly those part of structured supply chains or linked to ongoing contractual relationships, the ability to provide coherent and internally consistent sustainability information can reduce friction in interactions with main customers. As examined earlier, sustainability transparency increasingly functions as a threshold assessment rather than as a basis for positive differentiation. In this context, reporting capacity operates primarily as a defensive threshold: it mitigates exclusion risks and reduces the probability of repeated follow-up requests, audits, or delays, without fundamentally altering contractual bargaining positions. For SMEs, the strategic benefit is mainly the preservation of access under evolving transparency expectations. Which means that competitive enhancement may be secondary opportunity.

A second opportunity relates to financing interactions and risk signalling. As mentioned in Chapter 4, sustainability information is integrated into credit assessment and due-diligence processes, even where SMEs are not formally subject to CSRD reporting obligations. SMEs that can provide structured and intelligible sustainability information may benefit from reduced informational uncertainty during financing procedures, shorter review cycles, and fewer clarification requests. However, these effects remain limited in scope. Sustainability reporting capacity does not typically translate into preferential pricing or expanded access to capital; instead, it functions to normalise SMEs' position within increasingly data-driven risk assessment frameworks. Therefore, the strategic response observed in practice is focused on predictability and continuity rather than financial advantage.

A third, more internal, opportunity relates to organisational learning and coordination. When sustainability reporting processes are integrated into existing governance and management routines, they can improve internal clarity on sustainability-related risks, dependencies, and responsibilities. The development of basic documentation practices, role allocation and data collection routines can reduce internal uncertainty when responding to external requests and may improve coordination across operational and administrative functions. However, such learning effects are dependent on reporting processes being sufficiently stable and controlled internally. If sustainability information is produced mainly to meet externally imposed templates or changing requirements, internal learning will be limited and reporting risks will become data-collection focused.

Across these opportunities, a common pattern can be observed. For example, strategic responses by SMEs are not structural, they are primarily adaptive. SMEs tend to prioritise responsiveness to dominant counterparties, lenders or platforms, aligning their reporting practices with the expectations that are most immediately consequential for market access or financing. This practical approach reflects rational resource allocation under assets pressures and limits the scope for SMEs to use sustainability transparency to reshape their market position. Instead, opportunities tend to arise where reporting capacity helps decrease uncertainty, duplication, or exclusion risk. Strategic repositioning and enhanced bargaining power play a much more limited role.

However, access to these opportunities is unequal across the SMEs. Firms with stronger governance structures, higher digital maturity, or access to advisory support are better positioned to convert reporting efforts into stabilising effects. By contrast, more resource-constrained SMEs may experience similar transparency demands without realising comparable benefits, reinforcing distributional asymmetries identified earlier in the thesis. The opportunity aspect of CSRD-related

transparency thus does not compensate for the proportionality concerns associated with SME burdens, but coexists with them.

Examined together, the findings indicate that CSRD-related transparency reshapes the strategic environment in which SMEs operate instead of fundamentally altering its structural constraints. Sustainability reporting capacity may help SMEs manage risk, maintain participation and reduce transactional friction, but it does not function as a general upgrading mechanism. Understanding opportunities in this conditional and defensive sense is essential for evaluating proportionality and for assessing which legal and institutional interventions are capable of supporting SMEs without overstating the transformative potential of transparency. This analysis refines the answer to the second research question on the opportunity dimension of CSRD-related transparency for SMEs.

6.4 Normative Assessment: Proportionality and Competitive Effects

The preceding analysis demonstrates that CSRD-related sustainability transparency generates both burdens and limited balancing opportunities for SMEs. For that reason, a normative assessment must evaluate the proportionality of these effects in relation to the Directive's objectives, in addition to their potential to affect competitive conditions within and across SME groups. This assessment cannot be narrowly focused on formal legal scope or reporting thresholds, but must consider how transparency expectations operate in practice through market-based transmission mechanisms.

The findings indicate that proportionality concerns are addressed in the CSRD's formal structure through a number of mitigating elements including phased implementation, differentiated

scope thresholds, and proportionate or voluntary standards intended to reflect variations in firm size and capacity. These tools reflect a clear legislative intention to consider differences in firm size and capacity. However, the empirical and case-based analysis shows that proportionality outcomes do not fully depend on the existence of such formal adjustments, but rather on how sustainability information requirements are transmitted and reused across value chains and financial relationships. When indirect demands reproduce or exceed formal reporting expectations without protective measures, proportionality risks arise even for firms that remain formally outside the Directive's scope.

A central proportionality concern relates to the initial fixed costs. As discussed in Chapters 3 and 5, SMEs frequently face governance, documentation and data-system investments under conditions of legal and policy uncertainty. These costs are difficult to reverse in firm size. Early preparation may function as a stabilising measure for some SMEs, but for others it operates primarily as a resource-intensive reaction to externally defined expectations. In this situation, proportionality turns less on the scope of disclosures than on the timing and irreversibility of compliance-related investments.

Competitive effects introduce an additional dimension to the assessment. Sustainability transparency increasingly functions as a threshold condition for market participation, especially in supply-chain and financing contexts. SMEs that cannot meet baseline expectations regarding traceability, documentation and consistency may face exclusion risks or increased transaction costs. Despite the fact that their underlying sustainability performance is comparable to the performance of better-resourced counterparts. Conversely, SMEs that do meet these expectations are generally provided with continued access on standard terms instead of enhanced bargaining

power or preferential conditions. This dynamic suggests that transparency reshapes competitive conditions without improving allocative efficiency.

More specifically, these effects are distributional within the SME category itself. Firms with stronger governance structures, higher digital maturity or access to advisory support are better positioned to absorb fixed costs and convert reporting capacity into stabilising effects. More resource-constrained SMEs may experience similar transparency pressures without realising corresponding benefits, reinforcing existing imbalances. From a normative standpoint, this suggests that the CSRD framework, as implemented in practice, insufficiently distinguishes between capacity differences within the SME category.

At the same time, the analysis does not support the conclusion that CSRD-related transparency systematically undermines SME competitiveness. The analysis thus suggests a nuanced outcome: transparency recalibrates SMEs' risk environment but leaves underlying structural constraints, including size, bargaining power and dependence on larger market actors, largely unchanged. The competitive effects observed are not those typically addressed in classical competition law, but instead emerge through exclusion risks and cost asymmetries.

To summarize, this normative assessment suggests that proportionality under the CSRD cannot be evaluated only by reference to formal legal obligations. The decisive factor is whether sustainability information flows are sufficiently coordinated to prevent cumulative and duplicative burdens from falling disproportionately on smaller firms. Where such coordination is absent, transparency may operate less as a proportionate regulatory tool and more as an externally defined constraint on SME discretion. This finding provides the analytical basis for the discussion of legal and institutional implications in the following section and refines the answers to the third and

fourth research questions concerning differences within the SME population and the effectiveness of support and calibration measures.

6.5 Policy Implications and Supporting Mechanisms

The governance of sustainability information flows across legal, market and institutional settings are considered as the decisive factor for the effectiveness and proportionality of the CSRD for SMEs, being more significant than the role of formal reporting thresholds. Policy implications arise across multiple stages, including legislative structure, standard-setting practices, supervisory coordination, and the behaviour of private intermediaries involved in transmitting transparency expectations

At the level of EU and national legislators, the findings suggest that proportionality measures should be assessed by reference to their capacity to stabilise expectations in the long term. Phased application, delayed entry into force and simplified disclosure regimes mitigate formal compliance burdens, yet their impact remains limited if SMEs continue to face uncoordinated information requests from counterparties. Legal framework choices that enhance predictability, clarify assurance processes and reduce the need for early, irreversible investment are therefore crucial to achieve substantive proportionality. In this case, legislative simplification should be understood as a reducing uncertainty and duplication, not simply as a reduction in the number of required datapoints.

For norm-setting bodies, especially those involved in the development and maintenance of the ESRS and SME-oriented frameworks, the analysis emphasises the importance of interoperability and legibility. Voluntary or proportionate standards can only perform a

coordinating function if they are accepted as reference points by buyers, financial institutions and platform operators. The absence of such acceptance undermines the consolidating function of simplified frameworks, results in additional reporting layers. Increased focus on alignment between SME-oriented standards and the information needs of relevant users would enhance their practical relevance and reduce fragmentation.

Financial institutions and large corporate counterparties have a major influence on shaping SMEs' exposure to sustainability transparency. The research indicates that reporting-related burdens increase significantly in contexts where counterparties rely on individually designed questionnaires, non-standardised platforms or shifting documentation requirements. From a policy perspective, this suggests that guidance and supervisory expectations directed at these actors could contribute to improved coordination. The use of shared templates, baseline indicators and consistent reference periods would reduce repeated data adaptation and support more efficient information reuse across markets.

The broader SME support framework also has an important role in mediating CSRD-related effects. Chambers of commerce, industry associations, professional advisers and software providers can facilitate collaborative solutions that lower entry costs for reporting-related capacity. Shared resources, training initiatives and sector-specific guidance can help SMEs develop stable documentation practices without duplicating the full systems of larger undertakings. Such mechanisms are relevant for firms operating not as a formal CSRD scope but subject to indirect information demands through value chains or financing relationships.

Finally, these implications support a shift in focus from formal exemption to functional coordination. The analysis suggests that SME exposure under the CSRD is shaped by how sustainability information is requested, interpreted and reused across institutional interfaces.

Addressing governance arrangements are more effective in improving proportionality outcomes than interventions limited to legal scope or extent of reporting obligations. This insight informs the concluding assessment of the CSRD's role in shaping SME participation, decision-making autonomy and competitiveness within the EU sustainability reporting context.

CHAPTER 7

CONCLUSION

Research examined how the “Corporate Sustainability Reporting Directive” affects small and medium-sized undertakings beyond its formal reporting obligations by approaching the CSRD as both a legal framework and a mechanism through which sustainability transparency expectations are generated and transmitted in practice. The analysis has shown that the Directive's effects on SMEs are influenced by the interaction of regulatory design, market-based information demands, and organisational capacity. Therefore, sustainability reporting under the CSRD does not function as a uniform compliance regime, but produces differentiated outcomes across firms depending on exposure structure and governance arrangements.

To synthesise the main contributions of the thesis in a clear manner, the core arguments will be presented through four interrelated theses.

1. The doctrinal analysis established that the CSRD introduces a structured, standardised and assurance-oriented sustainability reporting framework that significantly expands the details and coherence of sustainability disclosure in EU company law. Its structure relies on EU-wide standards, double materiality, digital reporting and external assurance, which seeks to improve the comparability and reliability of sustainability information. From a legal perspective, these features

represent a distinct shift from the more flexible and fragmented approach of the NFRD. At the same time, the analysis has demonstrated that formal legal scope includes only part of the Directive's practical relevance for SMEs.

However, a central finding of this thesis shows that the Directive's formal legal scope does not fully reflect its actual significance for SMEs. While mandatory reporting obligations apply primarily to large undertakings and listed SMEs, the CSRD also generates significant effects for other groups. Through value-chain reporting, financing practices, and digital data platforms, CSRD-aligned expectations increasingly impact the behaviour of non-listed SMEs that remain formally outside the Directive's scope. This suggests that the practical boundaries of sustainability transparency are shaped by statutory thresholds as well as by market and contractual relationships.

2. SME exposure to CSRD-related transparency is defined by cumulative, interacting, and unevenly distributed burdens. The examination of SME burdens reveals that sustainability transparency is experienced through cumulative and interacting pressures, not as isolated reporting obligations. Scope uncertainty, ESRS complexity, data availability constraints, assurance readiness, digitalisation requirements, and value-chain information requests interact to determine SMEs' exposure in ways that are difficult to predict and unevenly distributed. These pressures arise early and frequently under conditions of regulatory uncertainty, creating fixed costs that create crucial obstacles to SMEs. The analysis further demonstrated that indirect transmission mechanisms extend CSRD-related expectations to non-listed SMEs, turning sustainability reporting into a functional condition of market participation in supply-chain and financing contexts. Such expectations are transmitted through supplier questionnaires, bank ESG assessments, and platform-based disclosure systems, which can effectively operate as reporting obligations for non-listed SMEs.

3. CSRD-related sustainability transparency creates limited and conditional opportunities that are primarily defensive rather than transformative. At the same time, the thesis identified limited and conditional opportunities associated with sustainability transparency. Reporting capacity may contribute to the stabilisation of market access, reduce informational frictions in dealings with key counterparties, and support internal coordination and learning processes. However, these effects remain defensive in character. They mainly mitigate exclusion risk and uncertainty and do not generate systematic upgrading or enhanced bargaining power. The ability to realise such stabilising effects depends on existing organisational resources, digital maturity and access to advisory support, all of which vary considerably across the SME population.

The thesis identified several potential advantages related to the development of sustainability reporting capacity. In financing contexts, more structured and reliable sustainability information can support interactions with banks and investors by reducing informational uncertainty and aligning SMEs with information-based risk assessment frameworks. In supply-chain relationships, the ability to provide standardised sustainability information may help SMEs maintain their position as suppliers, meet buyer expectations, and avoid exclusion from key markets. At the organisational level, the process of collecting and systematising sustainability data can support internal learning, enhance internal coordination, and clarify exposure to environmental and social risks.

However, these opportunities are conditional and unevenly distributed across the SME population. In financial markets, sustainability transparency primarily functions as a risk-signalling mechanism instead of a basis for advantageous financing or improved bargaining power. Similarly, in supply chains, the disclosure of structured sustainability information may help SMEs

preserve existing commercial relationships, but does not alter the asymmetric power relations with larger counterparties.

Moreover, internal organisational benefits arise mainly when SMEs are capable of integrating reporting processes into their established management and governance arrangements. Where sustainability reporting is considered as an externally imposed compliance exercise, its potential to generate significant organisational learning remains limited. However, such integration is resource-intensive and therefore more accessible to SMEs with greater organisational capacity.

Overall, this thesis concludes that CSRD-related opportunities for SMEs are mainly defensive in character. They primarily serve to mitigate exclusion risks, reduce uncertainty, and stabilise market participation, with only limited effects on systematic capability upgrading or structural repositioning within markets and value chains. Sustainability transparency reshapes the conditions of participation for SMEs without fundamentally altering their competitive position.

4. The assessment of proportionality under the CSRD depends primarily on how sustainability information flows are governed, not simply on the Directive's formal legal scope. From a normative perspective, the analysis showed that proportionality under the CSRD cannot be assessed by reference to formal scope thresholds or simplified standards. The key factor is the coordination of sustainability information requests across legal, market and organisational interfaces.

Where such coordination is limited, sustainability transparency may function as an externally defined restriction on SME discretion, even in the presence of formal mitigating measures. In such environments, SMEs frequently encounter repeated and inconsistent

information requests from different customers, banks, and digital platforms, forcing them to respond reactively rather than develop coherent internal reporting systems.

Competitive effects arising from this environment are primarily driven by exclusion risks and cost asymmetries within the SME category itself, rather than by direct legal exclusion imposed by the CSRD. SMEs with greater organisational capacity, digital maturity, and access to advisory support are better positioned to absorb reporting costs and convert them into stabilising benefits, whereas more resource-constrained SMEs bear disproportionate burdens relative to their size and capabilities.

In this sense, the CSRD reshapes the risk environment in which SMEs operate by embedding sustainability transparency more deeply into market and financing relationships. However, it does not fundamentally alter the underlying structural constraints associated with firm size, bargaining power, and limited resources. Proportionality must therefore be understood not only in legal terms but also in relation to how sustainability information is governed in practice across value chains and financial markets.

For that reason, the analysis supports a restrained overall conclusion. CSRD-related sustainability transparency does not constitute a general upgrading mechanism for SMEs. Its principal contribution is risk mitigation and participation stabilisation under evolving regulatory and market expectations. The opportunity potential of transparency remains conditional, unevenly distributed and dependent on the governance of external information flows. Recognising these limits is essential for avoiding overly ambitious claims about the structural capacity of sustainability reporting for smaller firms.

By integrating legal analysis, market dynamics, and organisational responses, this thesis develops a comprehensive framework for understanding SME exposure to sustainability transparency. The analysis shifts the focus from formal compliance debates to transmission mechanisms, coordination challenges and distributional effects.

By examining both listed and non-listed SMEs, the thesis demonstrates that the practical boundaries of sustainability reporting extend beyond formal legal scope and are shaped by contractual, financial, and digital infrastructures. The study advances scholarly debates on proportionality, regulatory spillovers, and the governance of sustainability information in the context of EU company law.

At the same time, the study is subject to limitations. The interpretative and illustrative characteristics of the case material limit the applicability of the findings across all sectors or Member States. In addition, progressive regulatory developments may alter specific aspects of the CSRD framework over time.

Future research could advance these findings by examining sector-specific coordination practices, the role of digital reporting arrangements, and the longer-term effects of voluntary SME standards on information alignment. The interaction between supervisory guidance and contractual ordering practices in shaping sustainability reporting expectations at the SME level requires further practice-based investigation. Such research would enhance insight into how sustainability transparency can be regulated through arrangements that support regulatory objectives without creating disproportionate constraints on smaller firms.

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