Towards a Commonly Accepted ESG Reporting Template for Greek and Cypriot SMEs

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Abstract

Environmental, social, and governance (ESG) reporting is a revolution in the operation of businesses. In recent years, more and more businesses are required or decide to publish corporate sustainability reports that highlight their performance in the environmental, social, and intergovernmental pillar. The recent Corporate Sustainability Reporting Directive (CSRD) includes small and medium-sized enterprises (SMEs) in the context of mandatory ESG reporting. The goal of this paper is to provide a model ESG reporting framework to assist Cypriot and Greek SMEs in collecting and disclosing relevant data. A study was conducted to assess the readiness of Greek and Cypriot SMEs to engage in ESG reporting. The results revealed a relatively low level of maturity in this regard. At the same time, there is growing demand to develop a more cost-effective, user friendly, and straightforward ESG framework.

Keywords: ESG reporting; small and medium enterprises (SMEs); sustainability reporting; CSRD; EFRAG standards; environmental sustainability; social responsibility; governance practices

1. Introduction

Companies, political leaders, and groups are increasingly engaging with sustainability.[5] This paper proposes an environmental, social, and governance (ESG) reporting framework tailored for small and medium-sized enterprises (SMEs) in Greece and Cyprus, addressing the current lack of a framework that accommodates their unique

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[5] George Nyantakyi et al., 'A boost for performance or a sense of corporate social responsibility? A bibliometric analysis on sustainability reporting and firm performance research (2000-2022)' (2023) 10(2) *Cogent Business & Management 1*

characteristics. This objective is critical because the initial phase of mandatory ESG reporting laws (Corporate Sustainability Reporting Directive – 2022/2464/EU) by the European Commission (EC) took effect on January 2023, affecting not only companies headquartered within the European Union (EU) but also numerous global entities.[6]

The publication of the first Standards by the International Sustainability Standards Board (ISSB) marked the beginning of a major shift toward increased global regulation.[7] The ISSB was established to develop a worldwide baseline of sustainability disclosures that address the dispersion of frameworks globally, and to promote greater consistency and comparability. On the regulatory front, the ISSB Standards have been accepted by the International Organization of Securities Commissions (IOSCO), the worldwide body of securities regulators, and governments are examining how to incorporate them into their regulatory frameworks.[8]

Despite these developments, it remains doubtful that the provision of ESG information will ever be dominated by a single global standard. For example, the Sustainability Accounting Standards Board (SASB) framework is not as frequently used as the Global Reporting Initiative (GRI).[9] The potential of gaining the widespread acceptability that a stakeholder-focused programme like GRI can aim for is arguably limited by SASB's investor-centric approach. However, as this article goes on to discuss, each framework has its strengths.

In parallel, the European Commission has made significant progress, developing the Corporate Sustainability Reporting Directive (CSRD) and, more recently, adopting the European Sustainability Reporting Standards (ESRS) for all companies covered by the CSRD beginning in 2024.[10] These new legal and regulatory obligations

6 Susanne Arvidsson & John Dumay, 'Corporate ESG reporting quantity, quality and performance: Where to now for environmental policy and practice?' (2022) 31(3) *Business Strategy and the Environment 1091*

7 Charl de Villiers & Ruth Dimes, 'Will the formation of the International Sustainability Standards Board result in the death of integrated reporting?' (2022) 19(2) *Journal of Accounting & Organizational Change* 279.

8 Hervé Stolowy & Luc Paugam 'Sustainability Reporting: Is Convergence Possible?' (2023) 20(2) *Accounting in Europe 139*

9 Satyajit Bose, 'Evolution of ESG Reporting Frameworks' in DC Esty & T Cort (eds), *Values at Work* (2022) 13.

10 European Union, *Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting* (2022) available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464 (last access date 12 2024).

have significantly affected large corporations, and will soon have a similar effect for SMEs as well.[11] Specifically, the CSRD obliges SMEs to prepare sustainability reports that include ESG performance[12].

The CSRD is currently voluntary for listed SMEs, but it will become mandatory in the fiscal year beginning 1 January 2026. However, the standards (ESRS) developed by European Financial Reporting Advisory Group (EFRAG) have proved complex to implement, resulting in significant delays in agreement on a specific reporting template for EU companies.[13] A recent development concerning the implementation of CSRD and the standards proposed by EFRAG is the delay in the implementation of the obligation to submit sector-specific sustainability disclosures and for sustainability reporting from companies outside of the EU[14].

The Commission released its 2024 Work Programme, which outlines the actions it will conduct in the future year, along with the announcement. The reporting burden for businesses related to reporting requirements is one of the 2024 Programme's priorities, and one of the main initiatives stated by the Commission is delaying the deadline for adopting European Sustainability Reporting Standards (ESRS) sector-specific reporting standards. The CSRD subsequently mandated the adoption of sector-specific ESRS by the end of June 2024, outlining sustainability information for companies to report relating to their operating industries. The first set of ESRS rules was adopted by the Commission in July 2023, outlining sector-agnostic sustainability reporting requirements.[15]

However, SMEs are falling behind in terms of capacity to comply with ESG requirements.[16] SME-specific guidance is provided in recent EC recommendations on

[11] Meng Kui Hu & Daisy Mui Hung Kee, 'Global Institutions and ESG Integration to Accelerate SME Development and Sustainability' in N. Baporikar (ed.), *Handbook of Research on Global Institutional Roles for Inclusive Development* (2022) 139.

[12] Hervé Stolowy & Luc Paugam 'Sustainability Reporting: Is Convergence Possible?' (2023) 20(2) *Accounting in Europe 139*

[13] Niki Glaveli, et al., 'Assessing the Maturity of Sustainable Business Model and Strategy Reporting under the CSRD Shadow', (2023) 16(10) *Journal of Risk and Financial Management* 445.

[14] Meng Kui Hu & Daisy Mui Hung Kee, 'Global Institutions and ESG Integration to Accelerate SME Development and Sustainability' in N. Baporikar (ed.), *Handbook of Research on Global Institutional Roles for Inclusive Development* (2022) 139.

[15] European Commission, *Delivering today and preparing for tomorrow: The 2024 Commission Work Programme* (2023), available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4965 (last access date 12 2024).

[16] Roberto Tombolesi, 'Sustainability Performance and ESG Factors: A New Challenge for Small and Medium Sized Enterprises (SMEs)', in Cristiano Busco et al., (eds), *The Impact of Organizations* (Routlege,

supporting financing for the transition to a sustainable economy[17]. However, these suggestions fall short of offering crucial direction in terms of internal reporting process adaption, data quality assessment, and structural modifications.[18]

This study proposes an ESG reporting framework for SMEs in Greece and Cyprus while aiming to address the challenges of preparing ESG reports. Currently, there is no framework that takes into consideration the two countries' characteristics. The proposed framework was developed after examining and contrasting the various ESG reporting standards, taking into account the difficulties faced by SMEs in the two countries. It should also be highlighted that, although this study focuses on Greece and Cyprus, the findings may be applicable to other European countries as well.

2. Methodology and Research Questions

Building on the comparative analysis of different ESG reporting standards, the methodology focuses on creating a framework tailored to the needs of SMEs. The diverse indicators and varying mandatory requirements identified in standards like those published by GRI, SASB, and United Nations Principles for Responsible Investment (UNPRI) inform this approach. Descriptive research was employed to pinpoint the most critical aspects for SMEs, ensuring that our framework addresses their unique characteristics and capabilities. This methodology is designed to simplify ESG reporting for SMEs, making it more accessible and practical for smaller enterprises to adopt and implement effectively.

The research started with an analysis of the maturity level of SMEs in Greece and Cyprus. After identifying the number of SMEs in these countries and subsequently those that had previously generated corporate social responsibility reports, the research determined how many of these businesses had integrated their ESG performance into their reporting. Next, a comprehensive analysis addressed six sustainability and ESG reporting frameworks to obtain an understanding of their disclosure requirements.

2023), 12.

[17] European Commission, *Strategy for financing the transition to a sustainable economy* (2021) available at https://finance.ec.europa.eu/publications/strategy-financing-transition-sustainable-economy_en (last access date 12 2024).

[18] Alperen Gözlügöl & Wolf-Georg Ringe, *Private companies: The missing link on the path to net zero* (2022) SAFE Working Paper 342, Leibniz Institute for Financial Research SAFE.

The aim of this paper is to introduce an ESG reporting framework tailored to SMEs in Greece and Cyprus, aligning with the requirements outlined in CSRD and EFRAG standards. This study seeks to address the following key research inquires:

1. What should an ESG report designed for SMEs include?
2. Which indicators should be incorporated into ESG reports for SMEs?
3. What methodologies can be employed for calculating ESG indicators?

This paper provides comprehensive insights and answers to these research questions by presenting the proposed framework. Addressing these research questions aims to develop a comprehensive ESG reporting framework tailored to the unique needs of SMEs in Greece and Cyprus, while also adhering to the requirements set forth by the CSRD and EFRAG's (ESRS) Standards.

The next section presents a detailed comparison of existing ESG frameworks and their applicability to Greek and Cypriot SMEs. This comparative analysis identifies the strengths and weaknesses of each framework, thereby establishing a foundation for the proposed ESG reporting model. This analysis is crucial for understanding how these frameworks can be adapted to simplify ESG reporting processes for SMEs, ensuring effective compliance with emerging regulatory demands and contributing to sustainable business practices.

3. ESG Framework Comparison and ESG Reporting in Greek and Cypriot SMEs

3.1 ESG Reporting Framework Analysis

There are currently a number of frameworks for sustainability and ESG reporting, with respective groups of indicators often dependent on the specificities of the particular industry in which they are used.[19]

ESG reporting and sustainable business strategy can also vary according to the size of the entity. This disparity makes calculating the indicators extremely challenging, especially for businesses without a significant environmental footprint.[20] However, for an effective investigation of existing frameworks for SMEs, a content analysis

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[19] Monica Singhania & Neha Saini 'Institutional framework of ESG disclosures: comparative analysis of developed and developing countries' (2023) 13(1) *Journal of Sustainable Finance & Investment* 516.

[20] Carolina Almeida, Cruz, & Florinda Matos, 'ESG Maturity: A Software Framework for the Challenges of ESG Data in Investment' (2023) 15 (3) Sustainability, 2610.

was carried out and some basic categories were selected from which comparative results were obtained. For the six ESG reporting frameworks (SASB, IRF, ESRS, GRI, CPD, and UNPRI), the indicators used per pillar were recorded and then the most widely used indicators were identified.

The analysis focused on the content of existing ESG reports across numerous European companies. Given the prevalence of the Global Reporting Initiative (GRI) framework, we chose to include five additional standards commonly followed by European companies.

Table 1 provides a comparative overview, offering the fundamentals of the most prominent ESG reporting standards. This information served as a foundational resource for crafting the template featured in this study. The proposed ESG reporting framework is rooted in the ESRS, (under the CSRD). Additionally, the framework incorporates indicators that have been defined by the EFRAG.

	SASB	**IRF**	**ESRS (EFRAG)**	**GRI**	**CDP**	**UNPRI**
Type of framework	Voluntary and Benchmark	Benchmark	Regulatory	Voluntary	Benchmark	Voluntary
Date of issue	2011	2013 (revised in 2021)	2023	2000	2000	2006
Industry-specific	Yes	No	No	No	No	No
Stakeholders	Investors	Investors	Government, executives, investors	Executives, investors	Investors	Investors
Estimated number of companies using the framework	Over 2,500	Over 2,000	To be implemented	Over 18,000	Over 13,000	Over 3,750

Table 1. Comparison of ESG Reporting Frameworks.

The most frequently cited framework, the GRI Standards, is used by 54% of EU corporations to fulfil their non-financial reporting obligations, according to research by the Alliance for Corporate Transparency.[21]

[21] Alliance for Corporate Transparency, *An analysis of the sustainability reports of 1000 companies pursuant to the EU Non-Financial Reporting Directive* (2020) available at http://www.allianceforcor-

A comparison revealed that each standard utilises different indicators, and, in some cases, the mandatory nature of the indicators differs. For example, in the case of GRI, there are nine categories in the environmental pillar, each with their respective indicators. SASB has seven such categories with the key performance indicators (KPIs) corresponding to sector specific characteristics,[22] while UNPRI has four general environmental categories.[23] Individual indicators also differ in the way the data is calculated and measured.

Building on these findings, the methodology employed in developing the framework for SMEs to facilitate ESG reporting is based on descriptive research. Descriptive research aims to identify the traits that define a specific person, condition, or group. To identify the indicators for assessing SMEs' performance across the ESG pillars, a search was conducted for the aspects deemed most critical, considering the unique characteristics of very small, small, and medium-sized firms. This methodological approach ensures that the developed framework is tailored to the specific needs and capabilities of SMEs, promoting practical and effective ESG reporting.

3.2 Comparison of ESG Reporting Frameworks

Creating frameworks and standards is a continuous, iterative process. Perhaps it is still too early to say whether the frameworks for creating ESG disclosures will develop into more flexible and decentralised guidelines or into a single global standard.[24] However, the need to find a commonly accepted standard that simplifies the process of ESG reporting for SMEs is a priority given that there is limited initiative from the creators of the standards, the scientific community, and governments.

As mentioned, to arrive at the indicators and structure for an ESG report for SMEs, this paper analysed six dominant reporting frameworks, specifically for the period from 2021 to 2023. The analysis included a systematic review of the literature

poratetransparency.org/assets/2019_Research_Report%20_Alliance_for_Corporate_Transparency.pdf (last access date 12 2024).

22 IFRS Foundation, Download SASB Standards (2022), Available at https://sasb.org/standards/download/.

23 PRI Association, *PRI Reporting Framework* (2019), available at https://www.unpri.org/Uploads/n/p/v/02.sg2019_144623.pdf (last access date 12 2024).

24 Satyajit, Bose, 'Evolution of ESG Reporting Frameworks' in: Esty, D.C., Cort, T. (eds), *Values at Work*. (2022) 13.

and reports concerning the implementation of ESG reporting by international auditing firms[25,26] and independent bodies.[27]

One standard among the six is industry-specific (SASB), and the others are sector agnostic. The GRI Topic Standards, which outline disclosures relevant to specific subjects, the GRI Sector Standards, designed for specific industries, and the GRI Universal Standards, which are applicable to all organisations, collectively provide substantial support for the reporting process. In assessing environmental performance, each standard takes varying approaches when it comes to defining indicators and their calculation methods. Among the indicators, energy consumption was a common element in all the analysed standards, although with variations in segmentation and calculation techniques. Additionally, waste management, waste generation, biodiversity, and water usage were also identified as key indicators to evaluate environmental performance in accordance with the standards under review. Notably, differences were identified in the content of the IRF, which is investor-focused and includes an indicator related to environmental investments. Interestingly, the same indicator is also incorporated in the ESRS developed by EFRAG.

Regarding social performance, these standards collectively encompass indicators related to the workforce (including demographic segmentations like gender, age, nationality, and special group affiliations), the safeguarding of human rights, and employee training. However, several disparities were noted in the measurement of customer satisfaction. While indicators for customer satisfaction are present in IRF, GRI, ESRS, and SASB, they are absent in CDP and UNPRI. CDP evaluates company performance in areas such as employment, supply chain, and community, but does not provide guidelines for assessing customer relations.

When assessing ESG performance within the governance pillar, certain indicators emerged consistently across standards. These indicators are board composition, stakeholder engagement, and the integration of sustainability-related matters. There are also significant differences, particularly with the GRI standard, which includes a multitude of indicators that appear in some of the other standards under analysis.

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25 KPMG, *Big shifts, small steps* (2022) available at https://kpmg.com/xx/en/home/insights/2022/09/survey-of-sustainability-reporting-2022/global-trends.html (last access date 12 2024).

26 Bloomberg, *Comparison of ESG Reporting Frameworks* (2022), available at: https://pro.bloomberglaw.com/brief/comparison-of-esg-reporting-frameworks/ (last access date 12 2024).

27 Corporate Governance Institute, *What's the difference between ESG reporting standards and frameworks?* (2023), available at: https://www.thecorporategovernanceinstitute.com/insights/guides/whats-the-difference-between-esg-reporting-standards-and-frameworks/ (last access date 12 2024).

On the contrary, ESRS's integration of only six indicators reflects a deliberate effort to streamline and reduce the complexity of ESG reporting.

Materiality analysis—determining the social and environmental issues that are most important to a company and its stakeholders—is another important aspect of ESG reporting.[28] The process here can vary according to the scope considered. For instance, in the case of SASB, materiality analysis is oriented on how sustainability impacts the development of a company's enterprise value. Meanwhile, ESRS embraces the concept of double materiality, which requires a company to identify actions that impact both people and the environment, as well as how sustainability issues may affect its financial stability.

In the examination of ESG reporting frameworks, the stakeholder approach emerged as another focal point. SASB adopts an investor-oriented approach, while the rest of the frameworks analyse the stakeholder categories. The stakeholder identification process is different among the six ESG frameworks analysed: ESRS proposes to divide stakeholders into groups, while GRI provides a list of stakeholders. Understanding these differences is crucial for developing an effective ESG reporting framework for SMEs, particularly in regions like Greece and Cyprus where ESG reporting practices are still maturing.

3.3 ESG Reporting in Cypriot and Greek SMEs

The stakeholder-oriented approaches identified in various ESG frameworks highlight the importance of considering diverse stakeholder needs in reporting. This is particularly relevant for SMEs in Greece and Cyprus, where the GRI standard is favoured. Understanding the maturity of ESG reporting practices in these regions provides valuable context for evaluating how SMEs can effectively implement these stakeholder-focused frameworks. In terms of the number of companies engaged in ESG reporting, it is important to highlight that the requirement according to NFRD (Non-Financial Reporting Directive) applies to large, listed companies like banks, insurance companies, and public interest entities. More specifically, these companies must have at least two out of three following criteria: (1) a balance sheet total of EUR 20M, or (2) a net turnover of EUR 40M, or (3) an average number of employees exceeding 500.

[28] Felix Beske, Ellen Haustein & Peter Lorson, 'Materiality analysis in sustainability and integrated reports', (2022) 11 (1) *Sustainability Accounting, Management and Policy Journal*, 162.

However, for the smallest businesses (micro and small), there is a significant lack of aggregated data for ESG reporting, despite the fact that they represent the largest percentage of businesses in Greece and Cyprus. Specifically, 55,297 micro businesses (0–9 employees), 3,856 small businesses (10–49 employees), and 553 medium-sized businesses (50–249 employees) were operating in Cyprus in 2022.[29] Approximately 719,296 SMEs are in operation in Greece; the great majority of these (673,561) are micro-sized businesses that employ one to nine people.25 Greece has the highest SME density in the EU,[30] with 96.9% of all businesses being very small, as opposed to only 93% in Europe. Greek SMEs account for 87.9% of employment and 63.5% of total value added in the Greek economy.[31]

Despite the fact that SMEs represent the largest percentage of enterprises in Greece and Cyprus, no aggregate data was found regarding their ESG reporting. Information on the percentage of SMEs that prepare ESG reports was thus sought and obtained from the Corporate Social Responsibility Networks.

It emerged that SMEs have made a start on reporting on sustainability. In 2018, a survey of Greek SMEs was carried out by the Hellenic Network for Corporate Social Responsibility (CSR Hellas), which revealed that 16% of SMEs had produced a sustainability report the year before. Although this is a small percentage in comparison to larger firms, it shows that smaller Greek businesses are becoming more conscious of the need of sustainability reporting. In Cyprus, very few SMEs publish corporate sustainability reports, less than 0.01% according to CSR Cyprus.

The results highlight that many SMEs are not engaging with sustainability reporting, even though it holds the potential for substantial business advantages and the opportunity to establish trust and credibility with their supply chain partners and potential clients. Collecting sustainability data can be a very difficult and costly process for SMEs, primarily due to constraints in financial, technical, and human resources. Reporting frameworks involve a wide range of KPIs and competing demands from investors, financial institutions, large corporations, and other stakeholders within the supply chain. Moreover, beyond data collecting, SMEs often lack the expertise

[29] Eurostat, *Structural business statistics* (2003), available at: https://ec.europa.eu/eurostat/cache/metadata/EN/sbs_esms_cy.htm (last access date 12 2024).

[30] Eurostat, *Structural business statistics* (2003), available at: https://ec.europa.eu/eurostat/cache/metadata/EN/sbs_esms_el.htm (last access date 12 2024).

[31] European Commission, *2023 SME Country Fact Sheet* (2023), available at https://ec.europa.eu/docsroom/documents/54968 (last access date 12 2024).

and resources required to ensure the effective monitoring and assessment of sustainability indicators.

The research emphasises the limited maturity in ESG reporting readiness among SMEs operating in Greece and Cyprus, thus highlighting the need for a framework that can be widely adopted.

4. Proposed ESG Reporting Framework for SMEs

This section introduces an ESG reporting framework for SMEs operating in Greece and Cyprus. Building upon the comparative analysis of existing ESG frameworks, the proposed framework aims to address the unique challenges and opportunities faced by SMEs in meeting sustainability reporting requirements. By incorporating stakeholder-oriented approaches and aligning with regulatory frameworks such as the CSRD and ESRS, this framework seeks to streamline the ESG reporting process, ensuring SMEs can effectively communicate their sustainability efforts and enhance stakeholder engagement.[32]

The upcoming sections present a detailed analysis of the main components of the model reporting framework, which have been drawn from existing frameworks. The following sections outline the essential elements adapted from these frameworks, including key indicators, stakeholder engagement strategies, and methodologies for assessing ESG performance. This aims to provide clarity on how these components can be tailored and implemented within the context of SMEs in Greece and Cyprus, fostering a more comprehensive understanding of sustainable reporting practices.

4.1 General Disclosures

ESG reports for SMEs should encompass a range of key information about their operations, including:

- Company overview (main activities and location)
- Mission and values
- Composition of Board of Directors
- Composition of General Assembly (including ownership percentages)
- Organisational structure

[32] European Financial Reporting Advisory Group, *First Set of draft ESRS* (2023), available at: https://www.efrag.org/lab6 (last access date 12/2024).

Incorporating these general details enriches the SME's profile, providing stakeholders with a more holistic view of the company's operations.

4.2 Materiality Assessment

The materiality assessment must encompass factors that can impact a company's ESG performance and is typically conducted by seeking feedback and views from stakeholders.[33] A stakeholder is an individual or group with an interest in a business who has the potential to influence or be affected by it. A typical corporation's investors, employees, clients, and suppliers make up its main stakeholders.[34]

In the case of larger corporations, material issues are often identified through stakeholder questionnaires. However, for SMEs, especially during the initial stages of sustainability reporting, the process described in the table below may be more practical (Table 2). SMEs can utilise the table to identify their stakeholders and establish channels of communication with them. This approach enables SMEs to gather valuable stakeholder input, which serves as the foundation for conducting a materiality assessment and prioritising relevant ESG issues.

Stakeholder group	Communication channel	Frequency of communication
Employees	Email, social media posts, code of ethics, other internal reports	Every week and every six months
Local community	Email, social media, publications in local newspaper (online or physical)	Every month or every six months
Another stakeholder group	Communication channel used for this stakeholder group	Frequency of communication for this stakeholder group

Table 2. Stakeholder analysis with examples.

The first column must contain the groups of stakeholders coming from the three different pillars (environment, society, and governance). Usually, the interested parties are employees, members of the community who are affected by the company, shareholders, non-governmental organisations (NGOs), and other interested parties depending on the activity of the company. In the second column, companies are asked to fill in their communication method with the interested parties on issues related to sustainability. Such methods of communication could be emails, newsletters,

[33] Tamara Menichini & Gennaro Salierno, 'Using Materiality Analysis to Determine Actual and Potential Company Impacts on Sustainable Development', (2023) European Journal of Sustainable Development, Vol. 12 (2)

[34] Pernille Eskerod, 'A Stakeholder Perspective: Origins and Core Concepts', (2020) Oxford Research Encyclopedia of Business and Management.

posts on social media, ad hoc communication, and other ways, always depending on the strategy followed by each company in terms of communication. The last column includes the frequency of the company's communication with stakeholders on sustainability issues. This column is filled in using a Likert scale from one (rarely) to five (very frequently).

Additionally, the sustainability issues that are essential for each of the stakeholder groups should be identified. Table 3 should be completed in relation to the activities of the business and the role of the groups of interested parties in the business.

Stakeholder group	Material issues concerning the environment	Material issues concerning society	Material issues concerning governance
Employees	Total carbon emissions	Employee satisfaction, equal pay	Transparency of administration
Local community	Carbon emissions, anti-pollution measures	Voluntary programmes	Corporate governance, policy adherence
Another stakeholder group	Material issue for the environment	Material issue for the society	Material issue for governance

Table 3. Material issues per stakeholder group

Table 3 should be filled to identify all the material issues per ESG pillar and stakeholder group. Even though the table can be filled with short descriptions, it is highly recommended that the company analyse each material issue and the reasons behind the materiality.

5. Environmental Indicators

In this section, we delve into the environmental pillar, outlining indicators categorised into two primary groups. The first group encompasses essential indicators that hold significance across businesses of all sizes. The second group comprises indicators that, while important to calculate, may have limited relevance within the context of very small enterprises.

Table 4 below outlines the indices to calculate and is followed by a description of the calculation or analysis process.

Core Environmental Disclosures	Calculation/Analysis
E1 –Energy Consumption & Mix	E1-1 Energy consumption (kWh) per square meters E1-2 Fuel consumption (litres of fuel) per number of vehicles E1-3 Energy consumption for heating and refrigeration (% renewable energy, % mineral oil, % gas, % district heating % coal, % other), energy supply
E2 –Water Usage	E2-1 Water usage (litres of water/3months) E2-2 Water usage index (e.g., litres of water / employee) E2-3 Policies for saving water
E3 - Greenhouse Gas Emissions	E3-1 CO2 emission (3 Scopes) E3-2 Policies to reduce CO2 emissions
E4 – Total Waste Generation	E4-1 Waste weight produced per year
E5 – Recycling Rate	E5-1 Waste weight recycled per year E5-2 Recycling policies

Table 4. Core Environmental Disclosures for SMEs

A calculation method is proposed for each indicator. The methodology is designed with the understanding that most SMEs may have limited experience, training, and data pertaining to the measurement of these metrics:

E1 - Energy Consumption & Mix: To measure energy consumption, businesses should use data from their monthly electricity bills. These bills typically include kilowatt-hour (kWh) consumption. This data should be collected annually over a three-year period to observe consumption trends. Energy consumption should encompass fuel usage for company vehicles and general energy consumption.

E2 - Water Usage: Companies can monitor water usage by referring to their water bills, which typically record consumption in cubic meters. Data should be collected annually over a three-year period. To calculate water usage per employee, divide the total usage by the number of employees. It is advisable to document water-saving policies and practices.

E3 - Greenhouse Gas Emissions: Businesses can utilise online tools to assist in this measurement. Additionally, businesses should outline policies aimed at reducing CO2 emissions.

E4 - Waste Generation: Businesses should record the annual weight of waste generated.

E5 - Recycling Rate: This may require collaboration with recycling companies that can provide accurate measurements. Companies without such partnerships can describe their recycling procedures and practices. Quantifying recycled materials is essential for generating both quantitative and qualitative data.

The table below (Table 5) lists additional environmental indicators that should be calculated.

Voluntary Environmental Disclosures	Calculation/Analysis
E6 - Environmental Management System Certification	E6-1 Indicates that the SME has implemented an internationally recognised EMS, such as ISO 14001, and obtained a certification.
E7 - Energy Management System Certification	E7-1 Indicates that the SME has implemented an internationally recognised Energy Management System, such as ISO 50001, and obtained a certification.
E8 - Environmental Investments	E8-1 Represents the number of financial resources allocated by the SME towards activities, projects, or initiatives aimed at improving environmental performance and sustainability.
E9 –Environmental Regulatory Compliance	E9-1 Measures the SME's adherence to relevant environmental laws, regulations, and permits applicable to its operations. The indicator can be measured by the financial penalty paid by the SME for environmental non-compliance.

Table 5. Voluntary Environmental Disclosures for SMEs

In Table 5, we introduce more intricate environmental indicators, acknowledging that their relevance may be somewhat limited for small and very small enterprises. However, if data is available to cover the requested information, it is advisable to include it. These indicators encompass the following:

These indicators may hold varying degrees of significance for smaller businesses. For example, environmental policies and certifications are often influenced by industry requirements, customer demands, or even creditor expectations.

Companies holding certifications such as ISO 14001 or ISO 50001 should include them in their ESG reports, along with results from external audits conducted by independent auditors. Reporting on environmental compliance involves detailing the actions and procedures undertaken to align with industry-specific environmental policies.

6. Social Indicators

Continuing from the exploration of environmental indicators, the focus now shifts to societal aspects, particularly emphasising the impact of small and very small businesses on their immediate surroundings, while larger enterprises exert influence on broader segments of society, including communities, regions, and cities.

For SMEs, the key stakeholders are employees, customers, and communities affected by the enterprise's operations. However, this focus is applicable only when the impact on these stakeholders is substantial. SMEs are primarily concerned with their immediate environment, and their efforts to address social aspects tend to centre on the wellbeing of employees, customer satisfaction, and engaging with the communities they operate in.

In the context of the social pillar, companies, including very small ones, can easily measure their performance for the presented indicators. Methodologically, there are no particularly significant difficulties in doing so. Companies of all sizes can effectively track and report on these social indicators, as they pertain to aspects that are manageable and relevant to their immediate operations and stakeholders.

Core Social Disclosures	Calculation/Analysis
S1 - Characteristics of SME Employees	S1-1 Number of employees (3-year trend)
	S1-2 FT / PT ratio
	S1-3 Gender distribution
	S1-4 Nationality distribution
S2 - Diversity & Inclusion	S2-1 Diversity policies
	S2-2 Gender distribution in number and percentage at top management level amongst its employees.
	S2-3 Distribution of employees by age group: under 30 years old, 30–50 years old; over 50 years old.
	S2-4 Percentage of employees with disabilities
S3 - Work–Life Balance	S3-1 Percentage of employees entitled to take family-related leave
	S3-2 Percentage of employees that took family-related leave, and a breakdown by gender
	S3-3 Extra hours the employees work per year
	S3-4 Policies regarding keeping balance between work and personal life (on-call/standby policies)

S4 - Training and Skills Development	S4-1 Percentage of employees that participated in regular performance and career development reviews, by employee category and gender S4-2 Average number of training hours per employee, by employee category and by gender.
S5 – Social Protection	S5-1 Percentage of employees covered by social protection, through public programmes or through benefits offered by the SME, against loss of income due to any of the following life events: (a) sickness; (b) unemployment; (c) employment injury and resulting disability; (d) maternity leave; and (e) retirement.

Table 6. Core Social Disclosures for SMEs

Table 6 outlines the essential social indicators for SMEs, along with proposed methodologies for calculation and recording, offering a comprehensive view of a company's performance within the social pillar:

S1 - Characteristics of SME Employees: This indicator focuses on understanding the composition of the SME's workforce. It includes the number of employees over a three-year span, the full-time to part-time employee ratio, gender distribution, and nationality distribution. These indicators provide valuable insights into the size and diversity of the SME's workforce, contributing to workforce planning and diversity strategies.

S2 - Diversity & Inclusion indicators: These indicators gauge the SME's commitment to fostering a diverse and inclusive work environment. It includes the presence of diversity policies, gender distribution at the top management level, and the distribution of employees by age group. Additionally, it measures the percentage of employees with disabilities, highlighting the SME's efforts in promoting equal opportunities and inclusivity across various dimensions.

S3 – Work–Life Balance: This indicator focuses on the SME's efforts to support employees in maintaining a healthy balance between work and personal life. It includes the percentage of employees entitled to take family-related leave, the proportion of employees who took such leave, and their breakdown by gender. It also considers the number of extra hours employees work per year and the policies to promote work–life balance, such as on-call or standby policies.

S4 - Training and Skills Development: These indicators assess the SME's investment in enhancing employee capabilities and career growth. It includes the percentage of employees participating in regular performance and career development reviews, broken down by employee category and gender. The average number of training hours per person, categorised by employee type and gender, highlights the SME's commitment to continuous learning and employee development.

S5 - Social Protection: This metric evaluates the extent to which the SME provides support to employees against income loss due to life events. It includes the percentage of employees covered by social protection programmes, whether through public programmes or benefits offered by the company, for events such as sickness, unemployment, employment injury, maternity leave, and retirement. This indicator reflects the extent to which the SME provides a safety net for employees.

Voluntary Social Disclosures	Calculation/Analysis
S6 - Employee Engagement	S6-1 Average employee length of tenure measured through employee questionnaire
S7 - Employee Health and Safety	S7-1 Measures taken to protect health and safety such as certifications regarding health and safety at work.
S8 – Customer Data Protection and Privacy	S8-1 Evaluation of SME's adherence to data protection policies
S9 – Community Engagement and Support	S9-1 Number of community projects S9-2 Number of volunteering efforts (hrs of employee volunteering) S9-3 Support to community development programmes
S10 – Employee Compensation	S10-1 Male-female pay gap S10-2 Ratio of the annual total compensation ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest-paid individual)
S11 - Customer Satisfaction and Loyalty	S11-1 Percentage of satisfied customers S11-2 Percentage of returning customers

Table 7. Voluntary Social Disclosures for SMEs

Table 7 outlines voluntary social indicators for SMEs, along with proposed methodologies for calculation and analysis. These indicators provide valuable insights into various aspects of the SME's social performance:

S6 – Employee Engagement: Employee engagement measures the level of emotional connection, involvement, and commitment that employees have towards their work and the organisation. The SME conducts regular questionnaires or surveys to gather feedback from employees, assessing their job satisfaction, motivation, sense of belonging, and overall commitment to the company. A high employee engagement score reflects a positive work environment, where employees are motivated, satisfied, and contributing their best efforts.

S7 - Employee Health and Safety: This indicator focuses on the SME's efforts to protect employees' wellbeing and ensure a safe working environment. The SME can implement various health and safety measures, such as risk assessments, safety training, and emergency response procedures. It may also hold certifications indicating compliance with relevant health and safety regulations. The goal is to prevent work-related accidents, injuries, and illnesses, fostering a safe and secure work environment for all employees.

S8 - Customer Data Protection and Privacy: This indicator assesses the SME's commitment to protecting customer data and maintaining data privacy. The SME must ensure compliance with data protection policies and relevant regulations while handling customer data. Transparent communication about data collection practices and customer consent mechanisms are essential components of customer data protection and privacy. By safeguarding customer data, the SME can build trust with customers and demonstrate responsible data management practices.

S9 - Community Engagement and Support: This indicator measures the SME's involvement and contributions to the local community. The SME should actively engage with the community through social initiatives, charitable donations, volunteering efforts by employees, and partnerships with local organisations. It can also support community development programmes, such as education, environmental conservation, healthcare initiatives, and infrastructure development.

S10 - Employee Compensation: This indicator assesses the SME's approach to rewarding and retaining its employees. The SME can address pay equity by monitoring and reducing the gender pay gap, ensuring fair and equal pay for equivalent roles and performance. *Total compensation* reflects the overall remuneration and benefits provided to employees, including base salary, bonuses, incentives, and other benefits.

S11 - Customer Satisfaction and Loyalty: Customer satisfaction measures the level of satisfaction that customers have with the SME's products, services, and overall customer experience. The SME can collect feedback from customers through surveys or assessments, using a satisfaction rating scale. Customer loyalty reflects the extent to which customers prefer the SME's products or services over competitors. It is measured through customer retention rates and repeat purchases.

7. Governance Indicators

Following the exploration of social indicators, the focus now turns to governance disclosures, where companies are expected to detail their administrative, managerial, and supervisory structures, including roles, responsibilities, and expertise relevant to sustainability. Current standards lack specific criteria for evaluating knowledge and skills in sustainability matters.

Companies should begin by providing disclosures concerning their governance structures, encompassing administrative, managerial, and supervisory bodies, in their reports. Within this framework, it is essential to encompass roles, duties, expertise, and proficiencies pertinent to sustainability. It is worth noting that there are no specific criteria for the knowledge and skills pertinent to sustainability subjects.

Reports addressing sustainability matters typically aim to shed light on the leadership team, oversight personnel, and entities that wield authoritative influence, as well as on how inclusive these are.

Table 8 below outlines several fundamental indicators associated with the governance aspect of SMEs.

Core Governance Disclosures	Calculation/Analysis
G1 - Board Diversity and Independence	G1-1 Composition of the Board (gender, nationality, skills, expertise) G1-2 Percentage of independent directors
G2 - Corporate Governance Policy Adherence	G2-1 Key corporate governance policies (code of conduct /ethics, anti-corruption, internal audit, risk management, protection of whistleblowers)

Table 8. Core Governance Indicators for SMEs.

Table 8 outlines the core governance indicators for SMEs, along with methodologies for calculation and analysis. These indicators provide valuable insights into various aspects of the SME's governance:

G1 - Board Diversity and Independence: This indicator focuses on the composition of the SME's board of directors, assessing elements such as gender representation, nationality diversity, and the range of skills and expertise among board members. This index recognises the importance of a well-rounded board that reflects a diverse array of backgrounds and competencies, contributing to effective decision-making and strategic guidance. Independent directors are those who do not have significant financial or personal relationships with the company, and the percentage of such directors provides insight into the level of objective oversight and impartial judgment within the boardroom, reinforcing transparency, accountability, and good corporate governance practices.

G2 - Corporate Governance Policy Adherence: This index evaluates the SME's commitment to upholding corporate governance policies that serve as guiding principles for ethical behaviour, risk management, internal oversight, and transparency within the organisation. The index emphasises adherence to policies relating to code of conduct/ethics, anti-corruption, internal audit, risk management, protection of whistleblowers.

Together, these governance indices provide stakeholders with a comprehensive view of the SME's commitment to transparent and ethical governance.

Voluntary Governance Disclosures	Calculation/Analysis
G3 - Supplier Relationship Management and Sustainability Strategy	G3-1 SME's approach to supplier relationships G3-2 Percentage of SME's suppliers adhering to environmental and social criteria / standards.
G4 - Performance-Linked Executive Compensation Ratio	G4-1 Percentage of an executive's total compensation that is variable and tied to performance metrics
G5 – Stakeholder Engagement	G5-1 Customer satisfaction G5-2 Employee satisfaction G5-3 Community engagement

Table 9. Voluntary Governance Disclosures for SMEs

Table 9 outlines voluntary governance indicators for SMEs, along with methodologies for calculation and analysis. These indicators offer insights into various dimensions of the SME's governance practices:

G3 - Supplier Relationship Management and Sustainability Strategy: This indicator records SMEs' relationships with its network of suppliers. This index delves into the intricacies of SMEs' supplier interactions, unveiling the strategies, policies, and practices that are created to not only ensure fair conduct but to also champion sustainable procurement processes. By elaborating on its approach, an SME presents the strategy for ethical supplier relationships. In tandem, the percentage of SMEs' suppliers adhering to environmental and social criteria/standards emerges as a quantifiable reflection of SMEs' alignment with its suppliers on matters of environmental stewardship and social responsibility. This percentage encapsulates the extent to which SME's partners are committed to sustainability, ethical conduct, and responsible business practices.

G4 - Performance-Linked Executive Compensation Ratio: This indicator focuses on the alignment between an executive's total compensation and the company's performance. It calculates the percentage of an executive's compensation that is variable and linked to performance metrics such as financial targets, strategic objectives, or sustainability goals. By quantifying this linkage, the index shows the extent to which SMEs' reward executives based on their contributions to the organisation.

G5 – Stakeholder Engagement: Stakeholder engagement can shape organisational ethos. Three key indicators serve as barometers here: The *Customer satisfaction* index provides a window into the degree of contentment among its valued customers. The *Employee satisfaction* index, on the other hand, reveals the job contentment and engagement levels of its workforce. Meanwhile, the *Community engagement* score encapsulates SMEs' active involvement in local communities. These indices collectively refer to an SME's approach to stakeholder relationships.

These governance-related indices provide a comprehensive perspective on the SMEs' supplier relationships, executive compensation practices, and engagement with various stakeholders. By quantifying these aspects and providing descriptive insights, SMEs can showcase their commitment to sustainable business practices, transparency, and responsible governance.

8. Results and Discussion

The framework for ESG reports is currently vague, give that companies remain unsure of how to create ESG reports aligned with legal and regulatory requirements. The present study found significant variation in the content of the most widespread ESG reporting frameworks, including in terms of complexity. The comparison exercise carried out in this research was used propose a new ESG reporting template.

The study also highlighted the low degree of maturity of SMEs in Greece and Cyprus regarding the preparation of ESG reports. The challenge and the importance of implementing a commonly accepted ESG reporting template is heightened by the fact SMEs represent the largest percentage of enterprises in Greece and Cyprus.

The European Commission recently announced a plan to delay the adoption of requirements for companies to provide sector-specific sustainability disclosures and for sustainability reporting from companies that are not based in EU. So, ESG reporting schemes might remain unclear for the upcoming years. Nevertheless, current legislation makes mandatory the ESG reporting for large companies meeting at least two out of three criteria: more than 250 employees, and/or more than EUR 40M turnover, and/or more that EUR 20M total assets. Also, the CSRD affects companies based in the EU, where SMEs get a three-year extension to comply.

SMEs will thus need to fulfil their legal responsibilities in the upcoming years; in fact, the laws may become more expansive during this time. This is because reports on how businesses are performing in the ESG pillars are becoming increasingly significant for all parties involved.

The study also demonstrates that preparing ESG reports is a labour-intensive process for SMEs: At least during the first few years of operation, it necessitates the presence of qualified executives who can improve the ability of businesses to gauge their performance in the ESG pillars. Given that there are independent consultants who can create the reports, these executives do not necessarily need to be employed on a permanent basis in a corporation.

Another important result that emerges from this study is the fact that SMEs should collect the required data for the calculation of ESG indicators on a long-term basis. For this reason, this template is also accompanied by a guide in a spreadsheet, where the required data that companies need to calculate ESG indicators is analysed. It is important that this data is collected on a longitudinal basis and for at least three years to provide a comparative picture to the consumers of the reports.

The study's focus on Greece and Cyprus highlights the specific challenges and practices of SMEs operating within these regions, particularly in aligning with local ESG reporting standards and sustainability expectations. While this regional focus may limit the generalisability of the findings, it underscores the broader lesson that SMEs, regardless of geography, must tailor their ESG practices to the unique demands of their operating environments. By emphasising the importance of consistent and reliable data, the study provides insights that transcend national boundaries, offering a framework for SMEs worldwide to enhance transparency and credibility in their sustainability disclosures.

9. Future Research

Future research efforts focused on ESG reporting should emphasise practical implications that enhance reporting effectiveness at a reasonable cost for businesses. Particularly, there is a need for research that explores the practical application of ESG reporting templates, evaluating the associated costs, challenges, and overall effectiveness for SMEs. Conducting comparative studies across additional EU countries can broaden the understanding and applicability of these templates.

Furthermore, EFRAG's publication of a draft set of voluntary sustainability reporting standards for non-listed SMEs (VSME)[35] presents a compelling avenue for investigation. Exploring these standards alongside this paper's proposed reporting template could provide valuable insights into enhancing sustainability reporting practices among SMEs.

Another potential area for future research involves implementing the proposed ESG reporting template in SMEs to assess its practicality, identify barriers, and evaluate its effectiveness. This research could provide valuable insights into the challenges faced by SMEs in adopting and implementing structured ESG reporting frameworks, shedding light on practical adjustments needed for successful integration.

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