Getting Started on Environmental, Social, and Governance and Sustainability for Small and Medium-sized Enterprises

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Asian Productivity Organization

The Asian Productivity Organization (APO) is an intergovernmental organization that promotes productivity as a key enabler for socioeconomic development and organizational and enterprise growth. It promotes productivity improvement tools, techniques, and methodologies; supports the national productivity organizations of its members; conducts research on productivity trends; and disseminates productivity information, analyses, and data. The APO was established in 1961 and comprises 21 members.

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PREFACE

The Productivity Insights (P-Insights) series is an extension of the Productivity Talk (P-Talk) series, which is a flagship program under the APO Secretariat's digital information initiative. Originally designed to maximize the full potential of the APO's digital outreach, the interactive, livestreamed P-Talks bring together practitioners, experts, policymakers, and ordinary citizens from all walks of life with a passion for productivity to share their experiences, views, and practical tips on productivity improvement.

With speakers from every corner of the world, the P-Talks effectively convey productivity information to APO members and beyond. However, it was recognized that many of the P-Talk speakers had much more to offer beyond the 60-minute presentations and Q&A sessions that are the hallmarks of the series. To take full advantage of their broad knowledge and expertise, the APO invites some to elaborate on their P-Talks, resulting in this publication. It is hoped that the P-Insights series will give readers a deeper understanding of the practices and applications of productivity.

INTRODUCTION

In the 21st century, the business world has been undergoing a profound transformation. The traditional focus on financial performance is being complemented, and in some cases overtaken, by a growing emphasis on environmental, social, and governance (ESG) factors. While large multinational corporations have led the charge in sustainability reporting, small and medium-sized enterprises (SMEs) are now increasingly in the spotlight. For SMEs, sustainability reporting is not just a compliance requirement; it is a strategic imperative that can unlock new opportunities, drive innovation, and ensure long-term resilience.

This publication explores the unique challenges SMEs face in sustainability reporting, the compelling business case for embracing ESG practices, and practical steps for starting and advancing on the sustainability journey. Drawing on insights from the Productivity Talk "Getting Started on ESG and Sustainability for SMEs" (APO, 2024) and broader industry best practices, it aims to serve as a comprehensive guide for SME leaders, policymakers, and stakeholders.

A Brief History of Sustainability Reporting

The practice of sustainability reporting has evolved significantly over the past few decades. Initially, it began as a voluntary effort among pioneering companies to share information about their social and environmental impact. Over time, what started as isolated disclosures by organizations in industries like energy, chemicals, and manufacturing gradually developed into a broader movement, with more businesses recognizing the importance of transparency regarding their environmental and social responsibilities.

As sustainability reporting gained traction, it expanded beyond its early roots in Europe and North America, where companies first experimented with nonfinancial reporting. These early initiatives laid the groundwork for more formalized approaches, particularly in larger organizations, eventually leading to the creation of some globally recognized frameworks that helped standardize how organizations in some, but not all, industries and businesses communicate their ESG performance.

Today, sustainability reporting has become an essential aspect of doing business, particularly in the Asia-Pacific region. For members of the APO, adopting sustainability reporting is not just about meeting regulatory requirements; it is also a strategic tool that supports productivity, innovation, and inclusive growth. By openly sharing their ESG and sustainability practices, organizations demonstrate their commitment to responsible business conduct and build trust with stakeholders.

The APO's ongoing initiatives, such as Green Productivity 2.0, highlight the organization's dedication to integrating environmental stewardship with productivity gains. As the regulatory landscape for sustainability reporting continues to evolve across the Asia-Pacific, there is a clear trend toward greater transparency and accountability. However, the pace and approach to implementation can vary widely from country to country, reflecting different regulatory environments and reporting cultures. For many organizations, especially SMEs, embracing sustainability reporting brings tangible benefits beyond compliance. It can lead to improved operational efficiency, cost savings, and the creation of long-term value. Additionally, by embedding sustainability into their reporting practices, APO members are better positioned to achieve their productivity objectives while making meaningful contributions to the region's sustainable development. Despite all this, there are still many smaller organizations that have not yet initiated their sustainability journey in any way, whether small or significant.

The Evolving Business Landscape and the Global Shift toward Better Business

Over the past two decades, sustainability has evolved from a niche concern to a mainstream business priority. Amid technological advancement, increased connectivity, unequal wealth distribution, resource scarcity, climate change, social inequality, and increasing regulatory scrutiny, a new operating environment has emerged where businesses are expected to account for their impacts on people and the planet. These shifts are being driven by a diverse set of stakeholders, including regulators, investors, customers, employees, and civil society organizations. More recently, geopolitical tensions and social polarization have compounded the feelings of uncertainty about what the future holds and how well society (and therefore business) can remain constant and stable through it all.

With so much to consider, it is no surprise that having visibility over global resources, supply chains, and impacts, both positive and negative, has become more important than ever before. While the essentials of some of these topics and concepts are widely known, when it comes to the details of sustainability reporting, there is still significant variability and inconsistency as well as confusion and, in some cases, ambivalence. The lack of clarity due to evolving and varied requirements and the complexity of both business and regulation also makes it difficult for organizations to know where to start.

This publication aims to support those who may not necessarily need to start their sustainability reporting but are interested in doing so, or those who are uncertain about the needs and benefits that can be realized by initiating this process. It examines the evolving business landscape, sustainability and ESG, drivers of sustainability and ESG, key challenges for SMEs, and why sustainability reporting matters for SMEs. It also provides practical tips for beginning the journey.

SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

What Is Environmental, Social, and Governance?

ESG stands for environmental, social, and governance, and it is a framework used to evaluate how responsibly a business operates in these three areas. While ESG is related to the broader concept of sustainability, it focuses specifically on measurable standards that assess a company's ethical and societal impact.

The ESG approach involves looking at a range of indicators, such as how a company manages its environmental responsibilities, treats its employees and communities, and structures its leadership and oversight. Examples of ESG considerations include efforts to reduce pollution, promote workplace diversity, ensure fair labor practices, and maintain transparent corporate governance.

Traditionally, investors have relied on ESG data to help guide their investment choices, aiming to identify companies that are not only financially sound but also mindful of their broader impact. However, the use of ESG principles is expanding. Many organizations now incorporate ESG factors into their daily operations, decision-making, and supplier selection, ensuring that ethical and sustainable practices are embedded throughout the organization.

In essence, ESG provides a practical set of guidelines and metrics for companies and stakeholders to evaluate and improve their performance in ways that support both business success and positive contributions to society and the environment.

What Is Sustainability?

Sustainability is the idea of meeting our present needs without undermining the ability of future generations to meet theirs. It is about making thoughtful choices that protect natural resources, support healthy communities, and foster long-term economic stability.

At its heart, sustainability involves three interconnected areas: caring for the environment, promoting social well-being, and ensuring economic health. This means using resources like water, energy, and raw materials wisely so they remain available in the future. It also means creating opportunities for people to live well, work safely, and participate in fair and inclusive societies. Sustainable actions include but are not limited to efforts to reduce waste, conserve energy, support local communities, and develop products and services that are both profitable and responsible. The goal is to create systems and lifestyles that allow both people and the planet to thrive together, now and for years to come.

In essence, sustainability (as opposed to ESG) is about broad decisions and ways of seeing the world that seek to benefit the environment, society, and the economy all at once, paving the way for a healthier, more balanced future. ESG and sustainability are often used interchangeably. Although in some cases it is important to distinguish between them (especially if claims are being made about performance related to them), the key to both is making purposeful decisions and taking concrete actions that lead to increased positive outcomes and decreased negative impacts.

DRIVERS

Regulatory and Market Drivers

Currently, several global and regional regulations are pushing companies of various sizes to disclose their ESG performance. These regulations have a "trickle-down" effect in impact and supply chain transparency. The EU's corporate sustainability reporting directive (European Parliament & Council of the European Union, 2022), for example, will soon require thousands of companies, including non-EU companies with significant operations in Europe, to publish detailed sustainability reports. Similar trends are emerging in Asia, North America, and beyond. At the same time, large corporations are extending ESG requirements to their suppliers, many of whom are SMEs. This trickle-down effect means that even companies not directly subject to regulations may find themselves needing to report on sustainability to maintain business relationships, access new markets, or gain acceptance in corporate procurement requirements.

Stakeholder Expectations

Aside from regulatory demands, stakeholder expectations can be a key driver. In some cases, influential board members or collective groups of shareholders who are sympathetic to environmental and sustainable causes may utilize their positions to shape how organizations approach their sustainability or ESG efforts. Investors are integrating ESG factors into their risk assessments and investment strategies, and many financial institutions are also requiring those taking out loans to disclose specific information that may affect their risk profile. Furthermore, employees, especially younger generations, are seeking purpose- and mission-driven employers, and consumers are increasingly making purchasing decisions based directly or indirectly on sustainability credentials, supply chain transparency, and the impacts of the product, service, or business model.

In this context, sustainability reporting is not just about compliance; it is about meeting the evolving expectations of key stakeholders. However, while larger organizations have been forced to adopt or comply with some of these measures and meet such needs, SMEs and smaller organizations are yet to become a significant group (in terms of number reporting) in sustainability reporting initiatives.

KEY CHALLENGES

The APO has long recognized environmental sustainability as an economic and competitive advantage. From as far back as the 1990s, the APO has been guided by Green Productivity "in enhancing economic prosperity, productivity growth, and environmental performance" for its member economies (Lin, 2024). However, it was not until recently that a significant and somewhat coordinated global movement began driving businesses to take the important step of sustainability reporting, which can lead to better business on many fronts. Although many large organizations have already implemented or adhered to these requirements, most SMEs and other small businesses have yet to take meaningful steps toward sustainability reporting, as reflected by their relatively low participation rates.

While there has been increasing dialogue on, regulatory pressure regarding, and interest in sustainability reporting from various stakeholders within the global business landscape, barriers to starting sustainability reporting persist, particularly for smaller companies or less regulated industries. Table 1 lists some of the key challenges and barriers organizations may face when starting this process.

TABLE 1

KEY CHALLENGES AND BARRIERS RELATED TO SUSTAINABILITY REPORTING.

Barrier/Challenge	Explanation
Resource constraints of the business	Limited budget and manpower for reporting activities. Since this is the beginning of the journey, benefits may not be fully realized if nothing more is done beyond the generation of a report.
Lack of expertise regarding where to start or how to carry it out	Insufficient knowledge and absence of sustainability specialists.
Complex standards across industries and geographies	Multiple fragmented frameworks and lack of appropriate or specific guidance for small and medium-sized enterprises.
Data collection issues	Difficulty in gathering and managing relevant sustainability data.
High up-front and ongoing costs	Financial burden of implementing and maintaining reporting systems.

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Barrier/Challenge	Explanation
Reputational risk	Fear of criticism, scrutiny, and accusations of greenwashing or exaggerated claims from regulators, customers, and other key stakeholders.
Perceived lack of incentives to start and not realizing reporting can drive change	Unclear business benefits and the voluntary nature of reporting. Reporting is seen as a compliance task, not a tool for internal improvement or innovation. Businesses may not see how reporting can lead to cost savings, new markets, or efficiency.
Difficulty integrating into business models	Sustainability remains peripheral, not embedded in strategy or daily operations. Many have been used to a separate corporate social responsibility approach, which is decoupled from their actual or core business.
Cultural and organizational barriers	Change can be a barrier for any organization.

Source: Author.

The reporting landscape for SMEs in particular is still very much evolving, and most of the focus has been on large multinationals and publicly listed companies with significant global presence and impact having their reporting processes and outputs in place. Many large firms have already had to participate in the various mandates or regulatory requirements, either because they are subject to scrutiny within the jurisdictions in which they operate, because of their size and reach through their business operations and footprint, or due to industry regulations.

Over the last 10–15 years, a number of countries in Asia have started requiring publicly listed companies to report some level of information with regard to sustainability or recommending reporting on a voluntary basis. Some examples are listed below.

Singapore: Sustainability reporting was introduced to companies listed on the Singapore Exchange on a voluntary basis in 2011 and was made mandatory in 2016, with the description of the primary components on a "comply or explain" basis (Allen & Gledhill, 2024).

Pakistan: The Securities and Exchange Commission of Pakistan introduced two important initiatives that marked the start of formal corporate social responsibility (CSR) and sustainability disclosure in Pakistan by public companies, laying the groundwork for later, more comprehensive ESG and sustainability reporting frameworks.

- The Companies (Corporate Social Responsibility) General Order, 2009, outlined mandatory descriptive and monetary CSR disclosures in directors' reports (Securities and Exchange Commission of Pakistan, 2009).
- The *Corporate Social Responsibility Voluntary Guidelines 2013* were guidelines for voluntary structured CSR reporting, transparency, and independent assurance (Securities and Exchange Commission of Pakistan, 2013).

Vietnam: In 2016, Circular No. 155/2015/TT-BTC came into effect, introducing mandatory social and environmental disclosure for all companies listed on the Vietnam stock exchange (Pham et al., 2019).

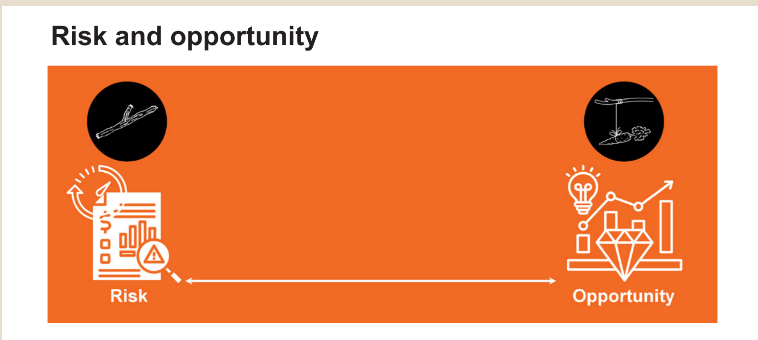
These are just some of the earlier signals and efforts that have been made within the Asia-Pacific region to move the business ecosystem toward more transparent and sustainability-driven action.

GETTING STARTED: WHY SUSTAINABILITY REPORTING MATTERS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Sustainability reporting has significant strategic value for SMEs beyond compliance, and the business case for the practice is multifaceted. While regulatory compliance is a key driver, the benefits extend far beyond avoiding penalties or securing contracts. Many businesses start off by viewing sustainability reporting as a risk management issue and, therefore, a cost, but the longer-term view and idea of value creation sees sustainability as an investment and opportunity. These two perspectives function as “stick” and “carrot” motivators, respectively (see Figure 1).

FIGURE 1

A PERSPECTIVE ON SUSTAINABILITY REPORTING: RISK VERSUS OPPORTUNITY.



Source: Author.

Sustainability reporting can also have the following effects:

- Enhance operational efficiency and reduce costs
- Strengthen brand reputation and customer loyalty
- Attract and retain top talent
- Improve access to finance and investment
- Build resilience against environmental and social risks
- Drive innovation and open new markets

Given the potential benefits, some may wonder why it can be difficult to get started. But the challenges must be considered as well as the benefits: SMEs face a number of obstacles that may make starting less straightforward.

The key to addressing many of these barriers may lie in adopting a simple time horizon to allow time for changes to take effect and to appreciate the long-term benefits sustainability reporting can bring. The effects of sustainability reporting are not immediate, which can be a barrier for some organizations. Small organizations are often focused on dealing with urgent issues and their immediate needs to keep their business afloat. SMEs should treat reporting as a starting point, like a health check for the organization, to gain better visibility of both obvious and latent issues that may emerge in the short, medium, and long term, as well as opportunities to create competitive advantages. SMEs can start with reporting, then move toward making improvements, and then start thinking about real innovation.

Thinking about sustainability reporting before it is mandatory may be more favorable than many businesses realize. By starting sustainability reporting (which includes selecting and becoming familiar with frameworks and reporting requirements, gathering data, engaging stakeholders, and finding management tools and technologies), businesses benefit from being prepared for the impending requirements of reporting. Being well prepared is a strategic advantage, and many of the potential benefits of reporting are common across business transformation efforts in general. In the context of strategic change, but especially the commercial environment, it is worth looking and planning ahead.

Both the regulatory case and the business case for integrating ESG- and sustainability-related factors into decision-making and action strategies are becoming increasingly obvious and important. Governments and regulators are also gradually introducing requirements that will progressively move SMEs toward disclosing more information about their sustainability efforts or business performance that is connected to their sustainability efforts or unsustainable practices. Given the complexity of supply chains and business operations, being well prepared is the best strategy for a gradual and sustained transition.

In addition, we are reminded on a daily basis of the realities that we must address and that originate from interconnected and interdependent problems and supply chains (including both physical and digital networks). One might argue that these global challenges, which have their roots in multiple factors, many of which are positive for civilization, are linked to vast improvements for the human condition: increased life expectancy, economic growth, and affluence; urbanization; agricultural intensification; and technological advancement.

Unfortunately, a large proportion of the cascading effects of these problems are less positive, and there could be said to be a trade-off between these improvements and the negative impacts on ecological, environmental, or social sustainability. There is no single cause, but rather multiple contributing variables manifesting as climate change, biodiversity loss, ecological habitat destruction, natural resource depletion and destruction, pollution, and so on, not to mention the social issues that often go hand in hand: rising inequality and healthcare costs, social exclusion, food insecurity, mental health issues, job displacement, and the erosion of traditional social structures and values-driven behavior and decision-making, to name but a few. These all affect businesses and their ability to supply and create economic value. None of these are overnight impacts; they take time to emerge, but understanding how they affect businesses across different time horizons means that organizations are more likely to be able to respond effectively to any imminent risks and opportunities.

Alongside these realities for businesses, particularly those that depend directly on natural and social capital, which one could argue is more or less all businesses, starting the reporting journey early means having some choice and time to refine their approach and to build the internal capability and capacity to respond in a way that is organized and builds resilience. Taking stock of what your business requires to successfully operate, evaluating the risks it could face, exploring opportunities, and considering alternatives for improvement is never a bad idea.

While there can be variation across industries, geographies, and business types, there are some common or generally accepted processes and steps that support report creation. An overview of these is outlined below.

A Brief Overview of the Reporting Process

1. Understanding and aligning strategic intent

a. Begin by clarifying why sustainability matters for the organization, aligning sustainability goals with core business objectives and values, not just compliance or risk management.
b. Engage leadership and stakeholders early to ensure buy-in and shared vision.

2. Mapping and engaging stakeholders

a. Identify internal and external stakeholders, including employees, customers, suppliers, and communities.
b. Conduct materiality assessments to determine which sustainability issues are most relevant to the business and stakeholders.

3. Assessing the current state and setting baselines

a. Gather data on current practices, impacts, and performance across ESG areas.
b. Use existing tools, platforms, and frameworks to establish a baseline for improvement.

4. Selecting frameworks and tools

a. Choose appropriate reporting frameworks based on the organization's context and stakeholder needs.
b. Leverage digital tools and technology to streamline data collection and reporting.

5. Setting targets and developing action plans

a. Define clear, measurable sustainability targets aligned with both business strategy and stakeholder expectations.
b. Develop action plans with defined responsibilities, timelines, and resources.

6. Implementing and integrating

a. Embed sustainability into daily operations, decision-making processes, and company culture.
b. Foster cross-functional collaboration to drive initiatives and ensure accountability.

7. Monitoring, measuring, and reporting

a. Continuously track progress against targets using key performance indicators.
b. Prepare regular sustainability reports that are transparent, balanced, and accessible to stakeholders.

8. Reviewing, learning, and adapting

a. Use reporting outcomes to identify successes and areas for improvement.
b. Encourage feedback, learning, and adaptation to refine strategies and increase resilience over time.

While these steps appear simple, there is undoubtedly a significant amount of work required to actually create a report. In the absence of specific and regulatory guidance or requirements, these steps provide organizations with a starting point and a process to follow.

The next section focuses on a number of challenges SMEs in particular face, but often the overarching initial factor for those who are not mandated to report is deciding how to start reporting. In this context, “how to start” refers to building logic around which framework or standard (if any) to follow or what key performance indicators and metrics to measure and report data on (see Figure 2). This can be guided by engaging key stakeholders; SMEs can start voluntary sustainability reporting by considering what matters most to their business and stakeholders, even without formal guidance.

FIGURE 2

STEPS TO BUILD LOGIC WHERE NO CLEAR DIRECTION IS PROVIDED FOR VOLUNTARY REPORTING.

Note: These steps do not necessarily need to be followed in the depicted order. They can be adjusted as required to the needs of individual businesses.

Source: Author.

Identifying who the main stakeholders are, such as employees, customers, suppliers, and local communities, and finding out what matters most to these groups by using simple methods like informal conversations, short surveys, or small group discussions can be a manageable starting point. Gathering this feedback will help the business focus its reporting on the most important environmental and social topics. By keeping communication open and straightforward, SMEs can ensure their reports are relevant, practical, and easy to understand by all, including themselves. By starting small and building on efforts over time, businesses can create meaningful reports that support transparency and continuous improvement. To this end, SMEs should first focus on collecting and sharing clear, relevant information about their environmental and social impacts using a simple and flexible approach that matches their resources.

SPECIFIC CHALLENGES FACING SMALL AND MEDIUM-SIZED ENTERPRISES

Table 1 of this Productivity Insights report outlined a number of challenges SMEs face when getting started with sustainability reporting. These are expanded upon in further detail in this section, along with some high-level ideas of how to address them. While organizations of all sizes will usually experience some difficulties, some challenges are generally more common for small businesses and teams.

Resource Constraints

Unlike large corporations, SMEs often operate with limited financial and human resources. Many lack dedicated sustainability or compliance teams, making it challenging to allocate time and expertise to ESG initiatives. The costs associated with data collection, reporting, and verification can be prohibitive, especially for micro and small enterprises.

Tip: Start small by focusing on the most important topics for the business and stakeholders. Use free or low-cost digital tools to simplify data collection and reporting. Seek support from trade associations, local business groups, or government SME programs, which often provide templates, training, or advisory services.

Lack of Expertise, Knowledge, and Capacity

Sustainability reporting is a complex and evolving field. Many SMEs are unfamiliar with reporting frameworks, terminology, and best practices. This knowledge gap can lead to confusion, inefficiency, and even resistance to change. In some cases, SME leaders may perceive sustainability as a distraction from core business activities or as an added burden rather than an opportunity.

Tip: Invest in basic staff training through online courses or workshops and consider partnering with external consultants or industry organizations for guidance and capacity building. Peer learning with other SMEs can also help share knowledge and reduce the learning curve.

Complexity of Reporting Frameworks, Standards, and Disclosures

Most established sustainability reporting standards, such as the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the Task Force on Climate-related Financial Disclosures, are designed with large, multinational corporations in mind. They can be highly technical, resource-intensive, and difficult to adapt to the scale and context of SMEs. Although more SME-friendly ones do exist and are continuously being developed, even the selection process may not be straightforward. See Table 2 for information on the differences between frameworks, standards, disclosures, and certifications.

Tip: Don't try to adopt complex standards all at once; instead, use simplified, SME-friendly frameworks or guidance provided by sector bodies or local initiatives. Focus on reporting what is most relevant and manageable for the business.

TABLE 2

FRAMEWORKS, DISCLOSURES, STANDARDS, AND CERTIFICATIONS: WHAT ARE THE DIFFERENCES?

Reporting Frameworks	Disclosures	Standards	Certifications
Frameworks provide a structure or guideline for how organizations should report their sustainability information.	"Disclosures" refers to the actual information that companies share about their sustainability performance.	Standards are more specific and prescriptive than frameworks.	Certifications are third-party verifications that an organization meets specific sustainability criteria.

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Reporting Frameworks	Disclosures	Standards	Certifications
• A broad outline for sustainability reporting • Guidance on what to report and how to present information • Flexibility in implementation	• The specific data points, metrics, and narratives reported • Can be mandatory or voluntary • Often align with frameworks or standards but can also be company specific	• Provide detailed requirements for measuring, managing, and reporting sustainability information • Often focus on specific sustainability topics or industries • Aim to ensure consistency and comparability in reporting	• Provide external validation of sustainability practices or performance • Often require audits or assessments • Can apply to products, processes, or entire organizations
Examples: Global Reporting Initiative, Integrated Reporting, and Sustainability Accounting Standards Board.	Examples: Greenhouse gas emissions data, diversity statistics, water usage metrics, and sustainability certifications.	Examples: ISO 14001 for environmental management systems and SA8000 for social accountability.	Examples: LEED certification for buildings and fair trade certification for products.

Note: This is a guide. These categorizations are not mutually exclusive nor collectively exhaustive.
Source: Author.

Materiality and Relevance

Determining which ESG topics are material or most significant to the business and its stakeholders can be particularly challenging for SMEs. Without clear guidance, there is a risk of focusing on irrelevant metrics or missing key issues that matter to customers, employees, or regulators. This can result in reports that are either too superficial or lack meaningful logic.

Tip: Engage with key stakeholders, such as customers, suppliers, and employees, using simple surveys or informal discussions to identify which sustainability topics matter most, and prioritize these in reporting.

Data Collection and Management Issues

Collecting reliable ESG data can be a daunting task for SMEs, especially those with limited digital infrastructure or dispersed operations. Data quality, consistency, and verification are common challenges. In many cases, SMEs may not have established processes for tracking environmental impacts, social outcomes, or governance practices.

Tip: Begin by mapping existing and easily collectable data; use spreadsheets or basic digital platforms before investing in more advanced systems. Gradually improve data quality and processes over time.

High Up-front and Ongoing Costs

SMEs often face significant financial barriers when embarking on sustainability reporting. The initial investments in data collection systems, staff training, and external consultancy can be substantial, and ongoing costs for maintaining and updating reports add further strain. Unlike larger corporations, SMEs may lack the economies of scale or dedicated sustainability teams to absorb these expenses, making it difficult to justify the investment without clear short-term returns.

Tip: Adopt a modular approach to sustainability reporting: start with a few key metrics that matter most to the business, then gradually expand as resources allow. By building reporting in stages, costs can be better controlled and the business can adapt to new requirements and position itself ahead of future regulations and market trends.

Reputational Risk

Sustainability reporting exposes SMEs to reputational risks if their disclosures reveal shortcomings or if they fail to meet stakeholder expectations. Inaccurate, incomplete, or inconsistent reporting can erode trust among customers, partners, and investors. Additionally, as supply chain transparency becomes more important, SMEs risk losing business opportunities if their sustainability performance does not align with the standards of larger clients or industry peers.

Tip: Demonstrate transparency and honesty about progress and challenges. Only report what can be supported with data and avoid exaggerated claims. Expect trust and credibility to take time to build.

Perceived Lack of Incentives to Start and Not Realizing Reporting Can Drive Change

Many SMEs view sustainability reporting solely as a compliance obligation rather than a strategic opportunity. This mindset limits their ability to leverage reporting insights to drive operational improvements, innovation, and competitive advantage. Without recognizing the potential for reporting to inform decision-making and foster a culture of continuous improvement, SMEs may miss out on benefits such as cost savings, risk reduction, and enhanced market positioning. In addition, many are concerned about starting one process only to later find that it is not relevant or accepted if regulations or requirements change. Path dependency also creates a lack of desire to commit when there is still uncertainty about the future of reporting.

Tip: Explore and communicate how sustainability reporting can create business value, such as by improving efficiency, attracting customers, or opening new markets. Start with a flexible approach to allow for adaptability if requirements change.

Difficulty Integrating into Business Models

Integrating sustainability reporting into existing business models is often challenging for SMEs due to limited resources, expertise, and time. Many SMEs lack standardized processes or frameworks tailored to their scale, making it hard to embed sustainability metrics into everyday operations. This disconnect can result in fragmented efforts, with sustainability treated as a separate initiative rather than an integral part of business strategy and value creation.

An additional challenge is the lack of understanding that with some creativity, reporting can have the positive outcome of value creation. How to take the information learned through reporting and turn it into something that helps the business, such as new products, services, insight, or opportunities, may not be clear enough.

Tip: Treat sustainability as part of the business strategy, not a separate activity. Use insights from reporting to identify ways to improve products, services, or operations for long-term benefit.

Cultural and Organizational Barriers

Sustainability reporting often requires a shift in organizational culture and mindset. Resistance to change, lack of leadership buy-in, and competing business priorities can hinder progress. For SMEs, where decision-making is often concentrated among a few individuals, leadership commitment is critical.

Tip: Secure leadership buy-in by linking sustainability to business goals, and encourage a culture of learning and improvement rather than compliance alone. Celebrate small wins to build momentum. Hire those who are interested in and understand the value of such a business imperative.

PRACTICAL TIPS FOR BEGINNING THE JOURNEY

What more can SMEs and small organizations do to begin this systemic shift?

Start Simple and Focus on What Matters Most

SMEs do not need to adopt comprehensive reporting frameworks from the outset. Instead, they can begin by identifying a handful of ESG topics that are most relevant to their business and stakeholders. This process, known as a materiality assessment, involves the following:

- Engaging with key stakeholders (e.g., customers, employees, suppliers)
- Reviewing industry standards and peer practices
- Considering regulatory requirements and market expectations

For example, a manufacturing SME might focus on energy consumption, waste management, and occupational health and safety. A service-oriented SME could prioritize employee well-being, diversity and inclusion, and community engagement.

Leverage Existing Resources and Partnerships

Many industry associations, government agencies, and nonprofit organizations offer guidance, templates, and training tailored for SMEs. The following groups can offer further guidance:

- Local chambers of commerce and industry groups
- Trade associations
- SME centers and government agencies

By tapping into these resources, SMEs can build foundational knowledge and avoid reinventing the wheel. Collaborating with supply chain partners or joining industry initiatives can also provide valuable support and credibility.

Build Internal Capacity over Time

Sustainability reporting is a journey, not a onetime exercise. SMEs should view their first reports as learning opportunities and gradually expand the scope and depth of their disclosures. Steps to build internal capacity include the following:

- Assigning responsibility for sustainability reporting to a specific individual or team
- Providing training and professional development opportunities
- Establishing simple data collection and management processes
- Setting measurable targets and tracking progress over time

Use Technology to Simplify Reporting

Digital tools and platforms can help SMEs streamline data collection, analysis, and reporting. Affordable software solutions are available for tracking energy use, waste generation, employee metrics, and other ESG indicators. Cloud-based platforms can facilitate collaboration and data sharing across teams and locations.

Seek External Support When Needed

SMEs should not hesitate to seek external support when needed. Consultants, auditors, and sustainability experts can provide valuable guidance, especially in the early stages. External verification or assurance of sustainability reports can enhance credibility and stakeholder trust, but they are not always necessary. Don’t let these be barriers to getting started.

SUMMARY

SMEs should approach sustainability reporting as a gradual journey, taking time to learn, staying flexible as needs evolve, and being transparent about progress. By viewing reporting not just as a requirement but as a pathway to long-term value creation, businesses can unlock new opportunities, strengthen trust, and build a more resilient future.

Policymakers should support SMEs in sustainability reporting by providing clear guidance balanced with flexibility, allowing businesses to adapt as they grow. They should also introduce a transitional phase so SMEs can gradually build their capabilities, offer incentives for early adopters, and emphasize transparency and the long-term value of reporting to encourage trust and resilience in the SME sector.

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