

# ESG Reporting in Danish Non-listed SMEs

Determination of Readiness and  
Recommendation of Possible Transitions

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**Abstract:**

With the introduction of the CSRD, mandating large companies to report on ESG matters, this thesis examines how Danish non-listed SMEs can prepare for ESG reporting based on the draft of the VSME standard. This includes investigating the pressures on SMEs, the readiness of SMEs and recommendations for a transition that can foster their readiness towards ESG reporting. This thesis is based on a case study design, where four case companies are representing SMEs from different sectors. A qualitative methodology was used, which includes literature review, interviews with case companies and experts, document analysis of the VSME and existing ESG reports, gap analysis and use of grey literature, webinars and events. With the use of institutional theory, multiple pressures were identified. Here it was found that SMEs experience the most pressures from indirect regulative aspects, but are also facing normative and cultural-cognitive pressures. Through a gap analysis of the current status in the case companies and the requirements in the VSME standard, the largest gaps were identified to be related to environmental matters. Whereas the case companies were more ready to report on social and governmental matters. However, it was seen that the case companies were not ready to report on the basic module, which is the minimum requirement of the VSME. This means that there is a gap between the SMEs and the VSME requirements, which creates the need for recommendations for transition in SMEs, to enhance their readiness for ESG reporting. Based on transition management, the overall recommendations for SMEs are to develop long term strategies and ESG visions, set up formal structures for ESG reporting, build up a transition agenda, mobilise external stakeholders and collect and report on ESG data.

# Preface

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This master's thesis was conducted on the 4th semester of the master program Environmental Management and Sustainability Science, a specialisation within Urban, Energy and Environmental Planning at Aalborg University.

## Recognition

Through the data collection processes in this thesis, various interviews have been conducted. A big thank you is thereby served to the case companies for their interest in this thesis and devoting their time to share their valuable knowledge and experience regarding ESG in their company. Especially, a special thank you to the interviewees representing the case companies: *Thomas Thingstrup Mehlsen (Australian Bodycare ApS)*, *Elise Utzen Keller (Base Erhverv A/S)*, *Camilla Lyngholm (MarMar Copenhagen ApS)* and *Jacob Vestergaard Nielsen (Tasklet Factory ApS)*. Additionally, a thank you to the experts for their time and sharing insightful knowledge and perspectives to this research: *Frederik Bo Rosenquist*, *Mathias Selchau Majlund* & *Sophia Zakari*.

And finally, a big thank you to Anja Marie Bundgaard and Alberte Rørbæk Kokholm Sørensen for supervising this thesis with great inputs and perspectives, which has contributed a lot to the development of the thesis.

## Reading guide

This master's thesis takes its point of departure in a state of the art literature review, presented in chapter 2, which has contributed to the formulation of the research question and the connected sub questions. To answer the research question, a methodological approach and a conceptual framework are presented in chapter 4 and 5. The three sub questions are respectively answered in chapter 6, 7, and 8. Finally, a discussion of relevant points identified within the analyses are carried out in chapter 9. The results from the entire thesis are lastly gathered and elaborated on in the conclusion in chapter 10.

To ensure correct citation in this master thesis the acknowledged reference style Harvard is used. The outlook of this in the report is (Author's last name, year), for example as (Krüger, 2024) or if it is an institution, the outlook of the citation is (Institution name, year) for example as (European Commission, 2019). References where no publication year was available, it is referenced with the use of n.d. in the case where there are multiple literature used from the same author with same publication year, a letter is added after the year to set apart the references from each other.

Danish organisations & tools	English explanation
Dansk Industri	Organisation for Danish businesses
Erhvervshuse	Regional business networks
Erhvervsstyrelsen	Business authority in Denmark
Klimaklar Produktionsvirksomhed	Program for production companies to get started on climate topics
Klimakompasset	Program for companies to calculate their GHG emission

**Table 1.** Overview of Danish organisations and tools and their English explanation

Abbreviations	
B2B	Business to Business
B2C	Business to Consumer
BP module	Business Partners Module
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EFAA	European Federation of Accountants and Auditors for SMEs
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
ISSB	International Sustainability Standards Board
LSME	ESG reporting standard for listed small- and medium-sized enterprises
NFRD	Non-Financial Reporting Directive
PAT module	Narrative-Policies, Actions and Targets Module
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and medium-sized enterprises
Teams	Microsoft Teams
VSME	Voluntary standard for non-listed small- and medium-sized enterprises

**Table 2.** List of abbreviations

  
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# Summary

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Green transition is placed high on the agenda within the EU, affecting the implementation of regulations and in general increasing the awareness of changing practices, including increased and enhanced sustainability reporting. The legislative framework has expanded over the last years with the implementation of the *Corporate Sustainability Reporting Directive* (CSRD) and the associated standards *European Sustainability Reporting Standards* (ESRS) and *Voluntary standard for non-listed small- and medium-sized enterprise* (VSME). With this implementation, the legislation of sustainability reporting has changed from primarily being voluntary and affected by a high degree of freedom to being a legal enforcement with specific information requirements related to environmental, social and governance (ESG) matters.

To ensure an incremental implementation of the CSRD it is firstly the largest companies who have to comply with the requirements. Though, it is clarified through a literature review that with the implementation of the CSRD, dependency within the value chains are increased, meaning that many SMEs are experiencing indirect pressures for doing ESG reporting, which for some are challenging. As this field of research is fairly new, it got clear through the literature review that it has not yet been investigated how SMEs can prepare for reporting according to the VSME. Therefore this thesis' research question strives to contribute to this gap in the literature:

***With a growing pressure for ESG data, how can Danish non-listed SMEs prepare for ESG reporting according to the VSME standard and live up to future requirements?***

This master's thesis is based on qualitative methods to answer the presented research question, including conducting a case study based on four selected non-listed Danish SMEs representing different sectors to shed light on their experience with ESG reporting. To include their experiences in this thesis, interviews with a representative from each company are conducted. Likewise, expert interviews are conducted to gain further understanding of the field from an different angle. Lastly, document analyses of the VSME and prepared ESG reports are carried out to identify the gaps between what is required of them according to the VSME and what they are currently able to report on. This methodological approach has the purpose of contextualising the problem in focus and present a broad spectrum of perspectives.

To understand the context of pressures for ESG reporting in which the selected companies are within, determine their readiness and lastly, provide useful recommendations on how they can live up to the requirements, a conceptual framework is prepared. This is built upon the theoretical approaches, institutional theory and transitions management, and the methodology of gap analysis.

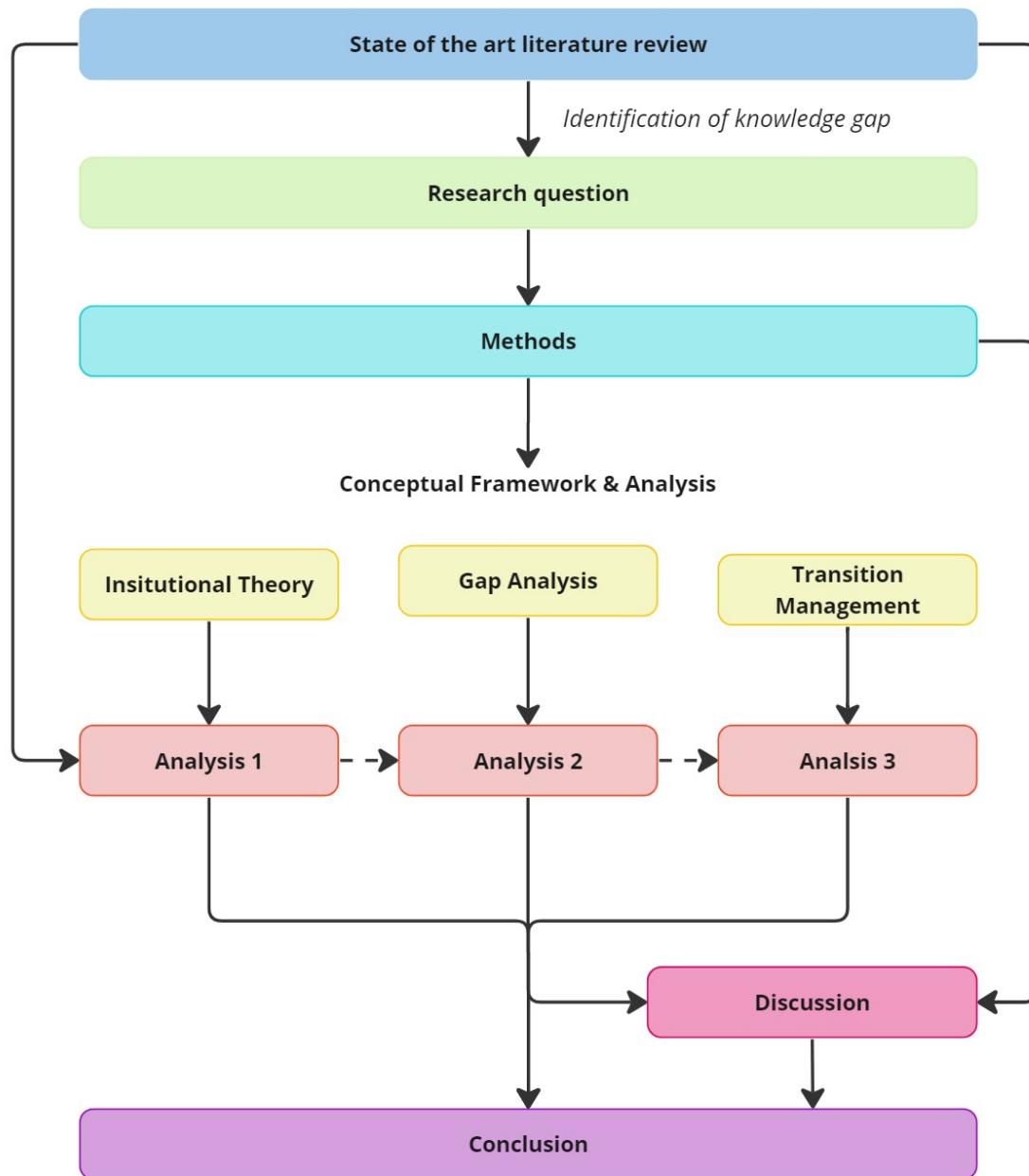
The application of the contextual framework within the analysis indicated that SMEs are experiencing pressures for ESG data related to the three institutional pillars; regulative, normative, and cultural-cognitive. This mapping of pressures showed that the regulative pressures are the most dominating, and are primarily stemming from the pressures SMEs are experiencing from their B2B customers. To mitigate these pressures and guide the SMEs, EFRAG published the

draft for the VSME. It is discovered that the case companies are not fully ready to report on all the requirements stated in the VSME, meaning that there is a risk that they cannot comply with data requests they are experiencing or will experience in the future. Accordingly, the gap analysis of the case companies specifically shows that they are challenged the most by providing data on environmental requirements stated in the VSME. This indicates that the case companies need to change their current ESG practices or acquire practices to accommodate data requests. Based on this, recommendations to undergo organisational transitions are provided to anchor ESG practices in the companies on different levels. This includes future proofing the company by incorporating systemic changes such as long term strategies and visions. A common understanding of ESG matters incorporated in the company culture, can enhance the ESG practices and ESG reporting. Tactical decisions such as structuring the ESG systems in the company and engaging in networks is important to fit in the transition agenda and pathways. Furthermore, the tactical decision on which VSME modules the company wants to report on, influences the operational level where data has to be collected and the ESG report needs to be developed.

From this study it can be concluded that the EU landscape with regulations regarding sustainability reporting is changing and affecting a variety of companies. Even though the non-listed SMEs do not have to comply they are experiencing and foreseeing that pressures from the regulation and society are to increase. This entails that companies need to change their business as usual, including implementing a dynamic ESG process, which can be adjusted to the changing requirements.

# Project overview

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# Introduction

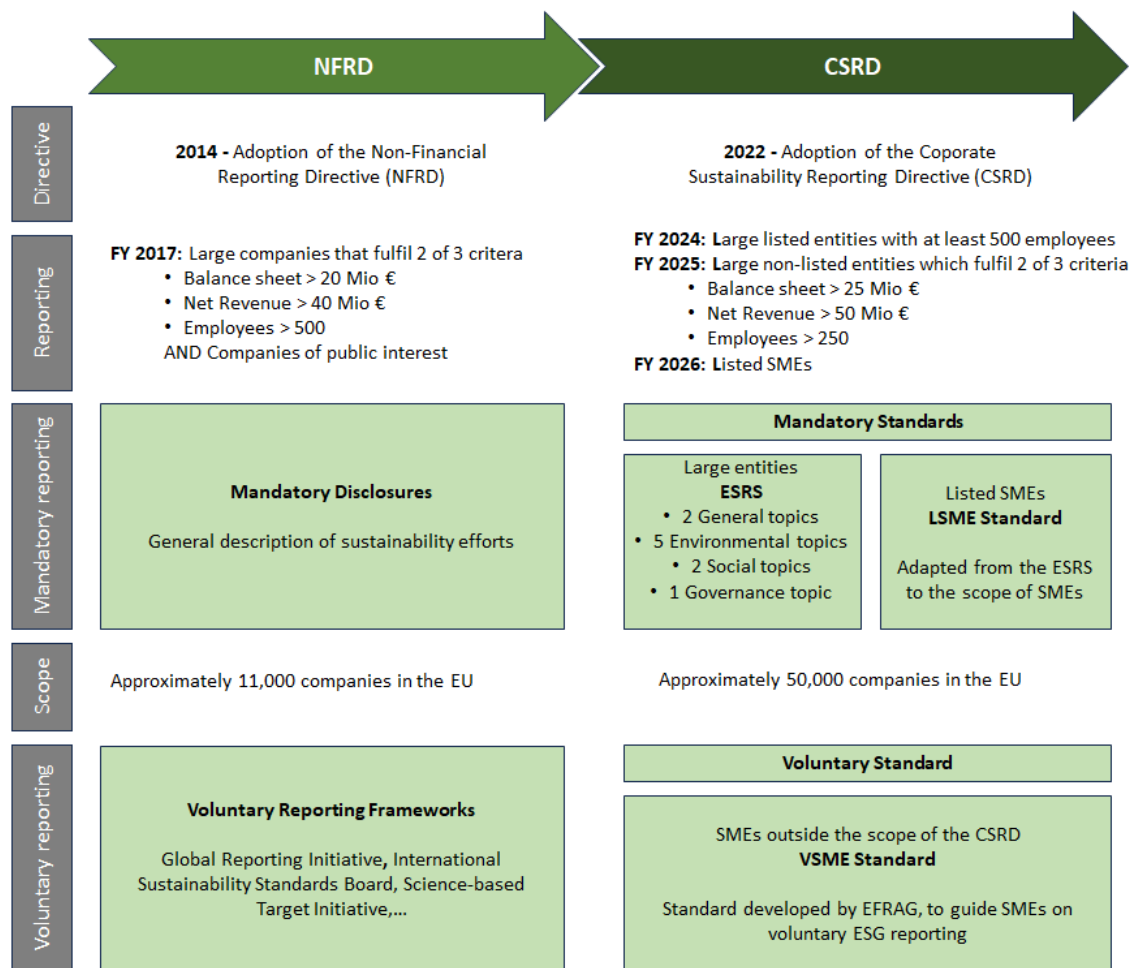
# 1

The pressing matters of climate change, environmental degradation, social equality and human rights have received increased attention in recent years (European Commission, 2019; UN Global Compact, n.d), leading to a growing awareness for the need to change the practice as usual. The latest report of the Intergovernmental Panel on Climate Change (IPCC) states that the global surface temperature was 1,1°C higher in the time period of 2011 - 2020 compared to 1850 - 1900 (IPCC, 2023). The increase of emissions in the atmosphere, caused by human activities, lead to global warming (IPCC, 2023). According to the IPCC (2023) the impacts from rising temperatures are already leading to extreme weather conditions and climate extremes in all parts of the world affecting people's livelihoods.

These impacts also influence climatic conditions in Europe and thereby present important topics which need to be addressed from authorities. In a European context this is done by authorities of the EU. Objectives to mitigate the effects of climate change and become climate neutral by 2050 are defined under the European Green Deal (European Commission, 2019). The Green Deal further provides the basis for the transition of Europe's economy towards a sustainable future (European Commission, 2019) with the goal of transforming the economy to stay competitive in a changing environment and maximise resource efficiency (European Commission, 2022). The reduction of emissions is a key element to reach the targets of the Green Deal, but coherently also presents huge challenges in order to facilitate this transition (Wolf et al., 2021). As the biggest challenge and at the same time the most important factor to reach the goal of climate neutrality Wolf et al. (2021) identify the shift in the economy. This is why European legislation strives to provide the frameworks to direct the economy towards the objectives of the Green Deal. After the publication of the Green Deal several new regulations and strategies targeting environmental and social matters in the economy were proposed and some are already adopted (European Commission, n. d.). Regarding the social matters the focus in the EU is on ensuring welfare, improving living conditions, create social progress and cohesion and in general ensure a social market economy (McGuinn et al., 2020).

A further directive published and enforced under the Green Deal is the Corporate Sustainability Reporting Directive (CSRD) (European Commission, 2022). This directive resulted from the commitment of the European Commission to review the Directive 2014/34/EU about non-financial reporting (NFRD) formulated in the Green Deal (European Commission, 2022). With the implementation of the CSRD in January 2023, the legal requirement to report on sustainability matters got broadened in terms of scope and substantiated in terms of required disclosure which is illustrated on figure 1.1. The enforcement of the legal requirement to publish reports is done incrementally, where large undertakings with public-interest and on average at least 500 employees during the financial year have to start reporting in 2025 for the financial year 2024. The following group of companies which have to publish their reports for the financial year 2025 in

2026 are all other large undertakings which are not already included in the first group. Starting in 2027, listed small and medium sized (SMEs) companies have to begin reporting for their financial year 2026 (European Commission, 2022). Further details about the reporting criteria are provided in figure 1.1.



**Figure 1.1.** Sustainability reporting from NFRD to CSRD. Based on Deloitte (2022) and added information from the CSRD (European Commission, 2022) and the NFRD (European Commission, 2014); *FY = Financial Year*

Taking the point of departure in the NFRD, it is expected that the CSRD will radically change reporting in companies (Birkmann et al., 2024) and lead to an expansion of performance indicators from the currently more general disclosures to the inclusion of quantitative and qualitative data points about environmental, social and governance (ESG) aspects (Krüger, 2024). Where environmental disclosures covers climate change, pollution, water and marine resources, biodiversity and ecosystems and resource use and circular economy. While social disclosures covers own workforce, workers in the value chain, affected communities and consumers and end-users. Lastly the governance disclosures are about business conducts (European Commission, 2022). The legal requirement to publish a sustainability report will lead to more publicly available data and thereby increase transparency and comparability about the performance of companies in terms of ESG matters (Ortiz-Martínez and Marín-Hernández, 2023). To achieve this a mandatory and comprehensive guideline is needed for non-financial reporting, as stated by the European

Commission (2022). To fulfil this need, the European Financial Reporting Advisory Group (EFRAG) was requested to develop such standards. After the development process, which started in 2020 and was carried out by a multi-stakeholder task force (EFRAG, n. d.), the European Sustainability Reporting Standards (ESRS) got adopted by the European Commission on the 31 of July 2023 (European Commission, 2023a). This new set of standards builds the foundation on which large undertakings have to report on. The ESRS are divided in the four main groups of general requirements, environment, social and governance and are thereby supposed to build a broad basis of information which can serve in the decision-making process of investors and other stakeholders (European Commission, 2023a). To ensure global relevancy, interoperability of the ESRS and avoid the burden for large companies to report on the European and international level, the ESRS were developed aligning with international sustainability reporting organisations such as the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) (European Commission, 2023a).

As the ESRS are currently only mandatory for large entities, EFRAG also developed two proposals for SMEs. The importance of SMEs in a European context is highlighted by the European Commission (2023c), where they state that 99% of businesses in the EU are SMEs. The first proposal from EFRAG targets the group of listed SMEs, taking inspiration in the requirements for the ESRS, but adjusting the scope of the standard to be applicable for listed SMEs (EFRAG, 2024a). This standard is currently an exposure draft and referred to as the European sustainability reporting standard for listed small medium undertakings (LSME) (EFRAG, 2024b). Since there is a legal requirement to report on ESG matters for this group of entities, the LSME is included in the same mandate as the ESRS (EFRAG, 2024a).

The basis of development of the second standard for SMEs which are not in the scope of the CSRD, is the SME Relief Package published by the European Commission (2023c). Like the LSME, this standard is also still an exposure draft and will here be referred to as the voluntary standard for non-listed small- and medium-sized enterprises (VSME) (EFRAG, 2024c). Furthermore, non-listed SMEs are often involved in the value chains of large entities, which is why they will indirectly also be affected by the CSRD due to sustainability information requests from their business customers. Another aspect for business operation of SMEs where sustainability information will be crucial, is the access to sustainable finances (European Commission, 2023c; EFRAG, 2024a; Ortiz-Martínez and Marín-Hernández, 2023). The VSME strives to protect non-listed SMEs from these trickle-down effects in an appropriate and efficient way in order to enable the participation of SMEs in the shift towards a sustainable economy (EFRAG, 2024a).

Acknowledging the effects the implementation of the CSRD will have on non-listed SMEs this research strives to shed light on the current status of SMEs regarding the disclosure of ESG information and their readiness to react to the pressures they might have to face.

# Literature review of ESG reporting related to SMEs 2

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*This chapter presents the literature reviewed using the approach of a state of the art literature review, where search strings were developed through which relevant literature was identified. The methods behind the literature review can be found in section 4.2. The review is focused on the development of ESG reporting in the legislative field and on the impact of CSR and reporting in SMEs. Additionally, did the literature review investigate the common methodology and theoretical approaches within this reviewed research field.*

## 2.1 Legislation on ESG reporting

There can be several reasons for companies to publish non-financial information. These reasons can be to improve the image of the company and to increase the attractiveness of the company towards possible employees or investors, which can lead to increased success of companies (Nikadimovs, 2023). Another reason for acquiring and communicating non-financial information can, according to Radu et al. (2023), be the possibility to identify risks early on and thereby enable the companies to react to these risks. A more general viewpoint, suggests that publishing non-financial information can be seen as a communication tool, which strives to ensure the connection of the company to its stakeholders and increases transparency (Tamm and Gurvitš-Suits, 2023). In addition to these possible benefits that companies can gain from sustainability reporting, there is also the need to comply with the legal requirements to publish a sustainability report.

### 2.1.1 From the NFRD to the CSRD

From a legislative perspective the NFRD, which was adopted in 2014, built the first legal requirement on a European basis applying to certain companies and mandating them to report on non-financial information (European Commission, 2014; Frecautan and Nita, 2022). Reporting areas which are required by the NFRD are for example issues regarding the environment, conditions of employment including social topics, compliance with human rights, fostering anti-corruption policies and enhancing diversity in management roles (Borowicz and Czerepko, 2023). The objective of this directive was to increase the corporate social responsibility (CSR) activities of companies and enable transparent communication regarding CSR topics (Fiechter et al., 2022).

Several studies investigated the effects the implementation of the NFRD had on companies' sustainability reports. One prominent focus in research is the review of the current status of sustainability reports and their qualitative standard (Radu et al., 2023; Primec and Belak, 2022; Fiandrino et al., 2021). According to Fiandrino et al. (2021) it can be concluded that the quality of sustainability reports is a complex and multilayered concept which is influenced by subjective

perspectives. Even though there are some constraints to interpreting the quality of reports, the analysis often contributes to revealing shortcomings of the legislative requirements (Primec and Belak, 2022). This leads to another topic addressed in research focusing on the limitations of the NFRD and improvements the CSRD shall lead to compared with the NFRD (Tamm and Gurvitš-Suits, 2023; Primec and Belak, 2022; Raith, 2022; D'Eri and Novembre, 2022; Fiandrino et al., 2021). As a general objective for non-financial reporting Primec and Belak (2022) stated that the obligation to report shall strive to provide benefits for the companies. According to Lee et al. (2023) the drafters of the CSRD aimed to address the overarching issues from the NFRD of leaving companies with excessive flexibility and a lack of specificity in the requirements. To facilitate this objective and address these issues several authors have suggested areas of improvement and have investigated how these improvements are included in the CSRD. An overview of the topics and how they are addressed in the CSRD can be found in table 2.1 below.

Topics for improvement	Addressed in the CSRD	Authors
Scope of the directive	Broadened the scope (large and listed companies)	Tamm and Gurvitš-Suits (2023), Primec and Belak (2022), Fiandrino et al. (2021), D'Eri and Novembre (2022)
Placement of the sustainability report	Inclusion of the sustainability report in the management report	Primec and Belak (2022), Fiandrino et al. (2021), D'Eri and Novembre (2022)
Assessment of materiality topics	Concept of Double Materiality	Raith (2022), Fiandrino et al. (2021), D'Eri and Novembre (2022)
Standardisation of the disclosures	Uniform Standard for Reporting (ESRS, LSME, VSME)	Primec and Belak (2022), Fiandrino et al. (2021), D'Eri and Novembre (2022)
Form of publication of the reports	European Single Electronic Format	Tamm and Gurvitš-Suits (2023), Fiandrino et al. (2021), D'Eri and Novembre (2022)
Requirements for assurance and enforcement	Limited assurance with a future perspective for reasonable assurance	Fiandrino et al. (2021), D'Eri and Novembre (2022)

**Table 2.1.** Overview of literature reviewing improvements in the CSRD compared to the NFRD.

The review of this literature led to a better understanding of how the requirements in the CSRD have changed compared to those in the NFRD. According to D'Eri and Novembre (2022), these improvements have the potential to facilitate more consistency and rise the quality of the sustainability reports. It further prompted the finding, that the requirements which companies have to fulfil under the CSRD have broadened including an increased set of mandatory information disclosures (Primec and Belak, 2022).

### 2.1.2 Mandatory versus voluntary reporting

Through broadening the scope of mandatory reporting up, most companies who formerly reported voluntary are now going to be obliged to disclose a more specific set of sustainability information. Shifting the sustainability reporting requirement from a voluntary practice to a mandatory requirement implicates changes in the reporting landscape. According to Balluchi et al. (2020) the legislative requirement has a positive influence on the number of sustainability reports published and also contributes to increase the completeness and transparency of reports. It is further argued

by Aluchna et al. (2022) that mandatory requirements for sustainability reporting facilitate more uniform reports and thereby enhance comparability. Acknowledging the positive aspects from mandatory reporting requirements, Radu et al. (2023) however argue that voluntary sustainability initiatives in companies show commitment towards ESG principles and in this regard contribute to high quality sustainability reporting. It is thereby stressed that voluntary engagement in sustainability enhances transparency and reporting quality.

Investigating different approaches of mandatory and voluntary frameworks for sustainability disclosures Lee et al. (2023) compare different systems, namely the US approach of voluntary reporting, the European approach of a hybrid model between voluntary and mandatory requirements and the French approach as having the most mandatory requirements. It was acknowledged in their analysis, that the EU is currently shifting from the NFRD as a hybrid model towards a higher level of mandatory requirements in the CSRD. They concluded from their analysis that higher levels of mandatory requirements, such as in the EU, are beneficial for the effectiveness of the disclosures (Lee et al., 2023). A similar conclusion can be found in comparable studies from Cicchiello et al. (2023) and Aboud et al. (2023), where both studies also compare the US system of voluntary reporting to the European NFRD approach. According to Cicchiello et al. (2023), mandating disclosure requirements lead to higher ESG performance in companies and enhance corporate sustainability efforts. Aboud et al. (2023) conclude from their study that the NFRD had a positive influence on the ESG report quality and led to decreased decoupling of ESG disclosures and actual ESG performance.

It seems like the majority of scholars agree that mandatory reporting requirements have a positive effect. However, most studies are focusing on large companies due to the focus of reviewing the effects of the NFRD on large companies' ESG reports and performance. A study conducted by Krawczyk (2021) nevertheless reviews a survey which was conducted by the European Federation of Accountants and Auditors for SMEs (EFAA) carried out in 14 European countries. Krawczyk (2021) came to the conclusion that policy targeting SMEs should rather encourage voluntary reporting of SMEs than mandating them to publish sustainability reports. But it is suggested that in order to standardize sustainability reporting, voluntary standards should be developed according to the scope of SMEs and where suitable reporting requirements could be adopted from mandatory frameworks (Krawczyk, 2021).

## **2.2 SMEs and ESG reporting**

### **2.2.1 Drivers encouraging ESG reporting in SMEs**

SMEs are seen as the backbone of Europe's economy with a significant economic and environmental impact, which is why it is important to consider ESG efforts in these companies (Ortiz-Martínez et al., 2023). Due to the scope of the CSRD, non-listed SMEs are not legally obliged to publish sustainability reports. However SMEs will face pressures from various stakeholders to publish some sustainability information anyways. According to Ortiz-Martínez et al. (2023), SMEs will receive sustainability data requests mainly from business to business (B2B) relationships specifically from being a part large companies' value chains and from banks where the SMEs might request loans. Through the expansion of requirements such as the CSRD, EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) targeting especially large companies and banks, there are indirect effects on SMEs (Ortiz-Martínez et al., 2023; Krawczyk,

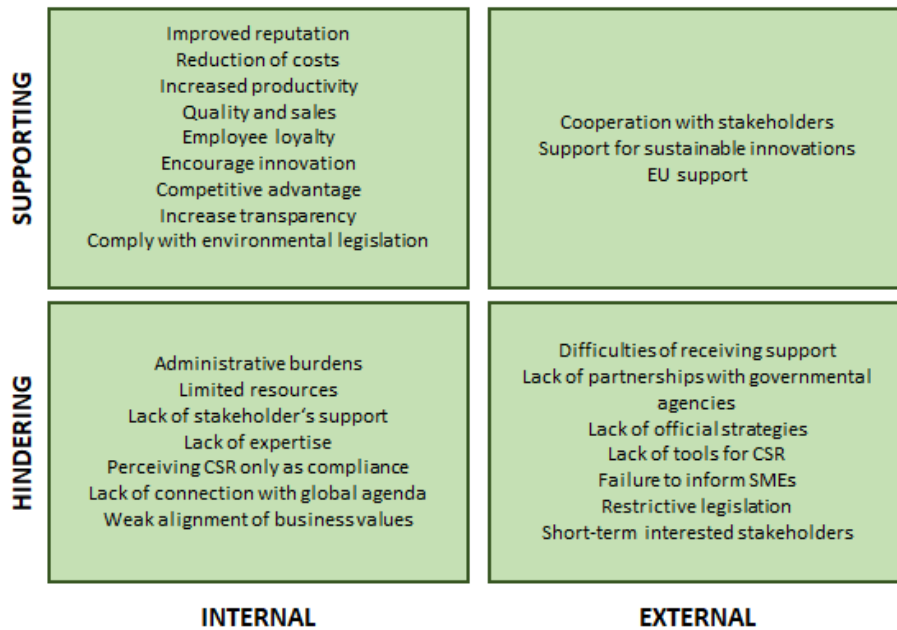


2021). As Tkachenko et al. (2023) stated, ESG indicators to assess the competitiveness of companies will gain importance for choosing business partners, which will also affect SMEs and lead to pressures for providing ESG information. These indirect pressures will lead to a trickle-down effect (Ortiz-Martínez et al., 2023), which was also recognized by EFRAG and led to the development of the VSME draft standard guiding sustainability reports of SMEs (EFRAG, 2024a). Besides the pressures SMEs have to face from business relationships, Nacu and Jercan (2022) also identified societal pressures as factors influencing the behaviour of companies. Societal awareness of unsustainable practices from companies can also affect SMEs since they are often closely attached to their local community leading to request for sustainability information (Krawczyk, 2021; Yip and Yu, 2023). Corazza (2018) identified that social responsibility, in particular, is important to local communities and influences local perception of reputation of the SME. So even though SMEs are not legally mandated to publish sustainability reports, it is likely that they will have to communicate or provide their CSR efforts somehow.

The primary motivators for SMEs to engage with CSR practices are their close stakeholders, since they have the most influence on the companies. These stakeholders are typically employees, customers and the local community and environment (Dias et al., 2019). It was also found by Marco-Fondevila et al. (2018) that stakeholders are the actual motivators for sustainable strategies even though companies also see the importance of being compliant with policies. Furthermore, Stawicka (2021) found that CSR strategies in SMEs are significantly shaped by the communication with the companies' stakeholders. These findings from the different research suggest that stakeholders have a significant role in relation to SMEs' work with CSR and ESG.

### **2.2.2 Factors influencing ESG work in SMEs**

There are different factors that play a role for companies when it comes to adopting CSR and responsible business practices, these factors both highlight the opportunities as well as elements that can be hindering for SMEs (Nikadimovs, 2023). It was found that supporting factors related to internal processes can include improved reputation, reduction of costs, increase in productivity, quality and sales, better employee loyalty, encourage innovation, gain competitive advantage on sustainability, increase transparency with key stakeholders and comply with environmental regulations. The supporting factors related to external processes are related to improved cooperation with stakeholders, support for developing sustainable innovations and EU support for implementing CSR (Nikadimovs, 2023). On the other hand there are internal factors hindering CSR adaption such as administrative burdens, limited resources and capacity, lack of support from stakeholders, lack of expertise, perceiving CSR as a matter of compliance, lacking connection between local SMEs with the global agenda and a weak alignment of business values (Nikadimovs, 2023; Krasodomska and Godawska, 2020). The external hindering factors can be related to difficulties of receiving support, lack of partnership with the governmental agencies, lack of clear official CSR strategies, missing suitable tools for CSR, failure to inform and advice SMEs, restrictive legislation or stakeholders being short-term interested (Nikadimovs, 2023). An overview of the supporting and hindering factors, categorised according to internal and external factors, can be found in figure 2.1.



**Figure 2.1.** Overview of supporting and hindering factors based on Nikadimovs (2023)

According to a survey on SMEs by Bielawska (2022) there are multiple benefits for SMEs to implement CSR. The most common benefits are improved financial performance, positive influence on reputation, increased market recognition, enhanced competitiveness, increased attractiveness as an employer, greater employee loyalty, higher customer acceptance and increased prestige of the owner in the community. It is also argued that manufacturing products in alignment with expectations from stakeholders enhance more positive CSR aspects, compared to CSR activities that only focus on image by for example sponsoring local culture (Bielawska, 2022). Additionally, (Nacu and Jercan, 2022) also found that companies who have CSR policies perform better in terms of financial performance. Moreover, ESG factors can play a crucial role in securing finances, meaning that a company with a higher ESG score may get cheaper loans, higher ranking of credit and their cost of equity may be lower (Zioło et al., 2023). However, several SMEs do not have as much CSR information as larger companies which can limit the SMEs' implementation and the improvement of CSR activities and strategies (Gallardo-Vázquez and Valdez Juárez, 2022). It can thereby be argued that in order for some SMEs to achieve the benefits from incorporating CSR activities into their company, they need to firstly gather the necessary internal CSR information.

A correlation between company size and non-financial reporting was identified by Radu et al. (2023), whose results showed that larger companies tend to have a higher quality of non-financial reporting. Furthermore, the study highlighted a correlation between companies' sustainability performance and their quality of reporting, where the quality is usually higher when a company is more engaged in sustainability (Radu et al., 2023). However, it was also found in the case study about Portuguese firms conducted by Dias et al. (2019) that when particularities and business characteristics are taken into account, the practice of disclosing CSR in SMEs does not differ much from larger companies' practices.

### 2.2.3 Informal ESG structures in SMEs

Working with CSR related activities is not necessarily new for SMEs. Many SMEs undertake activities that can be categorised as CSR, even without the SMEs actively knowing it falls under CSR. It is however new for SMEs that stakeholders now are interested in CSR information from the companies (Bielawska, 2022). It is furthermore stated by Ortiz-Martínez et al. (2023) that SMEs do not necessarily have the capabilities to report on their sustainability matters even though they have sustainable practices.

The majority of SMEs use informal and intuitive methods to achieve their social responsibility targets and when making CSR related decisions (Nikadimovs, 2023; Krasodomska and Godawska, 2020). Additionally, SMEs' CSR strategies are usually less developed and SMEs tend to communicate the CSR efforts using more informal means for communication instead of preparing standardised reports (Dias et al., 2019; Marco-Fondevila et al., 2018; Krasodomska and Godawska, 2020). The informal means of communication create issues regarding the reliability and accuracy of the information, which makes it hard for companies to measure their own performance but also for stakeholders to assess the given information (Marco-Fondevila et al., 2018). There are also some concerns that without standardised CSR reporting some companies use CSR as a communication tool to inform investors and stakeholders, but without showing a complete honest representation of the company (Nacu and Jercan, 2022). It can however also be beneficial for SMEs to use the internet and social media as a communication platform to communicate the companies' positive impacts in an easier and faster way (Stawicka, 2021). Research often states that SMEs are too different from large companies, to use formal processes and reporting standards (Graafland and Smid, 2016), however according to Graafland and Smid (2016) SMEs benefit from using more formal processes when it comes to improving on their environmental impacts and management of thereof. It is furthermore, as mentioned before, found that ESG performance increases in companies when it is mandatory to report on non-financial measures (Cicchello et al., 2023; Aboud et al., 2023). Similarly it is found by Fiechter et al. (2022) that the CSR directive helped to increase companies CSR activities. Additionally, a study on Polish companies shows that companies who are forced by legislation to report on ESG have experienced an increase in their performance in regard to environmental and social matters (Aluchna et al., 2022). These findings suggest that an increase in formalised reporting can lead to an increase in ESG performance for SMEs.

According to Krasodomska and Godawska (2020) it is mainly matters in regards to the labor force and involvement with the local community that SMEs report on. A study conducted by Glaveli et al. (2023) on reporting of Greek listed companies, shows that there is a lack of reporting about impacts from the business models. Moreover the reports are mainly focused on short term strategies rather than long term, and there was a tendency to focus more on positive impacts. Furthermore, it was found that the construction sector has a higher quality of reporting, where it is assumed to be due to this sector already being used to more standardisation (Glaveli et al., 2023).

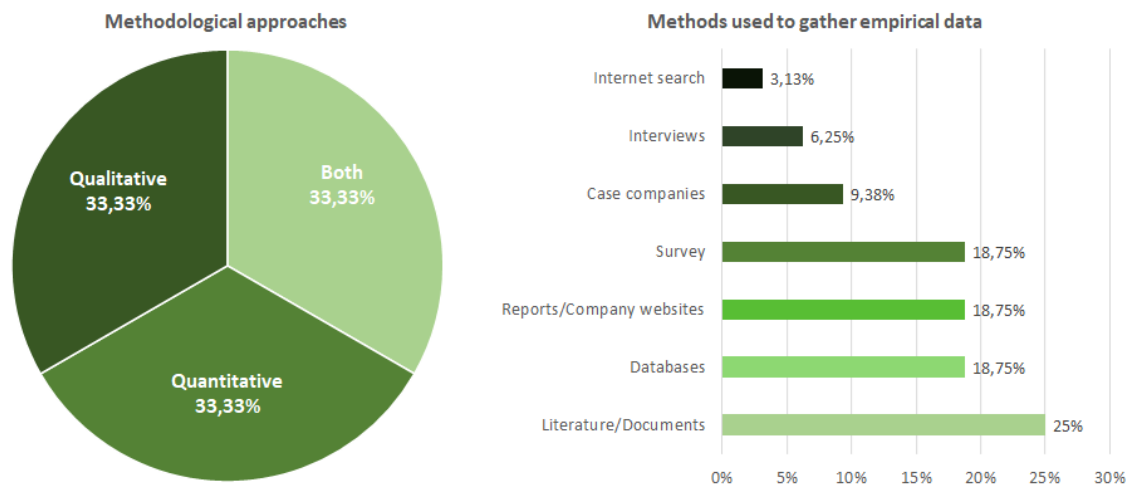
Through the literature review it was found that there is limited research on non-listed SMEs regarding reporting, which shows that there is limited knowledge within this field. This finding is also supported by Dinh et al. (2023) who also found in their scoping literature review about CSR reporting that 72% of studies are focused on listed companies and are therefore highlighting that there is a need for more research on the non-listed SMEs.

### 2.3 Methodological overview

To study this field of research multiple methods have been used due to the objectives of the studies. Common for most of the reviewed literature is that a literature review creates the knowledge foundation of the topic in focus. Balluchi et al. (2020) disclosed the development of the regulation to close a research gap that arose from a lack of historical reviews of the law, and hereby created an understanding of the new regulation and the impact of it. Additionally, Tkachenko et al. (2023) in their review investigated the ESG competitiveness in companies and based on the analysis justify their study. Considering that the objectives of the literature reviews are different, they all have the purpose of identifying gaps in existing research to justify their research.

Radu et al. (2023), Dinh et al. (2023), Fiandrino et al. (2021) and Ziolo et al. (2023) are differentiating themselves from the rest of the literature by making structured reviews as a method in their analysis. All four studies developed a number of criteria for the literature which they include. These criteria are based on specific wordings in search strings, databases, years, language, geographical area and document type. Based on the criteria all four studies showed the process of limiting their research due to exclusion of literature.

The review of the methodologies used in the included studies revealed that in general different approaches was used when investigating the topics in focus. Some were approaching their studies with quantitative methods, others were using qualitative methods while some used mixed methods. Figure 2.2 illustrates the distribution of methodological approaches in the literature included in this review.



**Figure 2.2.** Overview of the methodological approaches and methods used in the reviewed literature

It can be derived from figure 2.2 that there is an equal distribution between the use of quantitative, qualitative or both in the literature. The literature though differentiates in the methods used for data sampling. From the figure it can be derived that the scholars used different methods to gather data for their analysis. The most commonly used category is *Literature/documents*, while *Survey*, *Reports/company websites* and *Databases* are the second most used methods to gather empirical knowledge. This result is also supported by Dinh et al. (2023), who found that 67% of the studies they reviewed were based on desk-based methods. Some of the authors chose to use one method, Ortiz-Martínez et al. (2023) did an email survey, Aluchna et al. (2022) used a database and Primec and Belak (2022) reviewed reports from sample companies. Additionally,

other authors used multiple methods, such as Tamm and Gurvitš-Suits (2023) who did a survey and reviewed reports and Marco-Fondevila et al. (2018) who did a survey, gathered data through a database and searched on the internet.

To conceptualise the field of research the scholars presented different theories. Krasodomska and Godawska (2020) outlines that institutional theory, stakeholder theory and legitimacy theory often are applied as a framework when conducting research within the field of CSR practises. Whereas Ortiz-Martínez et al. (2023) and Dinh et al. (2023) partly agree but also add agency theory as relevant. Gallardo-Vázquez and Valdez Juárez (2022) and Cicchiello et al. (2023) also pointed towards resource theory as relevant for explaining and understanding tendencies within the practices of CSR reporting.

Common for the theories in focus is that they represent different perspectives to conceptualise the practices within CSR reporting. Balluchi et al. (2020) elaborated on institutionalisation and the effect institutions, rules and regulation have on companies due to implementation of CSR. Zioło et al. (2023), Stawicka (2021), Marco-Fondevila et al. (2018) and Dias et al. (2019) pointed out the importance of considering stakeholders in relation to CSR, because they are identified as valuable interested parties in the practices of the companies. Related to this the authors pointed out the pressures stemming from stakeholders to integrate CSR practices due to expectations and reputation. Based on this stakeholder theory can create a framework to analyse these pressures and driving forces to understand the implementation of CSR in companies.

## 2.4 Identified knowledge gaps

Concluding from the literature review, the implementation of the CSRD will inevitably lead to change in the sustainability reporting activities of companies. Due to the novelty of the directive and its new requirements leading to change in the current reporting regime, several research topics could be investigated. One important differentiation of research topics could stem from the choice to investigate companies within the scope of the CSRD or companies which do not fall under the CSRD. Through this literature review it was found that non-listed SMEs, which do not fall within the scope of the CSRD, are a significant part of Europe's economy and are thereby important to consider. Furthermore, the literature review revealed a knowledge gap regarding that non-listed SMEs in relation to sustainability reporting have not been subject to much scientific research yet. As ESG reporting remains voluntary for this group of companies, the indirect effect of the legislation on the SMEs are relevant to investigate. SMEs will have to face changes in the way they handle and communicate their ESG efforts due to the trickle-down effect of pressures posed by the new legislation. However, literature about SMEs' readiness to report on ESG due to different pressures has not been investigated yet, which leaves a knowledge gap about SMEs' adjustments related to the new ESG requirements. Understanding these pressures can contribute to provide recommendations for how SMEs can handle these pressures and how sustainability reporting can be a tool to deal with information requests. As found in the literature SMEs currently tend to pursue rather informal ESG measures which will likely have to become more structured, and more formal ESG frameworks need to be adapted due to information requests and stakeholder pressures. Therefore, it is deemed necessary to include the perspective of change in this research and address how SMEs can undergo a transition regarding getting ready for ESG reporting.

In order to understand the pressures SMEs are going to face, choosing the methodological approach of interviews seems appropriate. Conducting interviews and using case study are not the most commonly used methods in the reviewed literature. It is thereby found relevant to include these methods in this thesis to provide an additional perspective to existing literature. For this specific research it is found relevant to get close contact to SMEs in order to get a deep understanding of the dynamics pressuring SMEs in the context of ESG reporting. By using these two methods, this research will be able to shed light on issues that have not yet been explored from a methodological angle providing new insight to the topic.

Due to the novelty of this field of research, the focus on SMEs as the main subject and the methodological approach chosen, this research differentiates from already existing studies. Therefore, this research can contribute to fill the knowledge gap about how SMEs can prepare for the pressures they will face and how they can become ready for ESG reporting to live up to the future requirements.

# Research question 3

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Through reviewing existing literature about sustainability reporting legislation and its impacts on SMEs it became clear, that there is a need to further investigate this field of research. It is found, that especially a focus on the impacts of the legislation on non-listed SMEs is relevant, since they are outside the scope of the CSRD, but still face pressures stemming from this new legislation. Based on the identified knowledge gap in section 2.4, regarding lack of scientific research on how non-listed SMEs can get ready for ESG reporting, the following research question was found relevant to be investigated and builds the basis for this research.

***With a growing pressure for ESG data, how can Danish non-listed SMEs prepare for ESG reporting according to the VSME standard and live up to future requirements?***

As stated, this research provides a different angle on the topic of sustainability reporting due to the focus on non-listed SMEs. Therefore it is found relevant to examine the pressures these SMEs will have to face in a changing business environment, where sustainability information gains relevancy due to legislative, societal and market pressures. By examining this field of research, it contributes to expanding the knowledge, provides a basis for recommendations and thereby can enable SMEs to become ready for ESG reporting and live up to future requirements.

Derived from the main research question, the following three sub-questions were developed. These sub-questions guided the research process and provided structure. Thereby they built the steps, which led to answering the main research question.

1. *From an institutional perspective, what pressures SMEs to report on ESG?*

Since the non-listed SMEs are outside the scope of the CSRD and therefore are not legally obliged to do ESG reporting, it is relevant to understand and investigate the underlying pressures that they are experiencing to report on ESG. This is seen from an institutional perspective to understand how the regulative, normative and cultural-cognitive contexts define a new set of rules and standards which the SMEs have to live up to, which constitute indirect pressures. With the purpose of understanding the reporting context non-listed SMEs are working within and the requirements they have to comply with, the analysis of this sub-question will map out these different pressures, where they stem from and how they are interlinked to answer this sub-question.

2. *What are the gaps between the requirements in the VSME standard and the current state of the case companies?*

To determine how the non-listed SMEs can prepare for ESG reporting it is essential to understand what is required from them in the VSME and compare it with their current reporting

state. By answering this sub-question it is possible to learn how many of the data points in the VSME the SMEs can currently deliver data on and hereby determine their readiness through a gap analysis.

3. *How can transition be facilitated within the SMEs to foster their readiness regarding ESG reporting?*

After the identification of pressures and the determination of readiness for ESG reporting within case companies, recommendations to facilitate a transition to foster ESG reporting is made. These recommendations will primarily take their outset in the conducted interviews and transition management to learn how transition can facilitate readiness within the companies for them to work with ESG reporting and hereby live up to already existing and future requirements.

### **Limitations**

The geographical scope of this research was chosen to be mainly focused on a Danish perspective. This was done to gain insights about one country, enabling the researchers to draw conclusions from a Danish perspective and provide recommendations to Danish SMEs. Additionally, EU legislation is implemented differently into the various member states' legislation, meaning that focusing on one country provides a better opportunity for comparison, since the legislation is the same across the country. This ensures the relevance of the research from a Danish perspective and increases the applicability of the results to Danish SMEs. Nevertheless, for contextualising the pressures SMEs face due to the change in legislation, a European perspective was added to explore these pressures due to the legislation stemming from an EU level. The case studies are thereby on a Danish level, whereas the investigation of pressures is on an EU and Danish level. This contributes to a broader understanding of general pressures SMEs face.

For this research it is chosen to focus on non-listed SMEs, since the CSRD is not covering this group of companies. This leads to the limitation that no further conclusions can be drawn for, for example large entities or listed SMEs.



# Research design and methodology 4

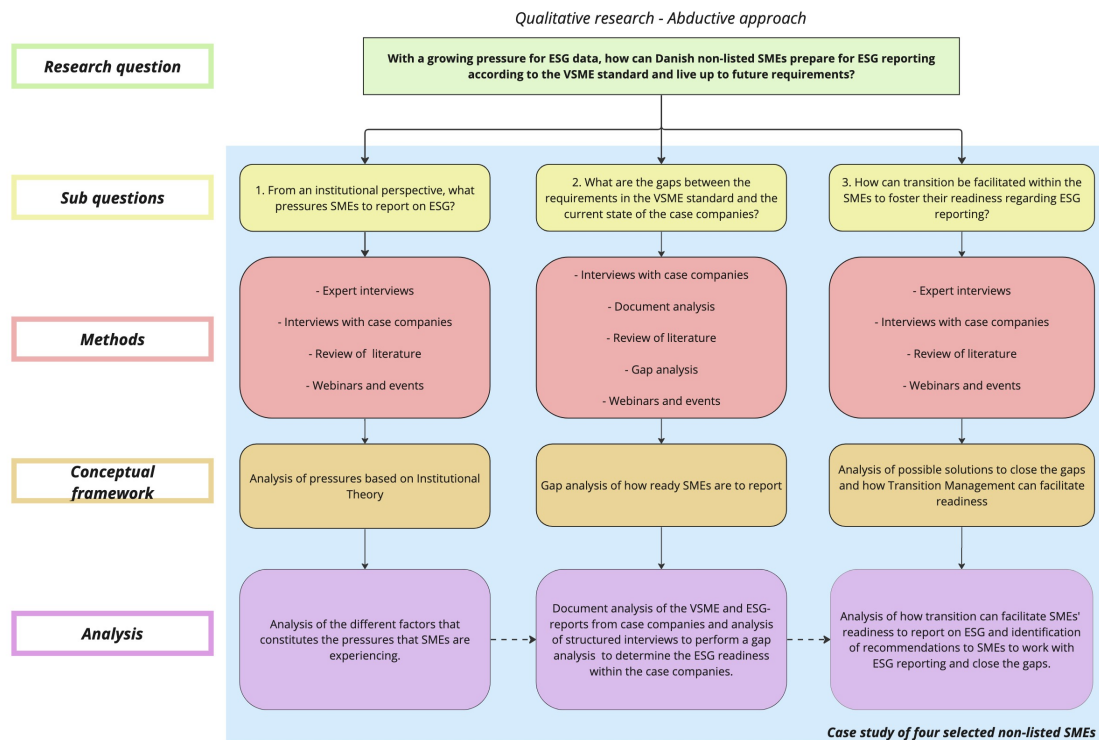
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*To investigate the topic of research from different perspectives, multiple methods were applied. In this chapter an overview of the methods, their application in the thesis and how they are interlinked are presented. This is further illustrated in figure 4.1, which represents a holistic overview of the research design, the case study and the methodological framework. With a basis in the research design, the following sections are attributed to the included methods, which consist of the state of the art literature review, interviews, document analysis, gap analysis and data collection through events, webinars and grey literature.*

## 4.1 Research design

The literature review presented in chapter 2 clarifies through section 2.3, that previous studies in this topic of research used several methods. Some were solely qualitative, some only used a quantitative approach, while some scholars found mixed methods as the best way to research. This research is based on a qualitative research design. As Creswell (2014) points out the qualitative approach is relevant when the researcher seeks to understand and study a societal problem and what meaning others relate to this. This study acknowledges that there is a growing social phenomenon, which can be seen in the first part of the research question by stating that there is a *growing pressure for ESG data*, which has its argumentation in the presented literature review. Additionally, the research question also seeks to study and understand the position of others in this societal phenomenon, which the last part by asking *how can Danish non-listed SMEs prepare for ESG reporting according to the VSME standard and live up to future requirements?* is a representation of. Relating this to the description Creswell (2014) presents, entails that the qualitative approach fits for the purpose of this research. This also complies with the social constructive worldview where individuals' perceptions of the world are affected by subjectivity and experiences (Creswell, 2014). Which is related to the objective in this thesis to learn about the phenomenon of ESG reporting within Danish non-listed SMEs, by engaging with case companies, to get their perspectives on the phenomenon and understand it in relation to their specific contexts. To enable this, some of the qualitative methods in this case study reflected this purpose, including the interviews which opened up the opportunity for dialogue. Based on this, the interviewees could construct their own perception of the phenomenon according to their context and elaborate on it, which generated new perspectives on this novel field of research. Related to the novelty of this research area, an abductive approach was applied. According to Kovács and Spens (2005) this approach applies in studies, where a phenomenon is investigated from new perspectives, which results in creating new knowledge about it. Related to this specific research the existing phenomenon is ESG reporting, that is seen from the perspectives of SMEs, which compared to the findings in the literature review in chapter 4.2 is not a commonly researched area.

To assure that all parts of the research were processed, a research design was developed. Farthing (2016) points out the necessity of making a research design, to structure the process and keep an overview.



**Figure 4.1.** Overview of how the research is structured and how the different parts together constitute a flowchart based on the interlinkness

The research design presented in figure 4.1 illustrates the plan for how the researchers seek to move from the initial phase, the creating of the the research question, to the last phase which is answering the research question by analysing the data collected and drawing conclusions based on the findings.

This research design is color coded to illustrate the different parts which the research design consists of. In this thesis the research builds upon a research question, which is marked green and placed in the top. This visualizes that the research takes its point of departure from this question. Additionally, the research is based on three sub-questions, which are colored yellow, and are placed underneath the research question. Each sub-question has a connected set of methods, showing the specific methods that are used to answer the respective question. Creswell (2014) elaborates on four different data collection methods, when conducting a qualitative study, including making qualitative interviews and studying qualitative documents. These two methods are, as shown in figure 4.1, the dominant ones in this thesis, and they are further elaborated on in this chapter. The conceptual framework is colored in orange, and shows which theory and concepts are used for the respective questions. Colored in purple, the analytical purposes illustrate the objectives for answering the sub-questions in this research. The dotted arrows between the analyses indicates that knowledge gained from the different analytical parts are used as a basis of knowledge for the upcoming analysis. Meaning that the research was conducted in an chronological order, to get the full context of the investigated field. The research is designed as a

case study, which is elaborated on further in this section.

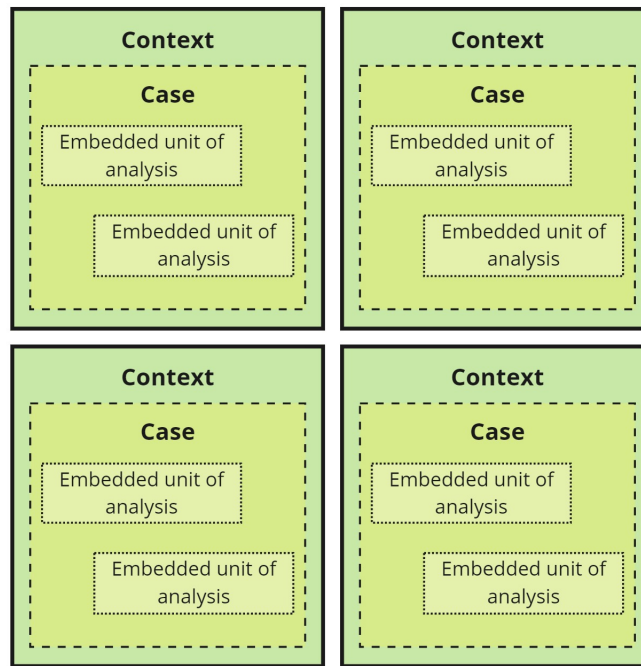
The research design has both internal and external value. The creation of it has worked as a means to construct the research and structure it, which helped to simplify the study. The process led to reflections and discussions, and supported the iterative process as this is inherent when conducting a study. This includes that each sub-question has been through a justification process, since the researchers thereby reflected on the questions' relevancy and how they are related to the entire thesis. Externally the research design provides transparency, which helps the reader to understand the underlying work and considerations that have been a part of the process. The trustworthiness of studies and the conclusions that can be drawn from them are vitally important and the transparency that research design provides helps to achieve this (Farthing, 2016).

#### 4.1.1 Case study design

This research was designed based on a case study approach, due to the interest of exploring the current status of readiness in SMEs and how they can prepare for ESG reporting. By designing the research as a case study it allows for a qualitative in-depth study of the chosen cases that takes real-world situations into account (Yin, 2009; Priya, 2020). The methods used for empirical data collection to conduct the case study are interviews and document analysis, as shown in figure 4.1, which are described further in this chapter. There are three different kinds of case studies, which are descriptive, explanatory and exploratory, and are defined as follows (Priya, 2020):

- **Descriptive:** The objective is to depict a phenomenon within the context of its real-world.
- **Explanatory:** The objective is to explain a phenomenon, like why and how the phenomenon exists.
- **Exploratory:** The objective is to study a phenomenon in order to identify and explore new research opportunities.

This study can be classified as a descriptive and exploratory case study, since this study explores the pressures SMEs are facing and recommendations to adjust to the growing pressure, which is a new field of research where findings can lead to further research in the future. Additionally, the current status of SMEs' ESG reporting is investigated with a more descriptive approach, to depict a real-world phenomenon. Furthermore, there are different types of case designs, which are defined by whether or not the study is single-case or multiple-case and if it is holistic or embedded (Yin, 2009). With this study's purpose to investigate and compare different SMEs, the case design is thereby an embedded multiple-case design with four cases, which is illustrated in figure 4.2



**Figure 4.2.** Illustration of an embedded multiple-case design based on Yin (2009)

By doing an embedded multiple-case study it allows to investigate different individual cases without pooling the results of the different cases into one overall case, making it possible to take differing factors from each case company into account (Yin, 2009). Furthermore, the cases are embedded since the data collection related to the cases are used for different analyses parts, which means there are multiple units of analysis related to each case. The context of the cases are different from each other, due to this research's focus on investigating different sectors and companies who are at different stages related to ESG reporting. By doing a multiple-case study it allows to show some level of repetition in the results and can help to illustrate if there is any patterns (Yin, 2009).

#### 4.1.2 Selection of cases

The included cases were selected based on various criteria which are listed below, and explained further in this section.

- Companies from different sectors
- Companies who are at different phases regarding ESG reporting
- Danish non-listed SMEs, who are not owned by larger, listed or foreign companies
- Companies who have more than 10 employees

The selection process was influenced by the method of choosing the *"Most Different Cases"*, which means that the cases selected for this study needed to have a certain factor in common, while differentiating on other parameters (Seawright and Gerring, 2008). This was chosen to create maximum variation between the selected cases, to take differences from companies into account. Here the dependent factor that is common across all cases, is that the companies are Danish non-listed SMEs. The independent factors where the cases differ from one another are related to their current status regarding their ESG work and reporting, as well as what industry

the companies represent. It is important to note that there are certain limitations when a study is conducted as a case study, where only a few companies are assessed. This means that it is limited how generalised the results from the case study will be since the companies are not broadly representing all businesses (Seawright and Gerring, 2008).

This research investigated Danish non-listed SMEs in relation to the VSME standard, therefore companies chosen as a case have to be SMEs, Danish companies and not listed on the stock market. SMEs are mainly defined by the EU to be companies that do not exceed two out of the three criteria being less than 250 employees, have a turnover below 50 million euro and a balance sheet total below 25 million euro (European Commission, 2024). This definition was used when finding case companies, to ensure that the companies were categorised as SMEs. However, it was decided to focus on SMEs with more than 10 employees, and thereby leaving out micro enterprises from this study. This was both, to limit the possible size difference, and because it was highlighted through the literature review that SMEs often have less resources, thereby it is imagined that micro companies would likely have less resources in regards to reporting. Following the Danish perspective in this research, the case companies were chosen to be companies who are not owned by foreign companies. This ensured that the context of how the CSRD requirements are implemented in national law are the same. Lastly, the companies chosen for the case study were also not owned by listed companies or large entities. This was chosen because large companies and listed SMEs have, or will have, their own standards to follow and will not report according to the VSME. Furthermore, this eliminates the possible effect that owned SMEs which are part of a group, will be included in the sustainability report of the large or listed company. Since the VSME is not sector or industry specific, this research is not limited in that regard. By choosing cases from different industries this will help to investigate the VSME standard in relation to different industries.

With the purpose to find case companies different methods were used. The process started with reaching out to different business hubs (Erhvervshuse) in Denmark and Dansk Industri (DI), to begin the process of getting in touch with SMEs. This was done because they work with many companies in Denmark, which enabled them to take advantage of their network. However, this method did not lead to any companies being interested in participating in the study, which initiated another more direct process where different SMEs were contacted directly. Different methods were chosen to find possible case companies. One approach was to look at companies who have participated in public cases related to ESG reporting, when looking for SMEs with ESG reports. The public cases were for example found on DI's website in relation to their program related to making production companies ready for climate accounting. Another approach was to search on proff.dk, a database of all Danish companies, to find SMEs based on publicly available information in the database. Here search functions such as number of employees, turnover or balancesheet and type of company were used. Some companies were also found by using Google, searching for different types of companies. All companies were investigated through proff.dk and their websites before selecting them as a case. Through this process four SMEs agreed to take part in this study. The companies are listed in table 4.1, where they are defined by their industry, number of employees and their work related to the ESG.

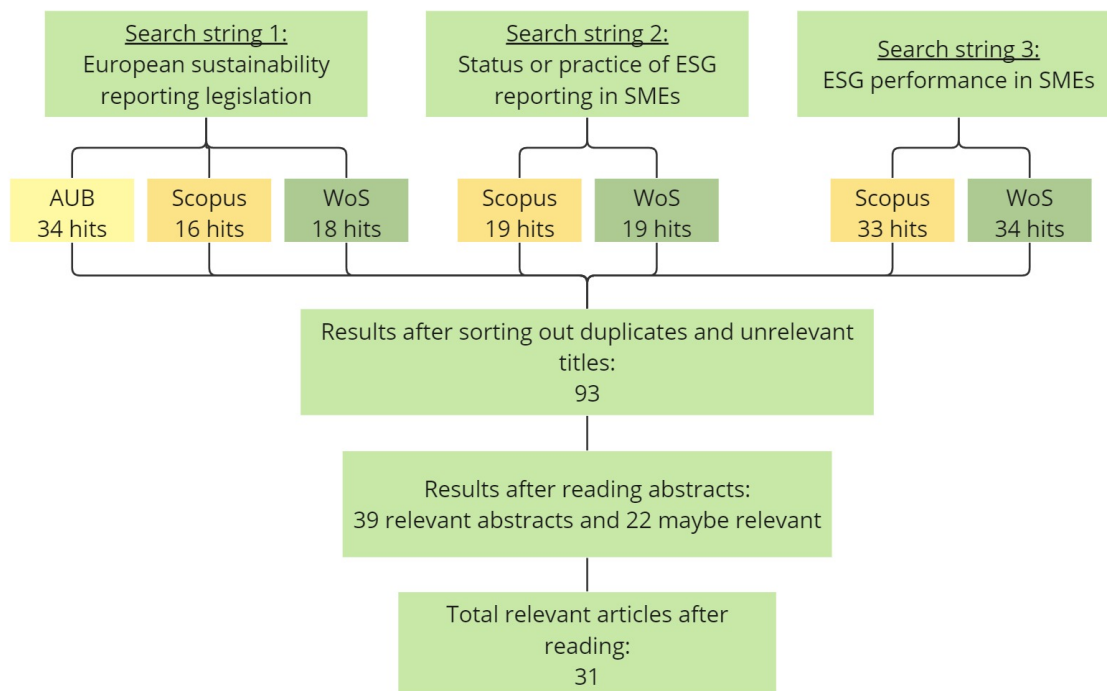
Company	Industry	Number of employees	ESG Report
Australian Bodycare ApS	Cosmetic	~40	Yes
Base Erhverv A/S	Construction	~25	Yes
MarMar Copenhagen ApS	Fashion	~30	No
Tasklet Factory ApS	Software	~50	No

**Table 4.1.** Overview of the selected case companies

## 4.2 State of the art literature review

Farthing (2016) points out the importance of the research question when conducting a study, and related to this reflects upon the necessity in finding a relevant research question and justify it. To do so a review of existing literature was conducted. Through this it was possible to identify aspects that have already been studied, and thereby also identify gaps in existing literature. In chapter 2 the review is presented, and based on the findings a justification for the study is provided. Thus, the state of the art literature review formed the majority of the initiating work. It was chosen to keep broad themes to secure an openness and ensured that the findings were conclusive for the development of the study.

To structure the literature review, a planned methodology was followed, as seen in figure 4.3. This included creating search strings that provided the researchers with valuable insights, finding relevant databases to search in and lastly limiting the literature through an iterative process.



**Figure 4.3.** The process of limiting and sorting literature for the literature review. *Maybe relevant* indicated that the articles needed further reading in order to determine relevancy.

Since the topic of this research is new, the researchers focused on not limiting the results of the literature review in the beginning of the process. To capture a broad variety of existing literature in this field three search strings were developed. The three search strings cover the three main points of the study, which are European sustainability reporting legislation, status or practice of ESG reporting in SMEs and ESG performance in SMEs.

Search string	Databases	Search criteria	Hits
<i>(EU OR "European Union") AND ( ESG OR CSR) AND (CSRD OR NFRD) AND (Report* OR standard*)</i>	Scopus	2020-2024 Articles, books and book chapters Only English	16
	Primo	2020-2024 Articles, books and book chapters Only English Peer reviewed and available online	34
	Web of Science	2020-2024 Articles Only English	18
<i>(SME* OR "small enterpris*" OR "medium enterpris*" OR "small and medium enterpris*") AND (ESG OR CSR* AND Report*) AND (status OR practice*)</i>	Scopus	2020-2024 Articles, books and book chapters Only English	19
	Web of Science	2020-2024 Articles Only English	19
<i>(SME* OR "small enterpris*" OR "medium enterpris*" OR "small and medium enterpris*") AND (ESG OR CSR* AND Report*) AND (perfomance OR strat* OR target* OR objective*)</i>	Scopus	2015-2024 Articles and book chapters All English	33
	Web of Science	2015-2024 Articles All English	34

**Table 4.2.** Overview of the three search strings, databases used, search criteria and hits found

The search strings were developed with different purposes, which is reflected in the wordings, but also the search criteria. The purpose for integrating the first search string was to get a broad perspective on the CSRD and how this influences reporting within the EU. Whereas the second search string includes SMEs and therefore scopes the literature to include the perspectives of specific companies. Furthermore, the search is specified on how SMEs practice reporting and hereby what the status is. Lastly, the third search string extends the review by focusing on the performance of companies and how they use strategic tools in the work with ESG and CSR. The development of the three search strings was an iterative process in the beginning, where different terms were tested. Additionally, the database Scopus and the filters it provides were applied to validate the search strings. This was especially the knowledge the researchers could gain from getting an overview of the *subject area*, *keywords* and *years*. After testing different terms and search strings, the three search strings used for the literature review were selected.

All three search strings have the same criteria with an exception of the time frame for publication, which is related to the purpose of the search. As seen in table 4.2 in the first and second search string the same time frame from 2020 to 2024 was applied. In this period the CSRD was implemented, why it was relevant to search for the newest literature in the field. Whereas the third search string differs with a time frame from 2015 to 2024 as this search string strives to investigate ESG performance in SMEs and is thereby not tied to the enforcement of the CSRD. Based on this choice the search was opened up, which is also seen in the amount of hits, and it gave the researchers the opportunity to investigate how reporting, strategy and performance are interlinked.

After the search strings were developed, different databases to search within were selected. Scopus and Web of Science were the ones that were primarily used, while Primo was used for the first search string only. Primo was only used for the first search string based on the sorting tools in Primo, which made it hard to get relevant literature related to the two other search strings. The initial search of the literature review resulted in 173 hits. The next step was to sort out duplicates which reduced the number of hits to 93. To limit the amount of hits further and identify the most relevant literature for this research, the literature was sorted by reading the titles and the abstracts. This part of the reading was a systematized coding of the literature, where literature was classified in "*included*", "*excluded*" and "*maybe relevant*". To create coherence in the sorting process a list of principles, according to which articles were sorted out:

- If the abbreviation "CSRD", "ESG" or "CSR" stands for something not related to sustainability reporting or when the abbreviations are just mentioned as examples in another context
- If it is clear in the abstract that it is too focused on ONE very specific case, for example a specific sector in a specific regional area
- If the abstract shows that the article has no connection to the EU
- If the abstract is not relevant for any of the three themes

As figure 4.3 illustrates this resulted in 39 hits which were deemed relevant, while 22 were categorized as "*maybe relevant*". To reduce subjectivity, all of the researchers assessed the literature in different phases.

The last part of the process was to read through the remaining literature to assess its relevancy. To make the assessment and structure the literature, notes were taken according to four different topics:

- The development of regulation for sustainability/ESG reporting
- The current status of ESG reporting in SME
- The quality of ESG reporting and increase in performance in companies
- Overview of methods and theories used

Through clustering the read material it was possible for the researchers to condense the information. As Creswell (2014) points out, qualitative research can be very rich on information, which is why it is necessary to make some strategies to conduct the information to navigate in it.

As the result of sorting the literature according to the described process 31 articles remained and were used in the initial phase of the study. An overview of the relevant articles can be found in appendix A.1.



### 4.3 Interviews

To gather qualitative data and gain deep insights in the topic of the research, multiple interviews were conducted. As stated by Brinkmann and Kvale (2018), interviews are often used in qualitative approaches to gain a holistic understanding of the research field. Furthermore, it was found by Brinkmann and Kvale (2018) that interviews are a common method in case study scenarios, where there is a specific focus on a case person, situation or institution. Aligning with this, it was chosen for this research to conduct interviews with representatives from the selected case companies and with experts in the field. Through the expert interviews it was possible to identify pressures that SMEs are exposed to due to the new legislation. Through the interviews with representatives from the case companies, experiences regarding sustainability reporting in Danish SMEs were revealed. The inclusion of different interviewees allows for gaining knowledge on different levels. The chosen experts contributed with a broader outside perspectives due to their expertise and their respective professional positions. While the representatives from the case companies contributed with in-depth knowledge about their current ESG work and the exact pressures they are experiencing.

Inspired by a guideline provided by Brinkmann and Kvale (2018), the interview process was structured according to the guideline. A description of the process and its application in this research can be seen in table 4.3.

Process by Brinkmann and Kvale (2018)	Applied here
<i>Thematising</i>	The topic of the interview was defined
<i>Designing</i>	An interview guide was prepared and sent out to the interviewees
<i>Interviewing</i>	The interview was conducted and recorded
<i>Transcribing</i>	Using the transcription function of Microsoft Teams and correcting the transcript using the recorded file
<i>Analysing</i>	Transcripts were analysed using categories
<i>Verifying</i>	The findings from the interviews were reevaluated against the purposes of the interviews
<i>Reporting</i>	The results of the interviews were reported and statements in the report were approved by the interviewees

**Table 4.3.** Interview process according to Brinkmann and Kvale (2018) and the application in this research

These steps provided structure through the interview process and ensured relevancy and validity of the interviews. The process was followed as described for both the expert interviews and the interviews with the case companies. All interviewees were given the choice whether they would like to be anonymised or be referred to by their name, as Brinkmann and Kvale (2018) suggested to do.

Interview guides were sent out to the interviewees before the interview. Most interviews were conducted online using Microsoft Teams (Teams), where the options to record and transcribe the interview were applied. One interview was conducted over a phone call, where notes were taken. After the interviews the transcriptions were corrected through listening to the recording. The transcriptions and notes can be found in the external appendix.

### 4.3.1 Expert interviews

The expert interviews were conducted using a semi-structured approach, meaning that an interview guide was prepared but deviation from it was possible to further explore certain points (Brinkmann and Kvale, 2018). This approach was considered relevant in the setting of the expert interviews since the purpose here was to get a broad understanding of ESG reporting related to SMEs. In order to obtain these detailed insights it was deemed necessary to encourage the interviewees to use their full expertise through open questions, without restricting their inputs.

While preparing the interview guides, the quality criteria defined by Brinkmann and Kvale (2018) for semi-structured interviews were used. Following the quality criteria, the interview questions strove to enhance specific, relevant and detailed answers and enabled the verification of the interpretation of answers during the interview. By following these criteria it was ensured that the interview was inherently consistent and self-explanatory, requiring no further explanation afterwards (Brinkmann and Kvale, 2018). An overview of the expert interviews and their respective purpose can be found in table 4.4.

Organisation	Title	Name	Purpose	Date	Duration	Format
SMEunited	Director Enterprise Policy & Legal Affairs	Sophia Zakari	European SMEs' perspectives on developments in the ESG field and to comprehend the pressures they are facing in this regard.	02.05.24	39 min	Online (Teams)
Transition	Head of ESG	Mathias Selchau Majlund	Perspective of Danish SMEs' towards ESG requirements and consultancy perspective towards ESG in SMEs.	07.05.24	26 min	Phone
Dansk Industri	Climate Consultant	Frederik Bo Rosenquist	Understand how Danish SMEs work with ESG, and his experinced in advising SMEs in his professional work.	01.05.24	53 min	Online (Teams)

*Table 4.4.* Overview of Interviews with Experts

### 4.3.2 Interviews with case companies

Within the framework of conducting case studies, interviews were used as a tool to gather knowledge about the specific companies and learn about their current ESG activities and existing or planned organisational structures regarding ESG. The choice to conduct interviews with the case companies was in line with Yin (2009) who stated that diverse methods can be applied for the framework of case studies, keeping in mind that the chosen method has to fit the purpose of the study. It was considered relevant to engage with representatives of the case companies through interviews, as this was crucial for the understanding of the current situation of the company.

The interviews with the case companies were divided into two parts. The first part consisted of a structured interview, functioning similarly to a survey, with questions based on the VSME standard. The purpose of this was to investigate to what extend the case companies could comply with the information requests, which are currently included in the VSME draft. Through this approach it was possible to conduct a gap analysis between the available ESG data in the SMEs compared to the requirements formulated in the VSME standard, with the purpose to determine their readiness based on the gap analysis.

The second part of the interview was conducted using a semi-structured approach, where as in the expert interviews the interviewee was encouraged to elaborate on the questions and deviation from

the interview guide was allowed. An example of an interview guide can be found in appendix A.2. This approach was taken to enable a more flexible conversation and explore topics which came up during the interview (Brinkmann and Kvale, 2018). As stated in section 4.3.1 the quality criteria from Brinkmann and Kvale (2018) for semi-structured interviews were applied here as well.

The interviews were conducted with representatives from the case companies, who were either part of the ESG structure in their company or were going to be involved in ESG work in the future. The interview questions were sent out to the interviewees beforehand, in order to ensure they would have time to prepare for the interview. The questions asked were adjusted in the semi-structured part of the interview, to fit the current status of the company regarding ESG reporting.

An overview of the interviews conducted with the representatives of the case companies can be seen in 4.5.

Company	Title	Name	Date	Duration	Format
Australian Bodycare ApS	ESG Manager	Thomas Thingstrup Mehlsen	24.04.24	55 min	Online (Teams)
Tasklet Factory ApS	Cheif Financial Officer	Jacob Vestergaard Nielsen	19.04.24	42 min	Online (Teams)
MarMar Copenhagen ApS	Purchaser	Camilla Lyngholm	08.05.24	36 min	Online (Teams)
Base Erhverv A/S	Communication & Pre-qualification	Elise Utzen Keller	07.05.24	52 min	Online (Teams)

**Table 4.5.** Overview of conducted interviews with the case companies

To process the findings in the interviews for the purpose of identifying points relevant for the different parts in the analysis, coding and thematization of the transcriptions were used. These were:

- Compliance with data requirements within the VSME
- Experience with ESG work
- Pressures to work with and deliver ESG data
- Positive and negative aspects with working with ESG
- Motivation to work with ESG
- Structure in the current or future work with ESG

When coding the structured part of interviews the first theme *Compliance with data requirements within the VSME* was used to evaluate whether the companies were able to comply with the requirements or not. In this the colors, red, green and yellow were used to differentiate the answers. Red was used when the case company **could not** deliver data to fulfill the requirements, green was used when they **could** deliver data, while yellow was used, when the interviewee stated that they could **partially** deliver data.

## 4.4 Document analysis

To answer the research question and the sub-questions two different types of document analyses were carried out. The different documents include legislative documents and sustainability reports prepared by chosen case companies. Hereby it was chosen to include both publicly available documents, and private documents from one of the case companies, as Creswell (2014) points out

as two categories of documents to include in a document analysis. According to Priya (2020), document analysis is a valuable method for data collection, when performing a case study.

#### **4.4.1 Sustainability standard**

To understand the requirements that non-listed SMEs have to prepare for, the *Voluntary ESRS for non-listed small- and medium-sized enterprises (VSME ESRS)* drafted by EFRAG (2024c) was analysed. When this thesis was written the VSME standard was undergoing public consultation, however it was assumed that the standard would not change drastically when finalised. The document analysis of the standard had the purpose to identify indicators for the readiness of the case companies. This was practiced by making a gap analysis to compare the current ESG status of the companies with the data requirements within the standard.

To structure the document analysis for the purpose of identifying relevant points for the gap analysis, coding of the content was done during the reading. Creswell (2014) stated that this is an appropriate method to structure and categorise findings. The coding was based on certain themes, which were prepared before the document was analysed. These themes were:

- Objective and scope of the VSME
- The purpose of the modules
- Information requirements in the three modules
- The distribution of information requirements within the modules
- The balance between quantitative and qualitative information requirements
- Information requirements versus describing strategies and targets related to sustainability
- Guidance provided in the VSME

#### **4.4.2 Sustainability reports from case companies**

Since none of the studied companies were obliged to report on ESG, the ESG reports from Australian Bodycare ApS and Base Erhverv A/S were prepared on a voluntary basis including contents covering what the companies deemed necessary. The reason for the case companies to voluntarily report on ESG was not identified through the document analysis, but rather in the interviews. The purpose of the document analysis was to identify content that the case companies found relevant in order to be able to compare the disclosures in their reports with the requirements in the VSME. It was acknowledged that by the time the case companies prepared their reports the VSME was not published yet, which is why the reports did not follow the VSME standard but they still provided insights of data disclosures the companies could provide and deemed relevant. Therefore, it was relevant to make a gap analysis, which examined the differences and similarities in already published reports and the VSME.

The topics that were considered while examining the reports, took inspiration in the topics defined for the analysis of the VSME standard. This was done to ensure that similarities from the ESG reports and the VSME standard could be identified. Furthermore, topics were considered while reading the reports which strove to identify discrepancies and where the ESG reports disclose information which go beyond the requirements of the VSME standard. A list of the themes for analysis is shown in the following:

- Objective and scope of the ESG report
- The content and data disclosures aligning with the VSME requirements
- The content and data disclosures exceeding the VSME requirements
- The balance between quantitative and qualitative information
- Description of strategies and targets related to sustainability
- Amount of disclosures provided for environmental, social and governance topics

## 4.5 Gap analysis

As stated by EFRAG (2024), the VSME has the purpose to define a baseline of data points and shall enable SMEs to deal with data requests they might have to comply with in order to fulfil requirements from larger companies. Furthermore, EFRAG (2024) expects that the VSME will be recognized as a widely accepted standard for data requests, which could contribute to limit the burden SMEs experience through the broadened scope of the CSRD. Hereby, in this thesis it is determined that the desired state of the SMEs, related to working with ESG, is to comply the data requests within the VSME standard.

To provide recommendations to the SMEs on how they can prepare for ESG reporting according to the VSME standard it is necessary to get an understanding of the span between their current state and the requirements in the standard. Therefore, the method gap analysis, was used to investigate the differences between the SMEs' actual ESG work including the data they have and the data they are expected to have based on what is required in the VSME (Bhat, n.d.). Hereby the gap analysis has the purpose of identifying the difference between what the SMEs can currently deliver data on and what is required of them, which can clarify what data points they are ready to report on and which they are not. This can scope the work with preparing the SMEs to live up to the requirements because this method highlights where the gaps are and hereby where initiatives to close the gaps are needed (Bhat, n.d.; Kim and Ji, 2018).

There are two different levels of making a gap analysis which are strategic and operational. The strategic level focuses on comparing a company's situation to a industry standard, whereas the operational level is focused on where the company is and where it desires to be (Bhat, n.d.).

When working with gap analysis there are four main steps that are followed in order to investigate the gap. These steps are as followed based on Kim and Ji (2018):

1. Identifying the present state of the company
2. Determining the desired state of the company
3. Highlighting gaps that need to be closed
4. Implementing plans to close the gaps

These four steps constitute a part of the framework to analyse the readiness of the case companies and will be further elaborated on in section 5.2.

## 4.6 Data collection through events, webinars and grey literature

Due to the novelty of the field of research, it was relevant to expand the sources of gathering information to webinars and events held on the topic and grey literature. Through the initial research it was found that most research regarding this field was published in 2023 or earlier before

the draft of the VSME was published. Events, webinars and grey literature thereby provided updated information on the newest developments within this field. Thereby it was possible to gather insights into the topic and get up-to-date information. In particular, as the draft standards for ESG reporting of SMEs (VSME and LSME) were first published in January 2024, participation in webinars and events provided an opportunity to gain insight into stakeholders' views on these standards. Getting these insights was important to investigate the first research question, regarding what pressures SMEs to report. Furthermore, it was relevant to gain this understanding of the general context of research and thereby the information gathered through this method were also used for developing recommendations. Through the wide field of participants and interactive design of the webinars, inputs from various stakeholders were gathered.

An overview of the webinars and events that served as a source to collect data through participation is found in table 4.6.

Date	Organisation & Type	Title	Main points
20.02.24	EFRAG Webinar	Public consultation outreach event for SMEs	Described the VSME and LSME standards SMEs had the chance to state their opinions
09.04.24	PwC In-Person Event	ESG: From compliance to value creation (translated)	Two large companies presented their status on ESG reporting Consultants provided an overview on how ESG reporting can be done Reasons to start ESG reporting were provided
09.04.24	E-SG.cloud Webinar	ESG-reporting for you in SMEs (translated)	How can SMEs begin to report about ESG Presentation of a tool SMEs could use to do ESG reporting
10.04.24	DRSC and EFRAG Webinar	Public discussion of EFRAGs sustainability reporting standards for SMEs (LSME and VSME) (translated)	VSME and LSME standards were presented by EFRAG DRSC presented findings regarding the acceptance of the standards Public discussion about the VSME and LSME standards
17.04.24	Belgian EU Presidency In-Person Event	Belgian Circular Economy Forum	Understanding ESG efforts from different perspectives Enhancing the understanding for the need to change business practices Participation in two workshops regarding Circular Economy

**Table 4.6.** Overview of webinars and events including the date, the place, the organiser, the event type, the title and the main points

Grey literature was also considered a relevant source to gather up-to-date information. For the process of gathering this information, it was ensured that the sources had relevancy to the project and were accurate based on the organisation publishing or collaborating on it. Well known organisations such as Dansk Indursti, Dansk Erhverv and Energistyrelsen were main sources for the grey literature as they are important contributors for shaping a sustainable business landscape in Denmark. They also organise events and provide knowledge for SMEs to become ready for ESG matters, which relates to the topics investigated in this thesis. Furthermore, ESG reports from two case companies were used as grey literature as they provide a source for exploring the current status of reporting in these companies. Therefore, it was possible to gain further insights in the case companies' ESG efforts and broadening the sources included in the analysis. Categories of grey literature documents can be seen in the following:

- Related to ESG or sustainability in SMEs
- Reliable organisations as publishers
- Documents from case companies

# Conceptual framework 5

*This chapter sets out to describe the conceptual framework applied in the thesis to analyse and answer the research question and the sub-questions. The conceptual framework consists of two main theories and a description of how readiness is determined in the analysis. Through these descriptions the chapter unfolds how certain concepts are understood, viewed and analysed in this research. Institutional theory is a part of the framework by using it for investigating current pressures on SMEs to report on sustainability. The way which this thesis determine readiness within SMEs to report on sustainability is explained by using gap analysis. Transition management sets a frame for how a transition towards reporting and sharing of data can take place in SMEs. Lastly, this chapter presents the entire conceptual framework as one unit to show how the different elements construct the entire framework.*

## 5.1 Institutional theory

Institutional theory investigates social structures and rule systems and provides a framework for how to understand why structures such as rules, norms and routines become well-established guidelines for social behaviour (Scott, 2005). The theory has its roots in different sciences such as economist, political and social science, which means there are many different variations of institutional theory. This thesis is mainly focusing on the attribution to the theory made by W. Richard Scott, who has combined multiple institutional perspectives into one framework in order to define what comprise an institution (Scott, 2005). According to Scott (2005) there are three main pillars that build up institutions, which are regulative, normative and cultural-cognitive, an overview of these pillars can be seen in table 5.1.

	Regulative	Normative	Cultural-Cognitive
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of actions
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

**Table 5.1.** Overview of the three pillars of institutions (Scott, 2005)

The pillars are made up of different elements that depicts how the pillars vary from each other, each one of them representing various theoretical directions that can be used for explaining and investigating institutions (Scott, 2005). The three pillars are thereby functioning in varying ways in order to stabilise social behavior. Furthermore, it is important to note that institutions vary among themselves and that different elements of the institutions may be more dominant at different times or among different social groups (Scott, 2005).

The first pillar is the *regulative* dimension, which refers to how formal and regulative rules effect social behaviour, that are uphold by legally sanctioning acts that goes against the formal rules. This dimension thereby highlights how for example laws, regulation, contracts or legal systems shape societal structure and processes (Geels, 2004; Scott, 2005). The second pillar represents the *normative* dimension, which covers the internalised rules that stem from socialisation processes. This dimension includes rules such as norms, values, responsibilities, expectations, duties and rights (Geels, 2004; Scott, 2005). *Cultural-cognitive* is the last pillar, which represents sense-making, nature of reality and belief systems. This dimension is focused on ways humans process information and for example includes how words, myths and gestures shape meanings towards activities and artifacts, which thereby effect social behaviour (Geels, 2004; Scott, 2005).

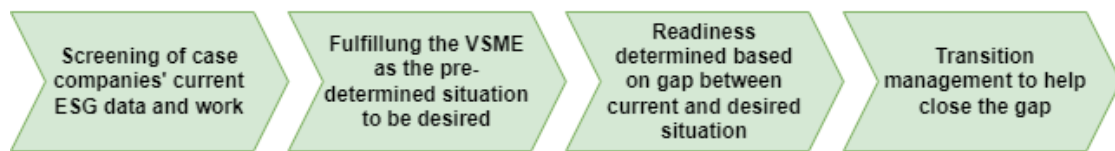
As this study investigated a growing pressure on SMEs, it was thereby relevant to understand how these pressures are setting new rules, standards and social expectations, and may create a new license to operate for some businesses. By using institutional theory it helped to examine how these pressures are interlinked and effect the value chains of the business. In the analysis of the pressures on SMEs, the theory was applied and contributed to create an understanding of the pressures both in terms of what they stem from and how they affect SMEs. This understanding of the pressures was crucial to map, since it impacts the institutions which the companies operate within (Balluchi et al., 2020). Additionally, institutional theory contributed to ensure that the recommendations are relevant for the current situation in SMEs.

## 5.2 Concept of readiness

In order to determine how ready SMEs are to report according to the VSME standard, it was necessary to define how readiness was understood and examined in this thesis. The definition of readiness was mainly based on the concept of gap analysis, which aims to define the gap from where an organisation currently is, compared to a desired target (Bhat, n.d.; Kim and Ji, 2018). The level of readiness was thereby based on the size of the gap that could be seen between the current status within the case companies and the VSME. This thesis is focusing on gap analysis on a strategic level, meaning its purpose was to compare the level of the companies to the VSME standard. It is therefore important to acknowledge that determination of readiness in this thesis was based on living up to a voluntary standard, but the case companies could have other desired targets that they focus on, rather than fulfilling the VSME. Furthermore, the type of gap analysis is categorised as a *compliance gap analysis*, due to its aim of investigating the difference between a standard and the current status of the organisation (Bhat, n.d.). This type of gap analysis thereby helped to determinate how ready the SMEs are to potentially comply with the VSME.

As mentioned in section 4.5 there are four main steps to follow when conducting a gap analysis. These steps were used in this research as depicted in figure 5.1, and are further elaborated on in the following text.





**Figure 5.1.** Overview of the four steps applied for conducting the gap analysis

The first step of the gap analysis was done by screening the case companies in the interviews, by asking what they were able to report on compared to the VSME, as well as asking further questions about their current sustainability work and ESG strategies. Additionally, ESG reports from companies who already have made reports were analysed to understand the companies' current ESG reporting practice.

The second step was to examine the VSME standard. As mentioned above, the objective of the gap analysis is to identify whether the case companies are able to report in accordance with the voluntary standard. The reason for using compliance with the VSME, was based on the fact that EFRAG developed the standard based on data requests SMEs already received from some of their stakeholders. According to EFRAG the VSME can therefore be used by SMEs to prepare reports which cover the relevant topics, and help SMEs to deal with the burden of reporting and delivering sustainability data (EFRAG, 2024). This means that theoretically SMEs who can comply with the data requirements in the VSME can live up to the data requests from their value chain.

The third step where the readiness was determined by analysing the existing gap from the screening of the case companies, and comparing them to the requirements in the VSME standard. The comparison highlighted the existing gaps between the current status in SMEs and the voluntary requirements. The readiness of the case companies was thereby determined by the size of the gap between their current status and the standard. In this thesis, readiness is mainly seen as a concept related to whether the case companies would be able to fulfil the requirements in the VSME with their current data, information and practices related to ESG.

The last step regarding closing the examined gaps was done with the purpose to suggest how SMEs can become ready for the growing demand of sustainability information in relation to ESG reporting. This thesis therefore suggests recommendations based on the use of transition management, which can help SMEs in the process of conducting ESG reports. The use of transition management is further described in the following section.

### 5.3 Transition Management

New policies can nudge societies to transform and evolve, leading to societal change where practices are reestablished and new systems are developed. The management of transitions can be structured using the theoretical approach of *transition management*, which strives to structure the process through visions, transition experiments and enhancing reevaluation throughout the process (Kemp et al., 2007). Transition management has a strong connection to policy making and governance processes, which seek to envision long-term sustainability transitions (Loorbach, 2010). In the context of sustainable development, which includes a variety of change and is an ongoing process, it is recommended by Kemp et al. (2007) to use a transforming approach such as transition management, to ensure an incremental but progressive transition. Furthermore, it is

highlighted that sustainable development is a process which intrinsically relays on co-evolution, meaning that parts of systems change independently and can lead to stepping stones for further transition.

The current change in legislation, namely the implementation of the CSRD, can be seen as one part of a larger vision to enable sustainable development, in the context of the EU striving for the targets of the Green Deal. Therefore choosing the theoretical approach of transition management in this thesis was relevant in relation to SMEs transition towards ESG reporting. According to Loorbach (2010), the transition framework can be applied for organising and analysing ongoing societal transitions which are fostered by governmental initiatives. As the CSRD was by the time of conducting this study still in the incremental phase of adaption in companies, it can be seen as an ongoing transition and thereby builds a case where transition management can be applied.

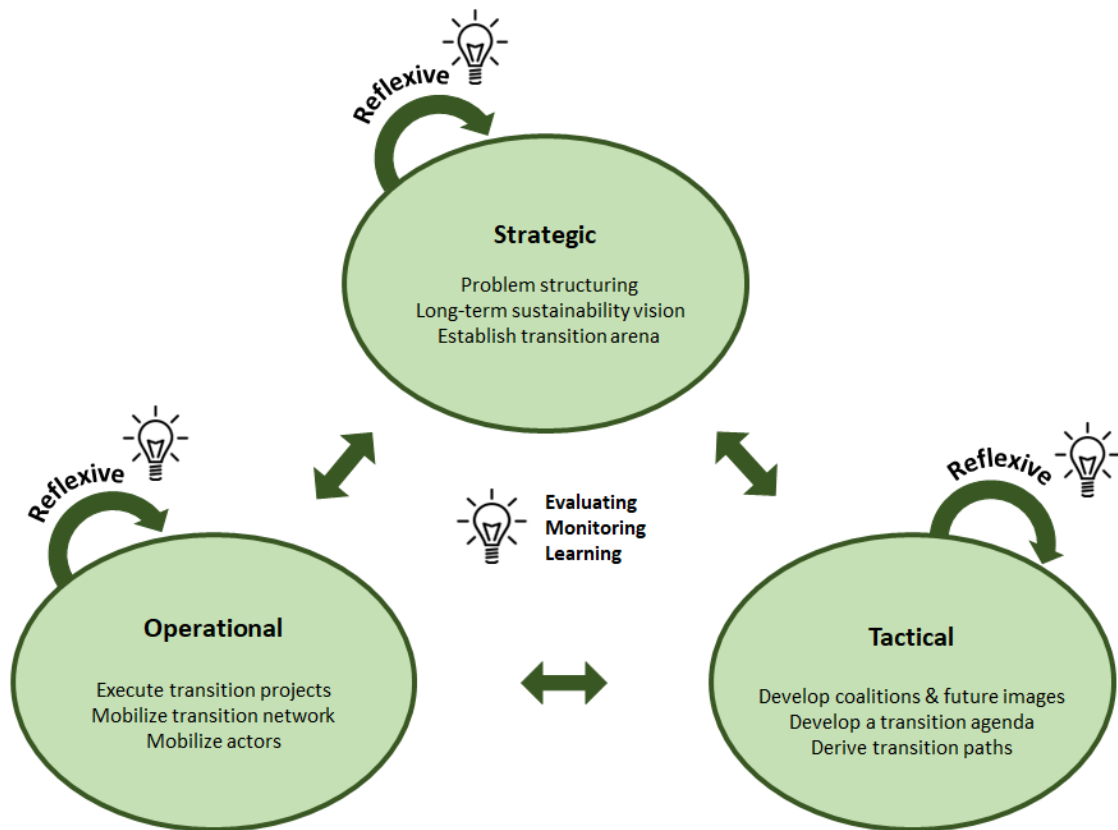
Loorbach (2010) has defined three different types of governance which need to be included in transition management. These types of governance are related to their focus, scope, time scale and level of activities. Classifying different activities in transition management enables the researcher to scope the frame for the analytical approach at different levels. An overview of these types of governance can be found in table 5.2.

Types of Governance	Focus	Problem Scope	Time Scale	Level of Activities
Strategic	Culture	Abstract / Societal systems	Long term (30 years)	System
Tactical	Structures	Institutions / Regimes	Mid term (5-15 years)	Sub-System
Operational	Practices	Concrete / Project	Short term (0-5 years)	Concrete

**Table 5.2.** Types of governance in transition management according to Loorbach (2010)

Loorbach (2010) also defined a fourth type, namely *reflexive activities*, which is inherently connected to each type of governance in transition management, as it is always be an integral part of every governance process. The main point of reflexive activities is the reevaluation of an ongoing process to ensure its relevancy to the targeted goal. It prevents the transition to loose track, and allows the exploration of different ideas (Loorbach, 2010).

Transition management is used in this study as an analytical lens to investigate and propose recommendations for the transition of SMEs towards ESG reporting. Through the introduction of the CSRD, mandating large companies to report on their ESG matters from 2024 on, there is a indirect pressure for SMEs to begin building ESG structures. For structuring this transition and to base recommendations for the transition on a theoretical framework, the tool "Transition Management Cycle" provided by Loorbach (2010) was applied. It includes the three types of governance and the reflexive approach to manage and structure the transition iteratively. As Loorbach (2010) pointed out, the approach described in the literature is a generic model, therefore application of the framework leads to change and adaption within the model. That is why the model is adapted here to fit the specific requirements of this study. The interpretation of the "Transition Management Cycle" based on Loorbach (2010) can be seen in figure 5.2.



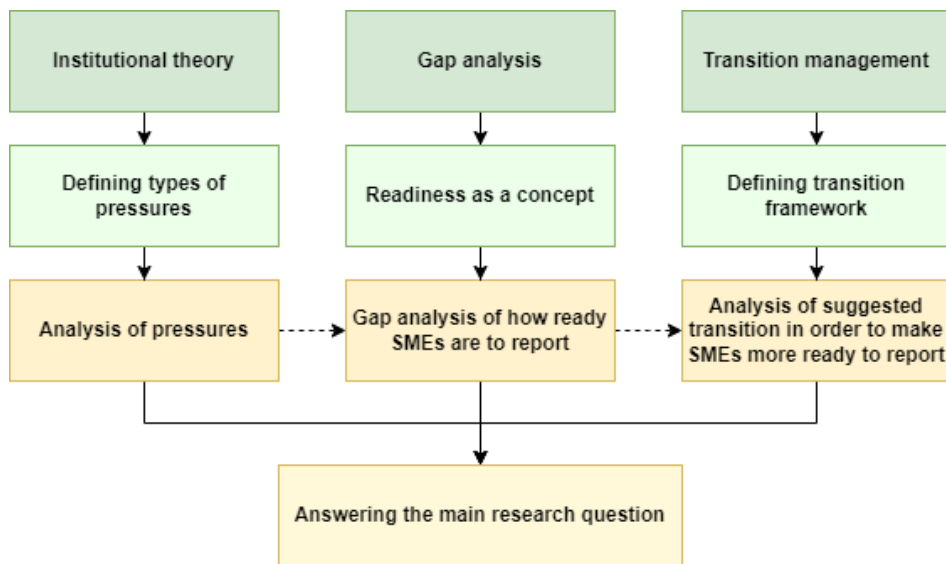
**Figure 5.2.** Adaption of the Transition Management Cycle from Loorbach (2010)

For the *strategic* part of the process, the formulation of a vision is extremely important to establish the goal for the future. It was stressed by Loorbach (2010), that the process of developing a future vision is time consuming and requires a lot of workforce, but builds the basis of the transition and is thereby crucial to the further process. For this context this means that SMEs have to structure their future vision in regards to ESG matter as one of their first steps in the process. Derived from the long-term future vision it is further possible to establish the transition agenda and paths (Loorbach, 2010). These tasks are included in the *tactical* step of the transition management model. It is furthermore mentioned, that this is also the step in transition management where further actors should be involved in the process. In the context of an SME this can mean that working groups could be established which individually can develop transition paths in their respective field, but with the general vision in mind. The time horizon for this part of the process and for the agendas and pathways developed should be medium term. With an even shorter time horizon and on the level of projects, lays the focus of the *operational* step. This step is characterised by innovation, meaning that change is fostered through the introduction and implementation of new systems or practices (Loorbach, 2010). Therefore, transition management in SMEs requires innovative approaches, including the establishment of new systems for ESG practices and the involvement of different stakeholders to meet future sustainability information needs. It is suggested in the theory to carry out experiments in this step of the process, in order to gain knowledge about the applicability of initiatives taken to achieve the established vision. A diverse variety of approaches is mentioned as an important factor, but in order to tailor the transition management cycle to the purpose of ESG transition in SMEs, the amount of approaches tested needs to match the capacities of the SME.

In all governance steps of the process reiteration with the other steps is needed to ensure their compatibility and applicability to reach the overarching goal. This is symbolised in the model 5.2 through the arrows between the three steps. As stated by Loorbach (2010), the *reflexive* approach is applicable in every step of the process. The main points here, are the monitoring and evaluation of the respective activities, keeping the general goal in mind. The three main points, which need to be monitored are according to Loorbach (2010) the actors involved in the transition, the transition agenda and the transition process.

## 5.4 Overview of the conceptual framework

As presented throughout this chapter the conceptual framework for this thesis is made up of different theories and elements, which explained how different concepts were viewed and understood in the research. The entire framework is depicted in figure 5.3, which shows how the different elements connect in order to answer the research question.



**Figure 5.3.** Overview of the different elements of the conceptual framework

As seen in the overview, institutional theory has been used to map and define different kinds of pressures on SMEs in the analysis. Those provided the basis for understanding why there is an urgency to change the current practices of SMEs and highlighted the need to react to those pressures. However, to be able to address the need for change concretely, the current status of the case companies regarding their ESG efforts needed to be investigated. Whereas the use of gap analysis defined how readiness was investigated in this thesis. Therefore, this analysis provided knowledge about the gap of the current status of the case companies compared to the VSME requirements, which further stressed the need to provide recommendations for closing this gap. To encounter this, transition management provided the framework from which possible recommendations for SMEs were derived. It needs to be acknowledged that the recommendations provided in this analysis can not eliminate the pressures identified in analysis one. Nevertheless, they can enable SMEs to react to the pressures and change business as usual departing in their current status to enable the SMEs to remain competitive in this changing environment.

# Mapping of ESG pressures on SMEs

# 6

*Transparency, data sharing and value chain cooperation are all key words within the work of ESG and the reporting about it. The major focus of the CSRD, as of writing, is on large companies, while most SMEs are still out of the scope. However, as indicated in chapter 2, these companies already experience pressures to begin working with ESG factors and disclosing data and it is predicted that these pressures will increase in the coming years. These pressures and expectations lead to new rules and assessment criteria for the companies which are going beyond what is required in the regulation. To study these pressures the institutional pillars, create the frame to shed a light in both the direct and indirect pressures, where these are stemming from and how they are interlinked. Although the three pillars are separated, it is important to note that some aspects of the pillars overlap. Through combining these theoretical aspects with the gained insights from data collection, it is possible to investigate the first sub question: "From an institutional perspective, what pressures SMEs to report on ESG?".*

## 6.1 The regulative pressures

In chapter 2 it is outlined that SMEs are dominating Europe's economy by representing the majority of the business structure. This also applies in the Danish context. The impact of one single SME is often not substantial, but considering the total number of SMEs, together they have a large impact (Energistyrelsen, 2022). Additionally, many SMEs are included in the value chains of larger companies, which constitutes indirect pressures from the CSRD and the requirements from the ESRS that larger companies have to comply with (Dansk Industri, n.d.). Based on the majority of SMEs in the EU and their role in value chains of larger companies (Ortiz-Martínez et al., 2023), combined with the extended focus on ESG, SMEs are facing different indirect pressures from a regulative viewpoint. This section elaborates on these different indirect regulative pressures that SMEs are experiencing, related to ESG reporting. The focus is to understand what motivates SMEs to report, even though they are not obliged to. It is assumed, that a new landscape for ESG reporting is emerging through the indirect impact of legislation, which pressures SMEs to report on ESG matters and comply with data requests from their value chain. It is important to note that with the implementation of the CSRD these indirect pressures are new, since ESG reporting used to be more tied to the normative institutions. There is thereby an overlap between the three institutional pillars, and some components that are linked to the regulative view point are unfolded further in the normative and the cultural-cognitive sections.

### 6.1.1 The indirect EU pressures

The Green Deal advocates, as mentioned in chapter 2, for the need to take action and enhance performance to reduce negative impacts. Based on this, new regulation and policies have been implemented in relation to the Green Deal (European Commission, 2019). In general this has and still does impact society and how sustainability matters are managed. It also applies to the Danish context where the interest of working with sustainability is increasing, though this tendency is mostly recognized in larger entities while SMEs' work within climate reductions and documentation of it are lacking behind (Energistyrelsen, 2022). This is a challenge since many SMEs are in a position where they are not directly subject to the legislative field of sustainability reporting, including complying with requirements from the CSRD and the ESRS, but they are in the value chains of larger companies who have to comply with regulation (Dansk Erhverv, 2023b; Dansk Industri, n.d.; Zakari, 2024; Majlund, 2024). Relating this pressure to the scope of the CSRD, which expands company reporting to include responsibility for the whole value chain as a means to enhance performance within ESG matters (European Commission, 2022). This is included in the ESRS where disclosure requirements such as scope 3 reporting, data on workers within the value chain and affected communities are required, which goes beyond the control of the reporting entity (European Commission, 2023b). Hereby, it is recognized that the requirements which larger companies have to comply with are affecting SMEs, which implies that the pressures are trickling-down the value chain (Zakari, 2024). Additionally, this tendency can potentially spread through different parts of the value chains since data requirements from one company to another, can lead to requirements to a third company who might also have to ask companies in their value chain. Based on this trickle-down effect of data request in the value chain, EFRAG developed the draft of the VSME standard, to help SME prepare and handle data requests related to the CSRD (EFRAG, 2024). Therefore, it can be seen that new laws are pressuring for a change throughout the entire value chain, and indirectly pressuring SMEs even though the CSRD regulation is focused on larger companies.

These B2B pressures regarding working with CSR are also identified in the report *Alle om bord - 2023* prepared by Dansk Erhverv (2023a). The report presented that out of the respondents, who are representing the members of Dansk Erhverv, included in the survey, 33% experience that the biggest pressure to work with sustainability matters and CSR stems from their B2B customers. Additionally, this number has increased from 26% in 2021 to the 33% in 2023, which indicates an increase in expectations towards companies to engage in the work with CSR. The same survey also reveals that the percentage of companies that do not experience any pressures from others has decreased from 50% in 2021 to 23% in 2023, which also supports the finding that the expectations and requirements to work with sustainability and CSR are growing (Dansk Erhverv, 2023a). Hereby, there is an increased interest to get data from other companies, which also indicates that the data dependency between companies has grown with the implementation of the CSRD. This point was also supported by Dansk Industri, where Rosenquist (2024) explained that data requirements and expectations to work with ESG have increased between companies. Related to this, Rosenquist (2024) also clarified that the ultimate biggest pressure that SMEs are experiencing are stemming from larger companies, because they have to get the data in order for them to be compliant with the CSRD. The CSRD has thereby entailed a great dependency between companies in the value chains, because those required to comply rely on the provision of their suppliers which often includes SMEs. Even though these pressures are indirect, it still effects the SMEs a lot. It can be seen in the case companies, Australian Bodycare ApS and Base Erhverv

A/S, who are already reporting on ESG, that they started to report because they felt it would be better to start now and be ready for upcoming requirements. Additionally, they expected that some of their stakeholders would require reported information from them (Mehlsen, 2024; Keller, 2024). The indirect pressures from the CSRD can also be seen in the case of Tasklet Factory ApS, where Nielsen (2024) explains that they see themselves as lucky, because they can actually include ESG into their product. Meaning that companies who cannot incorporate ESG into their products might be challenged in regard to the changes that the CSRD brings. Additionally, both Base Erhverv A/S and Tasklet Factory ApS compare the situation regarding the CSRD to what happened when the GDPR was introduced. Meaning that it is resource intensive to ensure that you comply with the legislation (Nielsen, 2024), but also that it is better to get started, because it will hit them at a certain point if they wait until SMEs will be enforced to report by law (Keller, 2024).

Another side of pressures stemming from implementation of the CSRD are from financial institutions. These pressures are double sided. On the one side, financial institutions are obliged to be compliant with CSRD, meaning that they have to include the impacts of their customers in their reports (Dansk Industri, n.d.). The other side of it reflects the financial purpose of the Green Deal, CSRD and SFDR, stating that green investments are a priority to reach the targets set in the Green Deal (European Commission, 2019). According to Mehlsen (2024); Rosenquist (2024); Dansk Industri (n.d.); Dansk Erhverv (2021) this can result in that companies who can deliver data and be transparent will be prioritized in getting investments, loans etc. This aspect was also affirmed in the literature review in section 4.2, as it was stated that a higher ESG score might enable companies to be eligible for cheaper loans. Hereby, working with ESG, delivering data and being transparent can be crucial for the SMEs from a financial perspective, since many of them are depending on support from the financial institutions (Zakari, 2024). An analysis made by DI also presents, that companies already experience increased expectations from their investors to be responsible (Gad, 2021).

These outlined pressures point towards the necessity for SMEs to report on ESG, and comply with the requirements they are meeting since it can have consequences for their market position if they do not. A new license to operate is beginning to appear, where ESG data and responsible business practices are crucial for the business to thrive (Rosenquist, 2024; Majlund, 2024; Sørensen, 2023). It is for example seen by consultants that some companies are making changes in their value chain, based on who can deliver necessary ESG data (Majlund, 2024). This indicates that a new competitive aspect is arising, where other factors than supply and products are prioritized. That ESG factors are gaining importance for assessing business partners also aligns with the findings in the literature review in section 4.2. The analysis made by Dansk Erhverv (2023a) also shows that companies are aware that working with ESG and being responsible are competitive factors. This is indicated by the case companies through acknowledging that a positive aspect of work within this field is that it can be a competitive advantage. According to Keller (2024) from Base Erhverv A/S and Mehlsen (2024) from Australian Bodycare ApS, being proactive and a front runner within their industries are very important factors to them. This is because both of them want to position themselves as sustainable and responsible companies and at the same time also want to prepare for future requirements rather early than too late. The industry networks that they participate in have had influence on their motivation to begin working with and reporting on ESG, since it became very clear to them that ESG is already and will be very crucial in their sectors.

*"Well, of course, there is the competition parameter, that we must also be able to build DGNB certified, Swan certified buildings and so on. And in that way, you just become more concerned about it and because the whole industry is moving in that direction, and it must too"*

Translated from Keller (2024)

In this way a lot is pointing in the direction of doing good, which indicates that ESG is not an isolated initiative but rather combined with other parameters such as certifications which also pushes the motivation for ESG reporting in some networks. Additionally, these view points about ESG indicate that working with ESG can be more than just a compliance task, but can also create value for the companies. However, according to Rosenquist (2024) the implementation of the CSRD has also moved business' focus from working on sustainable initiatives to focus on compliance with the regulations. Which indicates that the pressure for being compliant with legislation is outweighing the normative pressures, where sustainability matters are based on social obligations.

### **6.1.2 The national pressures**

In 2020 the Danish Climate Law was adopted, wherein it is stated that Denmark has a national objective to achieve a 70% reduction in greenhouse gas emissions in 2030 and climate neutrality in 2050 (Klima-, Energi- og Forsyningsministeriet, 2021). Hereby, the government has a target to reduce its climate impact, which creates further indirect pressures.

Impacts stemming from companies placed in Denmark are included in the calculations of the total GHG emissions from Denmark (Energistyrelsen, 2022). This means that the environmental performance of these companies have an influence on Denmark's achievement of the national objectives. Combining this with the fact that SMEs make up the majority of Danish businesses, underpins their significance for achieving the national goals. If they are not taking action there is a risk, that Denmark might not reach these objectives. Additionally, a side effect can be that failing to reach the targets can have negative consequences for the Danish competitiveness on a global scale (Dansk Erhverv, 2021). Hereby, the action taken by the SMEs do not only impact their own company or other companies in their value chain, it also affects how Denmark as a country is performing due to its environmental impact.

There are different regulative pressures which indirectly drive SMEs towards working and reporting on ESG matters, as presented in this section. The implementation of the CSRD has entailed that larger companies' compliance with the regulation requires SMEs to share data on their impact on certain factors and hereby work with ESG matters. Additionally, tendencies show that the financial market includes considerations about companies' ESG work and performance, in regard to investments and loans etc. Both of these aspects are a part of creating a competitive market for SMEs, where working actively with ESG, sharing data and performing good will make companies more attractive. Furthermore, the government has made national reduction targets which are depending on Danish companies' environmental impact, why SMEs actions and performances are important in a broader context. These different pressures stem from a regulative perspective, but are of indirect character since SMEs are not directly obliged to comply with the mentioned regulations. Regardless of this, these indirect pressures create new rules which are primarily based on dependencies, expectations and industry norms which SMEs have



to comply with. The change within the regulative pillar therefore affects the normative pillar, and certain elements of the pillars do in this case overlap which is expanded upon when analysing the normative and cultural-cognitive pillars.

The main pressures identified within the regulative pillar are:

- The B2B trickle down effects from the CSRD
- Pressures from financial institutions
- The competitive market
- National Danish objectives

## 6.2 The normative pressures

In this thesis it has become clear that the regulative framework within sustainability and ESG has rapidly evolved over the last years, which pushes the sustainability agenda in several companies. These pressures are though divergent based on company size, industry etc. due to the scope of the CSRD and according to the different value chains. As the regulative field has changed and is pushing for more ESG reporting, it also affects the normative and social world.

The institutional theory refers to this as the normative pillar, where the basis of compliance is the social obligation, felt by the company to live up to societal expectations and in the context of sustainability take responsibility and do good actions. This aspect was affirmed in the literature review in section 4.2, where it was clarified that motivation for incorporating sustainable strategies often stems from stakeholders. For SMEs the stakeholders with the most influential power are close stakeholders such as employees, customers and local communities. Aligning with those findings, it seems likely that the case companies of this study experience those pressures from close stakeholders as well. Taking responsibility is seen as a key factor by the case of MarMar Copenhagen ApS and Base Erhverv A/S, and is also a part of transforming the industries in a sustainable direction. The social obligation to do good and take responsibility can be seen in the case of MarMar Copenhagen ApS, where sustainability has been a part of the company's culture since it was founded. This was based on the belief within the company that producing textiles has to be done in a responsible way (Lyngholm, 2024). Furthermore, Base Erhverv A/S also operate with the core belief that social aspects are important, especially since the workplace is where people spend many hours of their life, which is why they feel responsible for creating a good work environment for their employees (Keller, 2024). Additionally, Lyngholm (2024) and Keller (2024) have both seen their industries being negatively affected by the global challenges, which motivated their ESG work.

*"[...]look out of the window, there is probably no one who has not noticed that something is wrong. And we face this very concretely every autumn, then it starts to rain, and then we stand there in water up to our knees and have to deal with it for half a year. So it is very relevant to get started on it."*

Translated from Keller (2024)

In contrary, the companies are also aware that the industries which they operate within have a negative reputation regarding environmental and social matters, which is why they also feel an obligation to show responsibility and take actions (Keller, 2024; Lyngholm, 2024). This can

create a pressure for the companies to show that they are taking actions in order to have a positive influence on the industry. In addition to influencing the industry, some of the case companies also feel motivated to influence their consumers. This however, has an effect on the price of their product. Though it can also motivate the companies' future development within the field of ESG (Lyngholm, 2024; Mehlsen, 2024). According to a report by Eitelwein and Paquet (2021), the younger generations of consumers are willing to pay more for products that have a positive impact, which influences the demand for more sustainable practices and products in companies. This creates a pressure for transparency to enlighten the consumers about the products they buy, and can cause a ripple effect through out the businesses' value chain (Eitelwein and Paquet, 2021). It can thereby be seen that there is a pressure from society for companies to act more sustainable and also report in order to prove their actions. This aligns with the findings in the literature review section 4.2. It can furthermore be derived, that scholars found that especially SMEs are closely connected to their local communities and thereby experience pressures to communicate about their sustainability matters. In particular, social aspects of ESG matters were identified as highly important to be communicated about, as those matters are significant for the locals perception of the SMEs.

The challenges experienced today are of a social character due to the global effects they have (Rosenquist, 2024). It problematizes the industries in different ways and pressures them to act differently, which the selected case companies are examples of. With the change and increase in regulations related to sustainability matters, sustainability has also become more normalised, as there are higher minimum requirements for companies. For example the CSRD is requiring ESG reports, which will normalise ESG reports, whereas before the CSRD, ESG reports were showing corporate commitment and social obligation since it was not mandatory. Hereby the increased regulation and embeddedness of sustainability structures within society, the expectations and requirements are increasing proportionally. This means that the general level of ESG actions are slowly rising, resulting in that the ones who want to perform better than the minimum requirements needs to put in even more efforts. A shift has thereby happened, where it used to be normative pressures for ESG reporting, but is now moving more over to the regulative pressures, since ESG reporting is becoming mandatory. This can also be seen with the use of certifications, where companies have used them to commit to a certain level of expectations, which has required companies to report in relation to achieving and upholding their certifications. In the case of Base Erhverv A/S and MarMar Copenhagen ApS both companies use certain certifications, which supports their focus on sustainability and requires them to report on certain information in order to be certified (Keller, 2024; Lyngholm, 2024). By living up to certification schemes, the companies choose to make binding expectations for the work or product they deliver, which also influences their value chain.

The normative pressures identified in this section are:

- Responsible business
- Consumer expectations
- Higher minimum requirements

## 6.3 The cultural-cognitive pressures

Another aspect of pressures that SMEs are facing related to ESG reporting and performance stem from institutions in the cultural-cognitive pillar. The cultural-cognitive aspects are in this case more overarching, as they represent the pressure for more sustainability within organisations, which have an influence on the normative and the regulative pressures. One of the ways this institutional pillar occurs, is through the shared cultural understanding that for example climate change and resource depletion are actual problems and so are social challenges, where actions needs to be taken (Belgian EU Presidency, 2024). This shared understanding can for example be seen through United Nations' sustainable development goals, which represent an agreement among nations about which sustainable topics are necessary to improve on, which has created a common belief for the direction of sustainable development (United Nations, n.d). Thus, there is an increase in social unacceptance to do harm related to environmental and social sustainability, which applies pressure for more sustainability work. To many companies it therefore seem illogical not to work with sustainability matters, why not many companies will go against this (Rosenquist, 2024; Zakari, 2024). It is experienced by Zakari (2024) that SMEs already apply sustainability practices without necessarily linking it to ESG goals. With a growing pressure for more sustainability work, new standards and legislation have been adopted in the EU, which guides the sustainable transition and also tries to ensure an even playing field across companies and nations. The Green Deal and its different components can be seen as an example of this transition (European Commission, 2019). The cultural-cognitive pillar thereby shows the overlap between the regulative and normative pillar, since the growing belief in the need to do something good for the planet and society, is moving aspects of sustainability reporting from a normative institution to a regulative institution. Meaning that organisations who used to do sustainability reporting mainly did it for the accreditation and recognition of their work or felt a social obligation to report, where as mentioned before it is now turned into a legal requirement for companies of a certain size and influence.

Additionally, it can be seen that the cultural-cognitive institutions also influence the case companies' sustainability work. Here it is noted that some of the sustainability work within companies are taken for granted, because it has become such a norm. For example this can be seen in the case companies, where the companies mentioned that of course they focus on reduction of energy, waste sorting, resource use and diversity (Keller, 2024; Nielsen, 2024; Lyngholm, 2024; Mehlsen, 2024). But just because they have it as a part of their internal structure, it does not mean they directly report on it.

*"And in some way, of course we are ESG compliant, but not preparing any direct reporting on it. But thinking of it, for example garbage, [...], and GDPR and human rights, and all those things we have in our internal processes, but we don't make any directly reporting on it, as we could do."*

Nielsen (2024)

This shows that ESG, on a certain level, is already incorporated into companies structures, which proves that ESG is becoming a common belief that also can be taken for granted in companies. This also aligns with the findings in the literature review, where Ortiz-Martínez et al. (2023) stated SMEs already work with sustainability matters, but do not necessarily report on those matters.

Even though this suggests that sustainability is a shared understanding and a common belief in today's organisational landscape, there is still no common way of how to work with sustainability. For example it can be seen in the case of Australian Bodycare ApS, that they started working with sustainability based on common sense, but as they evolved it was not enough and therefore joined the Klimaklar Produktionsvirksomhed program, in order to get further with their sustainability work (Mehlsen, 2024). Similarly, it is seen in the case of Base Erhverv A/S, that they reached out to their accountant to get help getting started with their ESG reporting, to ensure they did it correctly (Keller, 2024). Furthermore, MarMar Copenhagen ApS also sought help from an external consultant for assistance in regards to sustainability and ESG (Lyngholm, 2024). Lastly, in the case of Tasklet Factory ApS it was also mentioned by Nielsen (2024), that especially environmental factors are hard to work with, since there are so many different understandings of what is relevant, depending on who is asked to define compliance in regards to reporting on environmental matters. These examples, show that sustainability still is a broad topic, which is not straight forward and common sense, despite that sustainability is agreed upon to be the direction for further development.

The main pressures identified in this section are:

- Common understanding of sustainable development
- Informal sustainable actions

## 6.4 Sub-conclusion

Through the analysis of the different pressures it became clear that there are pressures related to the three institutional pillars. Here it can be seen that a general pressure for sustainability is stemming from the cultural-cognitive institutions, where there is a common cultural understanding that sustainable development is necessary. The pressure for more sustainable development can thereby be seen as an overarching pressure that also influences both the normative and regulative institutions. Additionally, it can be concluded that SMEs face indirect pressures from regulation that targets and regulates large companies and financial institutions. Additionally, national targets also indirectly pressures the ESG agenda in SMEs. Pressures related to the normative pillar have also been identified. Here the main pressures relates to companies wanting to take responsibility in regard to ESG matters, as well as pressures from society who expects companies to do sustainable actions.

An overview of the identified pressures, classified by the institutional pillars, can be seen in figure 6.1. It can be concluded from this table that pressures were identified for all three institutional pillars. However, as mentioned before, the pressures are interlinked, due to the aspect that the institutional pillars are intertwined. Though, it got clear through reviewing the pressures that the regulative pillar seems to have a high influence on the pressures, as several topics were identified in this pillar and both literature and interviewees focused on these pressures. This could stem from the general shift in the legislative landscape regarding ESG reporting, as mandating ESG reports became broader due to the introduction of the CSRD. Nevertheless, also the other two pillars pose pressures due to societal expectations. As ESG reporting is not mandatory for the companies investigated in this thesis, these two pillars remain important influences for their ESG reporting as well.

	Regulative				Normative			Cultural-cognitive	
	B2B trickle down effect from the CSRD	Pressures from financial institutions	Competitive advantage	National objectives	Responsible business	Consumer expectations	Higher minimum requirements	Common understanding of sustainable development	Informal sustainable actions
Literature	EFRAG (2024c)	X							
	Dansk Erhverv (2021)		X		X				
	Dansk Erhverv (2023a)	X		X					
	Dansk Erhverv (2023b)	X							
	Dansk Industri (n.d.)	X	X						
Experts	Sørensen (2023)			X					
	Eitelwein and Paquet (2021)					X			
	Ortiz-Martínez et al. (2023)								X
	Gad (2021)		X						
	Dansk Industri Rosenquist (2024)	X	X	X				X	X
Cases	SME United Zakari (2024)	X	X					X	
	Transition Majlund (2024)	X		X				X	
	Australia Bodycare Mehlsen (2024)	X	X	X	X		X		X
	Base Erhverv Keller (2024)	X		X		X		X	X
	MarMar Copenhagen Lyngholm (2024)					X	X	X	X
Webinar	Tasklet Factory Nielsen (2024)	X			X				X
	EFRAG (2024)	X							

**Table 6.1.** Overview of identified pressures, categorised by the institutional pillars. The sources from which the pressures are derived, are indicated on the side of the table and their respective statements are marked with an 'x'.

# Gaps between the VSME standard and the cases 7

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*As chapter 6 provided an understanding of why and from whom SMEs face pressures to prepare ESG reports, this chapter strives to explore the gap of ESG reporting according to the VSME and the current status in the case companies. Therefore this analysis addresses the second sub research question: "What are the gaps between the requirements in the VSME standard and the current state of the case companies?". The document analysis of the VSME standard provides the baseline of requirements that SMEs have to comply with, in case they report on the VSME. The analysis of the case companies explores their current status and reviews it compared to the requirements from the VSME standard.*

## 7.1 Requirements in the VSME standard

As identified in chapter 6, pressures from different stakeholders push SMEs to acquire and provide sustainability information. The VSME standard strives to provide an achievable framework for SMEs to react to these pressures and be able to comply with data requests from stakeholders. It is identified in the VSME that the standard shall especially support SMEs to provide data for credit providers and investors and large entities where the SMEs are part of their supply chain (EFRAG, 2024c). Further reasoning for why complying with the VSME standard is desired, is the objective that SMEs shall take part in establishing a more sustainable economy (EFRAG, 2024c), as they are the majority of businesses across Europe (Ortiz-Martínez et al., 2023). Therefore, sustainable development must involve all parts of the European economy, which means that SMEs must also contribute to this goal, taking into account their capacities (EFRAG, 2024c). Contribution to achieve a more sustainable economy can also lead to benefits for SMEs (EFRAG, 2024c). Managing sustainability matters with a structured approach can lead to increased resilience and also create a competitive advantage through which growth can be achieved (EFRAG, 2024c).

For the scope of companies that the VSME is established for, the standard refers to Article 3 of the Directive 2013/34/EU, where companies are classified in three types of SMEs. These types are micro, small and medium-sized companies and thresholds regarding the number of employees, balance sheet total and turnover define the types of SMEs. For the scope of the VSME it is further stated, that the companies applying this standard, fall outside the scope of the CSRD and thereby do not have to apply the ESRS or the LSME standards. In this context it is furthermore mentioned, that the VSME standard is a voluntary tool for SMEs and does thereby not rely on a legal requirement (EFRAG, 2024c). The standard is built up in three modules, which are further described in the following. The concept of the standard relies on a modular approach, where the basic module builds the basis for reporting, whereas the other two modules can be separately added to the report if wanted.

**Basic module**

The basic module defines the minimum requirements which SMEs have to follow, if they want to apply the VSME standard. Therefore the basic module starts with two general disclosures, where the SME has to state which modules are applied in the ESG report and provide a general description of how the SME contributes to the transition striving for a more sustainable economy. The disclosures in the basic module are categorised using the **Environment-Social-Governance** scheme, where the environmental part includes five disclosures, the social part includes four disclosures and the governance part includes one disclosure (EFRAG, 2024c). The disclosures required cover a variety of topics within the field of ESG, and are supposed to be a baseline for sustainability reporting. As this module is the basis for reporting, disclosures here are requiring both qualitative and quantitative information. However this module also includes the concept "*if applicable*", meaning that disclosures that are not applicable to the specific case of the company do not have to be disclosed. An overview of the general topics included in this module can be seen in figure 7.1 and a detailed table with the specific information requirements can be found in appendix A.3.

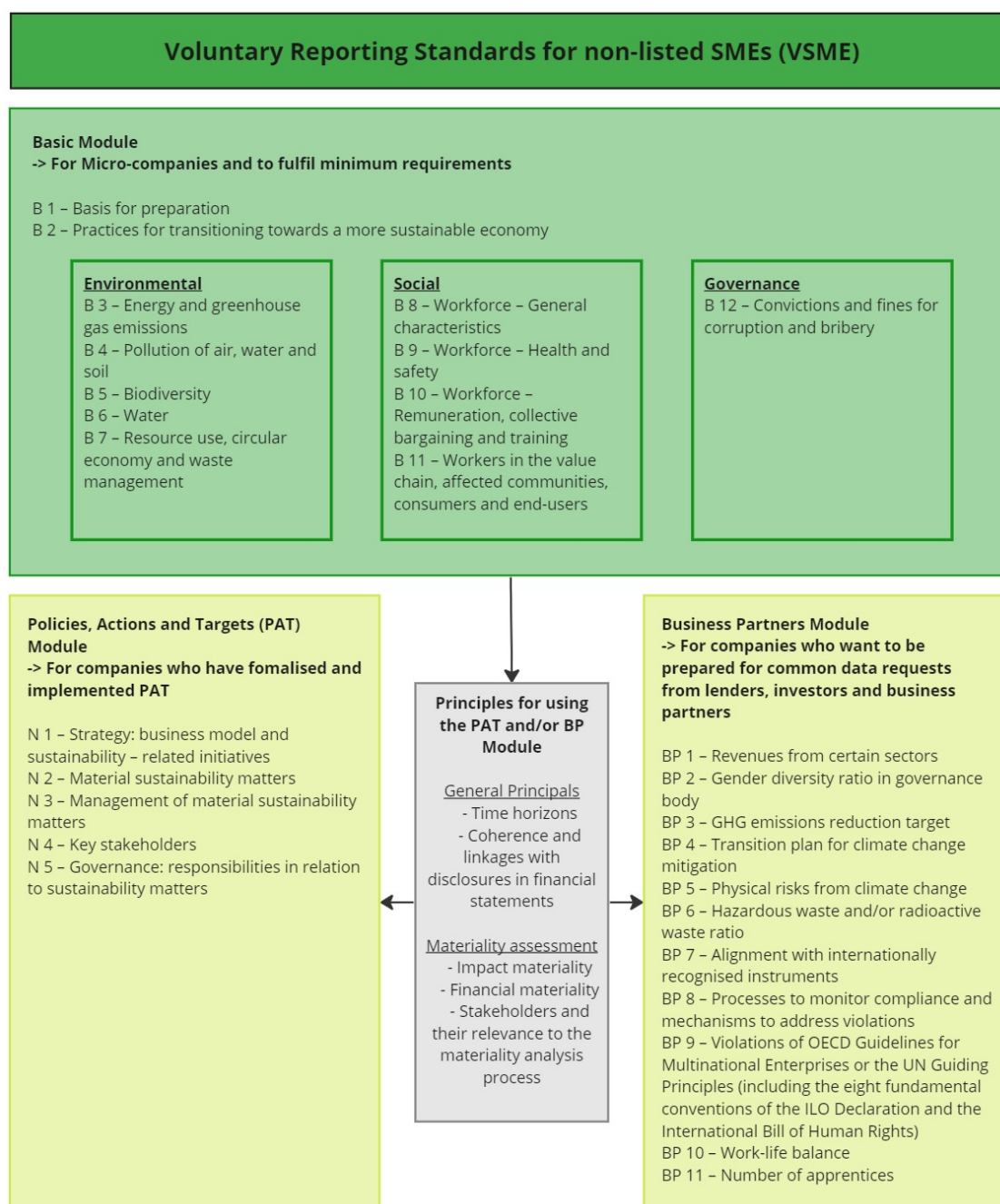
**Narrative-Policies, Actions and Targets module**

One of the parts that SMEs can decide to report on is the *Narrative-Policies, Actions and Targets module* (PAT module). This module is focused on the policies, targets and actions that the company has in place regarding ESG topics. For this reason it can be recommended to use this module in companies who focus on PAT and therefor want to qualitatively describe their actions in their ESG report. The PAT module relies on the concept of disclosing policies, actions and targets which are related to material matters, meaning matters that the company has identified to have a significant effect on it. This assessment is based on considerations about the impacts the company has or might have on people and the environment, and how these impacts have an effect on the financial situation of the company, including positive and negative effects (EFRAG, 2024c). Deriving from this, the PAT module requires descriptions of the material sustainability matters, which is why the disclosures defined in this module only apply to the matters the company found to be material. The purpose of the PAT module is to provide a structured approach to describe a company's actions taken in regards to ESG (EFRAG, 2024). An overview of topics this module includes can be seen in figure 7.1, and a detailed overview of the requirements can be found in appendix A.3.

**Business Partners module**

The *Business Partners module* (BP module) also relies on the assessment of material matters. The disclosures provided in the BP module must be disclosed on the basis of whether or not they are applicable, using the same concept as described in the other modules. Furthermore, the BP module adds a requirement to the Disclosure B3 from the basic module, which refers to energy and GHG emissions. If applicable and found material the company applying the BP module also has to disclose the emissions from scope 3, meaning the indirect emissions from their value chain. Connected to that, the disclosure BP3 requires that the companies state their emission reduction targets for the scopes that they have reported on. In general it can be concluded from the content in the BP module, the disclosures which are required there can be seen as an add on to the more general requirements in the basic module. This is also why the disclosures in this module could be connected to the **Environment-Social-Governance** scheme, which also explains

why some disclosures require qualitative information and others require quantitative data points. A reason for this, is that the BP module has the purpose to add extra information to the ESG report, meaning that companies who report according to this module, is to be better prepared for data requests from their business partners (EFRAG, 2024). The general contents of the BP module can be seen in figure 7.1, and the detailed requirements for the disclosures can be revised in appendix A.3.



**Figure 7.1.** Overview of the content and requirements according to the VSME standard (EFRAG, 2024c)

Besides providing a framework for ESG reporting in SMEs, the VSME standard also provides guidance for how to comply with the reporting requirements. Further guidance for some disclosures is provided in the VSME, with the purpose to support the SMEs in the process of



reporting. Explanation of the requirements in the respective disclosures as well as examples and links to helpful resources are provided (EFRAG, 2024c).

The purpose of this document analysis was to identify the content of the draft VSME standard published by EFRAG. In order to understand the requirements in the VSME, the document analysis was conducted and led to a framework for further analysis of the current status in the case companies. As the VSME standard is an essential part in determining the gap between the current status of SMEs in ESG reporting and the desired status where SMEs could meet the requirements of the VSME standard, the findings from this analysis enabled the analysis of the case companies.

## **7.2 Gap analysis of the case companies**

The following analysis of the case companies, investigates the gap between the current status of ESG work compared to the requirements in the VSME. The analysis is structured so that every case company is reviewed by its own, but the tendencies regarding the readiness and the sub-conclusion are drawn for all of them. The analysis has its roots in the findings of the previous document analysis of the VSME, but was adjusted to fit the purpose of screening the current ability of the case companies to provide data. Based on the data requests in the VSME it was chosen to exclude B1, B2, BP1 and BP9. B1 was excluded, because this disclosure requires the companies to state which modules of the standard were used. The exclusion of B2 was based on its focus on disclosing the company's current sustainability practices, which is not linked to data collection or policies, but is a more general statement that companies can make no matter what their current ESG efforts are. Due to the focus of BP1 where revenues from certain sectors have to be disclosed, which do not apply to the industries of the case companies, this disclosure was excluded. The reason for excluding BP9, was that this disclosure requires to state whether or not any violations have happened regarding the compliance with OECD Guidelines, which can be disclosed depending on the ability to report on BP8. Whether or not a violation has happened, does not impact the ability to report on it. For screening the readiness of the case companies, the other disclosures from all three modules were applied. However, the concept "if applicable" was not included in the screening, as this would have required more explanation of the concept and preliminary consideration by the interviewees prior to the interview. Therefore, the screening considers all disclosures, with the exception of the excluded ones, to be relevant for determining the readiness of the case companies.

### **7.2.1 Australian Bodycare ApS**

Australian Bodycare ApS is an SME in the cosmetic industry and focuses on the production of skin care. The company was founded in 1992 and has currently two main locations, from which they operate their administrative processes and production and packaging of their goods. According to Mehlsen (2024), Australian Bodycare ApS has a big part of their value chain in house, enabling them to closely monitor their processes. The interviewed representative of Australian Bodycare ApS was Thomas Thingstrup Mehlsen, who is the ESG Manager through which he is closely involved in the ESG structure of the company. His main tasks in the company are related to ESG work and being the project leader for the ESG report (Mehlsen, 2024). Through his position in the company he was able to provide meaningful insights to investigate the current status of Australian Bodycare ApS regarding their ESG reporting.

The process of driving ESG measures in the company begun for Australian Bodycare ApS with joining the initiative Klimaklar Produktionsvirksomhed from Dansk Industri. Australian Bodycare ApS had the chance to join this, which for them meant that they got access to advisory help and a network of companies who also engage in ESG activities. Furthermore, they used the tool called Klimakompaset from the Erhvervsstyrelsen, where businesses can calculate their emissions according to the Greenhouse Gas Protocol. Getting involved in these initiatives stems from Australian Bodycare ApS' motivation to be a greener brand and do good in terms of ESG, which is also reflected by Mehlsen (2024) when he mentions that Australian Bodycare ApS needs to meet consumer expectations.

The current ESG structure in Australian Bodycare ApS includes several employees of the company to include a wide perspective and make sure that ESG is anchored in the whole company (Mehlsen, 2024). Hence, the ESG structure in the company is primarily based on an ESG steering committee. This committee consists of the Chief Executive Officer, the Chief Financial Officer, the supply chain manager, a data specialist and the ESG manager.

Australian Bodycare ApS recently developed their first ESG report for the year 2022, but decided for now to keep the report unpublished. The reason for this is mostly related to that they currently do not have to publish any ESG information (Mehlsen, 2024). Furthermore, there are some insecurities about the standards of reporting and the correct way of presenting ESG data. This gets clear through the following quote:

*"We cannot show exactly all the different parts of the CO<sub>2</sub> emissions. We are using some average emission factors as well. So it is maybe a bit more green hushing, in the way to limit the risk of actually green washing. We do not want to go out and hurt our image by saying something that might be true, but cannot be backed up sufficiently."*

Mehlsen (2024)

These uncertainties of what should be reported could be mitigated when the VSME standard is finalised. According to (Mehlsen, 2024) a structured framework for ESG reporting in SMEs is needed to enhance confidence in communicating ESG efforts.

Nevertheless, even without publishing their ESG report Mehlsen (2024) explained that preparing the report helped them to start the process of gathering and presenting ESG information. This is valuable to them, because through this they are already prepared to react to requests from business partners and other stakeholders. Therefore it is mentioned by Mehlsen (2024), that doing the report now is a preventive measure, but will be beneficial in the future. Furthermore, the process of making their first report highlighted areas in the company which could be improved and also contributed to sharpen the focus on areas for development. A second reason for why Australian Bodycare ApS already began the process of ESG reporting is the development in the bank sector, where providing sustainability information for requesting loans will become more important in the coming years. By demonstrating its ESG efforts, Australian Bodycare ApS expects to receive better credit terms (Mehlsen, 2024).

As their learnings from preparing their first ESG report Mehlsen (2024) identifies aspects such as setting the ambition level to fit the current capabilities of the company and begin with monetary values to get an estimation of climate impacts. Higher levels of detail can be added later on, but it

is important to establish a general process of monitoring ESG related information. It was further stressed that to begin ESG reporting, a valuable data source for a company could be their ERP system, where usually a lot of data is already tracked (Mehlsen, 2024). Besides the actual process of gathering data Mehlsen (2024) also pointed out, that establishing structures in the company for ESG and involving different people in the process are important. If the task of doing ESG work is left to one person, ESG will not become a way of working in the company, but rather a burdensome and self-serving task. The findings from the gap analysis are in table 7.1.

Nr.	Disclosure name	Australian Bodycare ApS
<b>Basic Module</b>		
B3	Energy and greenhouse gas emissions	
B4	Pollution of air, water and soil	
B5	Biodiversity	
B6	Water	
B7	Resource use, circular economy and waste management	
B8	Workforce - General characteristics	
B9	Workforce - Health and safety	
B10	Workforce - Remuneration, collective bargaining and training	
B11	Workers in the value chain, affected communities, consumers and end-users	
B12	Convictions and fines for corruption and bribery	
<b>PAT Module</b>		
N1	Strategy: business model and sustainability - related initiatives	
N2	Material sustainability matters	
N3	Management of material sustainability matters	
N4	Key stakeholders	
N5	Governance: responsibilities in relation to sustainability matters	
<b>Business Partners Module</b>		
BP2	Gender diversity ratio in governance body	
BP3	GHG emissions reduction target	
BP4	Transition plan for climate change mitigation	
BP5	Physical risks from climate change	
BP6	Hazardous waste and/or radioactive waste ratio	
BP7	Alignment with internationally recognised instruments	
BP8	Processes to monitor compliance and mechanisms to address violations	
BP10	Work-life balance	
BP11	Number of apprentices	

**Table 7.1.** Gap analysis results of Australian Bodycare ApS. Green = *Could report*. Yellow = *Could partially report*. Red = *Could currently not report*.

From the table 7.1, it can be concluded that Australian Bodycare ApS could already report on most of the disclosures in the basic module, but they would need to be more specific for the disclosures required in the BP module. Especially for the basic module, Australian Bodycare ApS could already report on most of the environmental parts of the module. They are only lacking the information for the disclosures B4 and partially for B5. The reason that they could partially report on B5 is that they know their total company site area, but they do not have information regarding impact on biodiversity. They could in the basic module also partially report on disclosure B10 because they currently do not have all the points required available. The same applies for why they could only partially report on disclosure N3, as they have some data for this available but not all. Furthermore, what companies specifically have to report for N3 depends on their materiality assessment which Australian Bodycare ApS has not done yet. Noticeable about the BP module is also, that Australian Bodycare ApS has already calculated scope 1, scope 2 and scope 3 in their process of developing their first ESG report. However, the reason why disclosure BP3 is marked

as they could partially report on is because they have not yet included specific emissions reduction targets in their ESG report, but can still disclose their current emissions.

### Findings from their ESG report

Australian Bodycare ApS' ESG report is covering the year 2022, and serves as the company's baseline report for future ESG reports. In comparison to the VSME standard, the report does cover some of the disclosures required in the VSME. Since the report is not based on the VSME, it does not follow the requirements in the standard, however it still includes information related to the following areas (Australian Bodycare ApS, 2024):

- Energy and GHG emissions
- Water consumption
- Resource use and circular economy
- ESG strategy
- Code of conduct
- Value chain
- Employee diversity
- Trainees, interns and apprentices
- Governance and responsibility of ESG

Besides the investigated disclosure areas from the VSME, their ESG report also covers other elements, that are not required in the VSME. These areas are covering SDGs, employee's sick leave, data ethics, tax residency and community engagement (Australian Bodycare ApS, 2024). This shows that besides including some of the areas which the VSME requires, they are also able to report on some elements that go beyond what is in the standard. Their report also covers ESG projects they are working on and the progress they have made within these projects, however there are no defined targets mentioned in the report. Compared to the information gained through the interview with them, it was also revealed that they have more data available, than they have included in their current ESG report.

In the report the three topics regarding environmental, social and governance seems well balanced, which reflects that Australian Bodycare ApS included all three topics in an equal way, without over focusing on only one specific topic. Some of the disclosure points in the ESG report are mainly covered by qualitative descriptions and in relation to describing policies, projects and strategies within the company. Some quantitative data are included in the content of the report, as well as being in an data and KPI overview in the end of the report (Australian Bodycare ApS, 2024). Compared to the VSME standard, the report from Australian Bodycare ApS does lean towards being more qualitative for some of the disclosures, whereas the VSME also requires some quantitative data.

### 7.2.2 Base Erhverv A/S

Base Erhverv A/S is a small Danish contractor company, with 25 employees, and manages building projects of commercial buildings, varying from office and logistic buildings, over sports stadiums, to production sites (Keller, 2024). In this thesis Base Erhverv A/S is represented by Elise Utzen Keller, who is responsible for communication and pre-qualifications. Additionally, Elise Utzen Keller was the project manager of the preparation of the ESG report, which Base Erhverv A/S published in the beginning of 2024. The report was made in collaboration with external consultants, but internally Elise Utzen Keller was the only person who was mainly responsible for that task. However, it is recognised by the whole company that this is a joint task, why Keller (2024) cooperates with several stakeholders to get the right data. This includes both the top

management and other employees who have valuable knowledge for the ESG report. Additionally, processes for knowledge sharing happen on different levels, from organisation meetings to the daily talk, which means that knowledge is not related to only one person and it also helps to ensure implementation of ESG initiatives (Keller, 2024).

Base Erhverv A/S is not in the scope of the CSRD, meaning that their ESG report is prepared and published for other reasons. They began their ESG work in 2023, based on an expectation that they would be met by disclosure requirements (Keller, 2024).

*"So at some point we became aware that this ESG is coming, just as you may remember the Personal Data Regulation. It will come at some point, so you might as well be smart about it, so instead of being on the back with some deadline date when you have to be ready, we would rather familiarise ourselves with it and be ready to know anything about it when it becomes a requirement."*

Translated from Keller (2024)

However, they have not experienced data requests from larger companies yet, but they have experienced the pressures to begin working with ESG, especially from the business networks they are participating in. According to this, Keller (2024) pointed out the competitive factor and being a front runner as two of the dominating motivation factors for Base Erhverv A/S, to work actively with ESG. Related to this it was acknowledge that they are also pushing the development due to their proactivity, and they are experiencing the interest from other companies in their industry.

Besides the competitive factor, Base Erhverv A/S is also aware that they are working within an industry which is heavily affected by global climate changes. This also embedded a motivation within the company to be an active part of this transformation, and accordingly this also motivates them to keep pushing other companies in their industry, because it requires the whole industry to make a change. Furthermore, the domino effect of companies that start working with ESG is hoped to create an incentive to make more and better tools for SMEs to work within the field and normalize it. More companies working with ESG and more tools provided, will likely enhance ESG reporting for the individual SME (Keller, 2024).

Beyond the external positive aspects that Base Erhverv A/S has experienced, they also had considerations about how the work could give them internal value. The output is double sided from the perspective of the company. On the one side the ESG work gives them a good market position and they can be statued as a front runner within the industry. While on the other side it gives them internal knowledge and they are more aware of the impact they have as company, than they did before they started working with ESG. They now have relevant data, which they can use strategically, and improve on in the coming years, which they find of high value. Furthermore, new practices for working with ESG data have been embedded, which simplified and enhanced the process of making an ESG report the second time they made it. This resulted in a lowered amount of resources used and made it more manageable for Keller (2024) to do the work. Though Keller (2024) also pointed out the necessity of hiring an external advisor to guide Base Erhverv A/S through the process, otherwise it would have been a very overwhelming task to do.

Even though Base Erhverv A/S works with ESG and has published their first report, the process has not been without challenges (Keller, 2024). This was especially related to getting the data

from other companies within the value chain and structuring it to make it useful for the report. One point is that it can be difficult for the reporting company to find the right resources, which Keller (2024) also pointed out. Another aspect is that the companies who have the data might not have the time or the willingness to find and share it. Hereby, the dependencies between the companies became a barrier in the process of making the ESG report (Keller, 2024). It was found easier to get data on internal information requirements, such as social matters than it was to get data from suppliers. This was related to the good social performance that is embedded within the company because this is valued high. While getting the supplier data was complex and required implementation of new practices within Base Erhverv A/S. This challenge is something they are determined to work with in the future because they are aware that they need the data to reach their ambitions for their reporting activities (Keller, 2024).

As mentioned in chapter 2.3 a part of the interview was based on a structured approach to explore to which extent the case companies at their current ESG state are ready to live up to the requirements within the VSME. Based on this interview screening of Base Erhverv A/S, gaps between what is required in the VSME and what they are currently able to report are identified, and the results are illustrated in table 7.2.

Nr.	Disclosure name	Base Erhverv A/S
<b>Basic Module</b>		
B3	Energy and greenhouse gas emissions	
B4	Pollution of air, water and soil	
B5	Biodiversity	
B6	Water	
B7	Resource use, circular economy and waste management	
B8	Workforce - General characteristics	
B9	Workforce - Health and safety	
B10	Workforce - Remuneration, collective bargaining and training	
B11	Workers in the value chain, affected communities, consumers and end-users	
B12	Convictions and fines for corruption and bribery	
<b>PAT Module</b>		
N1	Strategy: business model and sustainability - related initiatives	
N2	Material sustainability matters	
N3	Management of material sustainability matters	
N4	Key stakeholders	
N5	Governance: responsibilities in relation to sustainability matters	
<b>Business Partners Module</b>		
BP2	Gender diversity ratio in governance body	
BP3	GHG emissions reduction target	
BP4	Transition plan for climate change mitigation	
BP5	Physical risks from climate change	
BP6	Hazardous waste and/or radioactive waste ratio	
BP7	Alignment with internationally recognised instruments	
BP8	Processes to monitor compliance and mechanisms to address violations	
BP10	Work-life balance	
BP11	Number of apprentices	

**Table 7.2.** Gap analysis results of Base Erhverv A/S. Green = *Could report*. Yellow = *Could partially report*. Red = *Could currently not report*.

It can be derived from table 7.2 that Base Erhverv A/S currently is able to report on most of the data requirements within the VSME. However, in each of the modules there are requirements that

they are currently not able to deliver data on and some where they are not able to fully disclose the required information. In the basic module they do not have data on disclosure B4 for now. While they can partially disclose information on B5, because they have knowledge of their site area but they do not have information on their impact on biodiversity. The same counts for disclosure B11 where they have the required information for their DGNB certified buildings, but not for the rest of the buildings in their portfolio. In the PAT Module information cannot be provided for N2 because they have not made a materiality assessment, but this is something they are talking with their external advisor about (Keller, 2024). Additionally, they can partially disclose information on N3, however they do not have any specific targets and policies. In the BP Module Base Erhverv A/S is not able to provide information on disclosure BP4 because they have not implemented a transition plan. Furthermore, related to disclosure BP3 they have calculated some of their scope 3 emissions but they currently do not have any reduction targets. The calculation of scope 3 is also not covering all scope 3 categories (Base Erhverv A/S, 2024). Hereby, based on the screening of Base Erhverv A/S, it can be concluded that they are currently able to report on most of the data requirements within all three modules, though in each of them they have a few disclosures, which they cannot provide information on yet.

### Findings from the ESG report

Base Erhverv A/S published an ESG report in the beginning of 2024, which covers the years 2022/2023 (Base Erhverv A/S, 2024). Although the report was published after the draft of the VSME was published, it was not prepared based on the standard. Base Erhverv A/S is categorised as a company who is not in the scope of the CSRD, why the report is made on a voluntary basis, and published with the purpose to be proactive and gain knowledge about the company (Base Erhverv A/S, 2024). Furthermore, it is argued in the report, that the building sector is experiencing extra attention related to sustainability matters, which Base Erhverv A/S wants to enhance (Base Erhverv A/S, 2024).

Although the report does not follow the VSME, it anyway provides information on certain areas (Base Erhverv A/S, 2024):

- Own workforce welfare
- Training and education of employees
- Code of conduct
- Waste type, waste management and circular economy
- GHG emissions
- Water and energy usage
- Full-time workforce
- Gender diversity in the top management
- Work related accidents
- Trainees, interns and apprentices
- Part-time employees

Besides the information disclosed that fits with the requirements in the VSME, the report also provides data on some more social aspects including, sick leaves, the employees' enthusiasm to work and gender allocation on geographical sites. Additionally, it also touches upon turnover rates and representation on board meetings, which is a more governmental aspect (Base Erhverv A/S, 2024). This mapping of information disclosed in the ESG report reveals that Base Erhverv A/S has a more primary focus on social matters compared to environmental and governmental areas. Keller (2024) also pointed that they have a large amount of data on the social aspect, which is related to how important they find the social matters within the company. Additionally, it is also clarified that the governmental area is what they focus the least on currently. To disclose information both qualitative and quantitative measures were used.

Moreover, the report touches upon which Sustainable Development Goals (SDGs) Base Erhverv A/S focuses on, and why these certain goals are relevant for the company. This includes SDG 3, 9 and 13. These three SDGs are focused on health and well-being and innovation, infrastructure and industry, and climate action (Base Erhverv A/S, 2024).

Lastly, the report reveals some future initiatives, which the company is planning to focus on in order to comply with expected requirements from different stakeholders. This also fits with what Keller (2024) elaborated on related to Base Erhverv A/S' wish to be a proactive company. The future initiatives stated in the report are both related to some internal organisational changes and some practical plans to enhance the company's sustainability performance (Base Erhverv A/S, 2024).

### **7.2.3 MarMar Copenhagen ApS**

MarMar Copenhagen ApS is a Danish clothing brand, mainly producing clothes for babies and kids. Since the company was founded in 2008, there has been a focus on sustainable design and production. They operate in both B2B and B2C contexts (Lyngholm, 2024). MarMar Copenhagen ApS is represented in this report by an interview with Camilla Lyngholm, who is a part of their purchase department. Her relation to sustainability is related to the company's production, as well as collaborating with an external sustainability consultant in regards to data and reporting related to MarMar Copenhagen ApS' suppliers (Lyngholm, 2024).

As previously mentioned, MarMar Copenhagen ApS has focused on sustainability since its beginning, which they work with in various ways. This means their founder and owner has incorporated sustainability aspects into the entire internal structure of the company, with a motivation for sustainability to produce textiles in a responsible way (Lyngholm, 2024). One of their main focuses is that the clothing they produce, has to be in good quality and designed so it can be passed down in generations. Furthermore, they produce limited stock of their collections, in order to ensure that they do not over produce clothing, and they adjust their collections based on the demands (Lyngholm, 2024). When it comes to manufacturing of their products, they work with certified suppliers and manufactures who perform audits and reports on social and environmental aspects. They have four locations for manufacturing, which are in Turkey, Ukraine, China and India (Lyngholm, 2024). Their products are OEKO-TEX certified, additionally most of the cotton used for manufacturing their products are GOTS certified, and they also focus on using recycled polyester and tencel modal fibers from sustainable wood sources. Currently they also work on mapping their suppliers, both tier one and tier two suppliers, and mapping their packaging, where they mainly use recycled or biodegradable materials for packaging (Lyngholm, 2024). Due to their main activity being production of children's clothing, they test all of their clothes to ensure that their products live up to the chemical regulations (Lyngholm, 2024).

In relation to the implementation of the CSRD, they have started to think about how ESG reporting will affect them. They recognised the need to devote resources to the task, which meant they would probably end up hiring a new employee to work on the reporting. However, they also see the positive aspects in relation to more reporting, since it helps to inform which areas they perform well within, and which areas they need to improve on. Additionally, they have a good feeling about being on the right path and that they are not lagging behind, even though they know there are some areas which they cannot report on (Lyngholm, 2024). MarMar Copenhagen ApS has experienced data requests from some of their largest B2B customers in relation to certifications,



which has influenced them to set up processes for data collection, as described in the following citation:

*"They demand answers to everything, and of course, that also makes you think, we need to get a handle on it and establish a system for it and so on, so it has certainly helped us get started collecting data in all sorts of different areas."*

Translated from Lyngholm (2024)

It was furthermore stressed by Lyngholm (2024), that it is time consuming to collect and handle all the data, not only for them, but also for their supply chain. Moreover, the structuring and placement in the company's organisational structure of the data collection is also a barrier that they had to overcome in relation to the data requests they experienced. In relation to the industry they work within, this data collection process will always be ongoing, since they have multiple collections every year. Therefore the structure for collecting data needed to be implemented into the organisational structure (Lyngholm, 2024).

According to Lyngholm (2024), they are interested in calculating their CO<sub>2</sub> emissions, in order to see where they emit the most and get a better understanding of where they can make impactful changes. However, they are also aware of the process of calculating emissions is a huge task. This is also related to ESG reporting where calculation of CO<sub>2</sub> emissions is a part of the VSME's modules, which means that this part of the reporting is a large task to get done, if it should be included in the report.

As mentioned earlier, MarMar Copenhagen ApS hired an external consultant, who helped them to identify what is going to be required from them, how they can structure the requirements and how they can prepare for future requirements. Getting the knowledge from a consultant was valuable for them to develop a structure for future ESG work (Lyngholm, 2024). Currently, multiple departments are involved with ESG, and they have set up an ESG team, who is responsible for the structuring of how they are going to incorporate it into the company (Lyngholm, 2024). Even though MarMar Copenhagen ApS currently does not have an ESG report, it can be seen that they are both preparing and integrating ESG more into their company.

Based on the screening of MarMar Copenhagen ApS' ability to report on specific data points in the VSME, the following table 7.3 shows the results from the screening, whereas the gap between their current status and the VSME requirements are further analysed.

Nr.	Disclosure name	MarMar Copenhagen ApS
<b>Basic Module</b>		
B3	Energy and greenhouse gas emissions	
B4	Pollution of air, water and soil	
B5	Biodiversity	
B6	Water	
B7	Resource use, circular economy and waste management	
B8	Workforce - General characteristics	
B9	Workforce - Health and safety	
B10	Workforce - Remuneration, collective bargaining and training	
B11	Workers in the value chain, affected communities, consumers and end-users	
B12	Convictions and fines for corruption and bribery	
<b>PAT Module</b>		
N1	Strategy: business model and sustainability - related initiatives	
N2	Material sustainability matters	
N3	Management of material sustainability matters	
N4	Key stakeholders	
N5	Governance: responsibilities in relation to sustainability matters	
<b>Business Partners Module</b>		
BP2	Gender diversity ratio in governance body	
BP3	GHG emissions reduction target	
BP4	Transition plan for climate change mitigation	
BP5	Physical risks from climate change	
BP6	Hazardous waste and/or radioactive waste ratio	
BP7	Alignment with internationally recognised instruments	
BP8	Processes to monitor compliance and mechanisms to address violations	
BP10	Work-life balance	
BP11	Number of apprentices	

**Table 7.3.** Gap analysis results of MarMar Copenhagen ApS. Green = *Could report*. Yellow = *Could partially report*. Red = *Could currently not report*.

As seen in table 7.3, MarMar Copenhagen ApS could already report on most of the disclosures included in the VSME, even though they currently do not report on ESG. However, the module on which they are least ready to report is the basic module, which represents the minimum requirements, suggesting that they are not yet ready to meet the minimum requirements. For the disclosure B5 regarding biodiversity they can provide some of the necessary data which is related to their total company site area, but they do not have information in regards to their impact on biodiversity, which is why it is marked as they could partly report on. The disclosure areas where MarMar Copenhagen ApS needs more information in order to comply with the VSME standard are related to environmental topics, such as water and energy consumption, pollution, GHG emissions and setting reduction targets and making transition plans for climate change mitigation. This can also be linked to them not having calculated their GHG emissions. These missing data points are both related to the basic module and the business partner module, whereas they currently could fulfill the PAT module.

#### 7.2.4 Tasklet Factory ApS

Tasklet Factory ApS has not yet engaged in ESG reporting and has not enforced any ESG structures. Nevertheless, they plan on incorporating ESG efforts in the future (Nielsen, 2024). Jacob Vestergaard Nielsen is the Chief Financial Officer of Tasklet Factory ApS and has a

background in economics. Through his position in the company he provided a holistic view towards ESG matters from their company perspective. Nielsen (2024) will be included in the company's future ESG work, due to CSRD placing ESG reporting at the same level as financial reporting.

Tasklet Factory ApS provides software for warehouse management, which is why they operate in a B2B context (Nielsen, 2024). With their software, customers of Tasklet Factory ApS are able to track their products and to manage their warehouse inventory data. As some of Tasklet Factory ApS' customers are obliged to comply with the CSRD, Nielsen (2024) mentioned that including data points to be tracked for ESG purposes will be valuable for the business development of Tasklet Factory ApS. Thereby this provides a reason for addressing ESG activities internally. According to Nielsen (2024), the benefits of engaging in ESG activities and publishing ESG information, have a positive impact on the brand image. In the specific case of Tasklet Factory ApS, the opportunity to incorporate ESG issues into their product, thereby adding value for their customers. From the perspective of Nielsen (2024) it is extremely important that ESG activities are not just a complying task, but rather provide value to the business and subsequently generate revenue. For the case of Tasklet Factory ApS this is the main driver for the future development within ESG, which through the integration of ESG into their product will lead to the implementation of ESG efforts into their own business.

However, as already stated, creating a formal ESG structure was not yet addressed in the company, which is why no ESG report has been prepared. Reasons for that are according to Nielsen (2024) mostly due to financial and time aspects. He explained that in order for their business to thrive, they need to allocate their resources to their product development, which is why, from a rational viewpoint, preparing an ESG report has not been the first priority on the agenda. This is also because preparing for ESG activities and ESG reporting requires time to ensure that when the company claims to be ESG compliant, they can actually demonstrate it, which can be concluded from the statement by Nielsen (2024):

*"If you say you're compliant, you also have to do it in your company and that will definitely cost some money, time from other projects and that costs revenue and profit in the end."*

Nielsen (2024)

Furthermore, Nielsen (2024) explained, that complying with legal requirements is complicated since legal documents are confusing and not self explanatory, which is why in order to understand what being compliant means, external advisory is needed. Nielsen (2024) further mentioned that they might even have to hire an ESG manager to ensure to stay compliant when ESG requirements change. It was also reflected by Nielsen (2024), that when Tasklet Factory ApS will begin doing ESG activities, this will include several people in the company as different perspectives are needed to get a holistic understanding of the company. It was mentioned by Nielsen (2024) that an ESG structure, meaning to include ESG measures in their product and internally developing ESG efforts, would probably include, the sales department, marketing department, delivery support team, software development team and himself as the CFO.

The current situation for Tasklet Factory ApS was that they do receive information requests and requests to sign Code of Conducts from their business partners. That these requests can also have

impacts in the business opportunities of Tasklet Factory ApS is stated by Nielsen (2024) in the following:

*"We need to sign and confirm that we are complying with this in our business or else they did not want to do business with us."*

Nielsen (2024)

From this it is clear that business partners have power over their suppliers. Therefore complying with these requests is important to Tasklet Factory ApS' business. This also gives reasoning for, why Nielsen (2024) identified developing an ESG report as potentially beneficial for the company to comply with these requests. Nielsen (2024) mentioned, if they would have an ESG report they could just refer to it in case business partners request information.

As mentioned above, Tasklet Factory ApS has just started to think about implementing ESG structures and may prepare an ESG report in the future. In order to explore the extent to which they could already meet the requirements of the VSME standard without having formally addressed them, questions based on the information requirements in the VSME were asked in the structured part of the interview. The following table 7.4 shows the results of the comparison of information availability and VSME requirements.

Nr.	Disclosure name	Tasklet Factory ApS
<b>Basic Module</b>		
B3	Energy and greenhouse gas emissions	
B4	Pollution of air, water and soil	
B5	Biodiversity	
B6	Water	
B7	Resource use, circular economy and waste management	
B8	Workforce - General characteristics	
B9	Workforce - Health and safety	
B10	Workforce - Remuneration, collective bargaining and training	
B11	Workers in the value chain, affected communities, consumers and end-users	
B12	Convictions and fines for corruption and bribery	
<b>PAT Module</b>		
N1	Strategy: business model and sustainability - related initiatives	
N2	Material sustainability matters	
N3	Management of material sustainability matters	
N4	Key stakeholders	
N5	Governance: responsibilities in relation to sustainability matters	
<b>Business Partners Module</b>		
BP2	Gender diversity ratio in governance body	
BP3	GHG emissions reduction target	
BP4	Transition plan for climate change mitigation	
BP5	Physical risks from climate change	
BP6	Hazardous waste and/or radioactive waste ratio	
BP7	Alignment with internationally recognised instruments	
BP8	Processes to monitor compliance and mechanisms to address violations	
BP10	Work-life balance	
BP11	Number of apprentices	

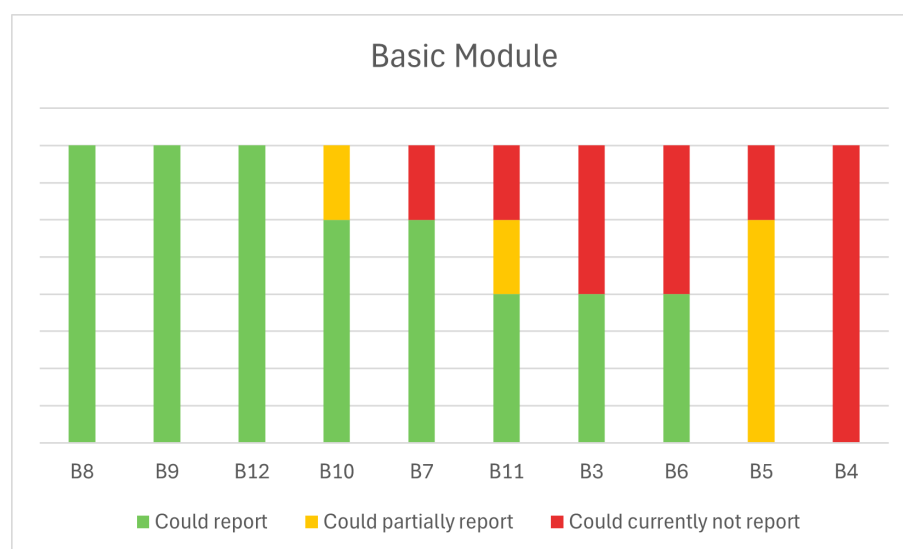
**Table 7.4.** Gap analysis results of Tasklet Factory ApS. Green = *Could report*. Yellow = *Could partially report*. Red = *Could currently not report*.

Table 7.4 shows that Tasklet Factory ApS could already report on some disclosures, even though they have no formalised ESG structure yet. When looking at the basic module, the part where Tasklet Factory ApS is lacking information the most, is the environmental part. That the environmental part is the most difficult part to report on, was also stated by Nielsen (2024) in the interview. Reporting about the environmental part is a very wide topic and something that is currently not included and monitored in their day to day business. Contrary to this, Tasklet Factory ApS could already provide information on certain disclosures which target social and governance aspects. It can be noticed, that they could report on several disclosures from the BP module, which could be due to the fact that they do already receive data requests from their business partners. For the PAT module it seems logical that they could currently not provide information on their material sustainability matters, as this is a very specific requirement to provide a materiality assessment. That Tasklet Factory ApS does not have such an assessment also impacts the ability to report on disclosure N3, where different disclosures are required depending on the results of the materiality assessment. This disclosure is nevertheless marked as could partially report, since Tasklet Factory ApS has anti-corruption and bribery policies, which they would have to report on in case they found this material.

### 7.3 Tendencies regarding the readiness of the case companies

This section presents an overall analysis of the results from the gap analysis of the case companies. It thereby combines the results from the individual cases, in order to analyse if there are any overall patterns related to the readiness.

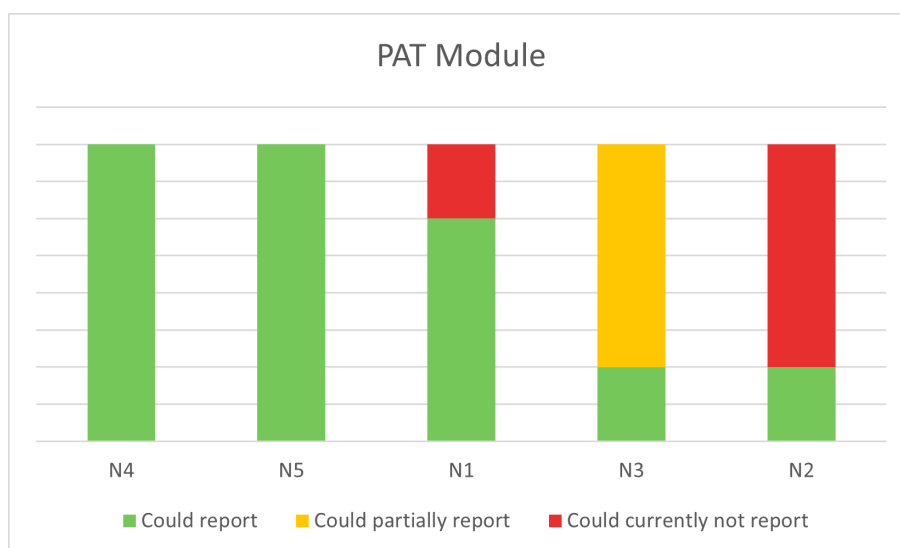
The following tables show the gaps between the current status of ESG reporting in SMEs and the requirements in the VSME. This is based on how frequently the case companies could report on the data requirements. The disclosures that the companies could report on are indicated in green and are placed on the left side of the diagram, showing that the case companies are more ready to report on these. The readiness to report on the disclosure decreases from left to right, where on the right side of the diagram the disclosures are displayed which are mostly categorised as "could currently not report".



**Figure 7.2.** Overview of the results of analysing the case companies readiness to report according to the basic module in the VSME standard

It can be derived from figure 7.2 that the smallest gap between what is required in the VSME and what the case companies are currently able to report on are the social requirements (B8, B9, B10) and the governance requirement (B12). This means the case companies are ready to report on their own workforce and if corruption has happened. Furthermore, it can be concluded that the disclosures where there is a gap between the current status of case companies and the requirements in the VSME are mainly related to the environmental requirements and one disclosure of the social part requiring knowledge of their value chain (B11). Nevertheless, there is a difference among the case companies to report on the environmental part as some of the case companies could report on B7, B6 and B3, while others could currently not deliver data on it. From the analysed cases it can be concluded that the already reporting SMEs are more ready to report on B6 and B3, whereas the non-reporting cases are less ready. It was found that the case companies are the least ready to report on the environmental disclosure regarding their impact on biodiversity (B5) and the disclosure of pollutants they emit to air, soil and water (B4), however both these disclosures have to be disclosed on the basis of "if applicable", which means that they can be left out if they do not apply to the specific company.

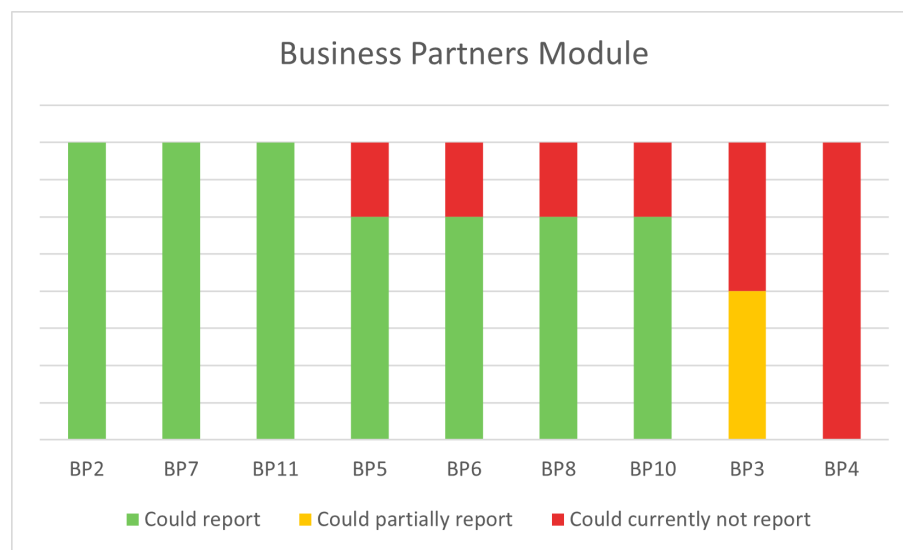
According to a survey from the Danish Board of Business Development (Danmarks Erhvervsfremmebestyrelse) SMEs are currently experiencing the most data requests regarding the environmental area. In the survey, including 3,504 Danish SMEs, it is clarified that 52% of the surveyed SMEs are getting data requests on environmental matters, while 22% of the SMEs are experiencing data requirements related to social aspects and lastly 14% of them are asked for data related to governmental matters (Danmarks Erhvervsfremmebestyrelses Virksomhedspanel, 2023). However, the results of the gap analysis show that the investigated SMEs currently are less ready to report on environmental matters. Therefore an imbalance between what data is requested of SMEs and what they have available can be seen. This thereby means that there is a need for change, in order to close this gap.



**Figure 7.3.** Overview of the results of analysing the case companies readiness to report according to the PAT module in the VSME standard

From figure 7.3, it can be concluded that all four case companies could report on disclosure N4, regarding their key stakeholders and N5 which requires them to disclose information about how the governance processes are intertwined with sustainability actions. It is furthermore found that

regarding N1, three out of four companies could currently provide a description of their business strategies and relevant markets related to sustainability. Regarding the disclosures N3 and N2 it seems logical that these are the disclosures where the case companies are the least ready, because these disclosures are based on a materiality assessment. As materiality assessment is a new concept within sustainability reporting in SMEs, N2 is the disclosure which most case companies could currently not report on. Related to this it seems logical that most companies could partially report on N3, as the specific requirements in this disclosure are related to the management of material sustainability matters. However, most of the companies had made considerations about the direction for their sustainability work, but without having implemented structures for formal actions and strategies.



**Figure 7.4.** Overview of the results of analysing the case companies readiness to report according to the business partners module in the VSME standard

Concluding from figure 7.4, the disclosures touching on social and governance matters (BP2, BP7, BP11) could be reported on by the case companies. This aligns with the findings from the basic module, indicating that the case companies showed most readiness for reporting on the social and governance aspects. Three out of four companies also state that they are ready for reporting on BP5, BP6, BP8 and BP10. These disclosures cover aspects from all three parts of ESG. In this module it was found that the case companies are the least ready to report on BP3 and BP4 which are related to GHG emission reduction targets and climate change mitigation strategies. This again highlights, that the gap between the current status of ESG in SMEs and the requirements in the VSME is the biggest in the environmental area.

## 7.4 Sub-conclusion

The analysis of the case companies showed that there are differences in the gap of the current status of reporting and the requirements in the VSME standard, but overall it was found that all companies could report on some disclosures. However, considering that the basic module is the minimum requirement for complying with the VSME standard, it was found that none of the investigated companies could immediately report on all of those requirements. Although, the

restriction where the basic module allows the concept of "if applicable" was not considered to review the readiness of the companies.

As the two modules, PAT and BP, are voluntary the companies do not have to comply with all the requirements. However, if they want to report on these modules the companies need to perform a materiality assessment, which three out of four companies stated that they have not done yet. As these modules build on the materiality assessment, it can be assumed that they are not ready for these modules as of now.

It can be concluded from all the modules that the investigated case companies in general currently have a bigger gap related to environmental measures. This became clear when reviewing the basic module and the business partners module. When differentiating between reporting and non-reporting case companies it was found that both reporting companies were able to present some data on their GHG emissions for scope 1, 2 and 3. Even though, there are still some gaps, this would for the future already position them to further develop their report. This was not the case for both non-reporting companies, which leaves them with a bigger gap in this area. However, it was also discovered that all the case companies are most ready for reporting on social and governance matters, where there only are a few gaps between the current status and the requirements in the VSME.



# Recommendations for SMEs to become ready 8

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*It is outlined in the chapters 6 and 7 that non-listed SMEs are experiencing pressures to work with ESG and report on data related to it. It can be concluded from the gap analysis that the SMEs are not completely ready to report on required ESG data. To facilitate change and enable SMEs to become more ready this chapter strives to provide recommendations to achieve this goal and addresses thereby the third sub research question: "How can transition be facilitated within the SMEs to foster their readiness regarding ESG reporting?". Hereby, the framework for the recommendations is based on the theoretical perspective of transition management, where knowledge obtained from the different interviews and the document analyses were included as the basis for the specific recommendations.*

## **8.1 Facilitation of the SMEs' transition to become ready for ESG reporting**

To structure the transition within the SMEs towards being ready to report on ESG matters, the three types of governance activities, which are needed in order to make a transition according to Loorbach (2010), are applied in this section. The three types of governance activities; *strategic*, *tactical* and *operational* represent different levels of a transition, as explained in section 5.3. The strategic level is centered around the systematic and cultural changes, the tactical level is focused on implementing the transition within structures, while the operational level addresses the practical aspects (Loorbach, 2010). Even though the three types of governance activities differ, they contribute to the transition simultaneously, and are highly interlinked. This means that changes within one governance type might have an influence on the others. Projecting this into this thesis indicates that SMEs' transition towards being ready for ESG reporting is a dynamic process, with a lot of iterations. Lessons learned from one process are relevant to another, improving ESG work and reporting (Keller, 2024). This reflects the relevancy of the fourth governance type presented by Loorbach (2010), which is the reflexive activities. Within the work of ESG reporting, this means that it is important that the companies are reflexive during the process to ensure that their strategies, transition agenda and actions are aligned. As mentioned by several of the interviewees, both from the case companies but also from the experts, was that it is important to get started, and develop the skills while being in the process (Keller, 2024; Mehlsen, 2024; Majlund, 2024), which Loorbach (2010) also states as a central element in transition management. Being a proactive company was seen as important by Mehlsen (2024) from Australian Bodycare ApS and Keller (2024) from Base Erhverv A/S within their learning process, since they are not obliged to comply with the CSRD. Based on this it is argued that SMEs should start the reporting process, whereas skills can develop along with the practice as the different levels within the transition are interlinked.

In order to facilitate a transition, according to transition management, all of the governance activities need to be implemented. Based on this the following sections outline recommendations for how SMEs can undergo a transition to become ready for ESG reporting. These recommendations are tied to the three governance activities; *Strategic*, *Tactical*, and *Operational*.

### 8.1.1 Strategic development

The strategic level within transition management is centered around the establishment of structures that can enforce a transition within a company. Connected to the two other types of governance, namely the tactical and the operational, the strategic level seeks for a holistic approach ensuring a common understanding of how to deal with the transition. Accordingly, creating an argument for why it is important to create a consensus within a company about the necessity of the implementation of changes and related to this, what problem that has created the need for this implementation is vital. By operating within the strategic governance the focus is on making a systemic change which influences a whole company, why systems thinking is of great value to implement change within this level.

Based on this it is from a theoretical point of view recommended that the companies, working with implementing ESG structures, prepare a strategy stating its sustainability vision and how it plans to work with ESG matters, which is supported by long term objectives. Being able to disclose elements of the strategy which are related to sustainability matters is also required by the VSME standard in disclosure N1. Therefore, developing a long term strategy including sustainability objectives is relevant for being able to comply with this requirement from the VSME standard. In this part of the transition it is important that the focus is centered around embedding a common sustainability and ESG culture within the company, to ensure that the work gets anchored and remains persistent. The importance of embedding values and initiatives within the culture of companies, was also mentioned in the interview with Keller (2024) from Base Erhverv A/S, who elaborated on how social aspects within the company were of high importance. Therefore this was an area, where they were able to deliver data and information, which they used in the preparation of their ESG report. Drawing from this, creating a common culture and understanding of the importance of a certain area within a company enhances the awareness of it. Similarly, Mehlsen (2024) from Australian Bodycare ApS noticed that the environmental footprint, especially from their products was of importance to them related to their brand, why enhancing this gained much attention in their ESG work. Accordingly, these internal visions are stemming from a top-down perspective, which both interviewees stated as important to ensure that it gets anchored within the company. This was also pointed out by Lyngholm (2024) from MarMar Copenhagen ApS, since their founder has a sustainability vision for the company. Developing towards a company where ESG is inherently part of the business operations is therefore a matter of course for MarMar Copenhagen ApS.

Besides from envisioning sustainability and developing long term strategies to ensure persistency, it is also of importance to create a framework for how to structure ESG work within the company. As pointed out by all interviewees, working with ESG does not only include one person, but needs the attention from several relevant actors to acquire the necessary knowledge for reporting. Choosing relevant people to include, and structure an ESG steering group has to be included in the tactical level, as this has more a mid term horizon and might require more change over time. However, from a long term perspective it was also found important to include the top

management since they are the ones with the power to make a final decision (Mehlsen, 2024; Keller, 2024). Furthermore the top management should be involved in the ESG structure, as this is also required to be stated in disclosure N5 of the VSME. By including the top management in the ESG structure it becomes possible to include ESG matters into the business strategy and include an overarching perspective of the company. According to Rosenquist (2024), the representative of Dansk Industri, it is necessary to include the top management in the ESG structure as they are the governance body in the company having the biggest decision power and thereby need to be onboard for enabling ESG efforts. The case companies, Australian Bodycare ApS, Base Erhverv A/S and MarMar Copenhagen ApS, who already have established an ESG structure also included their top management (Mehlsen, 2024; Keller, 2024; Lyngholm, 2024). Additionally it was stated by Nielsen (2024) that Tasklet Factory ApS will include the top management when they build up an ESG structure in the company.

The strategic governance level endeavours to create a common understanding of ESG efforts within the company, which means that the sustainability vision is taken into account holistically at all levels of the company. Embedding sustainability in a companies' strategy creates the basis for structuring ESG efforts on which it can build upon for long term sustainability improvement. Without a structure it can be difficult to create a common culture fostering ESG in the company, and additionally, it can be overwhelming to navigate in the process (Keller, 2024; Mehlsen, 2024; Zakari, 2024). The work related to ESG reporting is a systemic transformation as it concerns the entire company. It is thereby important to ensure that structures and strategies are embedded and knowledge is shared across the organisation and to all relevant actors. The visions established and decisions taken are related to both the tactical and operational level, where the work is moved from a holistic and systematic level, to a more structural and practical level.

For the strategic level, the following recommendations are derived::

- Prepare a holistic sustainability strategy
- Develop long term sustainability objectives
- Create a consensus about the problem and the solutions regarding sustainability within the company
- Create a structure for the ESG steering group
- Introducing a sustainable corporate culture led by the top management

### **8.1.2 Tactical structuring**

The tactical level of transition management focuses on the organisational work needed to facilitate the transition, which is why from a theoretical perspective it is suggested that the transition agenda and pathways are established. Connecting to the two other governance levels, the tactical level bridges the objectives of the strategical level through structuring and clarifying visions using a mid term perspective and translating them into agendas and pathways providing structure for the operational level.

A step which needs to be taken at this level is the enforcement of ESG structures in a company. It was found that the interviewed case companies also identified structuring ESG work as an important step to take. When developing ESG structures it is important to include a broad perspective including employees from diverse parts of the company. It was stated by Mehlsen (2024) from Australian Bodycare ApS that they include employees with different positions and

skills in their ESG steering committee, through which they cover a variety of competencies needed when working with ESG matters. In the interview with Keller (2024) from Base Erhverv A/S it was explained that they have four annual meetings with a specific focus on their ESG work and to ensure knowledge sharing. This is both with a focus on getting new relevant knowledge that can be included in the ESG work, but also to share what is already in the ESG report and preparatory work for it, to make sure that everybody is aware of that (Keller, 2024). Additionally, Mehlsen (2024) explained how Australian Bodycare ApS have made a steering group consisting of different relevant people. Including several people was also pointed out by Lyngholm (2024) from MarMar Copenhagen ApS as a part of their strategy for working with ESG. Commonly, the interviewees identified the knowledge required to produce an ESG report as a barrier, linked to the limited knowledge that one person can have, which is why they felt it was important to involve several people in the work (Mehlsen, 2024; Keller, 2024; Lyngholm, 2024).

Besides the establishment of internal ESG structures, it can also be beneficial to engage with external stakeholders and networks. This recommendation is derived from the theoretical suggestion to develop coalitions to enable the transition and in this case become ready to report according to the VSME. When beginning with ESG reporting it can be helpful to engage with business organisations for getting guidance on how to start the process (Zakari, 2024). Mehlsen (2024) stated that Australian Bodycare ApS started their ESG process through engaging in programs provided through Erhvervsstyrelsen and Dansk Industri. This aligns with the recommendation given by Rosenquist (2024), the representative of Dansk Industri, who stated that companies should use tools such as the "Klimaklar produktionsvirksomhed" in order to get started with ESG work. Another opportunity for how a company could engage with a network could be through attending webinars or events regarding this topic. It was stated by Nielsen (2024), the interviewee of Tasklet Factory ApS that he wants to attend an event about the CSRD and ESG reporting in order to get a better understanding and start the process. It is also found relevant to involve companies' stakeholders at an early stage and prepare business partners for information requests (Keller, 2024). Describing the key stakeholders and how the company engages with them is also required to disclose for N4 of the VSME.

For the general objective to develop a transition agenda and pathways, it can be beneficial in some cases to use external advisory. It was stated by Nielsen (2024) from Tasklet Factory Aps and Lyngholm (2024) from MarMar Copenhagen ApS that they expect to use external advisory to create the framework for ESG reporting and to establish an understanding of what is required to conduct an ESG report which complies with given standards. Furthermore, Keller (2024), stated that Base Erhverv A/S used an external advisor to prepare their ESG report. Nevertheless, Australian Bodycare ApS did create their first ESG report without external consulting (Mehlsen, 2024). External advisory can thereby be beneficial in certain cases, however it depends on the specific company.

Identifying which modules in the VSME the company wants to report on, is found relevant to be included in the tactical level. The reason for this is that establishing the framework of what to report on fits a mid term perspective, as this might be reevaluated in the long term. Furthermore, this has a structuring aspect to it, as it is crucial to identify which disclosures need to be reported on and from that derive the operational tasks to collect data for those.

The recommendations related to the tactical level is as follows:

- Establish an ESG steering committee
- Engage in relevant networks
- Advisory help could be beneficial
- Identify the modules of the VSME to report on

### **8.1.3 Operational execution**

The operational level is characterised through execution of transition projects and mobilisation of transition networks and actors. The processes needed to facilitate the transition require to be identified through an experimental approach, keeping in mind the feasibility of the experiments. Innovative processes resulting from this can be scaled up and implemented to meet the future requirements for ESG reporting. Ensuring that the processes fit their purpose and the transition objectives is important since it ensures that the visions can be realised.

It is recommended to begin building up systems and structures to collect information and data for the disclosures chosen to report on. As the theory suggests, using an experimental approach could be applied to establish the processes of gathering information and data. The experimental approach in this case would mean, that companies begin to collect already available information and data. As shown in the analysis of the case companies, all of them have already some data points available. Beginning the process of collecting data for the ESG report with gathering already available data can enhance the process and mitigate the feeling of overwhelmedness in the beginning as described by the two already reporting case companies Australian Bodycare ApS and Base Erhverv A/S (Mehlsen, 2024; Keller, 2024). The interviewee of Australian Bodycare ApS Mehlsen (2024) stated that companies could begin to estimate their emissions in tools such as Klimakompasset, by only using monetary values. This leads to an understanding of the emissions caused by the company and can be elaborated on in the further process. Nevertheless, when beginning with already available data points the knowledge gained from the initial process, should be used to develop the reporting practices to a level of detail which complies with the requirements in the VSME standard. According to the interviewee from Base Erhverv A/S Keller (2024) it is also essential to structure build an overview which includes the data points needed, as well as where the data can be found or who has to be contacted in the company to get the right information. Including a timeline in the entire process was also suggested by Keller (2024). Establishing such an overview was experienced as beneficial by Base Erhverv A/S and led to an eased process for preparing ESG reports on an annual basis (Keller, 2024).

Depending on the decision made on the tactical level, whether the company wants to report on the PAT and/or the BP module a materiality assessment has to be conducted. The goal of the materiality assessment is to identify material sustainability matters, by considering the impacts the company has or is likely to have on people and the environment. Furthermore, the company needs to consider sustainability aspects which have or are likely to have impacts on the companies' finances. As a materiality assessment requires companies to engage with their key stakeholders for identifying which sustainability matters they find most relevant, it is crucial to actively engage with them. This also fits with the theoretical perspective of activating stakeholders at the operational level of the transition. Furthermore, a materiality assessment enables the company to scope their content for the ESG report, because the identification of relevant sustainability aspects can provide a framework of what the company has to report on. Conducting a materiality assessment aligns

with the perspective of the interviewee of the consultancy Transition, as he currently recommends SMEs to do materiality assessments in the process of developing an ESG report (Majlund, 2024). However, it is criticised by Zakari (2024) that a materiality assessment could be too complex for SMEs and is not feasible for SMEs as it is currently described in the VSME standard. Therefore, it can be recommended that conducting a materiality assessment needs to be a case based decision, fitting the capabilities of the company and the defined visions of the strategic level.

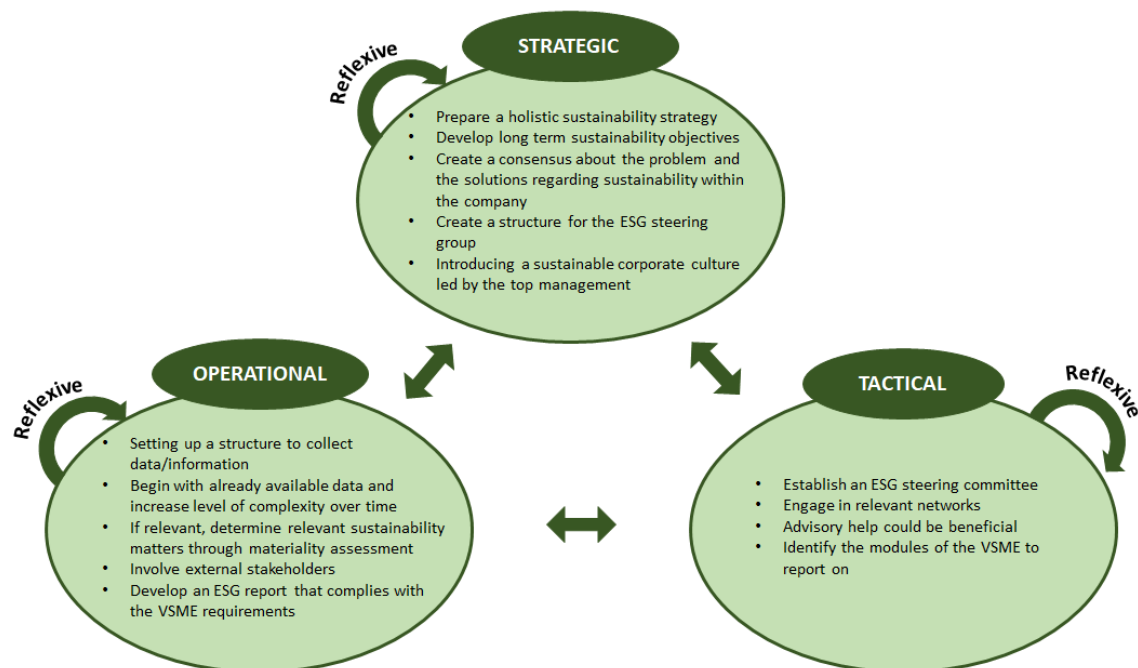
Another operational task is the development of the ESG report, meaning that the ESG report has to be written and communicated to stakeholders. It is important for this step to ensure that the ESG report actually complies with the VSME standard and can thereby be communicated without a risk of harming the companies image through miscommunication. It could be recommended here to reevaluate if the data and information stated in the ESG report fit the disclosure requirements from the VSME.

For the operational level, the following recommendations are provided:

- Setting up a structure to collect data/information
- Begin with already available data and increase level of complexity over time
- If relevant, determine relevant sustainability matters through materiality assessment
- Involve external stakeholders
- Develop an ESG report that complies with the VSME requirements

## 8.2 Sub-conclusion

This analysis investigated the possible recommendations for how SMEs could become ready for ESG reporting, based on the theoretical structure from transition management. The suggestions identified through the analysis are depicted in figure 8.1.



**Figure 8.1.** Overview of recommendations for the transition of ESG reporting within SMEs

It can be concluded that, as the structure of transition management suggests, the recommendations are interlinked and need to be reflected on throughout the process. The different levels of governance have their respective scope and purpose for the transition. Accordingly, the strategic level focuses on systemic changes, the tactical level is centered around changes within the organisational structures and lastly the operational level represents the practical setting of implementing actions.

Within the context of ESG reporting in SMEs the strategic level includes long term systemic changes, such as strategy development of the companies and how the ESG visions can benefit the overall business strategy to future proof the company. Setting up the structures for ESG work can be identified in the tactical level, where the SMEs build up their transition agenda and implement it in their respective setting. At the operational level ESG reporting practices are carried out, including data collection, mobilising structures, built up and preparing the ESG report to communicate ESG efforts. For enabling a successful transition all levels are needed and can not be separated. Besides the connectedness of the different levels, each level also needs to be reevaluated individually, which is incorporated through the reflexive approach.

# Discussion 9

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*This chapter discusses the results of the analysis and reflect on the chosen methods. The results of all three analyses are combined and discussed under the premise of whether the VSME is the right tool for SMEs and to further shed light on the recommendations presented. As the methods chosen for this study influence the outcome of the results, these are reflected on to characterise the implications the methodological choices can have on the results.*

## 9.1 Implications of the VSME

As the main points of the analysis of the current status of SMEs and the analysis of recommendations take point of departure in the VSME standard, it is relevant to discuss the implications the VSME standard might have. Also related to the analysis of the pressures it was found that the regulative pressures are frequently experienced by the case companies. Especially the fact that there is a trickle down effect from the CSRD to the SMEs, meaning that they are indirectly effected by the legislation without being mandated to comply with it themselves. The VSME standard is according to EFRAG (2024) supposed to be a tool to mitigate the pressures experienced by SMEs and is expected to be widely accepted as a standard for data requests. However, actual implications that the standard will have to mitigate this, depends on the further development of it.

### The complexity of the VSME

The VSME is currently under development, which means that it is going through a public hearing. One of the main issues that SMEUnited found in the current draft, is related to the complexity of the VSME. Here it was stated by Zakari (2024) from SMEUnited that the language in the standard is hard to understand, why there is a need to simplify the VSME by changing the language and offering templates for the SMEs. This point is supported by Majlund (2024) from Transition who stated the necessity in guiding SMEs within ESG work and reporting on it, but requirements in the standard have to be explained in a language that is understandable for them. Furthermore, Majlund (2024) and Zakari (2024) argued that the information requirements within the standard need to be relatable and relevant for the SMEs, otherwise it can increase the complexity.

The current draft of the VSME standard includes the concept "if applicable" for certain disclosures. This enables the companies to report on disclosures which fit their business operations. Nevertheless, this can add a level of complexity to the standard since this concept requires the company to identify relevant disclosures. It was also seen in the case of Australian Bodycare ApS, Base Erhverv A/S and MarMar Copenhagen ApS that their work related to ESG and sustainability involved some level of external help (Mehlsen, 2024; Keller, 2024; Lyngholm, 2024). Despite that, it was pointed out by Zakari (2024) from SMEUnited that it should not



be necessary for SMEs to spend resources on hiring external help to comply with the VSME. Spending resources on external help can have impacts on the financial structure of SMEs, as their main task is operating their business and thereby dedicating resources to the main business tasks. There is therefore an argument that SMEs do not necessarily have the resources or knowledge to fully understand and work with every element that is tied to ESG reporting, meaning that the VSME does currently not fit the reality in SMEs. However, it was stressed that there is a need for a standardisation of ESG reporting, to make it easier for companies to report (Majlund, 2024; Mehlsen, 2024; Keller, 2024). That SMEs can benefit from structured processes was also found in the literature review 4.2, as this enables them to improve their management of ESG efforts. Furthermore, Majlund (2024) clarified, how the implementation of a common standard can support creating a level playing field and uniformity related to reporting practices among companies. Generalising and streamlining data requests in a standard for SMEs can mitigate the trickle down pressures they experience from their value chain (Rosenquist, 2024; Zakari, 2024).

### **Does the VSME lead to sustainable change?**

The need for sustainable change is outlined in the introduction in chapter 1, where it is stated that on a European level the EU underlined the importance of sustainable change through the Green Deal. The objectives in the Green Deal strive to enable sustainable change in Europe's economy and through that enhance the competitiveness of Europe's economy in a changing environment. As the Green Deal targets a broad variety of aspects in Europe's economy, sustainability reporting is one of those (European Commission, 2019). Due to the importance of SMEs in the European economy, as found in the literature review in section 4.2, it is deemed necessary to shed light on the implications the introduction of the VSME might have in terms of promoting sustainable change.

From the normative and cultural-cognitive pressures, it was seen that the case companies already indicated that they value being a responsible business and doing sustainable actions. This can be concluded from the statement of the representative of Tasklet Factory ApS, where he stated that they are already doing some environmental actions, such as sorting waste or saving electricity by switching off the lights (Nielsen, 2024). Being motivated to do good as a company was also stated by the representatives of Australian Bodycare ApS, MarMar Copenhagen ApS and Base Erhverv A/S (Mehlsen, 2024; Lyngholm, 2024; Keller, 2024). This can be interpreted as an internal pressure, pushing the companies to actually take action in regard to ESG. In this context the VSME standard can contribute by providing guidance, on how this already existing intrinsic motivation could be implemented in a more structured way, and thereby increase sustainability in the company. Base Erhverv A/S and Australian Bodycare ApS, who showed proactivity by voluntarily preparing their first ESG report without using the VSME, clarified that a standardised method for reporting could ease the reporting process. This was both related to the clarification of relevant information requirements, but also that it ensures, that companies report on the same disclosures (Mehlsen, 2024; Keller, 2024). Hereby the VSME can help to scope the reporting process and identify, what is actually relevant for the companies to report on, which can structure and simplify the process. Nevertheless, just because a company is reporting on the VSME standard or is preparing an ESG report, does not coherently mean that ESG objectives are implemented in the company. As the VSME is a voluntary standard, it can be argued that the VSME will only lead to changes, if there is a wide market acceptance of the standard, meaning that business partners, banks and investors recognise and support it (Zakari, 2024). The current VSME standard is only

a guideline that by itself does not lead to sustainable change, but requires further actions from the companies and needs further supporting tools to be effective. In order for that to happen a company needs to implement ESG structures in the company to facilitate change. Connecting this to the recommendations drawn in chapter 8, a broad implementation of ESG efforts is needed, meaning that top management and several employees need to be included in the ESG structure to actually spread the actions in the company.

It was found in the literature review in chapter 4.2, that voluntary reporting shows commitment of companies to work with ESG. Whereas, mandatory reporting does not necessarily mean that companies are committed to work with ESG matters, but might focus on reporting for the sake of compliance. Contrasting this, it was further found in the literature review, section 4.2, that some scholars identified that ESG reporting led to an increase in businesses sustainability efforts (Cicchello et al., 2023; Aboud et al., 2023). ESG reports published due to mandatory requirements might not show a high level of commitment of the company, but it was found that the quality of ESG reports increased and the decoupling between the ESG efforts and disclosures decreased, due to the introduction of the NFRD, which in the case of the CSRD might happen as well. As of now it has been experienced by Rosenquist (2024) that the CSRD has created a shift in the focus of companies, where they are currently more focused on compliance, rather than increasing their responsibility actions. However, this could change over time. In general, it was found in the literature, section 4.2, that SMEs should rather be nudged through voluntary standards to engage in ESG reporting rather than mandating them, like large companies, to publish ESG reports (Krawczyk, 2021). However, it can be argued that it is a good idea to use ESG reporting actively as a tool for value creation within companies, since reporting only for the sake of compliance can be a waste of companies' resources, if they do not get any value in return (PwC, 2024). Furthermore, it still needs to be acknowledged that SMEs in specific are currently not mandated to publish ESG reports, which is why it is even more important for them to gain value from their voluntary ESG reporting. This could be fostered through standardised approaches such as the VSME, which was also identified in the literature in section 4.2 to be important for SMEs to have frameworks for ESG reports fitting the scope of the SMEs (Krawczyk, 2021).

## **9.2 Suggested recommendations for the SMEs**

Through investigating the pressures SMEs are experiencing, it was found that there is a cultural-cognitive pressure for more sustainable transition, as it became prominent in recent times that sustainability has a high priority on the societal agenda. Furthermore, in regards to sustainability communication it was seen that from a normative viewpoint companies already published ESG reports without having a regulative pressure. Due to the current legislative development this has shifted with the introduction of the CSRD, which also leads to a broadened pressure from regulative institutions. This affects not only large businesses, but indirectly also pressures SMEs to start their process of collecting ESG data and preparing for ESG reporting as they receive data requests from B2B partners. Therefore, it can be seen that there currently is a transition happening, especially in large businesses. However, this also affects SMEs leading to a need for them to begin their own transition towards ESG reporting as well. The need for transition in the context of ESG reporting can also be concluded from the interviews with all case companies, as they all mention that they can feel a pressure to incorporate sustainability aspects into their operations and communicate these aspects (Mehlsen, 2024; Keller, 2024; Lyngholm, 2024; Nielsen, 2024).

The pressures identified in this report are pushing SMEs towards incorporating ESG in their business and subsequently also ESG reporting. The recommendations established in chapter 8, strive to contribute to a transition in SMEs to become ready for ESG reporting. However, it is relevant to discuss some of these recommendations in relation to their feasibility and possible challenges related to the suggestions.

### **Feasibility of the recommendations in SMEs**

One of the recommendations suggests that a materiality assessment has to be conducted in order to identify material sustainability matters, which can help companies to scope their report. When conducting a materiality assessment companies gain an understanding of their impacts from their operations towards the environment and people and also regarding the financial implications these impacts have. For example, it was acknowledged by Keller (2024) that a materiality assessment could enhance Base Erhverv A/S' future ESG work. Identifying relevant sustainability matters can be beneficial for the companies and their ESG reports, however conducting a materiality assessment is a complex task requiring knowledge, skills and resources. Performing a materiality assessment was seen as critical by Zakari (2024) from SMEUnited, as she argued that SMEs do not have the knowledge or capacities to conduct such an exhaustive assessment, nor is it currently described in an understandable way in the draft of the VSME. The same point was also mentioned in the public discussion as part of a webinar about the sustainability reporting standards for SMEs (DRSC and EFRAG, 2024). Therefore there are some positive and negative points to it, which is why the decision of what a SME wants to report on and what it thinks is feasible for them, is an individual decision. The suggestion regarding the materiality assessment can thereby be seen as a best case scenario, but realistically it might not be feasible for all SMEs.

Additionally, it is also relevant to acknowledge the size difference within SMEs. As the CSRD defines SMEs, the amount of employees in a company vary from 1 to 250, which creates a large difference between the capacities of the different SMEs. As already stated, it was chosen not to investigate micro companies (under 10 employees), which therefore has implications on the applicability of the recommendations in those companies. It was expressed by (Zakari, 2024) from SMEUnited that SMEs who have few employees will have issues reporting on ESG since they cannot delegate different tasks within the company. In contrast to this, most large SMEs are able to delegate relevant tasks to the different departments within the company, which can make it more manageable to report on ESG.

In general the feasibility of the recommendations depends on the development of the VSME standard and will have to be adjusted once the standard is finalised. As changes in the requirements might occur, the feasibility of the requirements in the standard might change. Therefore the critical points regarding the recommendations discussed, could also be interpreted as a possible need for changes in the VSME standard.

### **Challenges related to the recommendations**

The recommendations provided, strive to make a transition within SMEs to make them ready for ESG reporting and guide them in building up an ESG structure in the company for the sake of developing a report. When identifying these recommendations the most important aspect was to enable them to comply with the VSME standard and cope with the pressures. Although, to actually facilitate sustainable change the recommendations provided would also have to consider further aspects such as setting targets and measuring performance continuously, in relation to data

used for ESG reporting. To future proofing a company and go beyond compliance, setting targets and actively incorporating ESG in the business strategy was also stressed in a panel debate at PwC's event about the development of ESG compliance towards value creation (PwC, 2024). It was also stressed by the representative of Dansk Industri that securing the future of a company through introducing ESG and being proactive is crucial (Rosenquist, 2024). That being said, it was found in chapter 7 that the investigated case companies could, as of now, not fully comply with the basic module of the VSME standard. Therefore providing guidance for how they could further build up their ESG system with the goal of complying with the VSME was found relevant. Complying with the VSME standard can be seen as the first major milestone, which SMEs should prioritize. Afterwards they can continue expanding their efforts regarding ESG work and going beyond compliance to further enhance sustainable transition. This aligns with the findings in chapter 6, where the largest pressures stems from the regulative pillar, therefore compliance with regulative measures has high priority.

Another suggestion was to use external advisory if needed, which was based on the aspect that SMEs do not necessarily have the required knowledge and competencies within their company to conduct an ESG report. It was also seen in the case of MarMar Copenhagen ApS and Base Erhverv A/S, that they also used consultancy related to their ESG work, and that they have found it to be helpful in their processes (Lyngholm, 2024; Keller, 2024). Even though external advisory can be helpful, it is also relevant to recognize that it should not be necessary to hire external guidance to comply with the VSME (Zakari, 2024). However, consultancy work can be used for different objectives which could be that the consultancy is hired to conduct an ESG report or it could be hired to build up competencies in the company to work more independently with ESG. In relation to this, it can be more valuable for companies to expand their competencies, since this can limit their need for external advisory in the future. It was seen in the case of Base Erhverv A/S that the second time they conducted an ESG report, their process was more efficient because they have gained competences and structures for reporting when doing their first ESG report (Keller, 2024). Building up competencies in the company, engaging in networks, attending relevant courses and reaching out to business organisations could be meaningful steps to take. According to Rosenquist (2024) from Dansk Industri, acquiring knowledge through applying tools provided by business hubs can enhance companies' ability to build up competencies and might be an additional way to gather knowledge, besides using consultancy help. It was also stressed by Zakari (2024), that business organisations need to support SMEs in the process of ESG reporting.

Throughout the interviews with Base Erhverv A/S and MarMar Copenhagen ApS it was pointed out that data collection related to ESG was a challenge, as well as setting up the structures for the data collection (Keller, 2024; Lyngholm, 2024). It was thereby suggested to start with already available data. It was also found in the literature review in section 4.2 that SMEs often apply informal ESG activities, through which they might already have data available, just not in a structured manner. Also it was found that SMEs often communicate their ESG efforts in a less formal way than an official ESG report. But they could begin their ESG process taking departure in the efforts they have already established and then build up a more formal system. At an event organised by PwC, it was argued that the most important thing for companies was to just get started and not strive for perfection and high ambitions the first time developing an ESG report. Dwelling too much in preparatory work and focusing on high ambitions can slow down the processes and hinder progress (PwC, 2024). Starting with available data can enhance the process for ESG reporting, and mitigate the issue of having to invest a lot of resources for complicated

data acquisition. Considering the resources SMEs have available this seems logical, regardless of that it can also be argued that some data that are not already available still can be highly relevant to report on. Thus, it may in some cases be relevant to not only start based on already available data, but also broadening up the scope in relation to what is material within the company. For a practical application, setting the level of ambition to fit the requirements of the VSME standard, could be an achievable, but still ambitious target for the first report. This could enable the company in its further ESG reporting process to be able to comply with the VSME standard and increase data complexity over time and thereby increase the level of ambition.

### 9.3 Methodological choices

For this thesis qualitative methods were chosen based on the strengths of the selected methods and the focus within the study. Since the VSME is in a drafting process and the CSRD was newly implemented, the studied phenomenon was still new within the context of SMEs. This was evident both in the case selection, where some SMEs did not yet consider it relevant to work with ESG reporting, and in the interviews, where interviewees also expressed that they had not yet worked with the VSME. Based on this, qualitative approaches were chosen to investigate the topic in depth (Creswell, 2014). Hereby, it was not intended to research a representative amount of Danish SMEs, whereas if that had been the case, a quantitative approach would have been more appropriate (Karpatschhof, 2020). Through the interviews an inside-out perspective was gained, where the interviewees had the chance to provide first hand information about their companies' current status regarding ESG work and reporting. This understanding could have been limited if quantitative methods had been used (Brinkmann and Tanggaard, 2020). Furthermore, the focus within this thesis was to study the qualities of the phenomenon of ESG reporting, rather than the quantity of it, which also states the argument for the methodological choices.

Since generalisation within the qualitative approach is limited, due to the contextual understanding of the problem field and that no correct or false answers exists (Creswell, 2014), the internal validation of the data was embedded in methodological processes. Meaning that data triangulation was applied, comprising the findings from the interviews with the case companies and analysis of their ESG reports, the expert interviews, the literature and knowledge gained from webinars and events. This included that the interview guides within each interview category, namely the experts and the case companies, had similarities. This triangulation founded the basis for reflecting on the answers either between the interviewees, both experts and cases, or with the use of literature which enabled a comparison between the answers and a broader scientific perspective. Due to the novelty of the field of research, findings from webinars and events were also used for triangulation, as this ensured that up-to-date information were taken into perspective. The empirical data collected through the different methods was applied into different theoretical viewpoints. This ensured internal validity, since there was a match between theoretical ideas and the empirical data (Bryman, 2012). Furthermore, the answers from the interviews were ensured to be accurate, since the statements used in the thesis were approved by the interviewees, to avoid misinterpretations. This is also known as respondent validation, which Bryman (2012) points out as method to enhance the validity of qualitative research.

For external reliability, the data sources, including the interviewees, the results and the analysis were thoroughly described, to make sure that the reader has a comprehensive basis for understanding the conclusions drawn and could to some degree try to replicate the study (Creswell,

2014). Even though it is limited how much of this study can be replicated due to circumstances in the real world constantly changing, the transparency in regards to how the different methods were applied, ensured some level of external reliability (Bryman, 2012).

As mentioned earlier, this study only includes four case companies, which limits the generalisation of the results and thereby the degree of the external validity. However, it is argued by Flyvbjerg (2006), that even though findings from case studies can not be formally generalised, it does not mean that the knowledge gained from the case studies are not valuable insights to the research field. Additionally, it can be argued that findings from selected cases can still be applied into a more general context, based on the argumentation from Flyvbjerg (2006), that if something applies in a certain case, then it is also likely that it applies in other cases as well. This means that even though the selected cases in this research do not represent all SMEs in Denmark, some degree of external validation still applies to the generalisation of the results, since it is likely that the findings also apply for other companies. Therefore, it is relevant to discuss the case selection even further.

### **Case selection**

In this study four different non-listed Danish SMEs were selected. The focus on non-listed SMEs was based on findings in the literature review, which is outlined in chapter 2. Though this choice of case companies is related to uncertainties, since the standard covering these companies is still a draft, which might have had an influence on the case selection since the VSME is not broadly known. The case companies were as mentioned in chapter 4 chosen based on four criteria, which purpose were to ensure that the cases fitted the research and to create a study based on maximum variation.

- Companies from different sectors
- Companies who are at different phases regarding ESG reporting
- Danish non-listed SMEs, who are not owned by larger, listed or foreign companies
- Companies who have more than 10 employees

These criteria helped scope the search for case companies, by limiting the amount of companies that could be deemed relevant to include. Furthermore, as the focus in this thesis was on the VSME it was of importance to ensure that the companies fitted within this framework, which is especially connected to criteria three and four. To scope out companies with less than 10 employees, was chosen to both reduce the amount of relevant SMEs but also due to the resources they have available for ESG work. Consideration had been made that ESG was probably not high on the agenda, since they do not have to comply.

As the first criterion outlines, there was a focus on including companies from different sectors. This was based on the fact that some sectors already have to comply with certain regulation, their impact differs and they have different value chains. Hereby, the inclusion of companies from different sectors, contributed to investigate the research field from different industry perspectives and ensure that the study was not one-sided. This should enhance the chances for maximum variation. During the interview it also appeared that the companies experienced different pressures related to their industry, Base Erhverv A/S has to comply with certifications and their sector is pressured by climate change which pushes for change (Keller, 2024). Additionally, both Mehlsen (2024) from Australian Bodycare ApS and Lyngholm (2024) from MarMar Copenhagen ApS elaborated on the general focus in their industries of doing good actions and take responsibility. This criterion also had a possible influence on the generalisation of results on a sector level.

Meaning that the results do not indicate anything about a specific sector or industry. This could have been different if the selected case companies had represented the same sector. Though the argument for not specifying a certain sector within the criteria was related to, that there have not been a publication of sector specific standards yet, why it seemed more relevant to choose a broader focus.

Different search strategies to identify and determine which case companies to include were used. Though these strategies were followed, only a limited amount of contacted companies had an interest in participating in the thesis. Consequently, this had an effect on which companies were chosen as case companies. In general the reasons why companies did not want to participate was mostly related to lack of resources, time and interest in the topic, which may be related to that the VSME is still a draft. Whereas the chosen case companies showed great interest in the topic and found it relevant for them. Based on this, there can be a risk of bias related to, that these companies already beforehand had a higher interest in ESG and reporting than other SMEs, why they may not represent the general SMEs and how they work with ESG. If this bias has occurred it can have had an influence on the results from the gap analysis, and hereby indicate that there is a smaller gap between what is required in the VSME and what the SMEs are ready to report on, compared to if other companies with less interest in ESG had been included in this study. This would consequently also influence the suggestion made in chapter 8.

### **Interview methodology**

In this study seven interviews, including three expert interviews and four case interviews, were conducted with the purpose of including different perspectives and base the analysis on knowledge from real scenarios. The diversity in the interviewees required that each interview guide was adapted to the specific purpose of the interview. Hereby, different approaches were used, including that the interview guides for the case companies were prepared with both a structured part and a semi structured part. This was done to ensure that answers for the gap analysis were conducted, and assessed on the same basis, but also enabled a dialogue which allowed the interviewees to elaborate more. Both approaches showed through the analysis to be of high value. However, the structured part was answered differently by the interviewees. Some had short answers while others elaborated more, and some reassured with the interviewers that they understood the interview question right. Hereby, the interviews deviated slightly from the structured method. As a consequence, this challenged the processing of the interviews afterwards. Related to this, difficulties of validation of the answers from the structured part were experienced. Since there was no explanatory dialogue in the structured part, it was difficult to identify whether the questions were understood correctly or if the questions were answered correctly. Accordingly, the questions were based on the VSME standard which the interviewees had not worked much with before, why some misunderstandings and misinterpretations might have occurred and affected the answers. Furthermore, it is recognized that working with the VSME requires broad knowledge about the whole organisation, why the fact that only one person represented each company in the interviews might lead to some inexact answers. This bias was tried to be mitigated by suggesting them to share the interview guide with some colleagues to have a dialogue about it. Additionally, it was also requested that the interviewee should be relevant for the ESG work within the company. However, this broad request in the end implied that the interviewees had different positions within their respective companies, which possibly could have an impact on their perspectives and knowledge and thereby their answers.

# Conclusion 10

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Company communication about Environmental, Social and Governance (ESG) matters received increasing attention, not at least due to the implementation of the Corporate Sustainability Reporting Directive (CSRD). As the CSRD mandates large companies to report on their ESG activities from 2024 on, a regulative pressure emerged and spread not only among large companies, but also effected small and medium-sized entities (SMEs) indirectly. To provide a standard for SMEs and guide them for ESG reporting, the European Financial Reporting Advisory Group (EFRAG) got mandated by the European Commission to develop a voluntary ESG reporting standard for SMEs. Due to the novelty of the legislative development and the indirect pressures SMEs are facing, it was found relevant to investigate the following research question:

***With a growing pressure for ESG data, how can Danish non-listed SMEs prepare for ESG reporting according to the VSME standard and live up to future requirements?***

As the structure of the research question suggests, different aspects were analysed to address the main points the research question contains. The conceptual framework provided the basis for investigating the pressures SMEs are experiencing through applying institutional theory, their current status regarding ESG reporting by conducting a gap analysis and the recommendations to live up to future requirements based on transition management theory. The results the analyses are based on, were obtained through a case study approach where case companies were investigated through interviews and document analysis. Furthermore, expert interviews provided further insights and enabled the research to obtain different perspectives. Additional knowledge was also gained from literature and documents.

From the analysis of the pressures SMEs are facing, it can be concluded that SMEs are commonly part of the value chain of large companies, therefore the trickle-down effect from the legislation impacts the pressures SMEs experience regarding the provision of ESG data. Besides that it was also found that sustainability requirements for receiving loans from banks was identified as an important regulative pressure, pushing SMEs to engage in ESG reporting. Furthermore, the regulative pressures were experienced more frequently than the normative and cultural-cognitive pressures. However, those normative pressures such as the expectation to be a responsible business and meet consumer expectations were also identified as pressures nudging SMEs to increase ESG reporting. Contrasting, the cultural-cognitive pressures were tied to a common understanding of sustainable development and already existing informal sustainability actions, driving the sustainable agenda in the companies and society.

As those pressures were identified, it was deemed necessary to unfold the current status of the case companies regarding ESG reporting. The conducted gap analysis was grounded in



the requirements of the voluntary standard for non-listed small- and medium-sized enterprises (VSME), since it was anticipated that the final version of it will be a widely recognised standard for ESG reporting of SMEs. Through the insights gained from the interviews with the case companies regarding their ESG data they could currently provide, it became clear that they are further ahead regarding providing data for social and governance aspects, than they are in providing environmental data. However, it was evident that all the case companies could report on some disclosures from the VSME standard, through which it was possible to unfold tendencies comparing the disclosures regarding the readiness of the case companies to report on those. When considering that the basic module of the VSME is the minimum requirement for complying with the standard, it was found that none of the case companies could currently deliver data on all disclosures. This poses a need for increasing ESG work in the case companies.

As living up to future requirements regarding ESG reporting is expected to become even more crucial, which can be concluded from the identified pressures, it was found relevant to provide recommendations for how SMEs can prepare for ESG reporting. Further reasoning for the need for guidance regarding ESG reporting in SMEs can be derived from the conclusion that none of the case companies is currently able to live up to the VSME. Therefore recommendations for SMEs to become ready were provided in the thesis, as a need for sustainable transition was found throughout the analysis. Additionally, the preparation of an ESG report requires broad knowledge of the organisation, why the work should not be allocated to one person and therefore the implementation of ESG needs to occur on different levels of the company. Based on transition management it can be recommended on a strategic level to incorporate systemic changes including, a long term perspective to develop the sustainability strategy into the business strategy and thereby enable the company to foster sustainable change. The strategic level especially includes planning the strategy to future proof the company and thereby live up to upcoming requirements regarding ESG reporting. Furthermore, on the tactical level, structuring the ESG work and establishing the transition agenda shall be the main focus. Conducting these tasks can be supported through engaging in relevant networks and including relevant stakeholders in the process. At the operational level, tasks regarding ESG work have to be carried out, meaning that relevant data needs to be collected, the ESG structure needs to be mobilized and the ESG report has to be prepared. The interplay of the different levels is highlighted in the recommendations as the levels are strongly interlinked and need to be reflected on during the process. Furthermore, each process separately needs to be reevaluated and monitored in the reflexive approach, to enable a dynamic ESG process.

From this study it can generally be concluded that there is a growing need for ESG data which poses pressures on SMEs to provide ESG information and live up to the requirements stemming from a trickle-down effect in the value chain. Within the investigated case companies, it was concluded that currently SMEs are not directly ready to report according to the requirements in the VSME. However, it was found that beginning to engage in ESG reporting now, will prepare SMEs to be able to stay competitive and smoothen their transition to comply with the VSME standard. Therefore the recommendations based on transition management and all insights gained from this research can contribute to enable Danish non-listed SMEs to prepare for ESG reporting according to the VSME standard and live up to future requirements, which can help the SMEs to adjust to the experienced pressures.

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# Appendix A

## A.1 Overview of the included literature in the SOTA

Author	The development of regulation for sustainability/ ESG reporting	The current status of ESG reporting in SMEs	The quality of ESG reporting and increase in performance in companies
Balluchi et al. (2020)	x		
Tkachenko et al. (2023)			x
Glaveli et al. (2023)		x	x
Radu et al. (2023)	x		x
Lee et al. (2023)	x		
Nikadimovs (2023)	x	x	x
Dias et al. (2019)		x	x
Marco-Fondevila et al. (2018)		x	x
Krasodomska and Godawska (2020)		x	x
Cicchiello et al. (2023)	x		x
Krawczyk (2021)	x	x	
Fiechter et al. (2022)	x	x	x
Corazza (2018)		x	
Tamm and Gurvitš-Suits (2023)	x		
Graafland and Smid (2016)			x
Dinh et al. (2023)		x	
Bielawska (2022)		x	x
Aboud et al. (2023)	x		x
Stawicka (2021)		x	x
Raith (2022)	x		
Borowicz and Czerepko (2023)	x		
Fiandrino et al. (2021)	x		
Aluchna et al. (2022)	x		x
Nacu and Jercan (2022)		x	x
(Gallardo-Vázquez, Dolores and Valdez Juárez, Luis Enrique, 2022)		x	x
Yip and Yu (2023)		x	
Zioło et al. (2023)			x
D'Eri and Novembre (2022)	x		
Frecautan and Nita (2022)	x		
Ortiz-Martínez et al. (2023)		x	
Primec and Belak (2022)	x		
Sum	16	15	17

## **A.2 Example of an interview guide**

The example of the interview guide can be found on the next page. The example represents the interview guide used for interviewing a case company who do not already report on ESG.

Themes	Questions
<b>Approvals to use the interview</b>	<ol style="list-style-type: none"> <li>1. Is it okay if we record the interview?</li> <li>2. Can we refer to the company name or should we anonymise the company?</li> <li>3. Can we mention your name and job position, or do you want to be anonymised as a representative from the company?</li> <li>4. Do you want to approve of the use of the interview in the report before hand-in?</li> </ol>
<b>General information about the interviewee to get to know them and the company they represent</b>	<ol style="list-style-type: none"> <li>1. Can you please introduce yourself and your company?</li> <li>2. What are your main activities?</li> </ol>
<b>Brief presentation of their current work with ESG and their state of knowledge about the ESRS and VSME standard</b>	<ol style="list-style-type: none"> <li>1. How are you currently working with ESG and sustainability reporting?</li> <li>2. Have you heard of the ESRS and VSME standard?</li> </ol>
<b>Structured part of the interview based on disclosure requirements in the VSME standard.</b>  <i>The purpose of this part of the interview was to examine what data the case companies currently can deliver. The questions create the foundation of the gap analysis of the case companies.</i>	<ol style="list-style-type: none"> <li>1. Do you know your water and energy consumption?</li> <li>2. Have you calculated your greenhouse gas emissions according to scope 1 and scope 2?</li> <li>3. Have you calculated your scope 3 emissions?</li> <li>4. Have you taken any action to reduce your GHG emissions?</li> <li>5. Have you made any GHG reduction targets?</li> <li>6. Did you make a transition plan for mitigation of climate change and is it compatible with limiting global warming to 1.5 degrees?</li> <li>7. Do you have information about the pollutants you emit to air, water, and soil?</li> <li>8. Do you have data/information on your impact on biodiversity?</li> <li>9. Do you have information on the total area of your company site?</li> <li>10. Can you disclose information on your resource and waste management such as amount of waste, type of waste (non-hazardous/hazardous) and sorting of waste?</li> <li>11. If you generate hazardous or radioactive waste, could you disclose the total amount of it?</li> <li>12. Do you have data on recycled and recyclable content in your products and packaging?</li> </ol>

	<ul style="list-style-type: none"> <li>13. Can you disclose information about your total number of employees, and split it up by for example type of contract (temporary or permanent) and gender?</li> <li>14. Do you have data on work-related accidents?</li> <li>15. Can you provide ratios showing the relationship between starting wages and minimum wages?</li> <li>16. Do you have knowledge of your up-stream and down-stream value chain and do you have processes to evaluate your impacts on these?</li> <li>17. Do you have any policy targeting bribery or corruption?</li> <li>18. Can you provide a description of your business strategy and business model including your main products, markets that you are primarily operating in and main business relations?</li> <li>19. Have you made a materiality assessment related to sustainability matters?</li> <li>20. Have you adopted any policies regarding prevention, mitigation, or remediation of negative impacts on the environment or on people?</li> <li>21. Have you adopted any policies regarding prevention, mitigation, or remediation of financial risks of your company?</li> <li>22. Can you state which categories of stakeholders (investors, business partners, NGOs,...) you interact with and describe how you interact with them?</li> <li>23. Did you consider how your company should structure working with sustainability matters and does this include the top management?</li> <li>24. Do you have information on the gender diversity in your top management?</li> <li>25. Did you consider what financial impacts physical risks from climate change can have on your business?</li> <li>26. Do your policies regarding your own workforce align with international principles such as the UN Guiding Principles on Business and Human Rights.</li> <li>27. Do you monitor your compliance with international guidelines?</li> <li>28. Can you disclose ratios regarding work-life balance, especially family-related leave by gender?</li> </ul>
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	29. Do you have data on your number of apprentices?
<b>Semi-structured part of the interview</b>  <i>The purpose of the part of the interview is to create a more open dialogue with the interviewee, to learn more about their processes, structures, thoughts about ESG reporting and actions outside of the scope of the CSRD</i>	<ol style="list-style-type: none"> <li>1. Out of the topics that were mentioned in the previous part of the interview, which topics do you think are the most important for your company to report on, if you were going to report?</li> <li>2. Are there any sustainability or ESG measures you are doing which we haven't touched upon?</li> <li>3. Is your company interested in sustainable development, without having to report on the measures?</li> <li>4. Why are you not currently reporting on sustainability?</li> <li>5. After the introduction of the CSRD requiring reporting from large companies, has the introduction affected your company?</li> <li>6. If you were to start reporting on ESG and sustainability what are some of the barriers that you would encounter?</li> <li>7. If you were to report on ESG, would you be more focused on reporting on your own policies, targets and actions or reporting in relation to data points requested from business partners or both?</li> <li>8. Do you see any positive aspects in reporting on ESG?</li> <li>9. Are you currently collecting and/or providing data on other measures than sustainability, for example testing of products or are you required by industry standards, certifications, or regulation?</li> <li>10. If you already have some policies in place, what are the policies covering and are you aware of their effect on your different stakeholders?</li> <li>11. Did you already consider who could be involved in developing sustainability plans and subsequently also reports?</li> </ol>
<b>Ending the interview</b>	<ol style="list-style-type: none"> <li>1. Do you have any extra points that you want to add?</li> <li>2. Can we contact you again if we have any following up questions?</li> </ol>

	<i>You (read: the interviewee) are very welcome to contact us in case you have any extra points, or if there is something we need to change.</i>
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### A.3 Overview of requirements in the VSME

#### Basic Module

Basic Module			
Nr.	Disclosure name	Requirements	Unit
B1	Basis for preparation	Which module was applied	
		Is it a consolidated report	
		If yes, list the subsidiaries	
B2	Practices for transitioning towards a more sustainable economy	List these practices	
B3	Energy and greenhouse gas emissions	Total energy consumption	MWh
		Energy consumption from fossil fuels	MWh
		Total electricity consumption	MWh
		Split up by renewable and non-renewable sources	MWh
		Scope 1 GHG emissions	tCO <sub>2</sub> eq
		Scope 2 GHG emissions	tCO <sub>2</sub> eq
B4	Pollution of air, water and soil	List of pollutants emitted to	
		Air	
		Water	
		Soil	
B5	Biodiversity	Company sites (owned, leased or managed) near biodiversitive areas	amount
		Company sites (owned, leased or managed) near biodiversitive areas	hectares
		Total use of land	hectares or m <sup>2</sup>
		Total sealed area	hectares or m <sup>2</sup>
		Total nature-oriented area on site	hectares or m <sup>2</sup>
		Total nature-oriented area off site	hectares or m <sup>2</sup>
B6	Water	Total water consumption	m <sup>3</sup>
		From that in areas of high water-stress	m <sup>3</sup>
		Water consumption as water withdrawal minus water discharge	m <sup>3</sup>
B7	Resource use, circular economy and waste management	Description of resource and waste management	
		Description of Circular Economy principles	
		Recycled content in products and/or packages	%
		Recyclable content in products and/or packages	%
		Total waste generated	kg or t



		From that hazardous waste	kg or t
		From that non-hazardous waste	kg or t
		Total waste diverted to recycling or reuse	kg or t
B8	Workforce - General characteristics	Total number of employees	head count or full-time eq
		Number of employees by type of contract	permanent and temporary
		Number of employees by gender	gender (m/f/d)
		Number of employees by country	country of employment
B9	Workforce - Health and safety	Work-related accidents	amount
		Ratio = Work-related accidents/ Total number of working hours of all employees*200,000	
		Work-related fatalities	amount
B10	Workforce - Remuneration, collective bargaining and training	Ratio = Starting wages/ Minimum wages	
		Gender pay gap	%
		Employees covered by collective bargaining agreements	%
		Average number of annual training hours per employee	hours
		From that male and female	
B11	Workers in the value chain, affected communities, consumers and end-users	Does the companies have processes regarding the identification of negative impacts from its operations towards stakeholders	
		If yes, description of these processes	
		If yes, description of the negative impacts	
		Which groups are affected by these impacts	
B12	Convictions and fines for corruption and bribery	Amount of convictions due to corruption/bribery	amount
		Amount of fines due to convictions	monetary

**PAT Module**

<b>PAT Module</b>		
<b>Nr.</b>	<b>Disclosure name</b>	<b>Requires description of</b>
N1	Strategy: business model and sustainability - related initiatives	Strategy and business model
		Significant groups of products/services
		Significant markets
		Main business relationships
		Key elements of the strategy related to sustainability matters
N2	Material sustainability matters	All material sustainability matters and its respective impacts on people and the environment
		Its effects on the present/future financial position
		Its effects on the activities and strategy
N3	Management of material sustainability matters	The management of material sustainability matters
		Policies and actions to prevent, mitigate and/or remediate negative impacts
		How financial risks are addressed
		Improvements in energy consumption and reduction of GHG
		Negative impacts towards workers in the value chain, consumers/end-users and affected communities
		Actions taken on material impacts, managing material risks and its effectiveness
		The targets to manage material negative impacts and risks
		Actions taken to prevent corruption or bribery
		Training for employees
		Actions taken to address anti-corruption and anti-bribery
N4	Key stakeholders	Description of the key stakeholder that the companies is in contact with
		The engagement activities
N5	Governance: responsibilities in relation to sustainability matters	Governance and responsibilities related to sustainability topics
		The inclusion of the top management in sustainability activities

**Business Partners Module**

<b>Business Partners Module</b>		
<b>Nr.</b>	<b>Disclosure name</b>	<b>Requirements</b>
BP1	Revenues from certain sectors	Disclosure if revenue is generated in a certain sector
		If revenue is generated in a certain sector, disclose the revenue per sector
BP2	Gender diversity ratio in governance body	Ratio of gender diversity in the governance body
BP3	GHG emissions reduction target	GHG reduction targets for scope 1
		GHG reduction targets for scope 2
		GHG reduction targets for scope 3
BP4	Transition plan for climate change mitigation	Description of the transition plan and how GHG emission targets comply with limiting global warming to 1.5C
BP5	Physical risks from climate change	Monetary amount of total assets that could be affected by climate related material physical risks
		Percentage of total assets that could be affected by climate related material physical risks
		Percentage of assets which are addressed in climate change adaption plans
		Locations of assets that are affected by climate related material physical risks
		Monetary amount of net revenue that could be affected by climate related material physical risks
		Percentage of net revenue that could be affected by climate related material physical risks
		Value of the companies real estate assets split by energy efficiency classes
BP6	Hazardous waste and/or radioactive waste ratio	Total amount of hazardous waste
		Total amount of radioactive waste
BP7	Alignment with internationally recognised instruments	Disclosing if the internal guidelines are in line with internationally recognised instruments
BP8	Processes to monitor compliance and mechanisms to address violations	Disclosing if human rights monitoring and compliance process are in place
BP9	Violations of OECD Guidelines for Multinational Enterprises or the UN Guiding Principles	Disclosure of violations of indicated international guidelines
BP10	Work-life balance	Percentage of employees who can take family-related leave split by gender
		Percentage of employees who took family-related leave split by gender
BP11	Number of apprentices	Number of apprentices