PICCOLA IMPRESA
SMALL BUSINESS

Rivista Piccola Impresa/Small Business

n. 1, anno 2024

Codice ISSN 0394-7947 - ISSNe 2421-5724

EDITORIAL

CONNECTING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ASPECTS WITH VALUE CREATION IN SMALL AND MEDIUM-SIZED ENTERPRISES

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Article info

Keywords: *ESG, Circular economy, Entrepreneurship, CSRD, CSR reporting*

doi: *10.14596/pisb.4558*

Abstract

Purpose. *This editorial aims to examine how SMEs are transforming their way of doing business in light of social and environmental sustainability and their different approaches used to externally report ESG aspects.*

Design/methodology/approach. *The editorial presents the contributions included in a thematic issue on ESG aspects and value creation in SMEs by framing the sustainability discourse along the « walk and talk » pathway that allows to better understand and compare what companies really do (or walk) versus what companies convey (or talk) to stakeholders.*

Findings. *This editorial and the contributions included in the thematic issue identify some key topics that deserve future researchers' attention when investigating SMEs' way to ESG. First, SMEs' approach to sustainability and circular economy may present peculiarities as they do not mimic what their larger counterparts do. Reasons for different pathways, like the impact of the entrepreneur-founder's profile and personality, should be further investigated. Second, sustainability reporting in SMEs is still limited and suffers from a lack of organizational resources. In this regard, dedicated, simplified reporting standards seem to be crucial. Finally, SMEs' walk and talk should be analysed, bearing in mind their position in the value chain and network relationships that largely affects the potential for sustainability transformation and value creation.*

Practical and social implications. *The editorial provides some suggestions for future research and introduces the selected articles that show the walk and talk pathways to favour critical reflections useful for both managers, entrepreneurs, academic researchers and policy makers.*

Originality of the study. *The editorial presents some concepts derived from the long-standing shared research path focusing on CSR and tries to link it to the latest ESG framework to emphasise how sustainability actions lead to value creation both in economic, social and environmental terms.*

1. Background

The latest UN climate change report on emissions (UN, 2022) reminds us of the urgent need for changing consumption and production practices to reduce the carbon footprint and operate in a more sustainable way. The UN 2030 Agenda, with its 17 SDGs and 169 targets, call countries and businesses worldwide to eradicate poverty, protect the planet and ensure that all human beings can enjoy prosperous lives (United Nations, 2015). At the same time, academic research and media highlight an increasing customers' and stakeholders' demand for more sustainable products and sustainable business practices (Huang et al., 2023; Barrone et al., 2013), while the finance world scrutinizes environmental, social and governance (ESG) aspects that impact on economic risk, return, and stability (Chiaramonte et al., 2022) and have become a priority for many supervisory bodies of the financial markets and the banking sector (ECB, 2020; EBA, 2021).

In response to this changing context, organizations have started transforming their business model in the light of sustainability and circular economy ideas (Linder and Williander, 2017; Ashrafi et al, 2018; Cano-Rubio et al., 2021; Maglio et al., 2021; Aureli et al., 2023) and have increased their transparency and accountability to stakeholders with more CSR/ESG communications and reporting (Herremans et al., 2016; Ruiz et al., 2021). Substantive CSR practices ('walk') include sustainable business model innovation (Geissdoerfer et al., 2018; Shakeel et al., 2020) as well as the integration of sustainability objectives into corporate strategies and day-to-day management decisions and processes (Lee and Hageman, 2018). Communication practices ('talk') range from the disclosure of CSR, sustainability and integrated reports to the publication of social impacts and sustainability-related certifications assessed through different metrics and tools (including the B-Lab assessment).

While one might assume that organisations voluntarily start to report CSR/ESG practices after having understood and embedded sustainability principles in their operations and goals, thereby following the 'walk and talk' route to sustainability (Wickert et al., 2016), there are different pathways.

First, many businesses assume a greater level of responsibility for contributing to decarbonization, diversity and social equity, while not implementing any form of external reporting, i.e. 'walk, no talk'. New ventures 'born to be sustainable' (Allal-Chérif et al., 2023), green entrepreneurship and 'born-green ventures' that use green technologies in their businesses or offer green products and services are examples of this circumstance (Mrkajic et al., 2019). There are also new forms of hybrid firms that combine profit seeking goals with social positive impact (Battilana et al., 2017; Gazzola et al., 2019; Nigri et al., 2020) and many SMEs that behave in a sustainable way or have strong sustainable cultures (Wehrmeyer et al., 2019) but do not engage in ESG disclosures. Some scholars argue that SMEs adopt extensive and authentically driven CSR practices since they are not opportunistic nor externally driven oriented (Graafland et al., 2003; Del Baldo, 2012). In other words, they put in practice the CSR walk, rather than focusing on CSR talk (Schoeneborn et al., 2020).

Second, businesses may start their sustainability journey because they are compelled to reporting by regulations or because they experience pressure to do so, i.e. 'talk, no walk'. Mandatory ESG reporting requirements have forced businesses to start reporting opportunities and risks associated to sustainability, but have also prompted internal changes (Sciulli and Adhariani, 2022) such as the integration of financial and non-financial aspects in company strategies (Rossi and Luque-Vílchez, 2021). Recent government mandatory provisions, such as the latest CSRD Directive (EU Directive 2022/2464), assume that imposing the disclosure of a company's impacts on society and the environment will change business behaviour and contribute to the sustainable development of nations (Haji et al., 2023). Coercive pressures for reporting may push businesses to walk sustainability by rethinking their current strategies, build new processes and procedures to implement and report ESG policies (Scarpellini et al., 2020; Aureli et al., 2020a). However, pressures for more sustainability talks have also generated unethical behaviours (e.g. impression management) and claims of corporate environmentalism that hide mere greenwashing (de Freitas Netto et al., 2020) or "box-ticking" reporting exercises, which do not allow businesses to see the value potentially associated to their ESG efforts (Serafeim, 2020).

The key issue is that many organizations still do not fully understand how ESG initiatives, their measurement, and reporting can help uncover and create value. Prior academic studies show how integrating ESG challenges in operations and strategies may create a unique competitive advantage (Serafeim, 2020). Discussions on ESG aspects also favour a more long-term perspective on value creation that is beneficial to businesses and economies, compared to managerial short-termism (Gong and Ho, 2021). Finally, researchers demonstrate that when reporting is not considered as a mere compliance exercise, but as a tool allowing external stakeholders to understand the organization's true value, along with its tangible and intangible assets, then it is capable to increase stakeholders' trust and favour strong beneficial relationships. As put forward by Castro and Gradillas Garcia (2022, p. 167), ESG can become a "value-creation tool for organizations and not just a set of meaningless metrics".

2. The case of SMEs

This increasing attention on ESG issues is no longer limited to large corporations that easily fall under consumers' scrutiny and criticisms due to their size of operations (Del Baldo, 2012; Aureli et al., 2020b). SMEs are also called to contribute to a more sustainable development and regulators are starting to call on them to be more accountable and transparent on non-financial aspects (Calace, 2014; Bikefe et al., 2020). For example, the CSRD will compel about 50,000 European organisations to provide disclosures, including much smaller organisations than the roughly 12,000 that had to report under the previous non-financial disclosure directive, including extensive supply chain information. This provision will require many more SMEs to provide sustainability information to their large business customers (European Commission, 2021).

While some SMEs are strongly committed to CSR, in line with their owner-entrepreneurs' sense of social and environmental responsibility (Sawe et al., 2021), many others still struggle to adopt a sustainable business model (Bikefe et al., 2020; Trequattrini et al., 2021). SMEs need to revise their operations to continue doing business with supply chain actors more attentive to sustainability (Parida and Wincent, 2019; Scipioni et al. 2021), but they encounter several difficulties in embracing sustainability in general (Álvarez Jaramillo et al., 2019) and circular economy practices specifically (Rizos et al., 2016; Dey et al., 2022). Similarly, ESG reporting is not widespread in SMEs and, in some cases it is provided in a simplified and/or informal format compared to the disclosure of larger companies (Dias et al., 2019). There are several factors hindering sustainability reporting of SMEs (Cavicchi et al., 2022), with the lack of resources to invest in reporting being the most cited (Baumann et al., 2013; Calace, 2014).

Nevertheless, SMEs show an increased attention to sustainability and circular economy practices and reporting tools. According to Guidi et al. (2024) two key drivers explain this uptake: regulation and supply chain dynamics. The first driver is exemplified by the EU taxonomy for financing sustainable activities (Regulation EU 2020/852) and the EU CSRD Directive that extends non-financial reporting obligations to listed SMEs and has planned to issuing new reporting standards dedicated to SMEs that will voluntarily comply with the new regulation although not falling within its scope (EFAA, 2017; EFRAG, 2022). With reference to the second driver, SMEs are prompted to implement and report sustainability practices because they need to adhere to sustainability requirements of leading supply chain companies (Bunclark and Barcellos-Paula, 2021; Morsing and Spence, 2019). In addition, antecedents (or initiation) to sustainability and ESG reporting may also stem from SMEs entrepreneurs' values or ethical orientations (Moneva and Hernández-Pajares, 2018) especially when focusing on values-based SMEs and social enterprises (O'Dochartaigh, 2019).

3. The papers in this special issue

With this in mind, a deeper understanding of how SMEs adopt sustainability and report their ESG commitment to stakeholders becomes more urgent than ever. The contributions of this special issue of the Journal Piccola Impresa/Small Business aim to offer scholars and professionals insights on both 'walk' and 'talk' ESG practices, contributing to deepen the limited literature on ESG adoption within SMEs, often relegated to case studies (Del Baldo, 2017; Barbaritano and Savelli, 2020; De Villiers et al., 2020).

Accordingly, the first two articles selected for this special issue investigate SMEs' behavior to better understand what facilitates the implementation of sustainable practices and which problems may hinder or slow the achievement of economic, social and environmental value, i.e. they walk, but don't necessarily talk. Specifically, the De Chiara et al. paper entitled '*Passion, creativity, and hard skills in circular entrepreneurship: A multiple case study on Italian companies adopting circular economy practices*' focuses on three key elements of the entrepreneurial team that enable CE adoption: the founder's profile, the personality and the skills of the entrepreneur(s). Their results show that drivers and barriers to CE adoption do not only refer to structural or institutional aspects (Gennari, 2023) because entrepreneurs' characteristics also play a key role. CE is associated with entrepreneurs' strong sensitivity to environmental issues and social responsibility (i.e. ethical values or a sense of solidarity), a great propensity for creativity and innovation, as well as scientific and technical competencies.

The Ceschel et al. paper entitled "*Tensions in SMEs' networks for sustainable entrepreneurship*", also focuses on challenges that may hinder the adoption of sustainability practices. They specifically address SMEs' interactions with supply chain and other business actors, showing that a network is not always a lever for sustainability. Thanks to the possibility of sharing resources and implementing joint activities, the network usually contributes to overcome the limits of being small scaled, but it may also have a "dark side" related to interactions problems. From their analysis, we learn that the main factor that causes tensions and problems in a business network with sustainability goals is the lack of external legitimacy. If the network is not recognized as an entity with its own status and credibility by external actors, also internal legitimacy (by network members) is at risk, which in turn reduces internal collaboration, network's proper functioning, and generates conflicts among actors. In line with Harrison et al. (2023), the authors raise the necessity for more studies on the tensions and problems that may hinder sustainable entrepreneurship in SMEs networks.

Then, the Bivona and Scirè paper entitled "*Leveraging environmental, social and governance dimensions through the walking-to-talk pathway in SMEs: findings from a longitudinal agri-food case study*", analyses the ESG 'walk and talk' relationship through the case of an Italian SME wine cooperative over ten-years of operations. They demonstrate that for SMES the best approach to ESG is to first implement ESG strategies, structures, and processes and only afterwards invest in external communication. In addition, they identify drivers and constraints that respectively favor and hamper SMEs' implementation of ESG aspects over time. Among key drivers, the authors mention strong local rooting in terms of relationships with the community, board members' interest to ESG, management continuity and the practice of gradually introducing ESG initiatives. Social and governance aspects are central to support ESG objectives because the latter require organizational changes endorsed by senior managers to be implemented (Eccles et al., 2014).

Finally, the two last papers of this special issue address SME sustainability reporting practices (i.e. they talk, without necessarily building on 'walk'), a topic that has not received large attention in the academia (Hsiao et al., 2022). Specifically, the Cicchini et al. paper entitled "*Sustainability reporting practices in SMEs. A systematic study and future avenues*", reviews existing literature sourced from Web of Science and Scopus databases to identify three key thematic areas of research, namely (i) Integrated Reporting and SMEs; (ii) CSR reporting and SMEs; and (iii) SDGs reporting, CE and SMEs. Their analysis shows how academic papers highly recommend IR for SMEs despite the challenges that hinder its widespread implementation. As demonstrated by the limited number of articles focusing on IR reporting, this area of investigation has received less attention compared to the mainstream theme of CSR reporting. Relevant aspects included in this second research area refer to drivers/enablers/obstacles/benefits associated to SMEs reporting and the role of the SME managers in corporate reporting, with reference to different geographical contexts of operations and different types of businesses, including family-owned firms. Finally, research focusing on CE and SDGs represents a niche, with papers that predominantly center on the examination of CE-related activities (and not CE reporting). A common aspect that pervades all three thematic areas is the lack of reporting frameworks and regulations that make ESG disclosure tools more usable for SMEs.

The above-mentioned critiques also emerge in the empirical analysis of Roberto et al., in their paper entitled "*Exploring sustainability reporting in Italian listed SMEs*". They argue that the scarce voluntary adoption of ESG reporting among Italian SMEs (only about 25% of them publish some type of report) and the inadequacy of the few published reports is associated to the lack of tailored tools and regulations that meet the specific needs of SMEs. Current SMEs' reports need to be substantially enhanced to meet emerging CSRD's requirements as well as social expectations. Assessed and scored against metrics required by GRI standards, the reports published by SMEs listed on the Italian stock market show strong limitations especially with reference to KPIs usage and information transparency about governance aspects. In fact, Italian-listed SMEs prefer reporting more information in the social dimension, followed by the environmental dimension, while governance aspects received the least attention.

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