



SUSTAINABILITY DISCLOSURE IN SMES –  
EVIDENCE ON THE STATE OF THE ART FROM  
THE EURONEXT GROWTH MILAN MARKET

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Abstract

**Purpose.** This research explores how and to what extent Italian listed SMEs disclose sustainability information. As public companies, these SMEs are supposed to be dynamic and competitive, and, according to the legitimacy theory, they should also be incentivised to enhance disclosure transparency across all forms of capital and impact. This paper aims to deepen the understanding of their disclosure practices, an underexplored topic in the SMEs context. Assessing the quantity and quality of non-financial disclosure is crucial for identifying the challenges these firms face in meeting new EU and national regulations, voluntary standards and the increasing expectations of stakeholders.

**Methodology.** This research focuses on annual reports and supplementary information available on websites to capture multiple aspects of sustainability reporting. It investigates the extent and forms of disclosure, offering a qualitative overview of reporting practices. A content analysis of sustainability information was conducted to evaluate the quality and comprehensiveness of the materiality assessment, considering the steps taken, methods and tools used, and the concept of materiality adopted.

**Findings.** This study examines the current state of non-financial disclosure among listed SMEs, revealing that they are still far from fully complying with the theory, recent regulations, and standards established by international bodies. In doing so, this research highlights limitations and gaps of current practice regarding both the quantity and quality of sustainability disclosure.

**Practical and social implications.** From a theoretical perspective, this study enhances understanding of SMEs' willingness to engage in more integrated and transparent disclosure to gain stakeholders' legitimacy. From a practical standpoint, it highlights the existing gap between theory and practice, clarifying the challenges SMEs face in adapting to an evolving and increasingly demanding regulatory environment.

**Originality.** This study contributes to the limited literature on sustainability disclosure in SMEs – a timely issue given the growing stakeholder and regulatory attention.

## 1. Introduction

New regulations and emerging stakeholders' needs regarding disclosure on Corporate Social Responsibility (CSR) are boosting the evolution of company reporting towards a more integrated and balanced model. This revolution now involves Small and Medium-sized Enterprises (SMEs) too. Starting from fiscal year 2026, a deep enrichment of listed SMEs' reporting practices in accordance with the Corporate Sustainability Reporting Directive (CSRD, EU 2022/2464) was expected. The intentions were to increase transparency and accountability towards stakeholders (Aureli et al., 2024). More specifically, this directive was also transposed in Italy with the legislative decree 125/2024. In parallel, the Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME) was developed by the European Financial Reporting Advisory Group (EFRAG) and published in December 2024 in response to the demonstrated need for a standard and simplified voluntary sustainability reporting framework for EU SMEs. This standard has been developed in accordance with all three sustainability pillars, Environmental, Social, and Governance (ESG), and features two sector-agnostic modules that aim to satisfy the requirements of SMEs of differing sizes and levels of supply chain integration: (1) the Basic Module, primarily aimed at microenterprises and entry-level users, which covers eleven core sustainability reporting indicators; (2) the Comprehensive Module, that contains nine disclosures covering specific data points which SMEs may additionally face from financial institutions or business partners. Both modules use simplified language and offer templates to guide SMEs in their reporting. While the ESRS, which inspired the VSME, require a double materiality approach for reporting entities, the VSME does not require any materiality assessment, instead guiding SMEs with an "if applicable" principle for certain voluntary disclosures.

On the other hand, in this evolving regulatory landscape, the Omnibus Package ([https://commission.europa.eu/publications/omnibus-i\\_en?utm\\_source=chatgpt.com](https://commission.europa.eu/publications/omnibus-i_en?utm_source=chatgpt.com)) proposed by the European Commission in 2025 represents a significant step to simplify the compliance burden for SMEs. The package and, more precisely, the included Content Directive, if approved, would exempt SMEs from the mandatory reporting obligations under the CSRD, unless they exceed certain size thresholds. The package would also introduce specific protections for SMEs within value chains, ensuring that large companies' obligations do not disproportionately impact smaller enterprises in their value chain. Additionally, it would include a 70% reduction in data points to be disclosed. Furthermore, through the Stop the Clock Directive approved in April 2025, the Omnibus Package have already deferred the reporting deadlines for mid-sized companies, postponing reporting obligations in 2028. These changes have been designed

to free up resources for innovation and safeguard competitiveness without compromising transparency. Nevertheless, concerns remain regarding the balance between regulatory simplification and access to finance, as reduced reporting requirements could diminish the ESG visibility of SMEs in the eyes of investors and financial stakeholders.

However, in recent years, non-financial reporting has become more and more widespread on a voluntary basis. Also, several SMEs proved to be very receptive to this issue despite their limited resources in terms of ICT systems, management control systems, knowledge and competencies, organizational culture, and financial resources (Del Baldo, 2017, 2018; Muslichah et al., 2020; Dinh et al., 2023; Du Toit, 2024; Pizzi and Coronella, 2024; Di Tullio et al., 2025).

Nevertheless, the literature on sustainability disclosure by SMEs is quite limited (Khoja et al., 2022). Only recent studies have explored this issue, with a particular emphasis on the Italian context (e.g. Cicchini et al., 2024; Roberto et al., 2024; Pizzi and Coronella, 2024). Nonetheless, several factors continue to hinder a comprehensive understanding of sustainability practices and reporting within SMEs.

Among these, we should consider that, to date, they have reported only on a voluntary basis, driven by pressures and incentives (e.g., easier access to financial resources). More precisely, several studies argue that legitimacy theory explains why companies should develop non-financial disclosure (Patten, 1992; Suchman, 1995; O'Donovan, 2002). Building on this theory, the motivation for disclosing ESG factors would be to seek legitimacy on the company's practices and operations from all categories of stakeholders (Brammer and Pavelin, 2006; Fatma et al., 2014; Zamil et al., 2023). Internal and external legitimacy should boost non-financial reporting to respond to their pressures (Sridhar, 2012). Legitimacy theory supports the idea that disclosure on CSR and sustainability is a sign of credibility to the markets and helps establish the licence to operate in society, generating, in turn, a positive impact on enterprises (Schiehll and Kolahgar, 2021). Guidry and Patten (2010) also highlight the positive influence on company reputation and image as another argument to justify the focus on sustainability practices within reporting frameworks.

The still magmatic situation described above with regard to sustainability reporting by SMEs, including the uncertainty of its voluntary and/or regulated nature, coupled with the increasing attention and efforts by SMEs in this direction, justifies studies such as this empirical research. It aims at enhancing understanding of these phenomena. We believe that the analysis of the state of the art about the quantity and quality of listed SMEs disclosure on non-financial information is important to assess the challenges that they will face to comply with the new EU and national regulations, on the one side, and stakeholders' expectations, on the other. The

enterprises analysed coincide with the entire population of Italian SMEs listed on the Euronext Growth Milan market. Given their nature of public companies, they are supposed to be particularly dynamic, competitive and ambitious companies, looking for capital to finance growth. According to the legitimacy theory, such listed SMEs should be incentivised to increase transparency and improve disclosure, embracing any typology of capital and impact, social and environmental ones included (Dumay et al., 2019; Sciulli and Adhariani, 2021). Previous studies have already advocated for an improvement of narrative statements about non-financial information by smaller listed companies. This is because this category of enterprises should be particularly aware of the importance of disclosure for stakeholders' legitimisation. Consequently, we can expect greater efforts to be made to improve reporting processes and content towards a more comprehensive and integrated approach. As a result, theoretically speaking, in this specific segment of SMEs, practice should be more developed than in SMEs in general. They potentially represent good or even best practices to study and analyse. However, results show that even in this selected segment some important steps are still missing, and limitations are quite substantial. Also, Pizzi and Coronella (2024) with their analysis revealed that the path towards full SME involvement will be fraught with obstacles. They detected a limited number of early adopters.

More in detail, our research questions refer to the frequency of sustainability disclosure, as well as the alternative frameworks and guidelines implemented. Furthermore, they explore the steps of materiality assessment processes in practice.

As for the structure of this paper, the next session describes the literature underlying the research and the related research questions. Subsequently, sessions 3 and 4 respectively present the methodology and the main results found. Finally, session 5 concludes by providing a final overview of the empirical research carried out, its empirical and theoretical implications, limitations and future research paths.

## **2. Literature review**

### *2.1 Legitimacy and stakeholder perspectives on non-financial disclosure*

Legitimacy, stakeholder, and institutional theories are the main theoretical perspectives adopted in recent years of research on sustainability disclosure. According to Gray et al. (1996), such theories are systems-oriented since they permit us to focus on the role of information and disclosure in the relations between enterprises, governments, and groups. Under the systems-based perspective, the relationship acts in two directions: organi-

sation are assumed to be influenced by, and in turn, to influence upon the society in which they operate. According to these theories, accounting disclosure policies are considered a strategy to influence the organisation's relationships with other parties with whom it interacts (e.g. DiMaggio and Powell, 1983; Deegan, 2002; Freeman, 2010). Guthrie and Parker (1990, p. 166) further assert that corporate reports are not neutral and unbiased but rather are «a product of the interchange between the corporation and its environment and attempt to mediate and accommodate a variety of sectional interests».

Legitimacy theory posits that organisations always work to ensure that they are perceived as operating within their respective societies' boundaries and norms, a sort of implied "social contract" (Dowling and Pfeffer, 1975). They seek legitimation by outside parties. However, bounds and norms are not fixed, but change over time. Consequently, organisations must be responsive to the ethical (or moral) environment in which they operate.

Crossley et al. (2021) verified the validity of the legitimacy theory for SMEs by conducting semi-structured interviews in the UK. They conclude that SMEs also want to improve their reputation and image within the market. Building on legitimacy theory, they found that SMEs employ a complex mix of both symbolic and substantive practices to enhance the legitimacy and sustainability of their operations through social engagement, reputation and image, among others.

One way for an organisation to legitimise its ongoing operations is through accounting disclosures, and if legitimacy is threatened, disclosures can be a strategy to restore legitimacy. So, together with the inclusion of sustainability and ESG factors in the processes defining strategies, a second step is necessary: non-financial information must be embedded in company disclosure to reach stakeholders and satisfy their information needs.

Sustainability is a topic that, over the years, has become more and more crucial for any typology of organisation. Sustainability issues can directly impact management, on the one side, and reporting practices, on the other side (e.g. Adams and Frost, 2008; Hahn and Kühnen, 2013; Epstein, 2018). Together with the disclosure of companies' impacts and opportunities exclusively from the economic and financial point of view, enterprises are asked to explain with transparency the impacts of their own activities in relation to a plurality of other capitals (natural, human, intellectual, relational, etc.); this is in favour of a comprehensive plethora of stakeholders, including employees, business partners along the value chain, communities and citizens, and the entire civil society.

The request to provide sustainability-related information to integrated traditional financial reporting has become increasingly pressing worldwide (e.g. Threlfall et al., 2020). Research carried out reveals continued in-

vestors' appreciation of information on sustainability-related issues and a demand for greater disclosure quality.

Hickman (2020) argues that companies engaging in CSR activities receive favourable treatment from debtholders and have more access to financing sources; consequently, publicly traded debt could motivate increased CSR reporting, given an increased sensitivity to social and environmental aspects in lending decisions. Additionally, the impact of the Green Asset Ratio introduced also pushes in this direction. Coherently, Patel et al. (2021) provide evidence of investors' expectations about a company's growth: considering ESG factors would bring lower implied volatility. Furthermore, Bernow et al. (2019) reported that investors want companies to provide more sustainability disclosures that are material to financial performance. Also, Pinney et al. (2019) recognise an increase in interest in ESG topics by the largest asset owners.

Sustainability reporting is important for SMEs too, in relation to legitimacy theory. They also need to enhance transparency and trust with customers, investors, suppliers, and other stakeholders, who increasingly value ethical and sustainable business practices. They also must improve risk management and facilitate their access to capital and markets. Such reporting also impacts on reputation and competitive advantage, because demonstrating a commitment to sustainability can differentiate an SME in the market, enhance its brand reputation, and attract sustainability-conscious consumers and talent.

## *2.2 SMEs' sustainability disclosure and our research questions*

Although the opportunity for SMEs to disclose non-financial information voluntarily, only a few listed SMEs adopted this practice (Deloitte, 2022; KPMG, 2022). Recent regulatory developments encouraged such disclosure, particularly through the CSRD. However, subsequent deregulatory steps, such as the EU Omnibus Simplification Package and the "Stop-the-Clock" Directive (EU, 2025/794), will presumably slow down this change.

But even before the CSRD came into force, empirical evidence revealed a gap between aspirations (theory) and practice (extent and quality of adoption) in relation to non-financial and sustainability disclosure. For example, integrated reporting is partially diffused among large and listed companies according to the IIRC's estimations, which count over 2,500 businesses in more than 75 countries implementing it. Furthermore, research in the field revealed that even in large corporations, the integrated framework is seldom fully adopted (Dumay et al., 2017) for several reasons. Among them, a perceived complexity of the frameworks and competing standards available (Lodhia, 2015; Robertson and Samy, 2015) and also unclear guidance on measurement systems and metrics for such reporting (Feng et al., 2017).

Nevertheless, few empirical studies on SMEs exist to identify the several difficulties these firms face in adopting frameworks and tools normally developed for large enterprises (Del Baldo, 2017, 2018; Muslichah et al., 2020; Dinh et al., 2023; Du Toit, 2024; Pizzi and Coronella, 2024; Di Tullio et al., 2025). Cicchini et al. (2024) emphasized that some authors contend that the company's size significantly impacts its approach to CSR reporting, with SMEs generally valuing CSR less than larger firms; while Ortiz-Martínez et al. (2023) deeply explored the relationship between sustainability, CSR, non-financial information, and performance in Spanish SMEs and also provided a comprehensive overview of the literature focused on this category of enterprises and the main driver of the adoption of non-financial reporting. Furthermore, Di Tullio et al. (2025) recently underscored that the pursuit of sustainability is not costless for SMEs. The costs associated with establishing robust tracking systems and training staff for effective data collection and reporting may surpass the perceived advantages, especially in the early stages. Besides, very little is known about SMEs' practices regarding integrated reporting. Still, despite the theoretical arguments supporting its adoption (Brusati et al., 2021), studies suggest critical issues related to SMEs' peculiarities (Muslichah et al., 2020). Specifically, these enterprises face several challenges in adopting the integrated reporting framework and would need a customised reporting tool to match their peculiarities (Del Baldo, 2017, 2018; Muslichah et al., 2020).

Cicchini et al. (2024) examined the challenges and opportunities that SMEs encounter when implementing integrated reporting. Notably, this framework serves as an essential tool for improving transparency and allowing SMEs to gain a clearer understanding of their strengths and weaknesses. Furthermore, it enhances strategic decision-making and risk management, bolstering brand value and reputation. However, its overemphasis on the information needs of financial capital providers can restrict the ability to address the interests of other categories of stakeholders.

Kuppig et al. (2016) highlight that pressures, incentives, and barriers drive the level of voluntariness in sustainability disclosure by SMEs. While pressures and incentives have a positive influence, there are also negative barriers to sustainability disclosure, such as limited access to industry-specific information and benchmarks or a lack of time and adequate competencies and performance measurement systems, which would involve additional investments to fill in the knowledge and information systems' gaps (Trianni et al., 2017). With a specific focus on SMEs, with their systematic literature review including 11 years, Setyaningsih et al. (2024) found that the main barriers they face are: financial, general attitude (lack of innovation and resistance to change), knowledge and technology (lacks of infrastructure, expertise and data availability), organisational (lack of time, strategy, culture, resources), policies and regulations (complex tools, bu-

reaucracy, lack of standardization), as well as socio-environmental (poor stakeholder engagement). To facilitate sustainability disclosure, more and more companies use digital platforms (Prasanna et al., 2019) to reach as many stakeholders as possible and seek legitimacy from them on their practices. The digital communication channels, now very consolidated, represent a great opportunity also for SMEs, making it more feasible for them to explain to stakeholders how they contribute to the three traditional pillars of sustainability: environmental, social, and economic, according to the Triple Bottom Line concept (Fauzi et al., 2010). Brenner and Hartl (2021) highlight the potential of digital technologies to enhance transparency and data management in large enterprises, too. However, according to Degregori et al. (2025), limited research explores their application in SMEs. Their paper focuses on artificial intelligence-driven ESG tools and automated reporting systems, showcasing their potential to bridge resource constraints and enhance compliance with frameworks like the CSRD and SDGs.

Generally speaking, the evidence based on the listed Italian SMEs' disclosure is very recent and still sparse. Prior Italian work concentrated mainly on large "public-interest entities" under D.Lgs. 254/2016 (the NFRD transposition) and on main-market issuers, leaving alternative markets like the Euronext Growth Milan one largely out of scope; even CONSOB's monitoring focuses on Decree-254 entities. This creates a structural blind spot for understanding the adoption rate among SMEs listed on the Euronext Growth Milan market.

Only recently, Roberto et al. (2024) analyse 65 GRI-based reports produced by Italian listed SMEs and find uneven, often low-granularity disclosure at the indicator level, suggesting disclosure exists but is patchy and inconsistent; their dataset, however, covers only reporting SMEs and cannot speak to non-reporters, so the real adoption rate across the Euronext Growth Milan population remains unknown. Their sustainability reports are still descriptive, non-peer-reviewed, and time-sensitive. Thus, despite first steps, we still lack a census-quality picture (share of this segment of SMEs reporting, frequency, assurance, trend over time).

Regulatory timing further enlarges the gap: listed SMEs fall into CSRD later (opt-out permitted until 2028), and 2025–2027 is a transition window. Market guides (Euronext ESG reports/guides) encourage disclosure but do not document actual adoption. Consequently, "extent" questions remain under-answered for our target of SMEs precisely when policy changes make them most salient.

The above considerations about the under-exploration of sustainability disclosure practices in the realm of SMEs inspired the first RQ of this article:

RQ 1 – To what extent is sustainability disclosure adopted by the SMEs listed on the Euronext Growth Milan market?

To fully integrate sustainability considerations into decision making as well as to meet their own sustainability reporting needs, stakeholders need consistent, comparable and reliable sustainability-related information, including from SMEs. However, despite the great relevance of non-financial disclosure discussed above, several studies (Bernow et al., 2019; Pinney et al., 2019) also raise issues of comparability and inconsistent reporting, as well as a lack of quantifiable metrics due to a lack of mandatory reporting frameworks and guidelines. The academic literature also raises concerns regarding the quality of sustainability and ESG reporting driven by corporate legitimacy. For example, in their theoretical study drawing on legitimacy in sustainability disclosure, Comyns et al. (2013) highlight that, although the number of sustainability reports has increased, reporting quality remains poor, and sustainability disclosure is just a symbolic action. Roberto et al. (2024) found that, currently, listed SMEs that voluntarily publish sustainability reports exhibit inadequate levels of transparency and information. Their results reveal a generally inadequate level of reporting and a generalised lack of comprehensive documentation at the indicator level in the analysed reports. According to the 2023 OECD survey of financial institutions, limited availability and quality of granular data on SMEs' sustainability performance represent the most important barrier (OECD, 2025). In the absence of standardised and interoperable frameworks for SME reporting, the demands for data and information from financial institutions and supply chains to SMEs will continue to pose a challenge both within and across jurisdictions. In the absence of frameworks for SME sustainability reporting that are proportionate to SMEs' resources and capacities, SMEs face sustainability reporting demands that reflect the complexity and comprehensiveness of reporting frameworks designed for large entities (OECD, 2025).

Roberto et al. (2024) explicitly document reliance on GRI-based reporting among Italian listed SMEs, but we lack comparative evidence on the distribution (GRI vs. SASB/ISSB, Integrated Reporting, UN SDGs mapping, EU Taxonomy references) across the full universe of listed SMEs.

Several Authors (Bikefe et al., 2020; Ortiz-Martínez and Marín-Hernández, 2024) call for further investigation into sustainability reporting and SMEs within the framework of current standards and regulations. Discua Cruz (2019) emphasises the critical importance in this context of a standardized normative framework for CSR reporting to become a widespread practice. According to other Authors, the need for an international framework for SMEs is essential to prevent the risk of using CSR reports solely to mask negative results and to maintain transparency (Albitar et al., 2021; Pan et al., 2023). Cicchini et al. (2024, p. 123) also underscore the necessity for standardised frameworks and international guidelines to ensure transparency and accountability,

In sum, the relevance of the topic of SMEs' disclosure quality is very topical and witnessed by the attention of international institutions to the development of reporting standards for SMEs. Recently, the EFRAG has also provided voluntary guidelines suitable for SMEs' specificities, serving as a useful support tool to enhance corporate transparency. This is precisely an attempt to overcome the variety of frameworks and guidelines adopted by SMEs, including those listed.

Policy and market materials (CONSOB, 2024; Euronext ESG Reporting Guide, 2025; OECD note on SME reporting convergence, 2025; EC recommendation on a voluntary SME standard, 2025) detail what SMEs should/could use (ESRS for listed SMEs, voluntary "VSME"-type templates), but these are guidance and do not answer what SMEs actually do. The resulting gap is a descriptive one (who uses what today?) and an evaluative one (are frameworks applied with indicator-level rigour, cross-standard consistency, or assurance?).

From previous considerations, we believe that a better understanding of the current diversified practice in terms of disclosure frameworks and guidelines can contribute to the academic debate; we then developed our second research question:

RQ 2 – What sustainability disclosure frameworks and guidelines are adopted by the SMEs listed on the Euronext Growth Milan market?

Cho et al. (2015) also report that investors do not value CSR disclosure positively because it is still largely driven by concerns with corporate legitimacy. This is supposed to hinder the disclosure of information relevant to assessing firm value. In this regard, to guarantee a valuable role of non-financial information disclosure, an essential phase (and principle) is the materiality analysis, which involves making the stakeholders protagonists (EFAA for SMEs, 2023).

The materiality concept has unanimously proven to be a key principle in determining the content of sustainability reports under every standard and framework. It is also essential to assess all risks and impacts associated with the company's activity on social aspects and the environment, as well as, from the opposite side, how the environmental and social aspects can influence the company. More precisely, the European Financial Reporting Advisory Group (EFRAG) defined the concept of double materiality, including both 'financial materiality' and 'impact materiality' (EFRAG, 2024a). So, it is important to analyse sustainability subject matters from both angles. From the 'financial materiality perspective', a sustainability issue is material if it triggers or may trigger relevant financial effects on the organisation and its ability to create (or destroy) corporate value. This means to adopt an 'outside-in' point of view.

From the 'impact materiality' perspective, instead, a sustainability issue is material "if it originates actual or potential negative or positive sig-

nificant impacts on people and the environment caused by the reporting entity's own operations, investments, products, services or by its upstream and downstream value chain in the short, medium, or long term" (OIBR, 2022, p. 9). Such an impact can concern both people and the environment. Consequently, impact materiality adopts an 'inside-out' approach, and the stakeholders affected by impact materiality are various, including employees, business partners along the value chain, communities and citizens, and civil society in general. Impact materiality (inside-out) and financial-related sustainability (outside-in) materiality must be considered both independently and in a cumulative manner.

Furthermore, the Sustainable Development Goal Disclosure (SDGD) Recommendations (Adams et al., 2020, p. 9) define material sustainable development information as reasonably capable of making a difference to the decision-making by (1) stakeholders in general, on the one side, with reference to the positive and negative impacts of the enterprise on SDGs, and (2) investors and financiers, on the other side, concerning the ability of the company to create long-term value, for both the organisation and society.

However, the manner in which the materiality analysis is carried out deeply affects the ability of sustainability and non-financial reports to meet stakeholders' needs. Adams et al. (2021) suggest that anything less than rigorous materiality determination processes will result in "incomplete and misleading portrayals of sustainability performance" (p. 4). Such a rigorous materiality determination process is necessary and must be inclusive of broader stakeholder interests. Both short-, medium-, and long-term impacts should be considered to engage in an effective dialogue and disclosure essential for stakeholder accountability.

Method papers and EU-wide commentary on double materiality abound, and case studies on large Italian issuers (and market operator Euronext itself) describe structured, stakeholder-engaged double-materiality processes. But peer-reviewed, listed SMEs specific evidence on how materiality was performed (scope, stakeholder panels, thresholds, impact vs. financial materiality integration, governance/assurance of the process) is scant. Roberto et al. (2024) highlight indicator-level weaknesses suggestive of under-specified materiality pipelines; older Italian SME evidence (not restricted to the listed ones) reports widespread impact-materiality use under GRI and frequent stakeholder engagement yet does not test alignment with ESRS double-materiality protocols.

Moreover, the CSRD/ESRS "double materiality" requirement raises process complexity (i.e. value-chain coverage, data gaps, governance). Commentaries and early empirical pieces stress these challenges in general, but we lack listed SMEs evidence on the actual design choices, tools used, and the prevalence/quality of assurance over the materiality process itself. In short, we know the theory and the regulatory demand, but we do

not yet know how listed SMEs are operationalising it.

The above considerations motivated the third RQ of this paper about materiality:

RQ 3 – What materiality assessment processes did SMEs listed on the Euronext Growth Milan market carry out for sustainability disclosure purposes?

Table 1 summarises the key questions underlying our research questions.

*Table 1. Our research questions*

<i>RQ 1 - How often?</i>
<i>FREQUENCY OF ADOPTION</i> <i>To what extent is sustainability disclosure adopted by the SMEs listed on the Euronext Growth Milan market?</i>
<i>RQ 2 - How?</i>
<i>TIPOLOGY OF REPORT &amp; FRAMEWORK</i> <i>What sustainability disclosure frameworks and guidelines are adopted by the SMEs listed on the Euronext Growth Milan market?</i>
<i>RQ 3 - Why?</i>
<i>MATERIALITY ASSESSMENT</i> <i>What materiality assessment processes did SMEs listed on the Euronext Growth Milan market carry out for sustainability disclosure purposes?</i>

The next session describes the methodological approach adopted to explore previous research questions.

### **3. Methodology**

From a methodological point of view, the choice to investigate the entire population of Italian SMEs listed on the Euronext Growth Milan market was based on several considerations.

First, we considered the relevance of the Italian context, depending on the evidence that Italy has a business landscape strongly characterised by small and medium-sized enterprises (SMEs). If it is true that SMEs are the backbone of the European economy, this is even more peculiar if we refer to the Italian business environment. Consequently, Italy is a particularly interesting country for analysis when the research focus is on SMEs; it can be an exemplary case to analyse how SMEs are preparing to comply with the evolving regulation on corporate sustainability reporting.

Second, the selection of companies from a single country makes the sample more homogeneous, in view of the possible implications for company reporting by national regulations.

Third, the consideration of enterprises listed on the Euronext Growth Milan market led to a sufficiently large number of businesses obtaining

an effective representation of the disclosure by SMEs of public interest. Consistent with Pizzi and Coronella (2024), Italy has a significant number of listed SMEs, providing a representative sample to assess how the regulated market is preparing. Furthermore, they represent a natural trait d'union between unlisted and listed companies. The status of 'listed SME' could be seen as an initial stage of an evolutionary path to becoming a large company. This is why it is possible to consider the segment of listed SMEs as a well-characterised and, at the same time, different sample from other SMEs, on the one hand, and from other listed companies, on the other (Pizzi and Coronella, 2024).

Fourth, this selection criterion is consistent with the legitimacy theory, since listed SMEs necessarily have public interests and then make an effort to better engage with stakeholders and gain their legitimisation. Thus, Euronext Growth Milan enterprises are incentivised to disclose any typology of impact, including non-financial capital. Fifth, previous studies had already advocated an improvement of narrative statements about non-financial information by small-sized listed companies (OECD, 2006).

In summary, the choice of Italian listed SMEs is motivated by a combination of economic relevance, scientific interest and empirical feasibility, which makes Italy and, more precisely, listed Italian SMEs, an ideal sample to explore the evolution of non-financial reporting in this target of companies.

The qualitative empirical analysis was conducted in two phases.

In the first phase, an analysis was carried out on the reporting practices of all SMEs within the market segment examined for the years 2020-2021. The choice of this two-year period enables us to capture the state of the art in a baseline situation, particularly useful for future comparative analyses of the pre- and post-*CSRD* context. This time frame also ensured an adequate degree of homogeneity in the regulatory landscape governing sustainability reporting. As Pizzi and Coronella (2024) noted, following the announcement of the new European Directive (*CSRD*) in 2022, a trend of mimetic isomorphism began to emerge among SMEs operating in industries strongly oriented toward sustainability practices. This suggests a significant "boost effect" in encouraging firms to enhance their disclosure practices, which may ultimately lead to a decline in the homogeneity of the reports within our sample.

This analysis examined 181 companies listed on the Euronext Growth Milan market. Of these, 157 companies (0.84) in 2020 and 159 companies (0.85) in 2021 met the European Union's criteria for defining SMEs, which include employing fewer than 250 employees, having an annual sales revenue below EUR 50 million, or possessing total assets not exceeding EUR 43 million (see Table 2).

Table 2. Sample description

	Year 2020			Year 2021		
	Freq.	Percent.	Cum.	Freq.	Percent.	Cum.
Technology	38	0,24		38	0,24	
Mechanical Industry	24	0,15	0,39	17	0,11	0,35
Telecommunications	20	0,13	0,52	19	0,12	0,47
Financial Services	17	0,11	0,63	20	0,13	0,59
Consumer Discretionary Goods	13	0,08	0,71	13	0,08	0,67
Health Care	11	0,07	0,78	11	0,07	0,74
Energy	11	0,07	0,85	10	0,06	0,81
Retail and Trade	8	0,05	0,90	8	0,05	0,86
Real Estate	6	0,04	0,94	6	0,04	0,89
Fast-Moving Consumer Goods	6	0,04	0,98	5	0,03	0,92
Utilities	1	0,01	0,99	10	0,06	0,99
Raw Materials	1	0,01	0,99	1	0,01	0,99
Logistics	1	0,01	1,00	1	0,01	1,00
Total	157			159		

The dominant industries in the segment are Technologies (24%), Mechanical industry (15% in 2020 and 11% in 2021), and Telecommunications (13% in 2020 and 12% in 2021); collectively representing approximately 50% of the entire segment.

During the second phase, the study evolved to a more in-depth qualitative analysis of the sustainability reports of a selected sub-sample of 20 companies, representing 54% of the intercepted sustainability reports (20 out of 37 SMEs). In relation to this sub-sample (randomly chosen), this research project meticulously examined and analysed all annual reports and supplementary information available on the companies' websites in 2022 to intercept the various forms of reporting on sustainability-related policies, objectives and results. The observation of website content is consistent with theoretical insights suggesting an enabling role of digital communication (Coupland, 2005; Capriotti and Moreno, 2007; Schultz et al., 2013; Brenner and Hartl, 2021). Specifically, such platforms are posited to offer considerable support to SMEs in navigating the challenges and barriers when approaching disclosure enrichment.

The mapped aspects ranged from the typology of non-financial disclosure provided to the steps taken in their materiality assessment carried out by the enterprises. In evaluating the quality and comprehensiveness of the

materiality analysis, we assessed the following aspects:

1. the steps taken during the materiality assessment (see Figure 1);
2. the methods and tools used;
3. the concept of materiality adopted (financial, impact or double materiality).

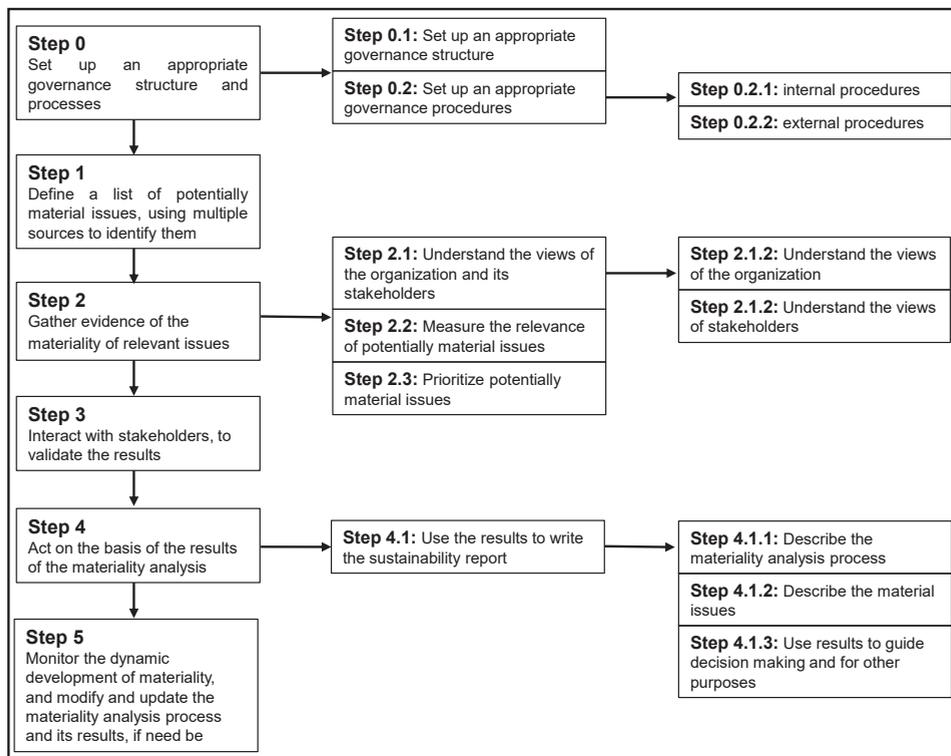


Figure 1. Steps of the materiality assessment

This step-by-step procedure for conducting a materiality analysis is consistent with the framework developed by the OIBR (2022) in the same years to which the investigated reports refer. They developed a structure aiming at mirroring and supporting the standards under CSRD/ESRS and GRI, emphasising double materiality, governance accountability, and stakeholder responsiveness. They propose it as a visual summary or a comparison with EFRAG/GRI/ISSB models. A more detailed description follows.

Step 0 requires establishing adequate governance structures and processes, to ensure materiality analysis is strategic and integrated into decision-making. From a responsibility point of view, this means to assign a process owner (often a C-level executive) and set up an interdepartmental committee (e.g., CSR Committee, ESG Integration Team). It also involves the engagement of a wide range of internal functions (finance, sustain-

ability, risk management, investor relations, HR, legal, marketing, and the Board of Directors), as well as internal procedures (to enable effective reporting to top management and ensure Board awareness and involvement), together with external procedures, to identify key stakeholders and design engagement processes tailored to each group (e.g., surveys, interviews, focus groups).

Step 1, instead, would require defining a universe of potentially material topics, collecting a broad range of potential sustainability issues from, for example, standards (GRI, IR Framework, SASB, etc.), sector analyses and benchmarks, white papers, media, ESG ratings. The goal is to build a comprehensive list of topics to assess.

Step 2 is about gathering evidence supporting the relevance of topics. We refer to both quantitative (e.g., financial metrics, incident reports) and qualitative (e.g., expert opinion, reputational impacts) types of evidence.

Step 3 pertains to the engagement with stakeholders, that must be designed according to their influence and exposure, using multiple tools, like, for example, surveys, workshops and roundtables. The purpose is to validate and enrich the understanding of which topics are relevant.

Step 4 requires prioritising material topics to be used for strategic planning, budget allocation, risk management, and reporting decisions. This important step allows the translation of materiality outcomes into strategic and operational action plans.

Finally, step 5 concerns the need to monitor the dynamic evolution of materiality. This is essential because material issues can change rapidly (e.g., COVID-19, geopolitical shifts). Establishing periodic reviews (at least annually), tracking internal/external triggers and updating stakeholder input and issue assessments are strategies that meet this objective.

To analyse the materiality aspects mentioned before, a manual content analysis (Krippendorff, 2018) was then conducted in this second phase of the study. Content analysis, which is the most common technique used to analyse sustainability information disclosure in accounting studies, is defined as «a technique for gathering and analysing the content of text. The content refers to words, meanings, pictures, symbols, ideas, themes or any message that can be communicated» (Lawrence Neuman, 2014, p. 219). It can be carried out manually or with computer-based tools. Several authors have already used this technique to study social and environmental disclosures (Milne and Adler, 1999; Guthrie, 2005; Beck et al., 2010), aiming to identify which topics are covered by sustainability reports (Holcomb et al., 2007; Guthrie and Farneti, 2008), as well as to understand whether sustainability information matches the suggestions by international frameworks and guidelines, e.g. GRI guidelines (Roca and Searcy, 2012; Tewari and Dave, 2012), and to consider legitimacy issues (De Villiers and Van Staden, 2006).

#### 4. Empirical evidence

We believe that the analysis of the state of the art about the quantity and quality of listed SMEs disclosure on non-financial information is important to assess the challenges that they will face in complying with the new EU and local regulations.

The first research question aimed to assess the extent to which sustainability disclosure is widespread among SMEs listed on the Euronext Growth market in Milan.

According to the legitimacy theory, non-financial disclosure is expected to be maintained or even increased over time to prevent legitimacy crises. As a matter of fact, in 2021, we found a notable increase in the number of SMEs publishing sustainability reports, compared to the previous year. With reference to the group analysed, in 2020, 28 out of 157 SMEs (17.83%) published a report, while in 2021, 47 out of 159 enterprises (29.56%) did so. These reports were disseminated through the official websites. Although growing, the frequency of sustainability reporting remained relatively low. It is clear that, despite what the legitimacy theory suggests, a large majority of enterprises were not willing or not prepared yet to undertake a journey towards sustainability disclosure. If this is true for listed SMEs, which are under pressure to obtain adequate legitimacy, we can expect an even poorer picture when considering the SMEs' realm in general (listed and not). This initial phase of the empirical analysis already reveals a large gap between theoretical expectations and current practices.

As mentioned in the methodology section, a further analysis was then conducted on websites with reference to a subgroup of 20 SMEs disclosing a sustainability report, in order to detect: (1) the existence of a dedicated sustainability section on their websites in 2021 to inform stakeholders, and (2) the disclosure of related policies implemented by the companies, together with results and targets, within these sections.

Our findings reveal that, in 2021, 14 out of 20 companies (accounting for 70% of the sub-sample) had established a dedicated section of their website to sustainability, underscoring the remarkable relevance of ESG aspects' disclosure on the web. However, a deeper analysis of the actual information disclosed on these websites indicated a less frequent articulation of sustainability policies. Specifically, only 6 out of 20 companies (barely 30% of them) explicitly communicate the actions they have taken or intend to implement to improve their ESG performance. For the remaining 70% of enterprises, the information reported on the websites lacked a forward-looking perspective. It was evidently anchored to corporate strategy, suggesting a symbolic rather than substantive role of such disclosure. This observation raises concerns regarding these digital channels' potential to serve predominantly marketing functions. This perspective is consistent

with the risks suggested by Crossley et al. (2021), who argue that SMEs aim to enhance their market reputation and image through a complex mix of both symbolic and substantive practices, seeking legitimacy, social engagement, and an improved reputation and image, among others.

The second research question focused on the frameworks and guidelines adopted by the SMEs listed on the Euronext Growth Milan market.

Data collection embraced the entire population of SMEs in the Euronext Growth Milan market.

In 2020 and 2021, the 181 SMEs in the market explored produced various types of sustainability documents, which are available on their websites (see Table 3 for details).

Table 3 - Frequency of reports in 2020 and 2021

Type of reports	2020		2021	
	No.	Frequency (%)	No.	Frequency (%)
Sustainability Report	22	78,57	37	78.72
ESG Report	1	3,57	2	4.26
Non-financial Disclosure (214/95/UE)	2	7.14	3	6.38
Integrated Report	1	3,57	1	2.13
Impact Report	2	7.14	2	4.26
Other			2	4.26
TOTAL	28	100	47	100

There is a clear preference for the sustainability report as the favoured document type for reporting on ESG impacts. Surprisingly, integrated reports are rare despite the great relevance in the literature. This appears to confirm the criticisms about its adoption as focused by several authors (Dumay et al., 2017; McNally et al., 2017).

Focusing specifically on sustainability reports, there has been a significant frequency increase from 2020 to 2021. Notably, 21 out of 37 companies drafted it for both years, 16 drew it up for the first time in 2021, while only 1 company (Reti SpA) disclosed it in 2020, evolving towards an integrated report in the following period.

In the Euronext Growth Milan setting, the observed expansion of sustainability reporting between 2020 and 2021 reflects SMEs' legitimation work toward salient audiences. First-time issuers primarily pursue legitimacy by conforming to an emergent field norm, while repeat issuers engage in legitimacy maintenance through routinised annual disclosure that gradually builds cognitive legitimacy (Suchman, 1995). The pronounced preference for standalone sustainability reports over integrated reporting is consistent with a legitimacy-efficient choice: sustainability reports can deliver recognizable

signals of pragmatic and moral legitimacy at lower organizational cost, whereas integrated report, though valorised in the literature, demands higher levels of organizational integration and exposes firms to scrutiny, explaining its rarity and aligning with criticism on integrated reporting's practical adoption barriers (Dumay et al., 2017; McNally et al., 2017). The single case of transition from sustainability reporting to integrated reporting (Reti SpA) illustrates a proactive differentiation strategy aimed at upgrading to cognitive legitimacy, rather than a generalizable field trajectory. Overall, patterns are consistent with symbolic-substantive hybridity (Boiral, 2013): disclosure grows and stabilises, but framework choices suggest careful calibration of legitimacy benefits against capability constraints.

The third research question centred on materiality assessment. According to the guidelines, identifying and evaluating material issues should involve the continuous and direct engagement of various stakeholders, including employees, managers, board members, investors, suppliers, etc. The large number of stakeholders is often the reason that makes challenging the identification of the material issues to include in the reports.

Through the analysis of the subgroup of 20 SMEs preparing sustainability reports, the presence of the various steps to carry out for materiality assessment has been mapped for each of them, based on the flowchart shown in Figure 1.

Evidence revealed that most companies declared compliance with most of the various steps (from "Step 0" to "Step 4"). However, two steps stood out as less observed: 1) Step 0.2.1 - Set up an appropriate governance structure and processes, and 2) Step 5 - Monitor the dynamic development of materiality.

The first lack, in particular, highlights some concerning limitations, such as the risk that sustainability disclosure remains primarily a matter of measurement without translating into concrete actions, because of a lack of commitment by the governance and the absence of internal procedures dedicated to sustainability issues.

In assessing material issues, the most frequently used survey methods for identifying them and obtaining stakeholder engagement were the following: periodic questionnaires (including online surveys), online surveys using CAWI (Computer Assisted Web Interviewing) methodology, and industry analysis. Furthermore, SMEs in the sub-sample embraced various materiality concepts, including financial materiality only, impact materiality only, and double materiality. The findings revealed that only 45% of the investigated SMEs adopted a double materiality concept, while 50% of them prefer or can afford just an inside-out approach. Finally, only 1 SME (5%) exclusively adopted an outside-in perspective in defining materiality issues.

In sum, then, materiality analysis remains partial and simplified in many cases, despite its importance in affecting the entire disclosure pro-

cess and the final overall quality of the resulting reports. This contrasts with the literature, which highlights the significance of a rigorous materiality determination process.

Looking at these results through the lens of legitimacy theory, our evidence suggests that materiality assessment among listed Italian SMEs primarily functions as legitimation work directed at salient audiences. The widespread use of questionnaires/CAWI and industry scans, coupled with formal statements of compliance with most process steps, provides efficient signals of pragmatic (decision-usefulness) and moral (conformance to good practice) legitimacy. However, the systematic under-observance of (i) establishing robust governance and procedures (Step 0.2.1) and (ii) monitoring materiality over time (Step 5) indicates a pattern of ceremonial conformity and partial decoupling, whereby the visible artefacts of materiality are adopted without the organisational embedding needed to sustain cognitive legitimacy. The heterogeneity in materiality concepts (only 45% applying double materiality, half opting for impact-only, and a residual financial-only approach) further reflects legitimacy under capability constraints: SMEs select the variant that best satisfies their most salient audiences at acceptable cost, rather than the theoretically most comprehensive design. Consequently, materiality often remains simplified, which helps gain legitimacy in the short run but may hinder its maintenance as stakeholder expectations and regulatory templates evolve.

## 5. Discussion

This research contributes to the ongoing debate on the extent to which non-financial and sustainability reporting is adopted by SMEs – a topic that remains underexplored in the SMEs' domain. While much of the extant literature has focused on large firms, there is growing recognition of the need to better understand how SMEs approach sustainability disclosure, not only considering quantitative aspects but also qualitative ones, as this study does. Its objective is to boost reflection on the most critical issues, which currently limit the quantity and quality of multidimensional reporting in SMEs. To achieve this goal, this study explores the state of the art of non-financial disclosure within a particularly interesting segment of Italian SMEs – those listed on the Euronext Growth Milan market. These enterprises, while smaller in size, are publicly traded and must manage complex relationships with a wide range of external stakeholders, making them particularly pertinent in discussions of transparency and legitimacy.

Then, the contribution of this analysis is twofold. First, from a theoretical perspective, it adds to our understanding of SMEs' propensity to voluntarily invest in an enriched and integrated disclosure to meet stakehold-

ers' needs and gain legitimisation. The results reinforce the idea that while awareness of sustainability issues is growing, significant gaps remain in both the volume and the depth of reporting. Regulatory developments, such as the CSRD, have raised expectations, but many SMEs are still far from achieving compliance.

Second, from a practical standpoint, a valuable outcome consists of identifying the gaps that still exist in this domain and what listed SMEs will be obliged to report in the near future. Thus, this study highlights limitations of current practice, in terms of both quantity and quality of the sustainability disclosure, compared to what is suggested or prescribed by theory, recent regulations, frameworks and standards provided by international bodies. In fact, results show that the SMEs of the sample are still far from complying with them. If this is true for the listed SMEs, the rest of the small enterprises are expected to present even larger disclosure gaps. Previous studies have noted similar issues, highlighting a significant lack of information and the reliance on a symbolic approach in the report rather than a substantive approach to sustainability (Ortiz-Martínez and Marín-Hernández, 2024). This is also evident in the limited external assurance, which is not typically used by SMEs and could enhance the reliability of their information (Somoza, 2023). This attitude has also been taken into account by the EFRAG (2024b), which introduced a simplified reporting standard for SMEs.

One of the most concerning findings relates to the limited attention to materiality analysis. More in detail, results show that, despite being a foundational element of high-quality reporting, several SMEs still adopt a simplistic approach to the key steps of this analysis. Such a lack pertains to both the concept of materiality adopted and the process carried out to assess it, since key steps are still not taken. These limitations can be explained by a number of factors, like the limited managerial culture of reporting, the novelty of frameworks and guidelines, and the lack of specific knowledge in this field.

Our results align with previous studies (Ortiz-Martínez and Marín-Hernández, 2024), that show how reports are still scarce, and most of them are not integrated. Furthermore, lexical analysis shows that some sustainability report templates are used by all companies, resulting in similar reports from a linguistic perspective. External assurance is not typically used by SMEs to enhance the reliability of their information (Somoza, 2023). This attitude has also been taken into account by the EFRAG (2024b), which introduced a simplified reporting standard for SMEs.

## 6. Conclusions

The description of the state of the art provided by this study shows a long way to go before expectations are met and can be a baseline to assess the magnitude of the changes expected in future, fostered by recent and upcoming regulations.

It is worth noting that the family-based governance structure that often characterises this enterprise typology is likely to lead to conservative logic concerned with disclosing strategic information to competitors. However, this approach appears to be myopic. Adams and Frost (2008) and Adams and McNicholas (2007) found that sustainability disclosure can catalyse change. Massa et al. (2015) also state that data collection on ESG went beyond disclosure goals towards usage of the information «to enhance sustainable development approach and awareness, consider long-term planning, support strategy-making based on the sustainable development concept» (p. 62). However, one of the key weaknesses revealed by the analysis is an alarming lack of governance and internal procedures to support sustainability policies. Yet, they are essential ingredients to move from a symbolic to a substantive approach to sustainability (Crossley et al., 2021) and avoid that; to summarise, even if the number of sustainability reports has increased, reporting quality remains poor, and sustainability disclosure is just a symbolic action.

Our results are then aligned to De Villiers et al. (2014), highlighting many areas where further robust academic research is needed to guide developments in policy and practice, such as on the concept of materiality and the reconciliation between alternative sustainability reporting standards, frameworks and guidelines.

As previously noted, SMEs were also expected to rapidly adopt and report on sustainability practices in response to the new CSRD. Despite the StoptheClock Directive, which has temporarily postponed their advanced reporting obligations, and pending a precise definition of the actual implications of the Omnibus Package, future research should aim to further explore this topic (Bunclark and Barcellos-Paula, 2021; Morsing and Spence, 2019). This also aligns with the findings of Roberto et al. (2024), who highlighted an urgent need for development in this area. They found that SMEs that voluntarily publish sustainability reports often lack transparency. Furthermore, there is a significant deficiency in the information provided about governance, while SMEs tend to disclose more information related to social and environmental issues. So, we might wonder why, from a theoretical standpoint, ESRS and CSRD pressures matter even if SMEs aren't mandated yet. First, according to the institutional theory and because of coercive and value-chain isomorphism, even when reporting is voluntary for most non-listed SMEs, large CSRD-reporters will cascade data requests

downstream to meet their own ESRS needs. As a consequence, SMEs face the pressure to converge toward ESRS-like disclosures. Second, from a legitimacy and stakeholder theory perspective, banks, insurers, corporates and public buyers increasingly view credible sustainability data as “license to operate”. In this respect, ESRS-aligned signals lower perceived ESG risk and information asymmetry, improving access to finance and procurement. Third, the “not-ready” status of SMEs highlights missing routines (data governance, double materiality, controls). Early capability building (even with simplified standards) becomes a competitive capability that rivals can’t quickly copy. Fourth, ESRS’s double materiality reframes disclosure as a selection problem. As a consequence, SMEs that learn to evidence why some topics are not material reduce reporting scope and cost without losing credibility.

Importantly, in terms of practical implications, given the recent slowdown by the European Union with regard to sustainability reporting obligations, this study highlights the potentially important role of the VSME published by EFRAG, which appears to exceed even that played by the ESRS. While the simplified standard is not mandatory, its adoption by listed SMEs could serve as a transitional tool for building internal competencies and systems ahead of more complex regulatory obligations. Even with relief measures and a voluntary VSME track for most listed and non-listed SMEs, market forces (like buyers and lenders) would still demand consistent sustainability data. Treating ESRS not as full reporting but as a common language, starting with VSME Basic, documenting a focused materiality rationale, and building just enough data would keep costs low enough now, while keeping the option open to scale up if and when it becomes mandatory.

On the other hand, the absence of short-term requirements should not be interpreted as an excuse for inertia. Listed SMEs have a unique opportunity – and responsibility – to lead by example and prepare proactively for the integration of sustainability reporting into traditional accountability practices. However, our analysis shows that the contents of the CSRD were really too ambitious.

As for the limitations of this research that future improvement could address, we can mention the opportunity of extending the analyses currently performed only on the sub-sample of 20 SMEs to the entire population of listed SMEs that disclose reports on sustainability. This is, then, a possible future development of this research project. Furthermore, this study is qualitative; consequently, it does not explore drivers of SMEs’ choices about sustainability disclosure. Future research should focus on quantitative approaches to offer a more comprehensive understanding of sustainability within SMEs.

Lastly, the geographical focus on Italy presents another opportunity for comparative research across countries, which could reveal how institutional, cultural, and regulatory differences may influence the quality and the nature of SMEs' sustainability reporting. Exploring these dynamics yields critical insights for policymakers and practitioners seeking to harmonise disclosure practices at the European and global level. Future scholars could view these limitations as potential starting points for further investigation.

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