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Original Article

ESG Reporting Beyond Disclosure: An Accounting Perspective on Accountability, Capability, and the Company–MSME Divide

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Abstract: *Environmental, social and governance (ESG) reporting has moved from a peripheral communications practice toward a core component of corporate accountability and decision-useful information, reflected in standard-setting activity such as the IFRS Foundation's IFRS S1 and S2, the European Union's Corporate Sustainability Reporting Directive, and India's Business Responsibility and Sustainability Reporting framework. Yet the accounting and corporate reporting literature that explains why ESG reporting matters is disproportionately anchored in large, listed companies, leaving micro, small and medium enterprises (MSMEs) treated either as exempt from the ESG reporting conversation or as scaled-down versions of large-company reporting subjects. This conceptual paper addresses that imbalance from an accounting and corporate reporting perspective. Using a structured conceptual literature synthesis rather than primary empirical methods, the paper integrates stakeholder, legitimacy, institutional, agency and resource-based perspectives with an accountability and decision-usefulness lens to develop a capability-mediated conceptual framework in which reporting capability a firm's accounting infrastructure, technical expertise and governance capacity mediates the relationship between institutional pressure and credible, decision-useful ESG information. The analysis shows that this capability, largely institutionalised in large companies, is the binding constraint for MSMEs, and that MSME reporting expectations therefore require deliberate proportionality rather than a diluted replica of large-company frameworks an argument grounded conceptually and illustrated through the European Union's Voluntary Sustainability Reporting Standard for non-listed SMEs. The paper contributes a theoretically integrated account of why ESG reporting matters from an accounting standpoint, an explicit distinction between ESG disclosure and ESG performance, and a proportionality-based conceptual typology of MSME reporting positions. Implications for regulators, lenders, supply-chain buyers and future empirical research are discussed, alongside the limitations inherent in a conceptual, non-empirical treatment.*

Keywords: *ESG Reporting, Accounting and Accountability, Information Asymmetry, Reporting Capability, Sustainability Accounting, MSMEs, Proportionality.*

I. INTRODUCTION

A) Background: The Rise of ESG Reporting as an Accounting Concern

ESG reporting has moved, over roughly the past decade, from a largely voluntary and reputationally motivated communications practice toward an increasingly standardised component of corporate reporting. The shift is visible in an accumulation of standard-setting activity. The International Sustainability Standards Board (ISSB) issued IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2, Climate-related Disclosures, in June 2023, effective for annual reporting periods beginning on or after 1 January 2024 (IFRS Foundation, 2023a, 2023b). IFRS S1 anchors sustainability disclosure in a financial materiality lens the same lens investors apply to financial statements explicitly framing sustainability information as relevant to enterprise value, cash flows and cost of capital, rather than as a separate accountability exercise. Adoption has accelerated markedly: by April 2026, twenty-eight jurisdictions had adopted the ISSB standards on a voluntary or mandatory basis, with a further twelve planning to do so (S&P Global Sustainable1, 2026).

In the European Union, the Corporate Sustainability Reporting Directive (CSRD), which amended the Accounting Directive through Directive (EU) 2022/2464, made a double materiality assessment encompassing both the impact materiality of an undertaking's activities on people and the environment and the financial materiality of sustainability matters to the undertaking itself a binding requirement for in-scope undertakings, operationalised through the European Sustainability Reporting Standards (ESRS) developed by EFRAG. Following the Omnibus I simplification package, mandatory CSRD scope has since narrowed to undertakings exceeding both 1,000 employees and €450 million in net turnover, a scope change now in force under EU law. In India, the Securities and Exchange Board of India's (SEBI) Business Responsibility and Sustainability Reporting (BRSR) framework has moved ESG disclosure for the largest listed entities from voluntary practice toward a phased, assured reporting regime: BRSR Core, a focused subset of nine high-priority environmental, social and governance attributes, applies on a glide path running from the top 150 listed entities by market capitalisation in FY 2023-24 to the top 1,000 by FY 2026-27, with third-party assessment or assurance phased in over the same period.

What unites these initiatives is not regulatory proliferation for its own sake but a shared premise: that ESG information, like financial information before it, should be produced under conditions of comparability, reliability and, increasingly, independent verification. That premise draws ESG reporting directly into accounting's disciplinary territory rather than leaving it an adjacent corporate communications function a claim the remainder of this paper develops.

B) ESG Reporting as an Accounting Problem, not Only a Disclosure Problem

If ESG information is now expected to meet standards of comparability and reliability historically reserved for financial statements, then the question of why ESG reporting matters is, at root, an accounting question before it is a sustainability-management or corporate-communications question. Two accounting-native objectives are in play, and this paper treats them as complementary rather than competing. The first is decision-usefulness: the idea, foundational to financial reporting's own conceptual frameworks, that reported information should help capital providers and other users make resource-allocation decisions. Extended to ESG information, decision-usefulness implies that lenders, investors, buyers and other stakeholders should be able to use ESG disclosures to assess risk, opportunity and long-term value in the way they use financial statements. The second is accountability: a longer-standing tradition in social and environmental accounting scholarship, most closely associated with Gray, Owen and Adams's (1996) argument that corporate reporting discharges a duty to render an account of an entity's conduct to those affected by it, independent of whether any specific decision follows from that account.

These two objectives are not always in tension, but they are not identical either, and the distinction matters for how the rest of this paper is structured. Decision-usefulness implies a user with a specific resource-allocation problem to solve typically an investor or lender and treats ESG information's value as instrumental to that problem. Accountability implies a broader, less transactional relationship between the reporting entity and those it affects, in which disclosure is owed regardless of whether it changes any particular decision. This paper treats both as legitimate accounting rationales for ESG reporting and returns to their relative weight, for different firms and different reporting regimes, in the Discussion.

C) The Problem: An Accounting Rationale Built for Large Firms, Applied Unevenly to MSMEs

The difficulty is that the accounting rationale sketched above whether framed as decision-usefulness or accountability does not, in principle, stop at the boundary of large or listed companies. Micro, small and medium enterprises (MSMEs) generate environmental impacts, employ people, participate in supply chains and depend on external finance in ways that implicate the same accountability and information logic. Empirically, however, MSMEs occupy an ambiguous position in the ESG reporting conversation: too numerous and heterogeneous to regulate directly in most jurisdictions, yet increasingly drawn into the reporting expectations of the large, listed companies to which they supply, lend, and sell.

This pressure operates indirectly but is not trivial. Large companies subject to mandatory ESG disclosure regimes under CSRD's value-chain provisions, or SEBI's BRSR Core value-chain disclosure requirements, which since FY 2024-25 have applied to ESG data large listed entities collect from upstream and downstream partners meeting defined purchase or sales thresholds must in turn gather ESG information from their own suppliers and customers, many of whom are MSMEs with none of the accounting infrastructure, dedicated expertise or assurance budgets that large-company reporting regimes assume. The result, absent deliberate design, is a transmission of reporting burden down the supply chain without a corresponding transmission of reporting capability.

MSMEs also carry a distinct information problem of their own, independent of any value-chain spillover from large-company regimes. Lenders and investors evaluating MSMEs typically work with thinner credit histories, less standardised financial reporting, and less collateral verification than they do for larger, listed counterparts a longstanding information-asymmetry problem in small-business finance, long theorised in credit-rationing terms (Stiglitz & Weiss, 1981), that predates and sits alongside the ESG reporting question. Whether and how ESG-related information could plausibly ease that problem, rather than simply add another reporting burden on top of it, is therefore a question with real stakes for MSME access to finance, not only a matter of regulatory scope.

The core problem this paper addresses, then, is not whether ESG reporting matters for large companies that case is increasingly well established in both regulation and the literature but whether and how the same accounting rationale that justifies ESG reporting for large companies applies, and should apply differently, to MSMEs, given how starkly their accounting infrastructure, governance capacity and stakeholder relationships differ from those of the large companies around which most ESG reporting scholarship and regulation has been built.

D) The Gap and the Paper's Research Questions

The literature relevant to this problem is not absent, but it is fragmented across three bodies of scholarship that rarely engage each other directly. A substantial accounting and finance literature examines ESG and CSR disclosure choice and its consequences among large, listed firms, typically drawing on legitimacy, stakeholder and signalling logics and reporting an evidence base on ESG disclosure's relationship to information asymmetry and cost of capital that is real but mixed some studies find that mandated ESG disclosure improves earnings quality and reduces cost of capital and information asymmetry (Akin, 2026; Boulton, 2024; Xu et al., 2022), while the same literature increasingly notes that these benefits are not evenly distributed by firm size, with smaller firms capturing weaker risk-reduction benefits and facing a higher risk that limited-resource ESG disclosure reads as superficial rather than substantive (Akin, 2026). A second, more critical body of sustainability accounting and accountability scholarship, building on the tradition associated with Gray, Owen and Adams (1996, 2009), is more sceptical of disclosure quality and prone to examining decoupling between reported claims and organisational practice but this literature, too, is concentrated on large-firm contexts. A third body of research, situated more often in small-business-management and entrepreneurship outlets than in accounting journals, examines the barriers and enablers of sustainability practice and reporting among SMEs directly (Setyaningsih et al., 2024; Cardoni & Kiseleva, 2025), but engages comparatively little with the accounting-information rationale decision-usefulness, information asymmetry, accountability that anchors the first two bodies of work.

The result is a conceptual gap that is not well captured by the generic observation that MSMEs are under-researched. The accounting-based rationale for ESG reporting and the firm-capability literature relevant to MSMEs have developed largely in parallel, without a shared conceptual model that treats reporting capability rather than firm size as a bare classificatory proxy as the mechanism linking accounting theory to a defensible account of why MSME reporting expectations should differ from those of large companies. This paper develops that integration and, in doing so, addresses four research questions:

- RQ1. Through what accounting-based mechanisms accountability, decision-usefulness, reduced information asymmetry does ESG reporting plausibly generate value for external stakeholders, and how do these mechanisms relate to one another conceptually?
- RQ2. Where does the literature support these mechanisms empirically, and where does it remain contested, limited, or better explained by legitimacy and symbolic-disclosure accounts than by genuine information-quality improvement?
- RQ3. Why do MSMEs' ESG reporting capabilities, institutional pressures and stakeholder relationships differ structurally not merely by scale from those of large companies, and how does this heterogeneity extend within the MSME category itself?
- RQ4. What accounting, governance and institutional mechanisms could enable proportionate, capability-sensitive ESG reporting for MSMEs without reducing reporting to a compliance exercise decoupled from accountability?

E) Objective, Contribution and Paper Structure

The objective of this paper is to develop, from an accounting and corporate reporting perspective, a theoretically grounded explanation of why ESG reporting matters and through what mechanisms it generates accountability and decision-useful information, and to explain why its implications, capabilities and constraints differ structurally between large companies and MSMEs. The paper makes four contributions. Theoretically, it integrates stakeholder, legitimacy, institutional, agency and resource-based perspectives with an accountability and decision-usefulness lens into a single capability-mediated model, rather than treating these as competing explanations for disclosure behaviour. From an accounting standpoint, it repositions ESG reporting within accounting's own decision-usefulness and accountability tradition and specifies the accounting-system requirements data capture, internal control, assurance on which reporting quality depends. For MSME research, it develops a capability-based account of proportionality rather than treating MSMEs as scaled-down large companies or omitting them from the ESG reporting conversation entirely. Practically, it offers regulators, lenders and supply-chain buyers a conceptual basis for calibrating ESG reporting expectations to capability rather than defaulting to either full exemption or diluted replication of large-company requirements.

The paper proceeds as follows. Section 2 sets out the conceptual literature synthesis methodology used. Section 3 develops the conceptual findings across six themes, moving from ESG reporting's accounting rationale through information asymmetry, governance and assurance, to the capability-based company–MSME divide and an integrated conceptual framework. Section 4 discusses the theoretical, accounting and stakeholder-specific implications of that framework, including its boundary conditions and unresolved tensions. Section 5 concludes with the paper's answers to its research questions, its contribution, and its limitations.

II. METHODOLOGY

A) Methodological Positioning: Why a Conceptual Synthesis

This paper is conceptual rather than empirical. It develops its conceptual findings, discussion and framework through a structured synthesis and theoretical integration of existing literature and institutional sources, not through primary data collection, surveys, interviews, or statistical analysis. Where the paper reports what empirical studies have found for example, on the relationship between ESG disclosure and cost of capital it does so by drawing on and citing existing published research rather than generating new empirical evidence. The term "results" is used in Section 3 to denote the conceptual findings that emerge from synthesising and theoretically integrating this literature, consistent with an IMRaD structure adapted for conceptual accounting scholarship, rather than as a claim to have conducted an empirical study.

This methodological choice follows from the nature of the problem identified in Section 1: the gap is one of conceptual integration connecting an accounting-based rationale for ESG reporting to a capability-based account of the company–MSME divide rather than one of missing empirical data on any single relationship. A conceptual synthesis is the appropriate method for closing an integration gap of this kind; testing the resulting framework empirically is identified as a priority for future research in Section 5.

B) Literature Identification and Source Selection Logic

Sources were identified through purposive, theory-driven selection rather than an exhaustive systematic review. Because this is a conceptual paper rather than a systematic literature review, the paper does not report database search strings, screening counts, or PRISMA-style flow statistics, since no such systematic search and screening protocol was conducted; reporting such figures would misrepresent the method actually used. Three categories of source were prioritised. First, seminal theoretical literature underpinning the six theoretical perspectives developed in Section 3 stakeholder, legitimacy, institutional, agency and information asymmetry, resource-based, and accountability and decision-usefulness perspectives drawn from foundational management, economics and accounting scholarship regardless of publication date, since the relevance of this literature does not depend on recency. Second, recent accounting, finance and sustainability-management literature, concentrated in approximately 2019–2026, addressing ESG disclosure, information asymmetry, cost of capital, and SME or MSME sustainability reporting specifically. Third, primary institutional and regulatory sources the IFRS Foundation, EFRAG, the Global Reporting Initiative, and the Securities and Exchange Board of India consulted directly for the description of current reporting frameworks in Sections 1 and 3, given that secondary commentary on regulatory status dates quickly.

C) Thematic Synthesis and Theoretical Integration

The six themes developed in Section 3, and the theoretical structure organising them, were derived through iterative synthesis rather than fixed in advance of engaging with the literature. Two design choices shape this synthesis and are made explicit here rather than left implicit. First, the paper distinguishes theories used to explain disclosure behaviour stakeholder, legitimacy, institutional, agency and information asymmetry, and resource-based perspectives from the accountability and decision-usefulness perspective, which functions as the paper's own disciplinary standpoint rather than as a rival explanatory account competing with the other five. This is not a distinction of convenience: the five explanatory theories are, in accounting theory's own long-standing terminology, positive theories, offering falsifiable-in-principle predictions about when and how firms disclose, whereas the accountability and decision-usefulness perspective is a normative framework specifying what reporting ought to achieve rather than predicting when it will occur. Positive and normative accounting theory have always addressed different questions rather than competed to answer the same one, and this paper's structure preserves that distinction rather than treating six perspectives as interchangeable explanations for a single phenomenon. Conflating these two roles risks the frequent conceptual-paper failure mode of presenting a long list of loosely related theories without clarifying what distinct work each is doing; keeping them separate is intended to avoid that failure mode. Second, reporting capability a firm's accounting infrastructure, technical expertise and governance capacity is treated throughout as a mediating construct connecting institutional pressure to reporting quality, rather than as an MSME-specific afterthought appended to a framework built primarily around large companies. This choice is what allows a single conceptual model, developed in Section 3.6, to explain both large-company and MSME reporting behaviour without requiring two separate, disconnected frameworks.

D) Treatment of Seminal and Contemporary Literature, and Limitations

Seminal theoretical literature including Freeman (1984) on stakeholder theory, Jensen and Meckling (1976) on agency costs, Spence (1973) on market signalling, DiMaggio and Powell (1983) on institutional isomorphism, Barney (1991) on the resource-based view, and Gray, Owen and Adams (1996) on accounting and accountability is treated as foundational regardless of publication date, since these works' theoretical contribution does not depend on recency in the way an empirical finding does. Contemporary literature, by contrast, is used primarily to establish the current empirical and regulatory state of ESG reporting and to identify where recent findings support, qualify or complicate the theoretical claims developed from the seminal literature.

Three limitations follow directly from this conceptual, non-systematic approach and are acknowledged rather than concealed. First, the literature review underlying this paper is purposive rather than exhaustive; a systematic review using explicit search protocols could surface literature this paper does not engage. Second, because this is a conceptual paper, no primary data were collected to test the proposed framework directly; Section 5 identifies empirical testing of the framework as a priority for future research. Third, the regulatory landscape discussed in Sections 1 and 3 particularly the European Union's Voluntary Sustainability Reporting Standard for non-listed SMEs and India's BRSR Core value-chain provisions was accurate as of the sources consulted in 2026 but remains under active implementation, and readers should verify current status before relying on the specific regulatory detail reported here.

III. CONCEPTUAL FINDINGS

A) ESG Reporting as an Extension of Accounting's Accountability and Decision-Usefulness Function

The starting claim of this paper is that ESG reporting is best understood, from an accounting standpoint, as an extension of two objectives long attributed to financial reporting rather than as a novel corporate communications practice requiring its own separate justification. The accountability and decision-usefulness perspective developed here draws on two connected traditions. The decision-usefulness objective is most closely associated with the conceptual-framework tradition in financial reporting, which holds that information is decision-useful to the extent that it helps existing and potential capital providers assess an entity's prospects and make resource-allocation decisions. Applied to ESG information, this objective implies that lenders, investors and other capital providers should be able to use environmental, social and governance disclosures to assess risk, opportunity and long-term value much as they use financial statements precisely the framing IFRS S1 adopts in anchoring sustainability disclosure to a financial materiality lens tied to enterprise value and cost of capital. The accountability objective, associated with Gray, Owen and Adams's (1996) argument that corporate reporting discharges a duty to render an account of an entity's conduct to those it affects, does not require a specific decision to follow from disclosure; it treats the obligation to report as owed in its own right, to a broader set of parties than capital providers alone, including employees, affected communities and civil society. Gray, Owen and Adams's (2009) later review of theorisations in social accounting situates this accountability tradition explicitly alongside rather than as a replacement for the decision-usefulness tradition, a positioning this paper retains.

Why is this distinction relevant to ESG reporting specifically, rather than a matter of accounting philosophy in the abstract? Because the two objectives predict different things about what counts as adequate ESG reporting and for whom. A decision-usefulness framing predicts that ESG reporting should prioritise information material to enterprise value and should be judged primarily by its usefulness to capital-provider decisions the logic underlying the ISSB's single, financial-materiality architecture. An accountability framing predicts that ESG reporting should extend to impacts that matter to affected stakeholders regardless of whether those impacts are financially material to the reporting entity the logic underlying the Global Reporting Initiative's impact-materiality architecture and, in a hybrid form, the European Union's double-materiality requirement under the ESRS, which requires disclosure where either financial or impact materiality applies. Treating these as complementary rather than substitutable objectives allows this paper to explain, without contradiction, why financial-materiality-oriented and impact-materiality-oriented reporting frameworks coexist rather than one displacing the other: they are answering different accounting questions, not competing over the same one.

For large companies, particularly those within mandatory reporting regimes, this dual objective is largely institutionalised in the frameworks themselves; a CSRD-scope undertaking's ESRS-based sustainability statement is explicitly designed to satisfy both materiality lenses simultaneously. For MSMEs, the same dual objective applies in principle an MSME's environmental and social conduct is no less capable of mattering to affected stakeholders, and no less potentially relevant to a lender's assessment of risk, than a large company's but the institutional scaffolding that operationalises both objectives for large firms is largely absent. This is not a reason to treat the accountability and decision-usefulness rationale as inapplicable to MSMEs; it is the first indication, developed further in Sections 3.4 and 3.5, of why the same accounting rationale requires a different operational architecture once capability, rather than materiality logic, becomes the binding constraint.

The limitation of the accountability and decision-usefulness perspective, taken on its own, is that it is normative and definitional rather than predictive: it explains what ESG reporting is for, but not why any particular firm does or does not report, nor why reporting quality varies once a firm decides to report. That explanatory work falls to the five theories developed across the remainder of Section 3, beginning with stakeholder theory.

Stakeholder theory, most closely associated with Freeman (1984), holds that a firm is accountable to a plural set of claimants beyond its shareholders employees, customers, suppliers, lenders, communities and others with a stake in its conduct and that managing these relationships, rather than shareholder value alone, is central to how firms should be understood and governed. Applied to ESG reporting, stakeholder theory is relevant because it supplies the “accountable to whom” question that the accountability perspective leaves comparatively open: it predicts that the content and audience of ESG reporting should track the specific stakeholders a firm depends on and affects, rather than a single generic disclosure template. For large companies, this typically manifests as formalised stakeholder-engagement processes feeding into materiality assessments, of the kind ESRS 1 explicitly requires evidence of. For MSMEs, the same logic applies but with a narrower and more relational stakeholder set: rather than a diffuse investor base, an MSME's material stakeholders are often a small number of identifiable relationships a principal lender, a lead buyer, a local community directly affected by operations a difference in the application of stakeholder theory rather than in its relevance. The theory's limitation is that it does not, on its own, specify how competing stakeholder claims should be weighted when they conflict, leaving materiality judgment discussed further in Section 3.3 as an unresolved practical question the theory does not itself answer.

Table 1: Key ESG Reporting Concepts and their Accounting Relevance

Concept	Definition	Accounting Relevance
ESG reporting	Disclosure of environmental, social and governance information alongside financial reporting	Extends the reporting entity's account beyond financial performance
ESG disclosure vs. ESG performance	Disclosure = information published; performance = actual outcomes achieved	Central distinction disclosure quality is a measurement question, not proof of performance
Materiality (financial vs. double)	Financial = affects enterprise value; double/impact = the firm's effects on people and environment	Determines what accounting systems must capture (ISSB: financial; ESRS: double)
Information asymmetry	Gap between what insiders know and what outsiders can observe	The core accounting-economics rationale for reporting itself
Reporting capability	Accounting infrastructure, expertise and governance capacity to produce reliable ESG information	The paper's central mediating construct
Assurance	Independent verification of reported information's reliability	Determines credibility; parallels financial statement audit
Decoupling / symbolic disclosure	Gap between reported claims and actual organisational practice	The accounting-relevant form of the greenwashing critique
Proportionality	Calibrating requirements to a firm's size, capability and stakeholder exposure	Operationalised via tiered standards such as VSME's modules

B) Information Asymmetry, Stakeholder Decision-Usefulness, and the Limits of the Evidence

If accountability and decision-usefulness explain why ESG reporting matters in principle, agency theory and the economics of information asymmetry explain the specific market failure ESG reporting is conventionally understood to address, and supply this paper's most direct accounting-economics rationale. Agency theory, in its classical formulation by Jensen and Meckling (1976), analyses the costs that arise when a principal shareholders, or by extension any outside capital provider cannot fully observe or verify the actions of an agent management who controls the firm's resources. Where ESG-relevant conduct is similarly unobservable to outsiders, the same logic applies: lenders, investors and buyers cannot directly verify a firm's environmental practices, labour conditions or governance quality, and must either incur costly monitoring, price this uncertainty into the terms they offer, or rely on the firm to credibly communicate what it cannot otherwise observe. This is the information asymmetry problem, and reporting ESG reporting no less than financial reporting is conventionally understood as one mechanism for narrowing it.

Signalling theory, developed by Spence (1973) in the context of labour markets, supplies the specific mechanism by which voluntary disclosure can narrow this gap: because credible signals are costly to fake, a firm that voluntarily discloses detailed, verifiable ESG information distinguishes itself from firms that would find such disclosure too costly or too revealing to attempt, allowing outside parties to draw inferences from the act of disclosure itself, not only its content. This paper treats signalling as the disclosure-specific mechanism operating within the broader information-asymmetry problem that agency theory identifies, rather than as a fully separate explanatory theory, since separating the two risks treating what is functionally one economic account unobservable conduct, and disclosure as a partial remedy as though it were two independent theories.

What does this predict, and where does the evidence stand? The theoretical prediction is straightforward: better ESG disclosure should narrow information asymmetry and, in doing so, reduce the risk premium capital providers demand, lowering the cost of capital. Recent empirical literature offers real, if not unconditional, support for this prediction. Using European panel data, Akin (2026) finds that mandated ESG disclosure is associated with improved earnings quality and reduced cost of capital, consistent with signalling, agency and information-asymmetry accounts. Boulton (2024), examining the staggered global adoption of mandatory ESG disclosure regimes, finds that mandatory ESG disclosure is associated with reduced underpricing in initial public offerings a context in which information asymmetry between issuers and investors is particularly acute consistent with ESG disclosure narrowing that gap. Xu, Liu and Dou (2022), drawing explicitly on information asymmetry and stakeholder theory, find that ESG disclosure is associated with reduced stock price crash risk among Chinese listed firms, a result the authors attribute to disclosure reducing the concealment of adverse information that asymmetry would otherwise permit.

This is where the paper's insistence on distinguishing ESG disclosure from ESG performance becomes load-bearing rather than a methodological aside. The same body of evidence that supports an information-asymmetry account of ESG disclosure also qualifies it in a way directly relevant to this paper's central argument: Akin (2026) reports that smaller firms do not capture the same risk-reduction benefits from ESG disclosure as larger firms, both because their ESG efforts tend to be less comprehensive and because resource-constrained disclosure is more prone to reading as superficial or symbolic rather than substantive disclosure that signals an intention to appear credible without the underlying reporting infrastructure to make that appearance reliable. This is not evidence against the information-asymmetry mechanism; it is evidence that the mechanism's operation is conditional on a capability this paper treats as the central constraint separating large companies from MSMEs, developed fully in Section 3.4.

Legitimacy theory offers a complementary, and in places rival, explanation for the same disclosure behaviour, and belongs in this section precisely because of that tension. Where agency and signalling accounts explain disclosure as an economically rational response to an information problem, legitimacy theory developed by Suchman (1995) and long applied to social and environmental disclosure explains disclosure as an organisation-level response to a perceived threat to its social licence to operate: firms disclose, on this account, not necessarily because disclosure conveys reliable information, but because failing to disclose, or disclosing unfavourable information, risks legitimacy with stakeholders whose continued support the firm depends on. This predicts a pattern the information-asymmetry account alone does not: disclosure that expands during periods of heightened public, media or regulatory scrutiny regardless of whether the underlying conduct has changed, and disclosure whose content is shaped as much by what stakeholders expect to hear as by what would most reduce genuine uncertainty about the firm's conduct. This is the theoretical home, in this paper's structure, for the greenwashing and symbolic-disclosure critique developed further in Section 4.6: where legitimacy-seeking disclosure decouples from underlying practice, ESG reporting can expand in volume while its decision-usefulness, in the sense developed in Section 3.1, does not correspondingly improve.

For large companies operating under public and media scrutiny, legitimacy pressure operates directly and is well documented in the disclosure literature. For MSMEs, legitimacy pressure typically operates indirectly, transmitted through supply-chain relationships rather than direct public scrutiny an MSME rarely faces a legitimacy threat from general public opinion in the way a consumer-facing multinational does, but may face an acute, firm-specific legitimacy threat from a single lead buyer applying its own supplier code of conduct. The theory's limitation, in both contexts, is that it risks over-explaining disclosure as purely defensive or symbolic; taken to an extreme, a legitimacy-only account cannot easily explain the genuine information-quality improvements the empirical literature above also documents, which is precisely why this paper treats legitimacy and information-asymmetry accounts as complementary rather than as a forced choice between cynical and credulous readings of ESG reporting.

C) Governance, Internal Control and Assurance as Preconditions for Reporting Quality

Sections 3.1 and 3.2 establish why ESG reporting matters and through what economic mechanism it is expected to operate; neither, on its own, explains why reporting quality varies as much as it evidently does across firms operating under similar disclosure expectations. Institutional theory supplies part of that explanation, at a different level of analysis than the theories discussed so far. Where legitimacy theory, as developed in Section 3.2, explains an individual firm's disclosure response to a perceived threat to its own social licence, institutional theory developed by DiMaggio and Powell (1983) in their account of institutional isomorphism explains why disclosure practices converge across a population of firms operating in the same organisational field, through three related pressures: coercive pressure from regulation and powerful stakeholders, normative pressure from professional and industry standards, and mimetic pressure to imitate the practices of visible, apparently successful peers under conditions of uncertainty. This distinction in level of analysis the individual firm's legitimacy management, against the field-level pattern institutional theory explains is what justifies treating legitimacy and institutional theory as two related but distinct contributions rather than a single redundant one.

Institutional theory predicts that ESG reporting practices, once a critical mass of firms in a field adopt them, should converge and standardise relatively quickly, particularly once coercive pressure a mandatory regime such as CSRD or BRSR Core is present, and should converge more slowly and unevenly where only normative and mimetic pressures operate. This maps closely onto the empirical pattern in ESG reporting standardisation: the acceleration of ISSB adoption across twenty-eight jurisdictions by April 2026, and the rapid uptake of ESRS-based reporting among CSRD-scope undertakings following a binding legal mandate, are consistent with coercive-pressure-driven convergence, while the more gradual and uneven diffusion of voluntary sustainability reporting among firms outside mandatory scope is consistent with weaker normative and mimetic pressure operating alone.

Governance structures, internal control and assurance are where institutional pressure translates into reporting quality rather than remaining a matter of disclosure volume. A board-level sustainability committee, a documented internal control framework over ESG data collection, and independent limited or reasonable assurance over reported metrics each perform, for ESG information, a function analogous to the governance and audit infrastructure long taken for granted in financial reporting:

they are what allow a user of the information to place some confidence in it beyond the reporting entity's own assertion. This is precisely the infrastructure CSRD's assurance requirements and SEBI's phased BRSR Core assurance provisions are designed to build, and precisely the infrastructure that is least developed, or entirely absent, outside large, mandatorily regulated firms.

For large companies within mandatory regimes, this governance and assurance infrastructure is increasingly institutionalised as a matter of regulatory compliance rather than discretionary good practice. For MSMEs, the same infrastructure is rare not because MSME owner-managers value governance or assurance less, but because formal board-level committees, dedicated internal control documentation, and paid third-party assurance each carry fixed costs that are more easily absorbed across a large company's revenue base than an MSME's. This is a direct instance of the capability constraint this paper treats as central, and is one reason voluntary frameworks such as the European Union's Voluntary Sustainability Reporting Standard for non-listed SMEs explicitly do not require external assurance, in contrast to the assurance provisions built into CSRD and, on a phased basis, BRSR Core.

Institutional theory's limitation is that it explains convergence in reporting practice more successfully than it explains variation in reporting quality once firms have converged on similar disclosure formats; two firms can adopt an identical reporting template under identical institutional pressure and still differ sharply in whether their underlying governance and internal control support the numbers reported a variation institutional theory alone does not predict and that the capability construct developed next is needed to explain.

D) Reporting Capability as the Structural Fault Line Between Large Companies and Msmes, and within Msmes

The preceding three sections have each, from a different theoretical angle, arrived at the same unresolved variable: an accounting rationale that applies in principle to firms of all sizes, an information-asymmetry mechanism whose benefits the recent evidence shows are conditional on firm size, and a governance and assurance infrastructure that institutional pressure alone does not guarantee firms will build. This section names that variable directly and treats it as the paper's central theoretical contribution: reporting capability a firm's accounting infrastructure, technical expertise and governance capacity to produce reliable ESG information mediates the relationship between institutional and stakeholder pressure, on one side, and credible, decision-useful ESG reporting, on the other, and this mediating role, rather than firm size as a bare classificatory label, is what should organise how the company–MSME divide is theorised.

The resource-based view (RBV), developed by Barney (1991), treats a firm's resources and capabilities to the extent they are valuable, rare, imperfectly imitable and non-substitutable as the basis for sustained differences between firms. This paper draws on RBV specifically and narrowly: to conceptualise reporting capability itself as an organisational resource that is unevenly distributed across firms and costly to build, not to claim, more broadly, that ESG reporting capability confers sustained competitive advantage in the product-market sense RBV was originally developed to explain. Of Barney's (1991) four criteria, this paper leans on value and rarity reporting capability is valuable in the specific sense developed throughout this paper, and rare in the sense that most MSMEs lack it without requiring the further claim that capability is imperfectly imitable or non-substitutable in a way that would sustain competitive advantage; that fuller claim is deliberately outside this paper's scope. That broader claim would smuggle back in an assumption that better ESG reporting causes better firm performance this paper has deliberately declined to make, consistent with its distinction between ESG disclosure and ESG performance maintained throughout. RBV's contribution here is narrower and, for this paper's purposes, more useful: it supplies the theoretical vocabulary for treating capability as a resource rather than as an incidental control variable, which is precisely what allows reporting capability to do the mediating work the framework in Section 3.6 assigns it.

For large companies, particularly those operating within mandatory reporting regimes, reporting capability is largely institutionalised: dedicated sustainability functions, integrated ESG data systems, and established internal control and assurance relationships are increasingly a standard feature of large-company organisational infrastructure, to the point that capability functions in the framework almost as a constant rather than a variable. For MSMEs, the same capability is the binding constraint on everything downstream of it in the framework. This is not a matter of MSMEs facing a smaller version of the same challenge large companies face; several features of the MSME context alter the reporting problem in kind rather than merely in degree.

Ownership and governance structure is the clearest of these. Where agency theory's classical shareholder-manager conflict, discussed in Section 3.2, presumes a separation between ownership and control, the typical MSME closely held, often owner-managed collapses that separation substantially. This does not eliminate information asymmetry; it relocates it. The classical principal-agent problem between dispersed shareholders and professional management is muted in an owner-managed MSME, but the information gap between the firm and its external lenders, investors, or lead buyers none of whom typically have inside knowledge of an owner-managed firm's operations remains fully present, and in some respects is harder for the outside party to resolve than in a large firm subject to public disclosure requirements and analyst scrutiny. Accounting infrastructure follows a similar pattern: many MSMEs' financial record-keeping is oriented toward tax compliance and short-term cash management rather than toward the kind of structured, auditable data architecture ESG reporting with its need to capture emissions, workforce, and governance data alongside financial figures presupposes. Building that infrastructure from a low base is a different undertaking than extending an already-sophisticated financial reporting system to cover additional non-financial metrics, which is closer to the large-company starting point.

A further complication, easily lost if "MSME" is treated as a single undifferentiated category, is that reporting capability varies enormously within the MSME classification itself. A micro-enterprise with a handful of employees and a medium-sized enterprise approaching the upper boundary of most regulatory MSME definitions face capability constraints that differ in degree, and in places in kind, from one another as much as either differs from a large company. A micro-enterprise with, for instance, three employees and no bookkeeping beyond what tax compliance requires occupies a fundamentally different starting point than a two-hundred-employee medium enterprise with an internal finance function and a multi-year bank relationship built on reviewed or audited financial statements; the latter is, in reporting-capability terms, considerably closer to a small listed company than to the former, even though a headcount- or turnover-based MSME definition would classify both identically. This paper treats firm size and capability as a within-MSME gradient as well as a between-category divide, a scope commitment carried through into the proportionality argument developed in Section 3.5 and the conceptual framework in Section 3.6, rather than treating "large company versus MSME" as an exhaustive binary.

RBV's limitation, already anticipated above, is that it is not deployed here to claim reporting capability produces competitive advantage; used more expansively than the narrow, capability-focused role assigned to it in this paper, RBV risks implying exactly the ESG-reporting-improves-performance causal claim this paper's distinction between disclosure and performance is designed to guard against. Kept within that scope, RBV's contribution is to supply the theoretical basis for treating capability as a resource subject to the same logic of scarcity and costly accumulation that applies to any other organisational resource which is exactly the logic the proportionality argument in the next section depends on.

A further conceptual risk, worth naming rather than passing over, is that treating reporting capability as both the explanation for reporting quality and a construct partly inferred from reporting behaviour itself risks circularity: if capability is observed largely through the sophistication of the ESG disclosure it is supposed to explain, the claim that capability predicts disclosure quality is close to definitional rather than substantive. A conceptual paper can name this risk but cannot resolve it; resolving it is an empirical task. A non-circular test would need to measure capability through indicators observable independently of the reporting output being explained for example, the existence of a dedicated finance or accounting function, adoption of digital bookkeeping or ERP systems, prior experience with any external financial audit or review, or the size and qualification profile of accounting staff rather than inferring capability from the sophistication of the ESG disclosure itself. Section 5.3 identifies this operationalisation as a specific priority for the empirical research this paper's framework calls for.

Table 2: ESG Reporting Implications: Large Companies vs. Msmes

Dimension	Large Companies	MSMEs
Regulatory exposure	Often mandatory (CSRD/ESRS; SEBI/BRSR for top-listed)	Largely outside mandatory scope; exposure is indirect
Accounting & data infrastructure	Established systems, dedicated sustainability functions	Often manual or ad hoc; rarely integrated with core accounting
Governance & internal control	Board-level committees, formal control frameworks	Owner-manager governance; informal controls
ESG expertise	Dedicated in-house staff	Usually absent in-house
Primary source of pressure	Regulators, institutional investors, rating agencies	One or few key relationships a lead buyer, a principal lender
Assurance	Increasingly required	Rare; voluntary standards explicitly don't require it
Reporting cost burden	Material but spread across a larger base	Proportionally heavier relative to firm size
Materiality assessment	Formal double-materiality processes	Informal, often reactive to a specific request
Access-to-finance link	One factor among many	Can be decisive for a single lending relationship
Frameworks in practice	IFRS S1/S2, ESRS, BRSR	VSME Basic/Comprehensive, informal buyer questionnaires
Strategic function	Investor relations, risk management, legitimacy	Relationship maintenance, market access

E) Proportionality, Scalability, and the Limits of Scaled-Down Large-Company Frameworks

If reporting capability is the binding constraint for MSMEs, the natural policy response is not to exempt MSMEs from ESG reporting altogether, nor to apply large-company frameworks to them with adjusted thresholds, but to design reporting expectations proportionate to the capability MSMEs actually have. This is not a novel policy aspiration this paper is proposing for the first time; it is, at the time of writing, already settled European Union law. The European Union's Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME), developed by EFRAG under a mandate from the European Commission's 2023 SME Relief Package, offers non-listed SMEs a streamlined sustainability reporting framework built on a modular structure: a Basic Module setting minimum requirements suited to micro-undertakings, and a voluntary Comprehensive Module offering more detailed content for SMEs seeking to report more extensively. The standard was formally adopted as a delegated act in 2026, and under the subsequent Omnibus I Directive now functions not merely as a voluntary option but as a statutory “value-chain cap”: a legal limit on how much sustainability information CSRD-scope large companies may demand from their SME suppliers, explicitly designed to prevent the uncoordinated, cumulatively excessive data requests that would otherwise cascade down supply chains from multiple large buyers to the same SME supplier simultaneously.

VSME's existence changes what this paper's contribution can plausibly claim to be. The practical argument that MSMEs need a simpler, tiered reporting option is not a gap in the literature or in policy; it is now operative EU law with a specific enforcement mechanism attached. What VSME's existence does not supply, and what this paper argues is still needed, is an accounting-theoretic account of why proportionality is the conceptually correct response rather than merely a politically expedient compromise between full disclosure and no disclosure. That account follows directly from the capability-mediation argument developed in Section 3.4: because reporting capability, not willingness or the underlying materiality of a firm's ESG conduct, is the binding constraint for most MSMEs, a proportionate framework that calibrates required disclosure to available capability is the design that preserves the accountability and decision-usefulness rationale developed in Section 3.1 for the largest feasible number of firms, rather than the design that either abandons that rationale for MSMEs entirely or imposes reporting obligations most MSMEs cannot credibly meet.

VSME is not the only precedent for capability-sensitive scalable design, and situating it alongside a second, considerably longer-standing example strengthens rather than weakens this paper's theoretical point. The Global Reporting Initiative's Standards, in use by more than 10,000 organisations across over 100 countries and explicitly designed to scale from small private enterprises to large multinationals, have for two decades combined a modular structure with an impact-materiality logic that does not presuppose the dedicated sustainability function a mandatory, financial-materiality-oriented regime more readily assumes (Global Reporting Initiative, n.d.). That a scalable, capability-conscious design philosophy recurs independently across a voluntary, practitioner-led standard with roots predating most mandatory ESG regulation and a binding EU legal instrument finalised in 2026 suggests proportionality is not merely a concession particular to one recent political process, but a recurring practical response to the same capability constraint this paper theorises. This is relevant to how this paper's own originality should be read: the claim is not that proportionate MSME reporting is a novel idea GRI or VSME overlooked, but that neither GRI's nor VSME's design documents offer the accounting-theoretic account, developed in Section 3.4, of why capability rather than willingness is the mechanism proportionality should be calibrated to an account this paper offers as a conceptual complement to, not a discovery that precedes, their practical design choices.

This distinction matters because proportionality, poorly designed, risks becoming “shrink-it-and-pink-it” a diluted, cosmetically simplified replica of a large-company framework that preserves its form without addressing the underlying capability gap that made the large-company framework unsuitable for MSMEs in the first place. A genuinely capability-sensitive proportionality principle, by contrast, is one where the reporting architecture itself is designed around what an MSME's accounting infrastructure can credibly support at a given point which is closer to what VSME's Basic and Comprehensive module structure attempts, allowing a firm to select the level of reporting proportionate to its own capability and stakeholder pressure rather than being assigned a single fixed threshold based on headcount or turnover alone.

The barriers this proportionality principle needs to address are concrete rather than merely motivational. Systematic reviews of SME sustainability reporting identify recurring obstacles: cost, limited technical knowledge and expertise, organisational capacity constraints, and the absence of institutional or regulatory scaffolding suited to smaller firms, alongside socio-environmental barriers specific to particular sectors and contexts (Setyaningsih et al., 2024). Cardoni and Kiseleva (2025), examining SMEs' voluntary ESG communication directly, find that the quality of SME ESG disclosure varies systematically with firm-level factors closely related to the capability construct developed in this paper, rather than being explained by sector or general willingness to disclose alone a finding consistent with this paper's argument that capability, not disposition, is the primary constraint. Digital reporting tools and standardised templates of the kind VSME's accompanying digital template and taxonomy are designed to provide address the technical and cost barriers directly, by lowering the fixed cost of producing structured, comparable ESG data from a low capability base, rather than requiring an MSME to build bespoke reporting infrastructure from first principles.

Table 3: Barriers and Enabling Mechanisms for MSME ESG Reporting

Barrier	Enabling Mechanism
No dedicated ESG or accounting expertise	External advisor networks; simplified indicator sets (VSME Basic Module)
Cost of data collection and reporting	Modular, tiered standards allowing partial reporting
Fragmented, uncoordinated buyer/lender requests	Standardised templates acting as a request ceiling (VSME's value-chain cap)
Weak internal control and data systems	Digital templates and taxonomies lowering the technical barrier
No assurance capacity or budget	Voluntary, unaudited tiers as an entry point; assurance deferred until warranted
Limited awareness of ESG's relevance to financing	Direct lender/buyer communication linking reporting to concrete terms
Risk of reporting fatigue or box-ticking	Anchoring requirements in actual stakeholder relationships, not generic checklists
Owner-manager time constraints	Modular self-selection calibrating effort to genuine need

F) Toward an Integrated Conceptual Framework

Bringing Sections 3.1 through 3.5 together, this paper proposes the conceptual framework shown in Figure 1. Institutional and stakeholder pressure from regulators, investors, lenders and buyers does not translate directly into credible, decision-useful ESG information; it passes first through a firm's ESG reporting capability, which in turn shapes the accounting systems available to capture and classify ESG data, which in turn determines reporting quality in the sense of comparability, reliability and assurance developed in Section 3.3. Reporting quality is what produces genuine transparency, credibility and accountability toward external stakeholders, which is what narrows information asymmetry in the sense developed in Section 3.2, which in turn is what makes ESG information decision-useful to lenders, investors and buyers in the sense developed in Section 3.1. The final set of outcomes improved access to finance, stakeholder trust, supply-chain access and resilience are drawn as a distinct, dashed element in the framework, and labelled as theorised rather than empirically established outcomes throughout this paper, consistent with the disclosure–performance distinction this paper has maintained since Section 1.

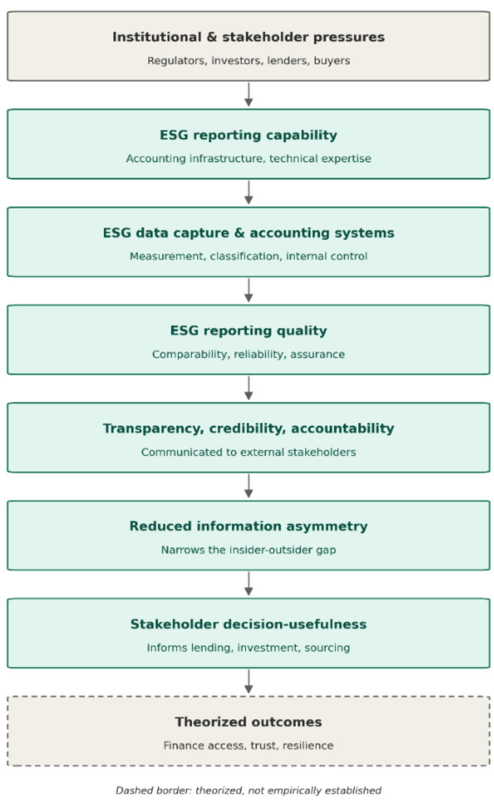

Figure 1. Integrated Conceptual Framework for ESG Reporting

The framework's single mediating node reporting capability is what allows one model to explain both the large-company and the MSME case without requiring two disconnected frameworks. For large companies operating within mandatory regimes, capability is largely institutionalised and functions close to a constant; the framework's remaining links from accounting systems through to stakeholder decision-usefulness do most of the theoretical work. For MSMEs, capability is the variable that does most of the theoretical work, and the remaining links are conditioned on it in the way Section 3.4 develops. The framework also carries a set of moderating conditions that this paper has referenced throughout without formalising into a separate model: firm size, digital maturity, ownership structure, supply-chain integration, and the institutional environment each condition how strongly institutional pressure translates into capability investment, and how strongly capability translates into reporting quality, without displacing capability itself as the framework's central mediating construct.

Section 3.4 also identified a further complication: capability varies within the MSME category, not only between MSMEs and large companies, and a five-stage maturity ladder implying that every MSME should progress toward the most extensive reporting position would sit awkwardly against this paper's own proportionality argument. Figure 2 addresses this by zooming into the capability node specifically for MSMEs, positioning firms along two axes rather than a single ordered scale: the external stakeholder pressure a firm faces, and the internal reporting capability it has already built.

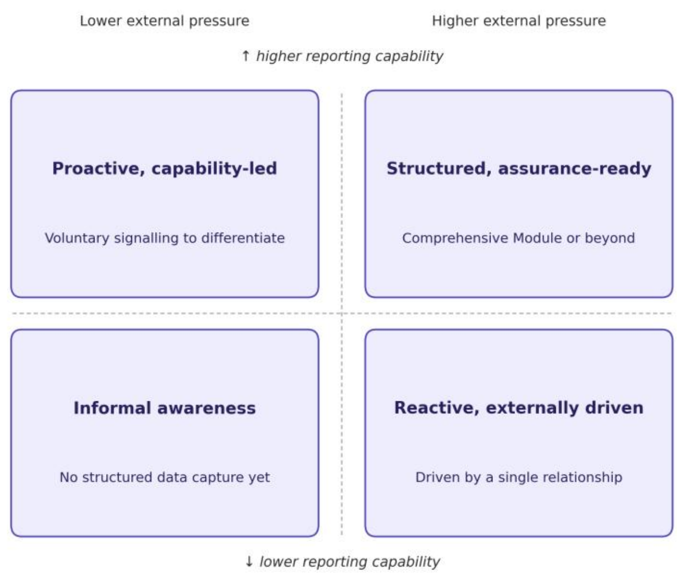

Figure 2. MSME Reporting-Capability Positioning Matrix

Positioning a given firm on these two axes is, in a conceptual paper, necessarily illustrative rather than a measurement protocol, but the axes are not intended as unmeasurable abstractions. External pressure is plausibly indicated by proxies such as the number and concentration of large-company customers or lenders a firm depends on, or whether any of those counterparties operates under a mandatory ESG disclosure regime with value-chain provisions; internal capability is plausibly indicated by the same proxies proposed in Section 3.4 for testing the framework's mediation claim empirically the existence of a dedicated accounting function, adoption of digital bookkeeping, and prior experience with external financial audit or review. Using the same indicators to operationalise both the framework's central mediation claim and this typology is a deliberate consistency, not a coincidence: Figure 2 is a zoomed-in view of the same capability construct Figure 1 treats as a single node, not a separate measurement problem.

Each of the four resulting positions is a legitimate, stable outcome of a firm's context rather than an early or incomplete stage on the way to a single endpoint. A firm with low external pressure and low capability most MSMEs outside any large company's supply chain or seeking external finance has little reason to invest in reporting infrastructure it does not yet need, and Section 3.5's proportionality argument implies this is an appropriate position for such a firm to occupy, not a deficiency to be corrected. A firm facing high external pressure with capability that has not yet caught up the position many MSMEs newly drawn into a large buyer's supply-chain data requests occupy is precisely the position VSME's value-chain cap is designed to protect, by placing a ceiling on what can be demanded before capability has had a chance to develop. A firm with low external pressure but high capability, often one with a founder or owner-manager with a longer time horizon, corresponds to the voluntary signalling behaviour Section 3.2's discussion of signalling theory anticipates. A firm with both high pressure and high capability approaches, and in some cases converges with, the large-company reporting position this paper has used as its point of comparison throughout illustrated by a firm using VSME's Comprehensive Module, or a growing MSME approaching mandatory reporting thresholds. Movement between these positions, where it occurs, is driven by a change in a firm's external context a new lead buyer, a new financing need rather than by an internal maturation process every firm is expected to undergo, which is the paper's designed alternative to the maturity-ladder framing it has deliberately avoided.

Table 4: Theoretical Perspectives and their Explanatory Relevance

Theory	Core Logic	Large-Company Relevance	MSME Relevance	Key Limitation
Stakeholder theory	Accountable to a plural set of claimants, not only shareholders	Broad, formalised engagement	Narrower, more relational stakeholder set	Doesn't rank competing claims
Legitimacy theory	Firm-level response to threats to social licence	Responds to media/NGO/public scrutiny	Pressure usually indirect, via supply chains	Risks over-explaining disclosure as defensive
Institutional theory	Field-level diffusion via coercive, normative, mimetic pressure	Explains rapid, uniform adoption once mandatory	Explains slower, patchier adoption	Explains convergence better than quality variation
Agency theory & information asymmetry (incl. signalling)	Reporting narrows insider–outsider information gaps	Public-market information gaps	Lender/buyer gaps persist despite muted owner-manager conflict	Assumes disclosure is read and used rationally
Resource-based view (capability-scoped)	Reporting capability is an unevenly distributed resource	Largely institutionalised, near-constant	The binding constraint on quality	Not used to claim competitive advantage here
Accountability & decision-usefulness perspective	The paper's own lens: reporting discharges a duty to account and informs decisions	Anchors why mandatory regimes mirror financial reporting	Anchors why voluntary reporting still serves genuine accountability	A standpoint, not a testable explanatory theory

Table 5: ESG Dimension → Accounting Information → Reporting Mechanism → Stakeholder Decision → Potential Outcome

ESG Dimension	Accounting Information	Reporting Mechanism	Stakeholder Decision	Potential Outcome (Theorised)
Environmental	GHG emissions, energy and water data	Sustainability report; VSME environmental indicators	Lender's green-loan assessment	Improved access to sustainable financing
Social	Workforce data headcount, turnover, safety incidents	HR-linked ESG disclosure	Buyer's supplier code-of-conduct check	Retention of supply-chain contract
Governance	Ownership structure, board composition, anti-corruption policy	Governance disclosure; BRSR governance indicators	Investor's ESG screening decision	Inclusion in screened investment universe
Cross-cutting: assurance	Verification against source records	Limited/reasonable assurance statement	Assurance provider's opinion	Reduced perceived information risk

IV. DISCUSSION

A) What kind of activity is ESG reporting?

Section 1.2 posed a question this paper has approached obliquely throughout rather than answering directly: is ESG reporting best understood as compliance, accountability, information provision, strategic management, signalling, or legitimacy management? The synthesis in Section 3 suggests the answer is contingent on a firm's position within the capability framework developed there, rather than a single characterisation applicable uniformly across all reporting firms. For a large, CSRD-scope undertaking operating under mandatory assurance, ESG reporting functions predominantly as compliance and accountability: the reporting obligation exists independent of any specific stakeholder's immediate decision, and much of the firm's reporting effort is directed at meeting a specified, externally imposed standard rather than at voluntary strategic communication. For an MSME in the “structured, assurance-ready” position identified in Figure 2, approaching or exceeding VSME's Comprehensive Module voluntarily, reporting functions closer to strategic management and signalling: a deliberate investment in reporting capability intended to differentiate the firm to lenders or buyers in the absence of any mandatory requirement to report at all. For an MSME newly pulled into reporting by a single lead buyer's request the “reactive, externally driven” position reporting functions closer to relational accountability narrowly owed to that one buyer, with comparatively little of the broader public accountability function Gray, Owen and Adams's (1996) tradition emphasises. And wherever disclosure volume outruns the governance and assurance infrastructure discussed in Section 3.3 a risk this paper has flagged as live for firms at any size legitimacy management, in Suchman's (1995) sense, becomes the more accurate characterisation, regardless of what the firm's own reporting claims to be doing.

This contingency is not a failure to answer the question cleanly; it is, this paper argues, the more defensible answer than any single characterisation would be, and it follows directly from treating reporting capability as a mediating variable rather than assuming a uniform reporting motive across firms of very different sizes and institutional positions. The remainder of this section works through what this contingent characterisation implies for the specific parties named in Section 1's problem statement: large companies and their investors, lenders and assurance providers; MSMEs and the lenders and buyers they deal with; and the regulators designing the frameworks both operate within.

B) Theoretical and accounting implications

The paper's central theoretical move is to reframe firm size from a control variable the way it typically appears in the empirical ESG disclosure literature reviewed in Section 3.2 into a theorised mechanism, operating through reporting capability rather than through firm size directly. This distinction has a testable implication future empirical work could pursue directly, discussed in Section 5.3: if capability rather than size per se is doing the theoretical work this paper assigns it, then a well-resourced, capability-rich MSME should report more like a large company than like a similarly sized, capability-constrained MSME, a prediction that a simple firm-size control variable cannot generate but a capability-mediated model can.

For accounting theory more specifically, this paper's treatment of accountability and decision-usefulness as complementary rather than competing objectives Section 3.1 offers a way of understanding why financial-materiality-oriented frameworks such as the ISSB's and impact-materiality-oriented frameworks such as the GRI's coexist rather than one being a more correct version of ESG reporting than the other: they formalise two genuinely different, both legitimate, accounting objectives rather than representing a dispute over a single correct answer to what ESG reporting is for. This framing extends, by direct analogy, the same dual objective long recognised in financial reporting's own conceptual frameworks into the sustainability reporting domain, rather than treating sustainability reporting as requiring a wholly new theoretical justification unconnected to accounting's existing conceptual apparatus.

C) Implications for large companies, investors, lenders and assurance providers

The clearest practical implication for large companies and the parties that rely on their reporting is a caution against complacency: high reporting capability, of the kind most CSRD-scope or BRSR Core-scope large companies now possess, is a necessary condition for high-quality ESG reporting in this paper's framework, but Section 3.2's discussion of legitimacy theory and symbolic disclosure makes clear it is not a sufficient one. A large company can have every element of reporting capability dedicated staff, integrated data systems, assured disclosures and still produce ESG reporting whose content is shaped more by legitimacy management than by the accountability and decision-usefulness objectives Section 3.1 sets out as the rationale for reporting in the first place. For investors, lenders and assurance providers relying on large-company ESG disclosure, this paper's framework implies that governance and control infrastructure who prepared the data, what internal controls governed its collection, what assurance was obtained and over which specific metrics is a more informative signal of reporting quality than disclosure volume or breadth, a point directly relevant to how assurance providers scope their engagements and how lenders and investors weight ESG disclosure in their own risk assessment relative to more traditional financial covenants and collateral.

For assurance providers specifically, the phased introduction of assurance requirements under both CSRD and SEBI's BRSR Core moving toward broader mandatory assessment or assurance over the coming reporting cycles implies a growing market for exactly the governance and internal-control verification work this paper's Section 3.3 treats as the precondition for reporting quality, rather than assurance functioning as a final compliance checkbox applied after reporting is otherwise complete. Positioning assurance earlier, as part of the internal control design over ESG data rather than solely as ex post verification, follows directly from treating reporting quality as downstream of accounting-system design rather than as a separate, later-stage exercise.

D) Implications for MSMEs, lenders and supply-chain buyers

For MSMEs, the clearest implication is that capability-building, not template acquisition, is the more fundamental investment implied by this paper's framework. Adopting a reporting template even a well-designed one such as VSME's Basic Module without the underlying accounting infrastructure to populate it reliably reproduces, at smaller scale, exactly the decoupling risk Section 3.2's discussion of legitimacy theory identifies for large companies: disclosure whose form satisfies an external request without the governance and data quality Section 3.3 identifies as the actual source of reporting credibility. For MSME owner-managers, this paper's framework suggests prioritising the accounting infrastructure and data capture systems in Figure 1's second and third nodes ahead of, or at minimum alongside, the specific disclosure content requested by any single lender or buyer, since capability built in this way transfers across relationships in a way that a one-off response to a single questionnaire does not.

For lenders and supply-chain buyers requesting ESG information from MSME counterparties, this paper's framework implies that requests should be calibrated to the capability position an MSME actually occupies in Figure 2's terms rather than defaulting to a large-company-scale request applied uniformly regardless of supplier size, a practice VSME's value-chain cap now directly constrains for CSRD-scope buyers dealing with EU-based SME suppliers, and one this paper's theoretical argument suggests is good practice independent of that specific legal constraint. A request pitched beyond an MSME's current capability does not produce better information; consistent with Section 3.2's evidence on smaller firms' weaker risk-reduction benefits from disclosure, it more plausibly produces superficial compliance that satisfies the letter of the request while doing little to narrow the underlying information asymmetry the request was presumably meant to address. Lenders and buyers seeking genuinely decision-useful ESG information from MSME counterparties therefore have a direct interest, on this paper's account, in supporting MSME capability-building through simplified templates, digital tools, or technical assistance rather than treating capability constraints solely as the MSME's own problem to solve before engaging at all.

E) Implications for regulators and policymakers

For regulators and standard-setters, this paper's framework offers an accounting-theoretic rationale for tiered reporting architectures VSME's Basic and Comprehensive modules, and BRSR Core's phased extension from the top 150 to the top 1,000 listed entities by market capitalisation that goes beyond the practical or political case for burden reduction alone. If reporting capability genuinely mediates reporting quality in the way Section 3.4 argues, then a tiered architecture calibrated to capability is not merely a compromise between full disclosure and no disclosure; it is the design most likely to preserve the accountability and decision-usefulness rationale for the largest feasible number of reporting entities, which is a stronger, more principled justification for tiering than administrative convenience alone would supply.

This has a specific implication for how phase-in thresholds are set and revised. Where phase-in is calibrated primarily to easily observable proxies market capitalisation rank, employee headcount, turnover without reference to the underlying capability those proxies are meant to stand in for, this paper's framework predicts that firms just inside a new threshold will face the same capability-mediated reporting-quality risk Section 3.2's evidence documents for smaller firms generally, regardless of which side of the size threshold they formally sit on. A regulator using this paper's framework would treat capability-building support digital reporting infrastructure, phased assurance requirements, simplified indicator sets as a necessary companion to any new phase-in threshold, not as a separate policy question to be addressed only after the disclosure mandate itself is settled.

F) Boundary conditions, tensions and unresolved contradictions

This paper's framework is not offered as a resolution to the tensions critical treatments of ESG reporting rightly insist on preserving, and several are worth naming explicitly as boundary conditions on the argument developed here rather than as loose ends the framework quietly assumes away. Greenwashing and symbolic disclosure, discussed theoretically in Section 3.2 through legitimacy theory, remain a live risk at every capability level this paper's framework describes, including the highest: a firm can possess extensive reporting capability and governance infrastructure and still deploy it toward legitimacy management rather than genuine accountability, a possibility the framework's arrows do not foreclose and that only external verification the assurance discussed in Section 3.3 can partially, never fully, guard against. Reporting fatigue and the risk of ESG reporting becoming a box-ticking exercise are similarly not resolved by proportionate design alone; a well-calibrated VSME Basic Module response can still be completed as a compliance exercise decoupled from the accountability rationale Section 3.1 sets out, if the firm producing it treats the module as a checklist to close out rather than as a genuine account of its conduct.

A further tension concerns the value-chain cap mechanism this paper has treated favourably as an instance of capability-sensitive design: a mechanism that limits what large buyers may request from SME suppliers protects those suppliers from disproportionate burden, but by the same logic may also limit the depth of ESG information available to buyers and downstream users who would otherwise value more extensive disclosure a genuine trade-off this paper's framework identifies but does not resolve, and one that future empirical work, tracking outcomes as VSME matures, per Section 5.3, is better positioned to evaluate than conceptual argument alone. Finally, this paper's own proportionality argument carries a risk it must guard against in its own terms: a regulator or large buyer could invoke “proportionality” to justify permanently low expectations of MSME reporting quality, treating the capability constraint this paper identifies as a reason to disengage from MSME ESG reporting altogether rather than as a reason to invest in the capability-building this paper's Section 4.4 argues follows from taking the constraint seriously. Distinguishing proportionate design from disengagement dressed up as proportionality is a distinction this paper can draw conceptually but cannot enforce, and is offered here as a caution to the regulators and large-firm buyers this paper's implications are addressed to.

V. CONCLUSION

A) Answers to the Research Questions

RQ1 asked through what accounting-based mechanisms ESG reporting generates value for external stakeholders. This paper's answer, developed across Sections 3.1 and 3.2, is that two complementary mechanisms are at work: an accountability mechanism, in which reporting discharges a duty owed to affected stakeholders independent of any specific decision, and a decision-usefulness mechanism, operating through reduced information asymmetry, in which reporting allows capital providers and other users to make better-informed resource-allocation decisions. These mechanisms are related but not reducible to one another, and both are needed to explain why financial-materiality-oriented and impact-materiality-oriented reporting frameworks coexist rather than compete.

RQ2 asked where the literature supports these mechanisms and where it remains contested. The evidence reviewed in Section 3.2 offers real support for the information-asymmetry mechanism mandated ESG disclosure is associated with improved earnings quality, reduced cost of capital, reduced IPO underpricing, and reduced crash risk in several recent studies while simultaneously showing that this support is conditional on firm size and, this paper argues, on the underlying reporting capability firm size proxies for. Legitimacy theory supplies the competing, empirically well-supported account of disclosure that expands without corresponding improvement in decision-usefulness, and this paper treats both accounts as operating simultaneously rather than as a resolved dispute.

RQ3 asked why MSMEs' ESG reporting capabilities, pressures and relationships differ structurally from large companies', and how this varies within the MSME category. Section 3.4's answer is that ownership and governance structure, accounting infrastructure, and the nature of stakeholder relationships each differ in kind, not merely in scale, between typical large companies and typical MSMEs, and that this variation recurs, in a less pronounced form, within the MSME category itself, from micro-enterprises to medium enterprises approaching large-company scale.

RQ4 asked what mechanisms could enable proportionate, capability-sensitive MSME reporting. Section 3.5's answer, illustrated through the European Union's Voluntary Sustainability Reporting Standard, is a tiered, modular reporting architecture calibrated to capability rather than a diluted replica of large-company frameworks, combined with digital tools and templates that lower the fixed cost of producing structured ESG data from a low capability base, and combined with a value-chain cap mechanism that limits large buyers' capacity to impose disproportionate reporting burden on smaller suppliers.

B) Contribution

This paper makes four contributions, each stated in the cautious terms the conceptual nature of the argument warrants. Theoretically, it integrates stakeholder, legitimacy, institutional, agency and resource-based perspectives with an accountability and decision-usefulness lens into a single capability-mediated framework, rather than presenting these as a list of loosely related theories each explaining a different fragment of ESG reporting behaviour. From an accounting standpoint, it repositions ESG reporting within accounting's own decision-usefulness and accountability tradition and specifies the accounting-system requirements data capture, internal control, assurance reporting quality depends on, extending rather than replacing the conceptual apparatus already used to justify financial reporting. For MSME-focused research, it develops a capability-based account of proportionality, grounded in what is now operative European Union law through the Voluntary Sustainability Reporting Standard, rather than treating MSMEs as scaled-down large companies or leaving them outside the ESG reporting conversation. Practically, it offers regulators, lenders and supply-chain buyers a conceptual basis for calibrating ESG reporting expectations to capability, and a specific caution developed in Section 4.6 against invoking proportionality as a reason to disengage from MSME capability-building rather than to invest in it.

Consistent with the cautious framing this paper has maintained throughout, these contributions are offered as an integration of existing theoretical and institutional material into a coherent capability-mediated account, not as claims to have discovered previously unrecognised theoretical relationships or to be the first study to examine ESG reporting's relevance to MSMEs.

C) Limitations and Future Research Agenda

This paper's limitations follow directly from its conceptual method, acknowledged rather than concealed in Section 2.4. The literature synthesis underlying the paper is purposive rather than systematic, and a more exhaustive review could surface theoretical or empirical material this paper's argument does not engage. No primary data were collected to test the proposed framework, and the framework's central claim that reporting capability mediates the relationship between institutional pressure and reporting quality is, at this stage, a theoretical proposition rather than an empirically demonstrated one. The regulatory landscape discussed throughout, particularly the Voluntary Sustainability Reporting Standard and BRSR Core's value-chain provisions, remains under active implementation, and the specific institutional detail reported here should be verified against current primary sources before being relied upon.

These limitations point directly to a future research agenda. The most immediate priority is empirical testing of the framework's central mediation claim: does variation in MSME reporting capability, measured directly rather than proxied by firm size alone, predict variation in reporting quality and its downstream effects, in the way this paper's framework implies it should? A second priority is comparative research across the MSME category itself micro, small and medium tiers separately rather than the aggregated treatment much of the existing literature, and at points this paper itself for expositional reasons, applies to MSMEs as a single group. A third priority, achievable only with time, is longitudinal tracking of the Voluntary Sustainability

Reporting Standard's adoption and effects as the regime matures beyond 2026, which would allow the theoretical claims this paper has made about proportionate, capability-sensitive design to be evaluated against the regime's actual operation rather than its design intent alone. A fourth is closer engagement between the accounting-information literature this paper draws on and the small-business-management literature on SME sustainability barriers, whose empirical richness on capability constraints this paper has drawn on but which has engaged comparatively little, to date, with the accounting-theoretic framing this paper proposes.

Table 6: Research Gaps and Future Research Opportunities

Gap	Future research opportunity
No integrated capability-mediated model linking accounting theory to firm-size differentiation	Empirical tests of the proposed framework's mediating role
Limited understanding of heterogeneity within the MSME category	Comparative studies across micro, small and medium tiers
Early-stage, largely descriptive literature on tiered standards like VSME	Longitudinal tracking of adoption and its financing effects as the regime matures
Thin evidence on whether MSME reporting reduces actual information asymmetry	SME-specific studies of financing outcomes tied to voluntary reporting
Limited theorisation of accountability outside mandatory regimes	Conceptual and empirical work on voluntary accountability logics
Underexplored role of digitalisation in lowering MSME reporting costs	Studies of digital tools as capability-building, not just compliance aids

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