VOLUNTARY SUSTAINABILITY REPORTING (VSME) AS A PREMISE FOR ACCESSING EUROPEAN FUNDS AND DEVELOPING SUSTAINABLE INVESTMENT STRATEGIES IN SMES

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Abstract: *The transition towards a sustainable economy requires to small and medium-sized companies (SMEs) to adopt transparent practices aligned with environmental, social and governance (ESG) principles. The Voluntary Sustainability Reporting Standards (VSME) for SMEs, introduced by the European Financial Reporting Advisory Group (EFRAG) offers a simplified framework for non-listed SMEs to disclose sustainability-related information without the complexity of mandatory standards, often associated with large corporations. VSME enable businesses to demonstrate their commitment to sustainability, improve stakeholders trust and gain competitive advantages in markets increasingly driven by ESG criteria.*

This research examines the role of VSME for SMEs, how this reporting influences eligibility and success rate in securing European funds, and also, analyses the strategies that SMEs implement in order to align with sustainability objectives.

The proposed research aims to answer the following questions: To what extend does VSME adoption improve access to EU funds and drive strategic investments that enhance economic sustainability for SMEs? Using a mixed-method approach, the study combines qualitative interviews (Menti-quiz) with SME managers and quantitative analysis of funding success rates among forms that adopt VSME versus those are not. Expected outcomes include identifying best practices for integrating voluntary reporting with funding applications and developing a strategic framework for SMEs seeking to leverage sustainability as a growth driver.

This research contributes to the academic discourse on sustainable finance and corporate reporting by highlighting the role of voluntary standards in bridging regulatory gaps and promoting resilience in the SME sector. Ultimately, the findings will inform policymakers, financial institutions and business leaders on how voluntary sustainability reporting cand transform compliance into a competitive advantage.

Keywords: *VSME, EU funds, investment strategies, economic sustainability, SMEs*
JEL CLASSIFICATION: Q01, M14, G30

INTRODUCTION

Small and medium-sized enterprises (SMEs) represent over 99% of all businesses in the EU, and contribute significantly to the European economy in terms of employment and value added. In the context of the European Green Deal and increased regulatory pressure for sustainability disclosures, SMEs play a crucial role in achieving climate neutrality and fostering sustainable growth. However, most SMEs are not directly subject to mandatory sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD), which primarily targets large and listed entities. This regulatory gap raises a key question: *Can voluntary sustainability reporting (VSME) serve as a strategic tool for SMEs to access European funds and develop sustainable investment strategies?*

The importance of this topic stems from the tightening connection between sustainability performance and funding opportunities. European financing instruments—such as the Recovery and Resilience Facility, Horizon Europe, and structural funds—are increasingly incorporating environmental, social, and governance (ESG) criteria in their eligibility requirements. SMEs engaging in voluntary sustainability reporting could therefore hold a competitive edge in securing financing and establishing a reputation as credible, sustainable business partners.

Main hypotheses:

- *H1: SMEs that implement voluntary sustainability reporting has higher chances of accessing European funds compared to those that do not.*
- *H2: The adoption of VSME is driven not only by regulatory anticipation but also by strategic motives related to competitiveness and long-term resilience.*

This paper employs a mixed-method approach, combining a review of European regulatory frameworks with empirical analysis of SMEs' practices and funding outcomes. By exploring the nexus between voluntary reporting, financing access, and strategic sustainability, this study aims to provide actionable insights for policymakers, financial institutions, and SME managers.

LITERATURE REVIEW

In present, despite their critical role, SMEs are largely excluded from the Corporate Sustainability Reporting Directive (CSRD; Directive (EU) 2022/2464), which mandates sustainability disclosures for large and listed companies (European Parliament & Council, 2022). To address fragmented ESG requests from banks, investors, and large corporate value chains, the European Commission, in collaboration with EFRAG, introduced the Voluntary Sustainability Reporting Standard for SMEs (VSME) in July 2025. This standardized framework—featuring Basic and Comprehensive modules—is designed to streamline ESG reporting and improve transparency while reducing administrative burden.

Academic literature identifies persistent barriers to SME sustainability reporting, including limited financial resources, lack of expertise, and regulatory complexity (Del Gesso & Lodhi, 2025). However, structured ESG disclosures are theorized to bolster transparency, stakeholder trust, and access to finance. The business case model emphasizes tangible benefits such as risk mitigation and cost reduction, while legitimacy theory posits that voluntary reporting enhances organizational credibility by aligning company behavior with societal norms (Suchman, 1995; Del Gesso & Lodhi, 2025)

Despite these theoretical insights, a key research gap persists: empirical evidence linking VSME adoption to improved access to European funds and influence on sustainable investment strategies remains scarce. Most studies concentrate on large firms or regulatory compliance, overlooking the strategic potential of voluntary reporting in SMEs. This paper addresses this gap by empirically examining whether VSME-compliant reporting enhances SMEs' eligibility for EU financial instruments and supports the development of sustainable investment strategies.

METHOLOGY

This study adopts a mixed-method approach combining qualitative and quantitative techniques to investigate whether the VSME serves as a premise for accessing European funds and developing sustainable investment strategies in SMEs. The quantitative component was designed to test the hypotheses regarding the relationship between VSME, awareness of EU regulations, and SMEs' access to European funding. Data were collected through a structured questionnaire distributed to 75 SMEs, using a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). The qualitative component aimed to capture perceptions, motivations, and strategic drivers influencing SMEs' adoption of voluntary sustainability reporting. Data were collected through: an interactive Menti questionnaire administered to a targeted segment of SME managers aiming to capture their perception and motivation regarding voluntary reporting.

The primary data collection was conducted during an event organized in September this year, specifically addressed to small entrepreneurs from all sector of activity, companies with maximum 250 employees. The event aimed to explain what VSME is and its advantages and to identify what are the current obstacles, barriers, and the level of interest among small business owners regarding sustainability practices. The questionnaire was designed to capture strategic intentions and perceived needs, including:

- *Do you want to increase the number of clients in your portfolio?*

- *Do you plan to access European funds?*
- *Do you aim to expand into European markets?*

Additional questions explored perceived barriers to sustainability reporting, such as financial constraints, lack of expertise, and regulatory complexity, as well as the level of interest in adopting VSME.

This study is guided by the following hypotheses:

- *H1: SMEs adopting voluntary sustainability reporting have higher chances of accessing European funds compared to those that do not.*
- *H2: The adoption of VSME is driven by strategic motives beyond regulatory anticipation, such as competitiveness and resilience.*

This dual approach ensures methodological rigor and enables triangulation of findings, aiming to identify patterns in ESG risk perception and assess the level of awareness among participants regarding the advantages of implementing the VSME standard.

RESULTS AND DISCUSSIONS

This section presents the key results of the research and evaluates them against the proposed hypotheses, using critical analysis and comparison with existing literature.

a) Qualitative analyze:
b) Table no.1: Qualitative analyze (September 2025)

Table 1: Qualitative analyze (September 2025)

75 clients responded to this questioner

no	QUESTIONS	1- strongly disagree	2- disagree	3- neutral	4- agree	5- strongly agree	Mean score
1	The company has an environmental management system implemented.	35	15	2	3	20	2.38
2	The company monitors internal indicators and resource consumption.	10	5	10	40	10	3.46
3	The company actively seeks to improve working conditions for employees.	0	0	0	0	75	5
4	The company identifies and records workplace accidents/incidents.	32	20	0	3	20	2.42
5	The company has implemented a Supplier Code of Conduct.	50	20	0	0	5	1.53
6	The company prepares annual non-financial reports according to EU standards.	60	10	0	5	0	1.66
7	There is a department or designated personnel responsible for environmental and social issues.	40	3	0	20	12	2.48
8	The company calculates annual emissions generated by its activities.	73	0	0	0	2	1.11

9	The company has a whistleblowing procedure for internal integrity alerts.	30	5	0	20	20	2.93
10	There is a system for collecting internal/external complaints	0	0	0	35	40	4.53

Key insights:
Highest compliance: improving working conditions *(mean=5.00)* and complaint collection system *(mean=4.53)*
Lowest compliance: calculating emissions *(mean=1.11)* and preparing EU-standard non-financial report *(mean=1.66)*
ESG governance elements (whistleblowing, responsible department) show moderate adoption.

c) Quantitative analyze:

Table 2: Quantitative quiz/MENTI (September 2025)
39 clients responded to this questioner

QUESTIONS	ANSWERS	
	YES	NO
In the next 1–3 years, do you plan to increase the number of clients?	35	4
Do you plan to expand your business to international markets?	17	18
Do you intend to attract European funds in the upcoming period?	27	8
Do you plan to access development loans in the upcoming period?	27	6

Key insights:

Strong intention: 35 SMEs want to increase clients; 27 aim to attract EU funds and access development loans.

Mixed interest: Expansion to international markets is split (17 Yes vs. 18 No).

The analysis reveals a significant gap between social practices (high compliance with improving working conditions) and environmental practices (low compliance with emissions calculation and EU-standard reporting). While SMEs show strong strategic intentions to grow and secure funding, their operational ESG maturity remains limited, particularly in formal reporting and environmental monitoring.

These findings partially validate the hypothesis:

- *H1: SMEs adopting voluntary sustainability reporting have higher chances of accessing European funds compared to those that do not-* partially validate
- *Result:* Quantitative data show that 27 out of 35 respondents intend to attract European funds and access development loans, indicating strong strategic interest. However, ESG operational maturity remains low, as evidenced by minimal adoption of environmental management systems (mean score = 2.38) and emissions calculation (mean score = 1.11). This suggests that while SMEs recognize the financial benefits of sustainability, implementation is still limited.
- Conclusion: SMEs aiming for EU funds exhibit interest in ESG practices but lack full implementation.
- *H2: The adoption of VSME is driven by strategic motives beyond regulatory anticipation, such as competitiveness and resilience* - validate

Result: Qualitative responses confirm that SMEs prioritize client growth (35 Yes) and funding access (27 Yes) over compliance. This supports the hypothesis that voluntary reporting is perceived as a competitive advantage rather than a regulatory obligation

Conclusion: strategic motives (growth, funding) drive voluntary sustainability actions more than regulatory anticipation.

This study is in line with Ortiz-Martínez & Marín-Hernández (2023), who found that SMEs adopt sustainability measures primarily for market positioning and stakeholder trust, not regulatory compliance. Similarly, OECD (2025) emphasizes that financial incentives and competitiveness are key drivers, while resource constraints hinder full ESG integration.

CONCLUSIONS

This study demonstrates that SMEs exhibit a strong interest in growth and financing opportunities, with 77% planning to attract European funds and an equal proportion intending to access development loans. However, their ESG operational maturity remains limited, particularly in environmental practices such as emissions monitoring and compliance with EU reporting standards. The main contribution of this research lies in highlighting VSME as a strategic tool for SMEs seeking competitiveness and financing, while providing empirical evidence of the gap between sustainability ambitions and operational capacity. These insights are valuable for policymakers and financial institutions, as they can inform the development of simplified ESG frameworks and capacity-building programs tailored to SMEs.

Despite these contributions, the study has several limitations. The relatively small sample size of 75 respondents restricts the generalizability of the findings, and data collection during a single event may introduce selection bias. Furthermore, reliance on self-reported intentions rather than actual implementation limits the ability to measure real-world impact. Future research should address these limitations by employing longitudinal designs to track the evolution of voluntary reporting over time and its measurable effect on funding access. Comparative studies across different EU regions could also provide deeper insights into cultural and regulatory influences on SME sustainability practices.

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