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Beyond ESG Compliance: Materiality, Proportionality, And Credibility in Sustainability Disclosure by Small and Medium-Sized Enterprises

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ABSTRACT:

Purpose: As sustainability disclosure requirements increasingly shape credit relationships and supply chains, small and medium-sized enterprises (SMEs) face the challenge of balancing information demands against limited resources. This study clarifies how materiality, proportionality and credibility can be coordinated and, on that basis, proposes a disclosure framework suited to SMEs.

Design/methodology/approach: The study employs a critical literature review combined with a comparative analysis of the IFRS, GRI, ESRS and VSME frameworks, and a synthesis of stakeholder, legitimacy, institutional and resource-based theories.

Findings: The study proposes a six-component framework: defining context and scope; identifying material issues; selecting proportionate indicators; data governance; disclosure and accountability; and verification and improvement. Within this framework, materiality guides the content of disclosure, proportionality adjusts the level and mode of implementation, and credibility sets requirements for evidence and verifiability.

Originality/value: The study systematises how the three principles can be coordinated and suggests directions for their application by SMEs. The proposed framework has not yet been empirically tested.

KEYWORDS: ESG, sustainability disclosure, small and medium-sized enterprises, materiality, proportionality, credibility

INTRODUCTION

Sustainable development is changing the way businesses set objectives, organise their operations and evaluate performance. Beyond financial results, firms are increasingly expected to attend to their environmental impacts, working conditions, community relations, business ethics and long-term risk management. In this context, ESG information has become an important data source for investors, credit institutions, customers, employees and regulators. Sustainability disclosure is therefore not merely a corporate social responsibility communication activity; it can also help firms identify risks, improve processes and strengthen relationships with stakeholders.

The development of international standards shows an increasingly clear trend towards the standardisation of sustainability information. IFRS S1 sets out general requirements for the disclosure of sustainability-related financial information, focusing on risks and opportunities that could affect an entity's prospects [1]. IFRS S2 specifies disclosure requirements for climate-related information [2]. Meanwhile, the GRI Standards direct attention to an organisation's significant impacts on the economy, the environment and people [3]. The European Union's European Sustainability Reporting Standards (ESRS) apply the principle of double materiality, combining impact materiality and financial materiality [4].

These frameworks contribute to greater consistency, comparability and usefulness of information. However, applying requirements designed for large companies to SMEs without adaptation may be inappropriate. Many firms in this group lack a dedicated ESG function, a centralised data system or a budget for consultancy and independent verification. Having to collect a large number of indicators, use complex calculation methods and complete different templates may raise reporting costs without a corresponding improvement in information quality.

Recognising this problem, the European Union has developed a voluntary sustainability reporting standard for non-listed SMEs (VSME). Commission Recommendation (EU) 2025/1710 recommends that SMEs wishing to report voluntarily use the VSME standard; it also recommends that large companies and organisations requesting information from SMEs in their value chains limit their requests to what is consistent with this standard, within the scope set out in the Recommendation [5]. This development is noteworthy because the principle of proportionality is translated into a policy orientation rather than being treated merely as a technical requirement in report design.

For SMEs, disclosure pressure does not stem solely from direct legal obligations. Firms may be required to provide ESG data to large customers, banks or supply-chain partners. The OECD notes that SMEs play an important role in the green transition but face obstacles in accessing sustainable finance, including constraints on resources, information and capacity to meet the requirements of financial institutions [6]. A study by Uong and Nguyen of 217 SMEs in Vietnam likewise found that legal regulation was the factor with the greatest influence on ESG reporting in the authors' model [7]. This result highlights the importance of the institutional environment, while also calling for policies designed to fit the actual conditions of firms.

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The research problem, therefore, is not whether SMEs should disclose ESG information, but how to determine what should be disclosed, what level of detail is reasonable, and what mechanisms can ensure credibility. If requirements are too broad, firms may respond with perfunctory reports; if they are too light, significant impacts may be overlooked. An appropriate mechanism must simultaneously meet three requirements: the information must be material, the manner of disclosure must be proportionate, and the outcome must be credible.

Although sustainability reporting standards have developed requirements on the selection of material information, disclosure quality and suitability for the entities to which they apply, how these principles should be coordinated under the resource constraints of SMEs remains an open question. Materiality requires firms to reflect significant impacts and risks, whereas proportionality calls for methods and levels of detail to be adjusted to implementation capacity. At the same time, the credibility requirement limits the extent to which information can be simplified if simplification undermines faithfulness or verifiability. These requirements may give rise to trade-offs in disclosure practice. An integrated approach is therefore needed to clarify the function, interrelationships and limits of application of each principle. On this basis, the study develops a conceptual framework to guide the selection, governance and disclosure of sustainability information by SMEs, rather than proposing a new reporting standard.

The study pursues three objectives: (i) to analyse the limitations of current sustainability disclosure approaches when applied to SMEs; (ii) to clarify the roles of, relationships among and potential trade-offs between materiality, proportionality and credibility; and (iii) to develop an integrated disclosure framework capable of guiding implementation across SMEs with differing resource conditions. Accordingly, the study addresses three questions: Which disclosure requirements may create difficulties for SMEs? How do the three principles of materiality, proportionality and credibility interact to guide disclosure quality? How should a disclosure framework be organised to combine feasibility with accountability and the control of misleading information?

LITERATURE REVIEW

Approaches and theoretical foundations of ESG disclosure

ESG refers to the set of environmental, social and governance issues considered in assessing a firm's operations, risks and prospects. The environmental pillar covers greenhouse gas emissions, energy and water use, pollution, waste, biodiversity and climate change adaptation. The social pillar concerns working conditions, wages, occupational health and safety, equality, human rights, customers and communities. The governance pillar includes governance structure, business ethics, anti-corruption, internal control, risk management and accountability.

ESG practice must be distinguished from ESG disclosure. ESG practice reflects a firm's actual policies, activities and outcomes; ESG disclosure is the process of identifying, collecting, processing and providing information about those matters. A firm may carry out environmental management or employee welfare activities without having established a reporting system. Conversely, a comprehensive report does not in itself demonstrate that the firm's ESG performance is high. Disclosure quality and practice quality are therefore related but not identical.

Current frameworks reflect different focal points. GRI focuses on an organisation's impacts on the economy, the environment and people; its process for determining material topics requires the organisation to understand its context, identify and assess impacts, prioritise the most significant impacts and document the basis for its choices [3]. IFRS S1 concentrates on information about sustainability-related risks and opportunities that could affect an entity's prospects, particularly its cash flows, access to finance and cost of capital [1]. ESRS combines the impact and financial dimensions in the principle of double materiality [4]. VSME targets firms that are not subject to mandatory reporting under the CSRD, offering a Basic and a Comprehensive module to help them respond to information requests from customers, banks and investors [5].

The differences between these frameworks should not be understood as outright contradictions; they reflect different purposes for which information is used. An issue may be highly significant for employees or the environment yet have no clear financial effect in the reporting period; conversely, energy price volatility may create significant financial risk even though the firm's direct environmental impact is small. For SMEs, the choice of approach should be based on the purpose of disclosure and its intended users, rather than attempting to combine every indicator from every standard.

In terms of theoretical foundations, stakeholder theory holds that firms should consider the interests of groups that affect or are affected by their activities [8]. This perspective explains why demand for ESG information may come from employees, customers, suppliers, communities and credit institutions, not only from investors. Legitimacy theory emphasises society's acceptance of an organisation's activities; disclosure can help firms explain their conduct and maintain the support of relevant groups [9]. However, if a report seeks only to project a positive image without reflecting substantive activity, disclosure may become a tool of legitimation.

Institutional theory argues that organisations are subject to coercive, mimetic and normative pressures in their operating environment [10]. For SMEs, these pressures may stem from legal regulations, the requirements of large customers, credit conditions or industry standards. Meanwhile, the resource-based view emphasises the role of valuable resources and capabilities in creating competitive advantage [11]. From this perspective, the capability to collect, manage and account for ESG data can become a useful organisational capability, but it needs to be built along a pathway that matches the firm's resources.

These four theoretical perspectives complement one another in explaining the quality of ESG disclosure by SMEs. Stakeholder theory provides a basis for identifying information needs and the issues that should be prioritised for disclosure; legitimacy theory explains the motives for accountability and the risk of using disclosure as an image-building tool; institutional theory clarifies the pressures arising from regulation, markets and supply chains; and the resource-based view explains differences in data capabilities and in the ability to meet disclosure requirements. Combining them allows ESG disclosure to be seen both as a response to external pressure and as a process of developing internal management capabilities. Accordingly, materiality is linked to the selection of meaningful content, proportionality reflects implementation conditions, and credibility is linked to accountability and the quality of information control.

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MATERIALS AND METHODS

The study uses a critical literature review combined with conceptual framework development. Sources were selected according to their relevance to ESG disclosure, SMEs, materiality, proportionality, credibility and greenwashing, with priority given to standards, policy documents and scholarly works that have publication details, a DOI or an official link that can be checked. The analysis compares the objectives, scope and requirements of the frameworks; synthesises the barriers documented in prior studies; and then develops a conceptual framework and a set of propositions to guide future research. This is not a systematic review following the PRISMA protocol, nor does it use primary survey data. The conclusions are therefore presented at the level of theoretical synthesis and should not be interpreted as the results of empirical testing.

RESULTS

Key barriers to ESG disclosure by SMEs

The first barrier is limited financial and human resources. Compared with large companies, SMEs typically have lean organisational structures, limited capital and few positions dedicated to sustainability. ESG tasks may be assigned as an additional duty to the accounting, human resources, administration or production departments. This arrangement reduces initial costs but can easily lead to poor coordination, inconsistent methods and unclear responsibility for data. The costs of consultancy, training, emissions measurement and independent verification may also compete directly with budgets for production and business operations.

The second barrier concerns data systems. Information on electricity, water, fuel, waste, labour, occupational accidents and suppliers is often held by different departments for different management purposes. A firm may know its total electricity cost but not track electricity consumption per unit of output; it may know its headcount but lack complete data on training hours, staff turnover or occupational accidents. Without baseline data, identifying trends and comparing results across periods becomes difficult.

The third barrier is the complexity and fragmentation of reporting requirements. An SME participating in several supply chains may receive different templates from customers, banks and partners. The same piece of information may have to be presented under different definitions, units of measurement or reporting periods. Without a common reference set of indicators, firms have to repeat data collection and conversion, which increases costs without generating corresponding value.

Barriers relating to resources, data and fragmented reporting requirements interact with one another. Staffing constraints can weaken a firm's ability to organise data collection processes, while inconsistent data increase the cost of checking and verification. At the same time, having to complete many different templates increases the firm's workload. These barriers show that improving ESG disclosure cannot rely solely on reducing the number of indicators; three issues must be addressed simultaneously: selecting the right information to disclose, adjusting requirements to implementation conditions and establishing appropriate control mechanisms. This provides the practical rationale for coordinating the three principles of materiality, proportionality and credibility in the proposed framework.

Materiality in selecting information for disclosure

Materiality is the principle for determining which issues and information are significant enough to be prioritised in a report. In sustainability disclosure, the concept is interpreted according to the purpose of each framework. GRI determines material topics on the basis of an organisation's significant impacts on the economy, the environment and people [3]. IFRS S1 focuses on sustainability-related risks and opportunities that could affect an entity's prospects [1]. ESRS combines impact materiality and financial materiality, thereby requiring consideration of both the firm's effects on the outside world and the effects of sustainability matters on the firm [4].

For SMEs, materiality has practical significance because firms do not have sufficient resources to measure and report every ESG indicator at the same level of detail. Selecting the right issues helps concentrate resources on the areas that matter for the firm's operations and responsibilities. For example, a food-processing firm may need to prioritise water use, wastewater treatment, organic waste, food safety and working conditions, whereas a trading firm may pay more attention to packaging, logistics, customer data and labour conditions in its supply chain.

The study proposes that materiality assessment for SMEs should simultaneously consider the severity of impacts, effects on operations and financial prospects, the level of stakeholder concern, legal risk and industry characteristics. For negative impacts, severity should be assessed in terms of scale, scope and remediability; for potential impacts, likelihood should also be considered. Issues that may affect revenue, costs, assets, access to finance or business continuity also need to be assessed. Materiality assessment should distinguish the importance of an issue from the firm's ability to collect data on it. A severe impact does not become less material simply because the firm lacks the capacity to measure it. Where data are lacking, the firm should record the issue within the scope of the assessment, clarify the limitations of the available information and select appropriate supplementary methods. This approach helps limit the risk of using the proportionality principle to exclude adverse impacts that are difficult to measure. Materiality should also not be equated with transient market interest. An issue rarely raised by customers may still have severe impacts on the environment or on employees' interests.

Another risk is the selective disclosure of favourable information. A firm may highlight the number of trees planted, charitable programmes or the proportion of recycled packaging while omitting untreated waste, occupational accidents or rising resource consumption. Materiality assessment must therefore be tied to the principle of balance: a report should reflect positive results, negative impacts, unmet targets and management limitations alike.

Proportionality between disclosure requirements and firm capacity

Proportionality is the principle that ensures the scope, level of detail, collection methods and verification requirements for information are appropriate to a firm's size, complexity, risks and capacity. This principle does not amount to an exemption from responsibility or a lowering of the requirement for faithfulness. Its purpose is to avoid imposing a uniform process on firms whose circumstances differ widely.

VSME is a concrete example of an effort to adapt disclosure requirements to the characteristics of SMEs. The standard comprises a Basic module and a Comprehensive module; firms can begin with foundational information and expand as their needs and capacity grow. The European Commission's Recommendation also states the objective of helping SMEs respond to data requests from large customers, banks and investors,

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while improving their management of sustainability matters [5]. This approach shows that proportionality is not merely about reducing the number of indicators but about organising a feasible disclosure pathway.

Based on the proportionality principle, the study proposes three maturity levels of ESG disclosure capability. At the basic level, firms prioritise material issues, use existing data and documents, and openly disclose measurement limitations. At the intermediate level, firms progressively standardise data collection processes and add quantitative indicators, base years and period-on-period comparative information. At the advanced level, firms may extend value-chain data, strengthen internal control systems and obtain independent verification for information with a high risk of misstatement or a strong influence on users' decisions. These three levels reflect the degree of development of disclosure capability; they do not correspond mechanically to firm size, do not replace the legal classification of SMEs and are not equivalent to the VSME modules.

Proportionality must be bounded by the principle of no compromise on legal obligations and severe impacts. A small firm operating in a sector with a high pollution risk must still comply with environmental regulations and account for its material impacts. Conversely, not every firm should be required to collect in-depth data unrelated to its activities merely to achieve formal uniformity. Simplifying methods must be distinguished from concealing information.

Proportionality should thus be understood as an adjustment to how disclosure is carried out, not an arbitrary adjustment to the substance of material information. The scope of measurement, level of detail and verification methods can be designed to match resources and risks, but legal obligations, faithfulness and the requirement to disclose significant limitations must still be upheld. This is the condition under which proportionality can support feasibility without undermining the credibility of the report.

Credibility and ESG data governance

Credibility reflects the extent to which users can rely on the information disclosed. A credible report must be well founded, faithfully presented, consistent and verifiable. For SMEs, credibility does not necessarily mean engaging an independent body to verify every indicator. A report of moderate scope whose data have clear sources may be more useful than a long report containing many figures that cannot be traced.

In this study, credibility is examined through four mutually reinforcing requirements: faithfulness of content, consistency of measurement methods, traceability of evidence and transparency about data limitations. Faithfulness requires information to present both favourable and unfavourable results in a balanced way; consistency supports comparability across periods; traceability allows the sources and methods underlying each indicator to be checked; and transparency about limitations helps users understand the scope, assumptions and degree of uncertainty of the information. These requirements can be supported by internal controls and targeted verification commensurate with the risk level of each indicator.

Data governance is the foundation of credibility. For each indicator, the data source, unit of measurement, reporting period, calculation method, responsible person and supporting documentation should be specified. For example, total electricity consumption should be reconciled with invoices or meter data; a percentage reduction in consumption must state the base year, the scope of operations and the calculation method. If output changes significantly, the firm should distinguish a reduction in total electricity use from a reduction in consumption intensity per unit of output.

Transparency also requires firms to disclose data limitations. If a firm cannot yet fully calculate indirect emissions from its suppliers, it should state clearly what has been measured, what data are still missing and its plan for future data collection. Acknowledging limitations does not reduce credibility if the information is presented faithfully and accompanied by a remediation pathway. Conversely, claiming to have controlled all impacts when the measurement scope is still limited may create a misleading impression.

Risks of non-transparent disclosure and greenwashing

Greenwashing refers to a firm creating a misleading impression of the environmental friendliness or sustainability performance of its products and business activities. Delmas and Burbano analyse the external, market, organisational and individual drivers that may encourage greenwashing [12]. In ESG disclosure, greenwashing may take the form of unsubstantiated claims, exaggerated results, selective presentation of positive information, vague terminology or concealment of measurement limitations.

In the SME context, the misleading nature of disclosed information must be distinguished from the causes of misstatement. Lack of data, limited expertise or immature control processes may result in incomplete or inaccurate information even where the firm has no intention to deceive. Disclosure quality should therefore be assessed on the basis of the accuracy, balance, evidence and verifiability of the information. Determining responsibility and choosing remedial measures, by contrast, should additionally consider awareness, conduct, degree of fault and the applicable law. This approach makes it possible to combine support for building disclosure capacity with mechanisms to prevent and address misleading information.

The three principles of materiality, proportionality and credibility can help prevent misleading information through different functions. Materiality guides the selection and prioritisation of significant issues, limiting the disclosure of favourable information only. Proportionality allows methods and levels of detail to be adjusted to implementation conditions but does not legitimise the concealment of severe impacts. Credibility requires information to be well founded, consistent and verifiable. Coordination among the three principles should therefore be embedded throughout the entire disclosure process rather than assessed only at the stage when the report is completed.

Proposed ESG disclosure framework for SMEs

Drawing on the comparison of existing disclosure frameworks, the synthesis of theoretical foundations and the analysis of SME barriers, the study proposes an ESG disclosure framework comprising six components linked in an information management cycle. The framework is built on three cross-cutting principles: materiality guides the selection of issues to be disclosed; proportionality adjusts the mode of implementation to the firm's characteristics and capacity; and credibility sets control requirements for information quality. The three principles do not operate as separate steps but interact within each component of the process. The distinctive feature of the framework is that it organises the coordination between information selection, implementation capacity and verifiability, rather than merely specifying a list of ESG indicators.

The first component is defining the context and scope of disclosure. The firm should describe its business model, sector, size, position in the value chain, intended users of the information and reporting period. The reporting boundary must be clearly defined, including the activities and

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units covered, the matters not yet covered and the reasons for their exclusion. Defining the scope should avoid two extremes: excessive expansion that increases costs, and deliberate narrowing that excludes adverse impacts.

The second component is identifying and prioritising material issues. The firm compiles a list of environmental, social and governance issues associated with its operations and business relationships; assesses actual and potential impacts and financial risks; consults relevant stakeholders; and then approves the list of material issues. The results should be documented together with the criteria, information sources and rationale for selection to ensure accountability.

The third component is selecting indicators according to the proportionality principle. Having identified its material issues, the firm chooses indicators that can reflect those issues and can be collected at a reasonable cost. For example, in the initial stage a manufacturing firm may disclose its total electricity, water and waste; as its data improve, it may add consumption intensity per unit of output, recycling rates or emissions information. The selection must not exclude indicators that are mandatory under the law.

The fourth component is data collection and governance. The firm assigns responsibility for each group of indicators, standardises units of measurement and calculation methods, retains supporting documents and establishes a review step before aggregation. In the initial stage, spreadsheets and centralised records may meet basic needs; specialised software becomes necessary only as scale and complexity increase. The priority is traceable data and consistently applied methods.

The fifth component is disclosure and accountability. The report should present the context, material issues, indicators, results, targets, management measures and data limitations. Positive and negative information must be reflected in a balanced manner. Where results fall short of targets, the firm should explain the reasons and the corrective actions; where data are incomplete, it must clearly state the gaps rather than making claims that go beyond the evidence.

The sixth component is verification and continuous improvement. The firm reviews the accuracy, consistency and traceability of its data; assesses progress towards targets; and updates its list of material issues when there are changes in its operations, regulations or value chain. Independent verification may be prioritised for indicators that strongly influence users' decisions or carry a high risk of misstatement. The results of the review become inputs for the next disclosure cycle.

Table 1. Proposed ESG disclosure framework for SMEs

Component	Key content	Output
1. Context and scope	Business model, boundaries, reporting period, stakeholders	Description of disclosure scope and responsibilities
2. Material issues	Identification of impacts and risks, consultation and prioritisation	Well-founded list of material issues
3. Proportionate indicators	Selection of indicators by sector, risk and capacity	Indicator set suited to SMEs
4. Data governance	Data sources, calculation methods, assignment of responsibilities, record-keeping	Traceable data
5. Disclosure and accountability	Results, targets, impacts, limitations and measures	Balanced and clear report
6. Verification and improvement	Review, targeted verification, updating	Quality improvement over successive periods

Source: Author's proposal based on theoretical synthesis and analysis.

In operating the framework, the three principles may impose different requirements on the same disclosure issue. Consider, for example, an environmental impact that has been identified as material but for which the firm does not yet have a complete measurement system. In this case, materiality requires the issue to be considered and appropriately reflected; proportionality allows the firm to choose a data collection or estimation method suited to its resources; and credibility requires the firm to disclose the data scope, methods, assumptions and limitations of the results. Proportionality therefore cannot be used to arbitrarily exclude material information or to legitimise unsubstantiated claims. This coordination mechanism provides a principle for handling trade-offs among the completeness, implementation cost and verifiability of ESG disclosure.

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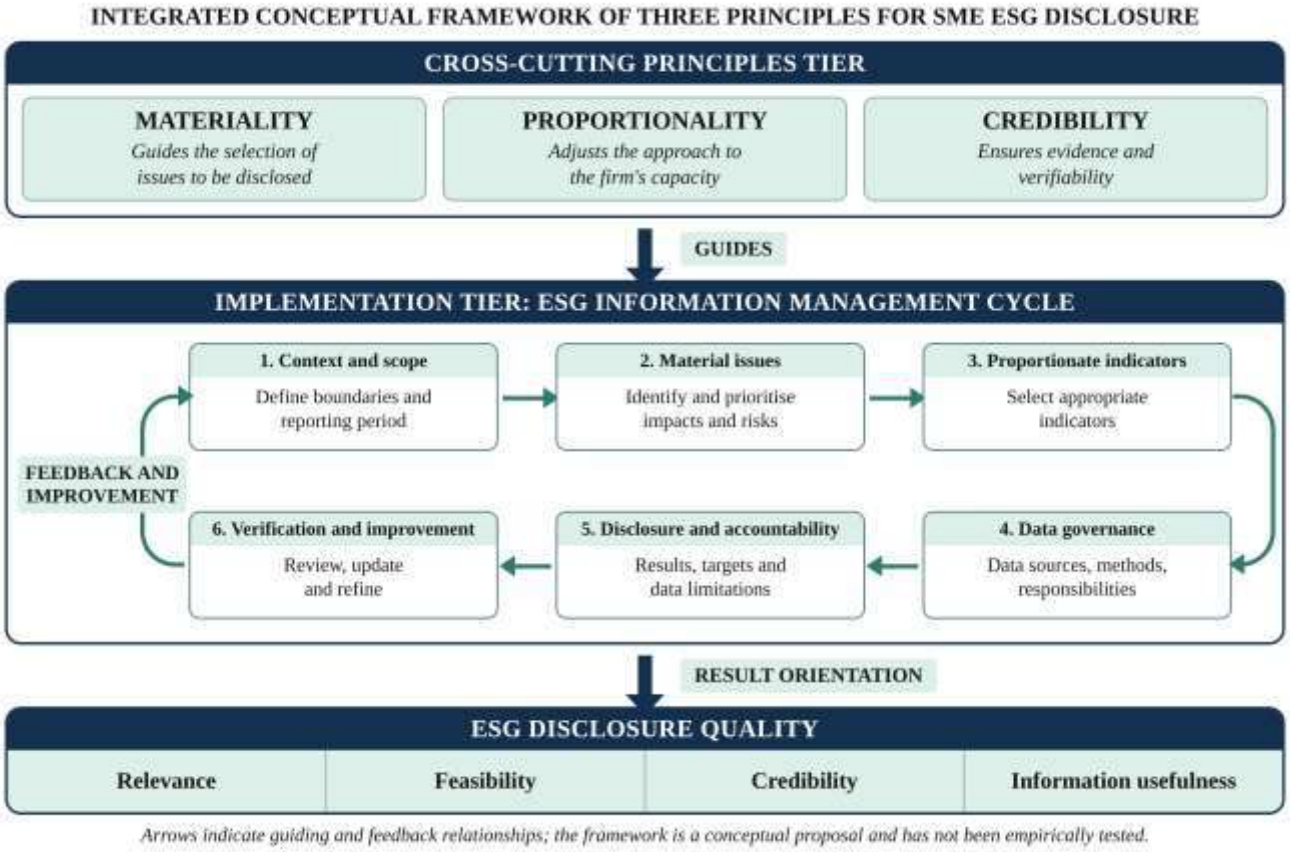

Figure 1. Integrated conceptual framework of the three principles in ESG disclosure by SMEs
Source: Author's proposal based on theoretical synthesis and analysis.

Based on the conceptual framework, the study proposes six propositions to guide subsequent empirical research. The propositions are formulated to distinguish different aspects of disclosure quality and the conditions that affect implementation.

P1: The completeness and well-foundedness of the materiality assessment process are positively related to the relevance of the ESG information disclosed.

P2: The degree of proportionality between disclosure requirements and organisational capacity is positively related to the ability to implement and sustain ESG disclosure.

P3: Data governance capability is positively related to the traceability and verifiability of ESG information.

P4: The implementation of internal controls and targeted verification is positively related to the credibility of the information disclosed.

P5: The alignment of disclosure content with users' information needs is positively related to the usefulness of the ESG report.

P6: Coordination among materiality, proportionality and credibility is positively related to the overall quality of ESG disclosure.

These six propositions reflect proposed theoretical relationships and are not yet the results of empirical testing. Future studies should operationalise each concept into observable variables, clarify the differences among the dimensions of disclosure quality and test the relationships under different conditions of industry, firm size and management capability.

DISCUSSION

Applicability in Vietnam

In Vietnam, Decree No. 80/2021/ND-CP sets out the criteria for classifying small and medium-sized enterprises by sector, average annual number of employees participating in social insurance, revenue and total capital [13]. Classification by size is an important basis for designing support policies, but size is not the only criterion determining the level of ESG risk. A small firm in a sector with a high pollution risk still needs to manage and account for its significant impacts, whereas a larger service firm may have a different ESG focus.

The National Green Growth Strategy for 2021–2030, with a vision to 2050, approved by Decision No. 1658/QD-TTg, sets the direction for transforming the growth model towards greening, emissions reduction and efficient resource use [14]. For entities within the scope of securities law, sustainability-related disclosure requirements are set within the framework of regulations on information disclosure in the securities market. However, these requirements cannot be generalised into identical disclosure obligations for all SMEs. Therefore, when developing guidance for SMEs, it is necessary to clearly distinguish applicable legal obligations from voluntary disclosures or information requests from business partners [15].

The study by Uong and Nguyen shows that legal regulation has a significant influence on ESG disclosure by SMEs in their Vietnamese sample [7]. This finding reinforces the view that policy and institutional pressure can drive disclosure behaviour. However, if legal or partner requirements

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are not accompanied by guidance and capacity support, firms may focus on completing templates rather than improving management. ESG disclosure should therefore be viewed as a capacity-building process rather than merely an obligation to supply data.

The proposed framework can serve as a reference for developing voluntary guidance for SMEs in Vietnam. First, regulators and industry associations could develop sector-specific sets of core indicators while clearly identifying which indicators are legally mandatory and which are voluntary. Next, simple digital templates, guidance on calculation methods and examples of using existing documentation are needed. For firms participating in export supply chains, additional guidance on emissions data, traceability, labour and supplier management could be provided.

Large companies and financial institutions also bear responsibility for standardising data requirements. When each customer uses its own questionnaire, small suppliers may incur significant costs. VSME could be used as a reference to harmonise a core set of information, with additional data requested only when there is a clear reason related to the sector, risk or decision-making needs. Alongside reporting requirements, lead firms in the supply chain should support suppliers through training, technical guidance and improvement roadmaps.

The applicability of the framework can be illustrated through a hypothetical case of a small and medium-sized food-processing firm in Vietnam. In the context-definition component, the firm identifies production activities related to water use, energy, waste treatment and working conditions. On the basis of an impact and risk assessment, the firm prioritises issues relevant to its operations and identifies the obligations it must meet under the law. In the initial stage, the firm can use electricity and water bills, environmental records and existing labour data to compile appropriate indicators. Where it cannot yet measure certain matters, the firm should state the data limitations, the methods used and its improvement plan. Internal review is organised by reconciling figures with supporting documents, and information with a high risk of misstatement may be prioritised for verification. As its data capability improves, the firm progressively adds indicators on resource-use intensity and performance across periods. This case is intended only to illustrate the implementation logic of the framework and does not represent survey results or an actual assessment of a specific firm.

Limitations and directions for further research

Although it has a theoretical basis and indicative applicability, the proposed framework has not been empirically tested. Differences in industry, risk level, size, technological capability and position in the value chain may affect the feasibility of implementing each component. Future research should therefore combine SME surveys with case studies and interviews with information users to assess the framework's suitability, implementation costs and verifiability. In addition, the framework should be compared with common disclosure requirements in Vietnam and with relevant international frameworks to identify which elements can be standardised and which conditions require adaptation by industry and by the maturity of the firm.

CONCLUSION

This study has analysed the limitations of applying sustainability disclosure frameworks to SMEs and clarified the roles of, and relationships among, materiality, proportionality and credibility. The theoretical analysis shows that disclosure quality depends not only on the scope and number of indicators, but also on the ability to select meaningful information, organise implementation appropriately and ensure a verifiable evidential basis. Simplifying disclosure requirements can help SMEs reduce their implementation burden, but this must not come at the cost of excluding material impacts or undermining the faithfulness of information.

The main contribution of the study is a six-component disclosure framework in which the three principles are integrated throughout the selection, collection, governance and disclosure of information. Materiality guides content, proportionality adjusts the mode of implementation, and credibility sets requirements for evidence and control. The framework helps systematise the mechanism for coordinating the principles, particularly when firms must handle trade-offs between information needs, implementation costs and verifiability.

The proposed framework can be used as a reference for developing voluntary disclosure guidance suited to the conditions of Vietnamese SMEs. However, the study remains at the conceptual level and offers no empirical evidence on implementation effectiveness, cost reduction or improvements in disclosure quality. The practical value of the framework therefore needs to be further evaluated through surveys, case studies and testing across groups of firms with different characteristics.

Recommendations

SMEs should begin by identifying ESG issues linked to their business model and actual risks; selecting a manageable set of indicators; assigning responsible staff; and standardising data sources and retaining evidence. Firms should disclose positive results and unmet targets in a balanced manner, while explaining measurement limitations and their improvement roadmap. Independent verification may be prioritised for material or high-risk information.

Regulators should consider developing voluntary ESG disclosure guidance for SMEs that draws on international standards while remaining consistent with Vietnamese law and economic conditions. The guidance should distinguish mandatory obligations from voluntary content and include sector-specific core indicators and an advancement pathway. Support programmes should focus on training, digital tools, measurement methods and advice on data governance.

Banks, financial institutions and lead firms in supply chains should standardise their information requests, limit duplicate requirements and avoid shifting the entire cost of reporting onto SMEs. ESG information should be assessed according to materiality and risk level, and the number of indicators disclosed should not be used as the sole measure. Combining data requests with technical support will help build suppliers' substantive capabilities.

Future research should prioritise assessing the operability of the six-component framework across different groups of SMEs and developing measurement scales for materiality, proportionality, credibility and ESG disclosure quality. Empirical studies could test the proposed propositions, examine the role of data governance capability and assess the balance between implementation costs and the usefulness of information. The results of such research will provide a basis for refining the conceptual framework and developing implementation guidance suited to practical conditions.

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