

ESG Practices in SMEs: Challenges, Opportunities, and Stakeholder Insights

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ABSTRACT

This paper explores how small and medium sized enterprises (SMEs) are coping with the growing requirement to adopt environmental, social and governance (ESG) practices in their business model. Following a review of the literature, we undertook semi structured in-depth interviews with SME owner/mangers, ESG specialists and VET professionals in Ireland, Türkiye and Germany to capture the perceptions, experiences, drivers for change and challenges faced by SMEs regarding ESG practices. The study revealed that SMEs are conscious and supportive of the need to become sustainable and reduce the carbon footprint, but overall ESG awareness is low. The main ESG factors impacting on SMEs are energy usage, waste management and regulatory framework (Environmental); health & safety/employee welfare (Social) and the need for risk management & compliance and ethical & accounting integrity (Governance). The key drivers for change come from management seeking competitive advantage, meeting customer needs and government regulation. SMEs face challenges in implementing ESGs practices in the workplace particularly, balancing competing priorities (operational/profit making), resource & financial constraints and lack of knowledge skills and expertise including change management.

The results show that there are significant differences between the countries analysed in terms of ESG awareness, governance approaches and implementation priorities. While SMEs in Türkiye have lower ESG awareness, they are found to emphasise sustainability awareness more. In Germany, legal and regulatory compliance is prioritised, while in Ireland ESG is balanced with operational priorities.

The paper concludes that for SMEs to optimize the adoption of ESG practices, they require support from national/local government, to assist them with the cost of implementation and to increase awareness and capacity building. Implications for future research are also considered.

Keywords: compliance; environmental; social; governance; sustainability

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