Submission received: 5th of July 2025
Revised: 8th of August 2025
Accepted: 1st of September 2025

BRINGING TRADITION AND REGULATION: FAMILY BUSINESS ADAPTATION TO THE VSME REPORTING STANDARD

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Abstract

Background and Objective: This paper explores the growing importance of ESG (Environmental, Social, Governance) principles and non-financial reporting for SMEs, with a focus on family-owned businesses in Poland. It assesses their readiness to adopt ESG reporting aligned with voluntary standards and identifies key factors influencing their engagement in sustainable practices.

Study Design/Materials and Methods: Given the limited academic research on the VSME (Voluntary SME) standard, the study relies on secondary data. It draws from industry reports by firms like KPMG and PwC, with a key source being Sustainable Development of Family Businesses: Current State and Determinants (Domańska et al., 2024). The analysis is qualitative, focusing on trends in ESG implementation. An AI-driven, large-language-model compliance-mapping approach was employed to align the report's averaged survey findings with the VSME standard set by EFRAG.

Results: Polish family businesses are in the early stages of ESG adoption. While awareness is increasing, significant gaps remain, especially in formalising non-financial reporting and integrating ESG into strategic decisions.

Practical implications: The paper provides actionable insights for family business managers and consultants preparing for ESG obligations, emphasising the benefits of early adoption. Promoting ESG in family SMEs can support broader social goals, including environmental care, social inclusion, and responsible governance.

Conclusion and summary: Family businesses show a solid overall readiness to adopt VSME EFRAG indicators—especially regarding strategic sustainability, gender diversity and health-and-safety—yet still face notable gaps in regard to biodiversity, water use, anti-corruption and severe-incident reporting. Addressing these weaknesses through standardised frameworks, external assurance and richer data will be essential for family businesses to achieve full alignment and unlock their long-term potential for sustainable development.

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DOI: 10.19253/reme.2025.01.002

Keywords: sustainable development, non-financial reporting, family business

JEL classification: Q5, Q54, Q56

Paper type: research study

1. Introduction

Family businesses constitute over 60% of all companies in Europe, ranging from sole proprietorships to large multinationals, and contribute about 50% of the EU's GDP while employing over 60 million individuals. They are defined by key traits, such as family ownership and governance, long-term strategic focus, and challenges in generational transitions. A notable concept is "socioemotional wealth", which emphasises family control, identity and legacy within the business. Across Europe, family businesses vary significantly in governance, size, and leadership structures, with public family firms most common in countries like Belgium and France.

In Poland, family businesses display stronger priorities on market expansion, innovation and customer strategies compared to global averages. They also excel in community engagement and philanthropy but lag in formal governance roles, particularly in environmental, social and governance (ESG) initiatives. Polish family firms exhibit proactive sustainability leadership, with 79% recognising sustainable development opportunities, yet gaps persist in aligning governance frameworks with global standards (KPMG, 2024).

The introduction of the European VSME sustainability reporting standard aids SMEs, including family businesses, to adopt transparent practices. This standard covers environmental, social and corporate governance aspects, enabling SMEs to meet increasing stakeholder demands while maintaining competitiveness in supply chains. Despite these efforts, limited research exists on how family businesses adapt to the standard. Polish businesses, however, showcase strong community ties and a focus on sustainable practices, indicating a potential for broader ESG alignment in the future.

The main purpose of this article is to examine the readiness of family businesses to adopt VSME reporting with ESG principles, with a particular emphasis on the role of improving sustainable development practices. This is very relevant in the context of family businesses, as they have unique characteristics that distinguish them from other businesses, including those in the broader SME sector. In family businesses, tradition, intergenerational values and a strong ownership identity often play a greater role than in non-family businesses. This can affect both the perception of the need to implement non-financial reporting standards and the pace of their adoption. It was chosen to focus on family businesses because they constitute an important segment of the economy, both in the EU and in Poland, yet are often underrepresented in research on the implementation of ESG and VSME standards. Furthermore, decision-making in these companies tends to be more personalised and less formalised, which can lead both to delays in compliance and to innovative, bottom-up initiatives aligned with the company's values. Family businesses often operate with a long-term perspective, thinking in terms of future generations, which can support the adoption of sustainable development principles. On the other hand, a strong attachment to tradition, resistance to excessive bureaucracy or limited administrative resources can act as barriers to the full implementation of these standards.

2. Literature Review

2.1. Family businesses in the context of the economy

Family businesses account for over 60% of all companies across Europe, encompassing a spectrum from sole proprietorships to large multinational corporations. Regardless of their size or status—whether publicly listed or privately held—family businesses represent a crucial component of the European Union's economy. Recognising their significance, the European Commission actively advocates for the establishment of a supportive environment that fosters their growth and development. (Botero et al., 2015). The commonly accepted European definition of a family business is characterised by four key criteria (Ferreira et al., 2021):

- A majority of decision-making rights are held by the natural person(s) who founded the firm, those who have subsequently acquired its share capital, or their immediate family members, including spouses, parents, children, or direct heirs.
- These decision-making rights may be held directly or indirectly.
- At least one family member or relative is formally involved in the governance of the business.
- Publicly listed companies are considered family enterprises if the founder, acquirer of the firm, or their family members or descendants retain at least 25% of the decision-making rights associated with the share capital.

In 1999, Jess Chua, James Chrisman and Pramodita Sharma proposed a definition which emphasises the role of family governance in shaping a firm's objectives, strategy and organisational structure. In this definition, a family firm is understood as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". This will be a leading definition of a family business for the purposes of this article (Chua, Chrisman & Sharma, 1999). Family businesses exhibit several distinctive characteristics (Azizi, Salmani Bidgoli & Seddighian Bidgoli, 2017):

- Long-term orientation of shareholders: Due to the multigenerational nature of their ownership, family businesses are often guided by long-term strategic objectives that are difficult to achieve under other governance structures.

— Identification of the business with the family group: This association underscores the importance of values, reputation, and regional or cultural roots within family firms.
— Challenges associated with generational transitions: Given the demographic trends among current business leaders, a substantial number of family businesses will face generational succession within the coming decade, posing operational, financial and tax-related challenges.

Family members, from their involvement in the family business, derive the non-financial value known as "socioemotional wealth" (SEW). SEW encompasses five core dimensions, as identified by Berrone, Cruz and Gomez-Mejia (2012):
— Family control and influence over the firm,
— Strengthening of family bonds through dynastic succession,
— Identification of family members with the firm,
— Establishment of binding social ties, and
— Emotional attachment of family members to the enterprise.

At the 20% voting rights threshold, family businesses account for a notable proportion of publicly listed companies globally. For example, they represent 22.4% of listed firms in the United States, 15.8% in the United Kingdom, 34.6% in India, 46.8% in China, and 51.8% in Brazil. In Europe (see: Picture 1), 43% of listed companies are family-owned, with country-specific proportions such as 59.1% in Italy, 54.1% in France, 52.3% in Poland, and 51.5% in Germany (Dauphine, 2024).

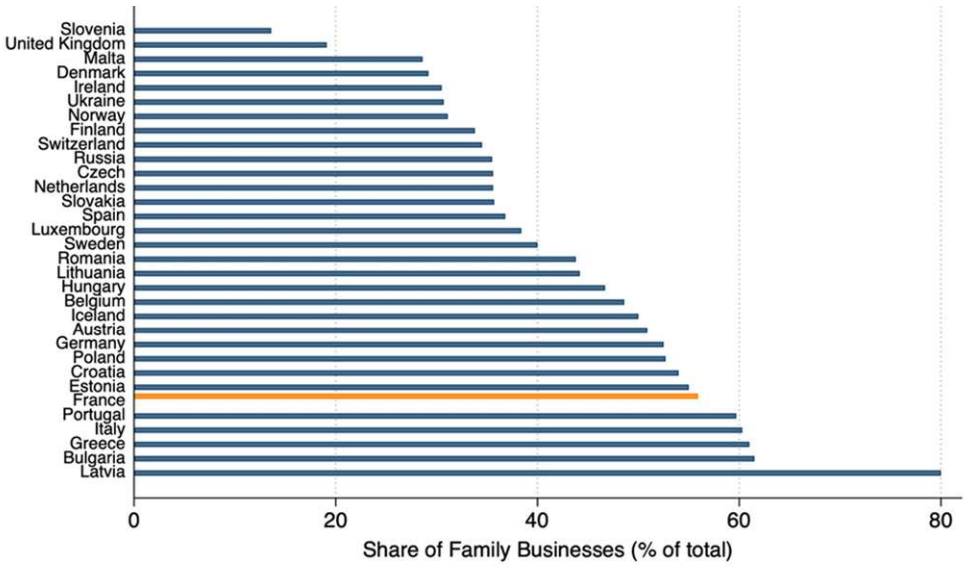

Figure 1. Share of family businesses by country in Europe (% of total)

Source: Aminadav & Papaioannou, 2020.

Family firms constitute a significant segment of the European economy, with over 14 million family businesses collectively accounting for approximately 50% of the European Union's GDP and employing more than 60 million individuals. This equates to around 40-50% of all private-sector jobs in Europe (Mandl, Dorr, 2007). Family businesses dominate the business landscape in European countries (see: Picture 2), comprising 61% of all businesses in the Netherlands and exceeding 80% in Spain, Italy and France (BNP Paribas, 2021).

Notable regional differences exist in the composition and governance of family businesses. Belgium, Spain and France have the highest proportions of publicly listed large family firms, while Germany and Denmark report the lowest shares. Furthermore, family member representation on boards of directors is most pronounced in the United Kingdom, Italy and Spain, contrasting sharply with only 10% in the Netherlands. In terms of leadership, the Nordic countries, Switzerland and the Netherlands have the highest proportion of non-family CEOs, whereas in the United Kingdom, 67% of family firms are led by family members (BNP Paribas, 2021).

The FBN International Family Business Monitor (2008) reveals that family firms with an annual turnover exceeding EUR 2 million constitute 18% of businesses in Italy, 16% in the United Kingdom, 15% in Finland, 9% in Germany and France, 8% in the Netherlands, 7% in Spain, and 4% in Sweden. These data underscore the dual nature of the European family business sector: while the majority of family firms are small and medium-sized enterprises (SMEs), which form the backbone of the European economy, there is also a significant presence of large, internationally active family firms. Family companies are a phenomenon in the business world not only in view of their numerous numbers, but mainly due to their significant share of a nation's economy. Based on the results provided by PwC, it may be concluded that family companies are dominated by micro-, small and medium enterprises (MSMEs) (Yáñez-Araque et al., 2021; Rangkuty, Zulmi, 2020).

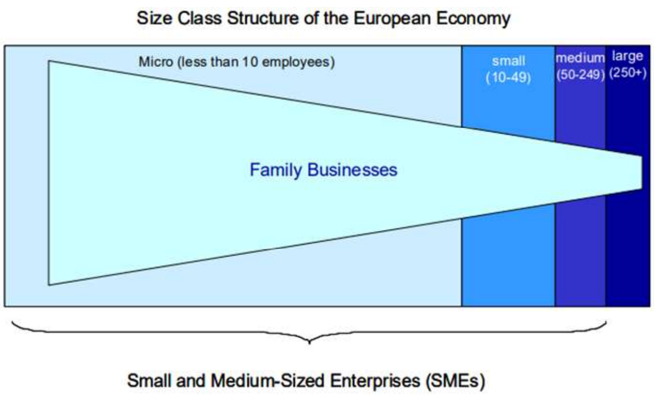

Figure 2. Size of family businesses in the European Economy
Source: Mandl & Dorr, 2007.

Family businesses face several key challenges. These include the importance of early preparation for business succession, access to financing, tax-related complexities, governance issues balancing family and business interests, gender equality considerations, and the recruitment and retention of skilled labour. Additionally, there is a growing need for entrepreneurship education and specialised training in family business management to address these challenges effectively (European Commission, 2021; Vera, Dean, 2005; Jaffe, Lane, 2004; Sharma, Chrisman, Chua, 1997).

The PwC Poland 2023 Report on Polish Family Firms outlines the primary strategic priorities of Polish family businesses for the upcoming two years, compared with global averages. The most significant focus among Polish firms is expansion into new markets and customer segments, prioritised by 78% of respondents in Poland, compared to 51% globally. Other priorities include increasing investments in innovation and research and development (57% in Poland vs. 41% globally), introducing new products or services (55% vs. 41%), improving customer competencies (46% vs. 27%), and enhancing customer loyalty (43% vs. 26%). The data illustrate that Polish family businesses demonstrate a stronger emphasis on innovation, market expansion and customer-centric strategies compared to their global counterparts.

The report also highlights the personal objectives of family business leaders in Poland over the long term (five years or more), juxtaposed with global trends. For Polish respondents, the most critical goals include preserving the business as the family's most valuable material asset (85% in Poland vs. 82% globally) and creating a legacy (85% in Poland vs. 67% globally). Maintaining family ownership of the firm is also a prominent priority (80% in Poland vs. 66% globally). Additionally, supporting societal and environmental initiatives is significant for 65% of Polish leaders, aligning closely with the global average of 59%. Notably, ensuring employment opportunities for other family members is a less critical objective in Poland (28%) and globally (29%). These findings underscore the strong attachment of Polish family business leaders to the continuity and legacy of their firms (The PwC Poland, 2023).

The report gives information on the allocation of attention, energy, investments and resources by Polish family businesses across various business areas, comparing their focus to global averages. Polish companies report the highest attention to adapting to changing market conditions (57% in Poland vs. 36% globally) and maintaining a high level of services/products delivered (50% vs. 38%). However, only 15% of Polish respondents indicate a strong focus on environmental, social and governance (ESG) initiatives, compared to 10% globally. Additionally, 35% of Polish family firms dedicate substantial resources to innovation and research and development, which is significantly higher than the global average of 20%. These findings reflect the proactive approach of Polish firms towards market adaptability and innovation, while ESG considerations remain secondary (The PwC Poland, 2023).

2.2. Meaning of sustainable development for family SMEs

Sustainable development in family businesses is increasingly recognised as a critical factor in ensuring long-term success while addressing pressing social, economic and environmental challenges. This topic has gained momentum as family enterprises strive to balance traditional business practices with modern sustainability imperatives. The data analysed in The PwC 2023 Report on Polish Family Firms compares the perspectives of Polish family businesses to their global counterparts concerning their roles in sustainable development. The findings, illustrated through percentage-stacked bar charts, focus on four key themes: Recognising Opportunities in Sustainability Leadership, Tax Perception, Corporate Social Responsibility and Business Roles, and Broader Business Responsibilities.

Polish family businesses exhibit a stronger inclination towards leadership in sustainable development compared to the global average. 79% of Polish respondents see leadership opportunities in sustainable development, significantly surpassing the global average of 64%. At the same time, only 18% in Poland and 29% globally acknowledge a need for more significant action. A small fraction (3% in Poland, 8% globally) does not perceive such opportunities (The PwC Poland, 2023).

Family businesses in Poland show a more positive perspective on taxes as a component of social responsibility. 56% of Polish respondents view taxes as a cost, compared to 64% globally. A little over 30% of Polish respondents regard taxes as a means to contribute to societal welfare, exceeding the global average of 26%. Both Polish and global respondents agree on the societal role of businesses in addressing environmental and social issues. 64% of Polish respondents and 66% globally believe businesses should play a key societal role. A smaller portion (13% in Poland and 20% globally) view these issues as the government's primary responsibility. Not more than 10% of Polish and 13% of global respondents expressed no position (The PwC Poland, 2023).

Polish family businesses exhibit strong agreement with the need for businesses to contribute to environmental and societal welfare. 64% of Polish respondents and 60% globally agree on active business involvement. Contrastingly, 13% of Polish and 20% of global respondents assign this responsibility solely to the government. The findings underscore the stronger commitment of Polish family businesses than their global counterparts to sustainable development, and their recognition of taxes as a social responsibility element. When analysing Local Community Engagement and Philanthropy, one needs to highlight the variations in philanthropic engagement between Polish and global family businesses. 74% of Polish family businesses actively engage in local community efforts, surpassing the global average of 61%. Polish firms demonstrate a higher focus on traditional philanthropy, with 62% contributing via grants or donations compared to 46% globally. Advisory-based investments are less common in Poland, with 13% participation compared to 23% globally.

Polish businesses show greater involvement in venture philanthropy (23%) than the global average (14%). The data indicate that Polish family businesses prioritise direct community contributions and traditional philanthropy over advisory-based or venture-oriented approaches (The PwC Poland, 2023).

An analysis of the appointed roles for governance and social responsibilities reveals gaps in alignment between Polish family businesses and global trends. 60% of Polish businesses have dedicated personnel for corporate governance, slightly below the global average of 68%. Only 50% of Polish businesses assign roles for risk management and compliance, compared to 68% globally. Family governance appointments are less common in Poland (38%) than globally (46%). Only 33% of Polish businesses designate specific roles for ESG, trailing the global average of 43%. Diversity and inclusion receive the least attention, with only 20% of Polish businesses appointing roles compared to 34% globally. These findings highlight a relative lag among Polish family businesses in formalising governance and sustainability-related roles, particularly in ESG and diversity, thus reflecting opportunities for improvement (The PwC Poland, 2023).

Polish family businesses exhibit a robust commitment to sustainable development, with notable strengths in recognising leadership opportunities and contributing to local community welfare. However, they demonstrate gaps in aligning governance structures with global best practices, particularly in ESG and diversity-focused roles. The data suggest that while Polish family businesses are proactive in direct community engagement, further efforts are needed to formalise and expand their governance frameworks to align with global standards.

An ESG report, often referred to as a sustainability or non-financial report, is a document that provides comprehensive information about a company's activities across three critical areas: environmental, social and corporate governance. It reflects the organisation's commitment to sustainability and transparency while responding to the increasing expectations of stakeholders, including investors, regulators and business partners. The structure of an ESG report is built upon three fundamental pillars (Faqih & Kramer, 2024):

- Environmental (E): This area encompasses issues such as environmental protection, greenhouse gas emissions, resource consumption management, biodiversity conservation, and waste management.
- Social (S): This pillar addresses employment policies, workplace safety, community development, labour rights, and social engagement.
- Corporate Governance (G): Governance includes management structure and practices, board composition and roles, internal control systems, transparency, business ethics, anti-corruption policies, and shareholder relations.

On December 17, 2024, the European Financial Reporting Advisory Group (EFRAG) introduced the Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME). This standard was developed to assist micro, small and medium-sized enterprises (SMEs) in monitoring their sustainability-related activities and to address the growing demand for ESG data from business partners such as banks, investors and larger enterprises within the value chain (Ślażyńska-Kluczek, 2024). The VSME standard is specifically tailored to non-listed SMEs, offering a flexible yet structured framework for sustainability reporting. Its dual-module structure ensures scalability and accessibility. The Basic Module: This module includes 11 key disclosures, covering areas such as sustainability policies, energy consumption, emissions, biodiversity, and employee-related data. The Comprehensive Module: This module introduces an additional 9 disclosures, including policies and processes concerning human rights, gender diversity ratios in governing bodies, climate-related risks, and descriptions of practices, policies and future initiatives aimed at transitioning to a more sustainable economy (VSME, 2024).

The introduction of the VSME standard represents an important development for family businesses, which often operate as SMEs. By adopting the standard, these enterprises can better align with increasing sustainability expectations, enhance transparency, and maintain competitiveness in supply chains dominated by larger corporations. However, the literature on the adaptation of family businesses to the VSME standard remains limited due to the standard's recent implementation. Current knowledge is primarily derived from related reports, such as Family Businesses in Poland by PwC, and the Sustainable Development of Family Businesses report.

3. Methodology

In the first part, the study employs methods such as a literature review based on databases including Web of Science (WoS) and Scopus, as well as a desk research approach focusing on studies related to SMEs and VSMEs. In the second phase, a mapping matrix was used as a method to assign values between the analysed report and the VSME standard.

Initially, the study analysed the report titled "Sustainable Development of Family Businesses – Current State and Determinants", which represents a key outcome of the research project "Sustainable Development of Family Businesses – Recommended Directions and Methods of Influence" (Domańska et al., 2024). This report identifies and discusses the level of preparedness and implementation of sustainable development practices in Polish family businesses. The report provides a comprehensive analysis of the perception of sustainable development practices, based on empirical data collected from 600 family businesses in Poland through direct research. The quantitative findings are further augmented by qualitative insights derived from 27 in-depth interviews with representatives of family businesses. The report also examines the state of human and social capital, as well as the survivability of these enterprises—factors that underpin the equilibrium between the social, economic and environmental dimensions of sustainable development.

This research reflects the structure of the analysed issue by simultaneously focusing on family businesses and ESG-related aspects. This approach emphasises the connections between these two constructs, highlighting the need for their systematic integration.

The study aimed to assess the degree of integration of ESG principles into the management of family businesses in the context of increasing non-financial reporting requirements. It applied a model that mapped reported sustainability activities onto the requirements of VSMEs. The research utilised the assumptions of the VSME reporting model.

To match the results of the report research (calculated as mean values of responses) to the VSME EFRAG standard, an AI Method / LLM-based Compliance Mapping was used. LLM scans new regulations, extracts obligations (entities, rights, deadlines), and automatically matches them to database fields or layers in the process architecture (Sobkowski, Karapetyan, 2025). The results of the report questions were aligned with the specific indicators and scoring guidelines outlined in the EFRAG framework, based on their thematic relevance. The research process proceeded as follows:

1. Determining the purpose and scope: The aim of the study is to check whether the data from the report can be adapted to the requirements of VSME. Scope: comparison of the VSME standard requirements (Basic Module) with the research findings presented in the report Sustainable Development of Family Businesses (pages 53 – social dimension, 73 – economic dimension, 91 – environmental dimension).
2. Identifying and assigning a unique ID to all requirements: an ID assigned as in the VSME Requirements - the key indicators used.
3. Identifing Evidence Artifacts: Mapping Responses to EFRAG Indicators (categorisation of survey questions to align each survey question with a specific EFRAG point; creation of an Excel Mapping Table to match the survey results to EFRAG categories).
4. Building the first matrixes on environmental, social and governance.
5. Tracing Forwards & Tracing Back Check: Each requirement has at least one artifact (trace forwards) and each artifact maps to a requirement (trace back). Validation of the Matching Process (cross-checking the mapping to ensure consistency with EFRAG guidelines).
6. Calculating Average Scores (aggregation of average scores for a final result aligned with the EFRAG methodology). Reporting the results according to Table 1.

Table 1. Criteria for assessing the average

No.	Average from answers	Compliance level
1	More than 4.50	Very high
2	From 4.00 to 4.49	High
3	From 3.50 to 3.99	Above moderate
4	From 3.00 to 3.49	Moderate
5	From 2.50 to 2.99	Average
6	From 2.00 to 2.49	Low
7	Less than 2.00	Very low

Source: Author's own elaboration.

4. Results

The VSME standard is designed specifically for non-listed SMEs, providing a flexible and structured approach to sustainability reporting. It is divided into two modules to ensure both scalability and accessibility. The Basic Module comprises 11 key disclosures (B1 to B11), focusing on areas such as sustainability policies, energy usage, emissions, biodiversity, and employee data. The Comprehensive Module expands on this with 9 additional disclosures (C1 to C9), addressing topics such as human rights policies, gender diversity in governance, climate-related risks, and practices or initiatives supporting the transition to a sustainable economy (VSME, 2024).

The analysed report "Sustainable Development of Family Businesses – Current State and Determinants", from the research project "Sustainable Development of Family Businesses – Recommended Directions and Methods of Influence" (Domańska et al., 2024) analyses the readiness of family businesses in Poland in three dimensions: social (15 questions, numbered S1-S15) (Domańska et al., 2024, p. 53), economical (11 questions, numbered G1-G11) (Domańska et al., 2024, p. 72), environmental (9 questions, numbered E1-E9) (Domańska et al., 2024, p. 91). Those questions were assigned to the requirements of VSME Module indicators, and the average was calculated from the answers assigned.

Coverage Status Legend:
✓ Full – The study provides data that meet the VSME requirements.
△ Partial – The study addresses the aspect, but all the required metrics are missing/ VSME requires additional numerical details. Information and gaps should be filled by further research and the collection of quantitative data

(energy, emissions, water, waste, employment structure) and information on possible penalties or certificates.

× None – There is no content for the requirement on the designated pages.

Table 2. Assessment of the readiness of family businesses in the environmental dimension of ESG

Indicator	Assigned questions/ artefacts	Mean	Compliance level	Status
B2 – Practices, policies and future initiatives for transitioning towards a more sustainable economy	E1, E3, E8, S8	4.07	High	△
B3 – Energy and greenhouse gas emissions	E4, E5, E7	4.16	High	✓
B4 – Pollution of air, water and soil	E4, E5, E6, E7, E8	4.20	High	△
B5 – Biodiversity	No information	0.00	Very low	×
B6 – Water	No information	0.00	Very low	×
B7 – Resource use, circular economy and waste management	G1, E2, E6, E8, E9	4.17	High	△
C3 – GHG reduction targets and climate transition	E6, G10, G11	4.53	Very high	△
C4 – Climate risks	G3	4.28	High	△

Source: Author's own work.

Indicators B2, B3, B4, B7 and C4 all fall into the "High" compliance category. Family businesses are generally prepared to integrate these environmental and sustainability-related practices effectively. Their established efforts in reducing pollution, energy and resource management, and addressing climate risks demonstrate significant progress towards sustainable development goals. C3 stands out with a score of 4.53. This reflects exceptional readiness and leadership potential in meeting global climate goals, positioning family businesses as proactive actors in addressing climate change. Indicators B5 and B6 show no information or measurable activity, highlighting critical gaps. These areas represent key opportunities for family businesses to expand their sustainability focus by integrating biodiversity protection and water management initiatives.

Table 3. Assessment of the readiness of family businesses in the social dimension of ESG

Indicator	Assigned questions	Mean	Compliance level	Status
B8 – Workforce – General characteristics	S1, S5, S7, S11, S12	3.82	Above moderate	△
B9 – Workforce – Health and safety	S5, S13, S14	4.12	High	✓
B10 – Workforce – Remuneration, collective bargaining and training	S3, S4, S6, S7, S9, S10	3.78	Above moderate	△
C5 – Additional (general) workforce characteristics	S1, S5, S6, S7, S9, S11, S13, S14, S15	3.97	Above moderate	△
C6 – Additional own workforce information – Human rights policies and processes	S1, S2, S5, S7, S12, S14, G6	3.85	Above moderate	△
C7 – Severe negative human rights incidents	No information	0.00	Very low	×

Source: Author's own work.

B9 (Workforce – Health and Safety) demonstrates strong readiness (4.12). Family businesses show a high commitment to occupational health and safety standards, indicating well-developed practices in this area. B8, B10, C5 (Additional Workforce Characteristics) and C6 all fall within the "Above Moderate" range (3.78–3.97). These areas indicate sufficient practices but still lack the robustness required for "High" or "Very High" compliance. Improvements can be made by focusing on inclusion, training programmes, and strengthening human rights processes. C7 is critically underdeveloped, with no reported practices or information available. This represents a major gap in readiness and compliance with respect to addressing and preventing severe human rights violations. The lack of data for the C7 indicator points to an area where further assessment is necessary.

Both C1 and C2 indicators demonstrate a high level of readiness, with means of 4.41 and 4.01, respectively. Family businesses are effectively integrating sustainability into their strategy and transitioning towards sustainable practices. C9 also shows high readiness (4.39), indicating a strong commitment to promoting diversity at the leadership level. C8 falls into the "Above Moderate" category (3.91). While progress is evident, further work is needed to ensure alignment with EU benchmarks, particularly in key sectors. B1 and B11 both show a lack of readiness (0.00). These critical areas represent major gaps in compliance and need urgent action to establish robust reporting processes and anti-corruption measures. The lack of information on the governmental dimension demonstrates a strong focus on business model strategies and gender diversity in governance. However, the absence of data for several critical indicators, such as corruption and sectoral revenues, highlights gaps in the evaluation framework.

Table 4. Assessment of the readiness of family businesses in the governance dimension of ESG

Indicator	Assigned questions	Mean	Compliance level	Status
B1 – Basis for preparation	No information	0.00	Very low	×
B11 – Convictions and fines for corruption and bribery	No information	0.00	Very low	×
C1 – Strategy: Business Model and Sustainability – Related Initiatives	G1, G4, G5, G6, G7, G9	4.41	High	✓
C2 – Description of practices, policies and future initiatives for transitioning towards a more sustainable economy	S2, S8, G4, G9, E1	4.01	High	✓
C8 – Revenues from certain sectors and exclusion from EU reference benchmarks	G1	3.91	Above moderate	△
C9 – Gender diversity ratio in the governance body	G4	4.39	High	✓

Source: Author's own work.

The tables provide a valuable diagnostic tool for evaluating the significance of sustainable development components across social, economic and environmental dimensions. The results reveal moderate readiness (average: 3.18) regarding environmental strategies and social indicators (average: 3.26). However, governmental indicators show average readiness (average: 2.79), which may have a bad effect on other areas in the long term. Furthermore, areas such as biodiversity, water management, and certain economic indicators remain underexplored. Addressing these gaps through more comprehensive data collection and analysis could provide a more holistic understanding of sustainable development practices within family businesses.

5. Discussion and recommendations

Polish family businesses, although, due to their size, not yet required to prepare ESG reports, are partially preparing to do so. It can be said that for now they are only half-prepared for reporting – with an emphasis on the environmental sphere, although with a relatively weak approach to corporate governance. Sustainable development in family businesses concerns how these enterprises ensure long-term success while addressing social, economic and environmental challenges. Their unique characteristics and potential to adopt sustainable practices make them an important focus in advancing global sustainability goals.

Family businesses are well-suited for sustainability integration due to their long-term vision and generational focus, aligning with frameworks such as the United Nations Sustainable Development Goals (SDGs) (Hanna et al., 2024). However, limited comprehensive research on their sustainability efforts hinders theoretical and practical advancements in this domain (Dettori, Floris & Dessi, 2020; Ferreira et al., 2021). Economic, environmental and social considerations drive sustainable decisions in family businesses, emphasising long-term strategies coupled with short-term environmental and social actions (Cioca et al., 2020). Family dynamics, including reducing family tensions and reallocating resources, play a critical role in enhancing both business and family success (Olson, et al., 2003). Strategic entrepreneurship orientation and dynamic capabilities—such as future orientation and rapid decision-making—are pivotal for integrating sustainability into family businesses (Tiberius, Stiller & Dabić, 2021). Despite acknowledging the importance of sustainability, these enterprises often lack systematic management approaches, necessitating structured strategies (Jamil, Stephens & Fadzil, 2024).

Current research clusters around family business capital, strategy, social responsibility, and succession (Ferreira et al., 2021). However, more focus is needed on the microfoundations of sustainability, particularly in social and environmental domains, and comparative studies with non-family businesses to understand cultural impacts on sustainability practices (Tiberius, Stiller & Dabić, 2021; Curado & Mota, 2021). The recent publication of the VSME standard highlights several research limitations. The first limitation comes from the fact that scientific literature in the area of VSME is very limited (five scientific articles in both Scopus and WoS). To the date of the research, only a small number of scientific articles address the implementation of VSME in family businesses. Further research is needed to provide empirical evidence and insights into this adaptation process. The primary limitations of the research stem from the reliance on findings presented in reports such as those provided by KPMG, PwC or others. As a source of analysed data, the report Sustainable Development of Family Businesses, focusing on the Current State and Determinants (Domańska et al., 2024) was used. The second limitation is the non-random sampling - the findings presented in the report are based on non-random samples of organisations, which may not fully represent the diversity of family businesses. Last but not least, there are insufficient data on the preparedness of family businesses. The analysed report identifies the level of readiness and implementation of sustainable practices but lacks detailed insights into the systemic challenges faced by family businesses in meeting VSME requirements.

Family businesses face unique challenges in adapting to the Voluntary Reporting Standard for SMEs (VSME) proposed by the European Financial Reporting Advisory Group (EFRAG). Their governance structure, often characterised by concentrated ownership, leads to less pressure for transparency compared to non-family firms (Vural, 2018; Sandgren, Uman & Nordqvist, 2024). This can result in a "credibility gap", where stakeholders question the authenticity of sustainability disclosures due to potential conflicts of interest (Hsueh, 2018). Historically, SMEs, including family businesses, have been less active in non-financial reporting, but this is shifting with new EU regulations like the Non-Financial Reporting Directive (NFRD) (Krawczyk, 2021). Sustainability reporting among SMEs lacks uniformity, necessitating standardised frameworks to improve consistency (Gałkiewicz & Gaßner, 2023). Simplified non-financial reporting standards could reduce the reporting burden for family companies while enhancing transparency. However, debates persist about whether such standards should be mandatory or voluntary (Albuquerque et al., 2022). External assurance services could address the credibility gap by independently verifying the reports of family businesses (Hsueh, 2018).

Family businesses possess considerable potential to drive sustainable development, thanks to their long-term vision and distinctive governance models. Yet the research shows that SMEs are not ready to report two out of eight environmental indicators, one out of six social indicators and two out of five governmental indicators. Overcoming obstacles such as gaps in credibility and inconsistencies in sustainability reporting can enhance the impact of SMEs on global sustainability initiatives. This can be achieved by adopting standardised reporting frameworks and incorporating development processes in some areas. An SME may follow these recommendations based on the research:

1. Focus on biodiversity and water management: Invest in biodiversity-related programmes and establish water conservation policies to address these gaps and achieve a more balanced sustainability portfolio (Herbert, Bradley & Everard, 2023).
2. Maintain leadership in GHG reduction: Continue exceeding expectations for climate transition targets (C3) while using this strength as a model to address other areas (Saa et al., 2025; Ciliberti, Pontrandolfo & Scozzi, 2008).
3. Leverage existing strengths: Build on the "High" compliance indicators to maintain momentum and achieve "Very High" compliance across other sustainability dimensions (Bretherton & Chaston, 2005).
4. Focus on severe human rights incidents (C7) – Family businesses need to develop frameworks and processes to monitor, report and address human rights violations. Establishing transparent mechanisms is essential to ensure readiness in this area (Chalastra & Kotapski, 2024).

5. Enhance workforce remuneration and training (B10) – Increase investments in workforce development, collective bargaining, and fair remuneration to boost compliance and improve employee satisfaction (Azami et al., 2024).
6. Strengthen human rights policies and processes (C6) – Align policies with international human rights standards to ensure comprehensive protection for employees and stakeholders (Azami et al., 2024).
7. Maintain high standards in health and safety (B9) – Continue excelling in workforce health and safety while using this strength to inspire improvements across other workforce-related indicators (Chatzistamoulou & Tyllianakis, 2022).
8. Address Critical Gaps (B1, B11) - B1 (Basis for Preparation): Develop and implement clear reporting frameworks for sustainability indicators, ensuring compliance with EFRAG guidelines (Ihuoma Okeke, Bakare & Achumie, 2024); B11 (Convictions and Fines for Corruption and Bribery): Introduce and enforce anti-corruption policies, along with mechanisms for monitoring and addressing breaches (Ihuoma Okeke, Bakare & Achumie, 2024).
9. Refine Revenue and Sectoral Benchmarks (C8) – Enhance the focus on aligning revenues with EU reference benchmarks, particularly in critical industries, to improve compliance levels (Olekanma et al., 2024).
10. Maintain Strength in Strategic Initiatives and Diversity (C1, C9) – Continue leveraging strong performance in sustainability strategy and gender diversity, using these areas as benchmarks for improving other indicators (Sharma et al., 2020).
11. Strengthen Sustainability Transition (C2) – While already high, the further integration of sustainability practices into all operational aspects will solidify long-term readiness (Breuillot, Bocquet & Poussing, 2023).

6. Conclusions

Family businesses are ready overall to integrate the VSME EFRAG reporting indicators, with opportunities for improvement in specific areas like biodiversity and water. The readiness of family businesses to integrate workforce and human rights indicators is generally above moderate, with health and safety standing out as a strength. However, significant gaps in addressing severe human rights incidents (C7) and moderate performance in workforce development suggest areas for further growth and alignment with the VSME EFRAG reporting requirements. Family businesses demonstrate high readiness in strategic sustainability initiatives and gender diversity, while facing critical gaps in foundational reporting practices and anti-corruption measures. The overall readiness indicates a good starting point, but significant effort is required to achieve comprehensive alignment with the VSME EFRAG reporting indicators.

Family businesses hold significant potential to advance sustainable development by leveraging their long-term focus and unique governance structures. Addressing challenges such as the credibility gap and inconsistent sustainability reporting, through standardised frameworks and external assurance, can strengthen their contributions to global sustainability efforts. Further research into the microfoundations of sustainability, and comparative studies with non-family businesses will provide valuable insights into optimising their practices.

The VSME standard offers an opportunity for family businesses to strengthen their sustainability practices and improve reporting transparency. However, the recentness of its introduction and the limited availability of empirical data present challenges for academic research and practical implementation. Continuous engagement with emerging literature, and stakeholder guidance will be essential for advancing knowledge and supporting family businesses in adapting to these new reporting requirements.

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