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Project Insights Report

# Environmental, Social, Governance Disclosure: SMEs and the Transition to Net Zero



## **PARTNERS**

Diversity Institute



## **LOCATIONS**

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## **Executive Summary**

Canadian small and medium-sized enterprises (SMEs) produce a significant portion of the country's greenhouse gases (GHGs), but do not have the requisite skills, organizational capacity, or resources to engage in emissions reporting.

As Canada targets a net-zero economy by 2050, emissions reporting by SMEs becomes increasingly important for market differentiation and enterprise continuity. Large organizations, investors, and consumers are demanding that businesses work towards net-zero commitments. However, many SMEs are unaware of environmental, social, and governance (ESG) frameworks and standards, and lack the skills required for reporting their emissions.

This is compounded by the lack of a unified understanding of how to disclose emissions, and current reporting standards are typically not tailored to sectors or enterprise size. Given these factors, we reviewed existing ESG tools to identify the barriers and enablers for SMEs to report their emissions.

We discovered that, while a variety of frameworks and standards for ESG emissions compliance are available, their applicability to SMEs is underexplored. Many SMEs lack knowledge of existing frameworks and standards and their applicability to their enterprise, stemming from educational gaps. Further, SMEs have limited capacity to compute and account emissions to reporting protocols, and often do not have access to funds to enable greener operations.

Explicit skills-based and financial supports, an assessment of existing reporting practices to suit SMEs, and sustained efforts towards education and skills development are needed to support the adoption of principles by SME operators and employees.

#### KEY INSIGHTS

- 1** While SMEs account for most Canadian businesses, they only represent about 10% of emissions disclosures, as disclosure is led by large institutions, such as 97% of S&P 500 firms.
- 2** While a variety of both national and international regulations and frameworks exist for emissions reporting, most do not have provisions for SMEs that address their unique skills, capital, and operational context.
- 3** Among SMEs that account for their emissions, about 55% reported increased business reputation and 30% realized competitor differentiation, customer approval, branding benefits, and preferential status with consumers and business-to-business relationships.

## The Issue

Canadian SMEs produce approximately 45% of GHG emissions, but are not sufficiently equipped to engage in environmental, social, and governance issues related to reporting emissions. While global and national reporting frameworks exist and are increasingly demanded by stakeholders, actualizing commitments to net-zero requires explicit support for SMEs.

Integrating environmental and emissions accounting principles and ESG reporting standards into SME operations is essential for SMEs to gain market competitiveness and secure financing. Although SMEs demonstrate an interest in sustainability, they lack the skills and face adverse financial barriers to translate innovations into practice. Therefore, skills-based supports are essential to ensure SMEs have foundational competencies in sustainability concepts and can continually upskill for emissions monitoring and reporting, ESG compliance, and the integration of sustainable innovations throughout their operations.

Additionally, while several frameworks and standards for ESG reporting exist, how they guide emissions compliance for SMEs is unclear. For SMEs, effective emissions reporting requires purpose-built frameworks and standards that consider their limited know-how, financial capacities, and operational flexibility.

Capacity building is needed to support SMEs to calculate and report their emissions across the global scopes as defined in the GHG Protocol, which is a voluntary Canadian emissions reporting benchmark designed by the Sustainability Standards Board. Calculating emissions requires specialized knowledge; insufficient skills and knowledge gaps lead to limiting how SMEs are able to voluntarily adopt and apply reporting standards in their enterprise.



## What We Investigated

This report provides a contextual overview of Canadian SMEs working towards emissions compliance.

First, we provide a review of existing ESG disclosure tools with critical consideration to the implications for SMEs in Canada. By reviewing these disclosure tools, we sought to answer the following question: “What are the current and proposed standards and frameworks for ESG emissions reporting, and where do they apply to SMEs in Canada?” This reveals that no unified understanding of disclosure frameworks and standards has been assembled as yet. We detail both voluntary and binding ESG frameworks, outline their objectives, legal status, and applicability. We conclude that, while no explicit standards or guidelines exist for SMEs, compliance is still often required or preferred in order to participate in larger enterprise value chains.

Second, we provide a literature review to evaluate the current knowledge of barriers and enablers for SMEs to adopt environmental and emissions disclosures, as part of their larger ESG strategy. We sought to answer: “What are the barriers and opportunities to Canadian SMEs actualizing emissions standards compliance domestically and globally?”

We also briefly discuss the relevance of standards and frameworks to Canadian SMEs and the implications for skills and employment.

## What We're Learning

SMEs are critical to achieving inclusive and sustainable economic transitions. A variety of institutional frameworks and standards for ESG emissions compliance are available, but their applicability to SMEs is underexplored. There is conflicting research on the benefits of flexible and non-mandatory standards as opposed to regulated compliance. With respect to the former, the belief is that optional compliance allows Canadian SMEs to proactively align with international norms while maintaining operations and gradually offset capital costs. With respect to the latter, regulated compliance is seen as a mechanism that rewards early adopters. In general, SMEs are open to reporting emissions and moving towards net-zero targets, but neither solution considers the capital and skills required for SMEs to actualize compliance.

Many SMEs are unaware of the existing network of frameworks and standards, and their applicability to their enterprise. For SMEs, the distinction between obligations and optional compliance is often unclear, as is how their operations fit into ESG compliance and how to determine emissions across increasingly challenging emissions scopes.

First, calculating emissions requires specialized technical knowledge, and gaps persist in how to use carbon and environmental impact accounting tools, how complex data sources can be integrated, and how to accurately forecast emissions. Second, SMEs contend with high costs in training and computation that can fill these knowledge and skills gaps, as well as competing operational demands. Third, SMEs lack the organizational capacity to navigate complex sustainability principles, build knowledge to support emissions and general ESG compliance, and subsequently innovate in their sectors.

Several mechanisms can improve access to capital and skills development, but require embedded equity, diversity and inclusion considerations, as many SMEs are owned and operated by individuals from equity-deserving groups. For instance, financial incentives, third-party certifications, and value-chain partnerships can facilitate emissions reporting and compliance integration while enhancing SMEs' competitiveness and resilience. However, there is a need to ensure distribution of funds is equitable to all businesses. Many SMEs may not be aware of funding opportunities, and SMEs owned or operated by members of equity-deserving groups may not have the skills or organizational capacity to apply for funding.

Additionally, skills training opportunities that provide flexibility to SME learners are crucial to build credible, clear, and scalable compliance for SMEs across sectors. ESG education programs do exist, but only a few are explicitly developed for SMEs. Rather, micro-credentials and hybrid-educational opportunities are likely to be more useful for SMEs, where they can balance that breadth of responsibility with the necessary technical expertise and specialization. Micro-credentials also offer a flexible and timely solution to changing domestic and international reporting requirements, where large post-secondary institutional degree programs may lag in terms of offering courses in a timely manner.

Finally, work must also be done to improve ESG disclosure mechanisms' relevance, credibility, clarity and scalability to SMEs and their sectors. This requires continued alignment between standard setters, policy-makers, investors, and supporting institutions, as well as improved data collection on SME adoption of ESG reporting.

Ultimately, graduated learning opportunities are needed for SME operators and employees to progress towards the various green skills needed to compute, forecast, and report emissions in accordance with the guidelines.

## ★ Why It Matters

SMEs are critical to achieving Canada's net-zero targets by 2050, and their transition towards sustainability is increasingly valued by businesses and consumers.

Currently, skills and knowledge gaps threaten to disadvantage SMEs in making this transition. Our review highlighted several explicit supports needed for Canadian SMEs to realize net-zero commitments and ESG compliance:

- SME-specific skills training support is needed to understand the policy landscape of institutionalized ESG frameworks and standards, as well as the technical skills to calculate and determine emissions.
- Education on reporting requirements is needed to ensure SME operators and employees can link technical proficiencies for emissions compilation and computation to regulatory guidelines and requirements.
- Financing mechanisms that encourage SMEs towards emissions reporting compliance need to consider the unique operational, skills, and capacity limitations of enterprises. Education, awareness of available funding, and wraparound support in applying for and procuring funds are also needed.
- Increased data collection is needed on the effective mechanisms to support ESG value integration into SMEs, as the effectiveness of staggered implementation, flexibility in timelines and disclosure breadth depending on resource capacity, and the use of optional v/s mandated compliance is unclear.
- Increased provisions that consider the sectoral and operational requirements of SMEs are needed among ESG emissions reporting frameworks and standards.

Importantly, Canadian SME compliance and ESG reporting will become increasingly important as the intensification of environmental, social, political, and ethical crises underscores the urgency of developing systematic approaches to sustainability. Relatedly, as Canada seeks opportunities to enter new markets following depreciating trade agreements with the United States (through diversification to the EU market), SMEs will urgently need to become compliant with international standards.



### **State of Skills: Sustainable Jobs for Economic Growth**

Green-related skills and knowledge are growing in significance and are becoming widespread across many sectors and occupations, requiring more workers to upskill by building upon their existing competencies.

[Read Thematic Report](#)

Ultimately, as the regulatory and voluntary landscape of ESG disclosure evolves, new methodologies, tools, and support structures are likely to emerge for Canadian SMEs. This ongoing process presents a strategic opportunity for SMEs, ESG regulators, and industry stakeholders to contribute to the design of scalable, inclusive and context-sensitive ESG disclosure practices, as well as training programs.

Have questions about our work? Do you need access to a report in English or French? Please contact [communications@fsc-ccf.ca](mailto:communications@fsc-ccf.ca).

### **How to Cite This Report**

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