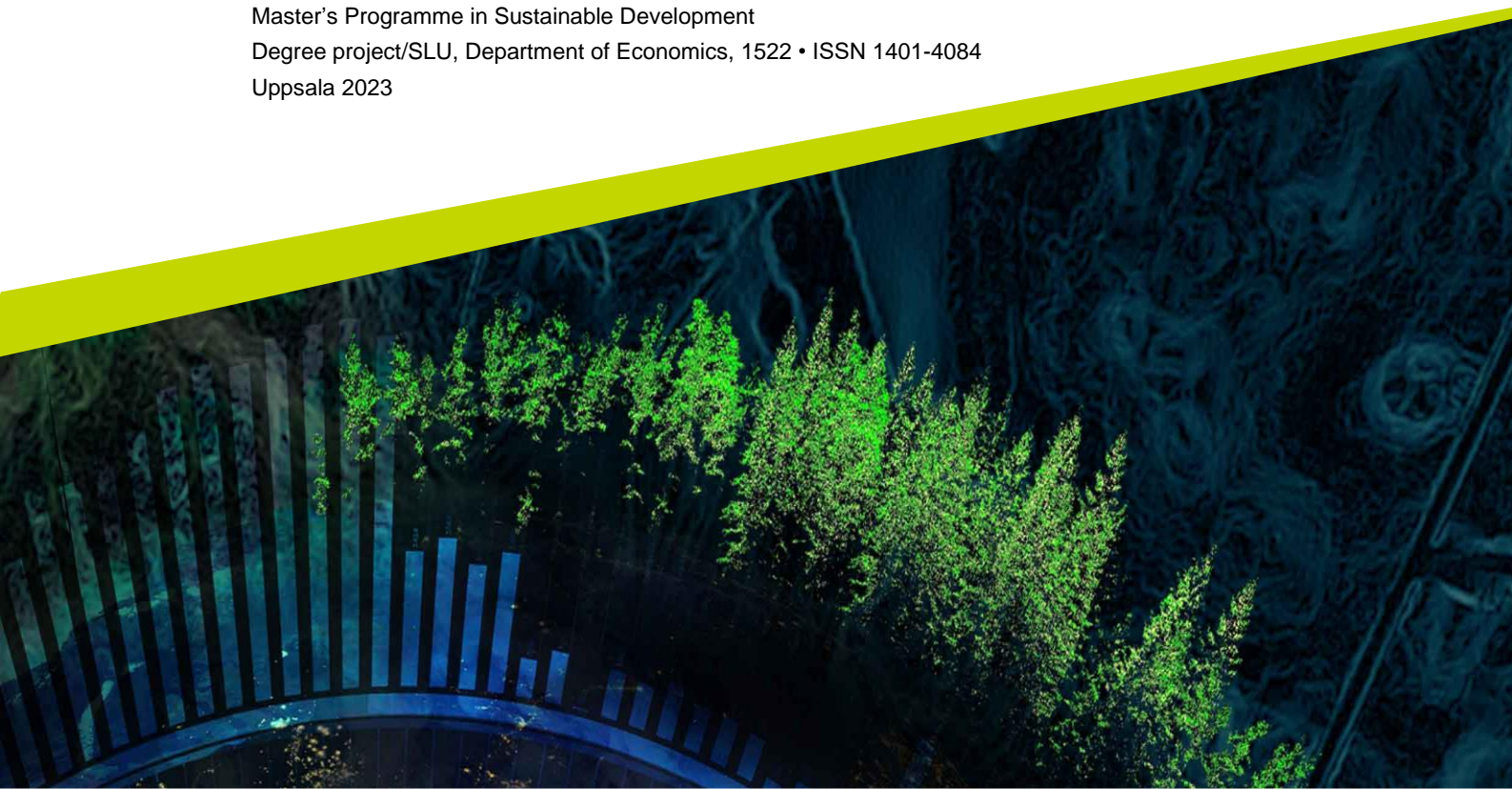




Exploring implications of the EU Taxonomy on funding and disclosure for Swedish SMEs

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Abstract

In 2019 the EU taxonomy was launched as a classification system that aims to provide a common language and framework for sustainable finance. The purpose is to guide investors and businesses to identify environmentally sustainable economic activities to support the transition towards a low-carbon, resource-efficient economy by 2050 within the EU. However not all organizations are covered by the regulation. One group that falls out are European small and medium sized enterprises (SMEs), even though they represent 50% of the total GDP and are responsible for 70% of EU industrial pressure on the environment (Statista Research Department, 2023). Despite not being covered by the EU Taxonomy concerns have been raised that SMEs might be affected indirectly, however the knowledge on how the EU Taxonomy might influence SMEs is still unclear.

Following the lack of research on the EU Taxonomy in relation to SMEs (Dinh, Husmann & Melloni, 2023; Nishitani et al., 2021) this study aimed to explore what financial and disclosure-related implications the EU Taxonomy might have on SMEs in Sweden and if there are incentives on voluntary taxonomy disclosure, with examples from the forestry sector. The study was conducted through a qualitative thematic analysis of 13 semi-structured interviews with representatives from Swedish banks, SMEs and Swedish and international trade organizations.

This thesis aimed to contribute to current knowledge by investigating whether there are uncertainties and divisions amongst banks in Sweden regarding how the EU Taxonomy could affect their SME clients. The findings of this study imply that there are tendencies of banks wanting to include taxonomy data collection from SMEs to improve their own taxonomy alignment disclosure, although the thoughts are divided. The findings further suggests that by voluntary reporting on taxonomy data SMEs could gain advantages in terms of accessing finance from banks, although increased reporting comes with challenges for SMEs such as lack of resources and insufficient understanding of the regulation.

Keywords: EU taxonomy, CSRD, GAR, BTAR, SMEs, Voluntary disclosure

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Abbreviations

BTAR	Banking Book on Taxonomy Alignment Ratio
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
EBA	European Banking Authority
EGD	European Green Deal
GAR	Green Asset Ratio
NFI	Non-Financial Information
NFRD	Non-Financial Reporting Directive
SFDR	Sustainable Finance Disclosure Regulation
SME	Small- and medium sized enterprises
SC	Significant Contribution
TSC	Technical Screening Criteria
TEG	Technical Expert Group
EU TR	EU Taxonomy Regulation

1. Introduction

Climate change, environmental degradation and loss of biodiversity all threaten the existence of the world as we know it today, and urgent action is needed to tackle the challenges that come with these threats. The European Union has on several occasions stressed that they want to be at the forefront of fighting climate change, however the EU has neither been able to reduce their greenhouse gas emissions sufficiently nor convincingly (Claeys, Tagliapietra & Zachmann, 2019). In December 2019 the European Commission presented their new flagship initiative “The European Green Deal”, which aims to turn the challenges and threats of climate change into opportunities. The main goal of the European Green Deal (EGD) is that by 2050 the European Union shall be net carbon neutral, and that economic growth and resource use will be decoupled (Fetting, 2020). The EGD is not a European law in itself but is rather a policy strategy which outlines goals within various policy sectors across the EU, leading the way for new laws and directives which will guide the sustainable transition (Ibid). The European Commission points out the financial system to be of vital part for a successful transition into a new sustainable reality, and thus introduced the Action Plan for Sustainable Financial Growth, whose main goal is to reorient private capital into sustainable investments and foster transparency (European Commission, 2018). The Action Plan consists of 10 actions divided between three categories which are:

1. Reorienting capital flows towards a more sustainable economy
2. Mainstreaming sustainability into risk management
3. Fostering transparency and long-termism

For a shift towards a more sustainable reality to take form, the EU Commission (2018) argues that a unified view of what can be seen as sustainable must exist, which has led to the creation of the EU Taxonomy Regulation (EU TR), argued to be the most urgent of all actions within the action plan. The EU TR will set the standard for economic activities that can be seen as environmentally sustainable, which will aid investors in the form of more detailed data on sustainable economic activities. The TR will thus work as a common framework where the aim is for financial actors to identify which activities are sustainable or not, avoiding greenwashing by companies, and thus know what to invest in. With the new

regulation, the concept of an environmentally sustainable investment has now been given a legally binding definition (Sikora, 2021). The EU TR requires financial market participants offering financial products, such as banks and investors, to disclose to what extent their economic activities align with the criteria of the EU TR (European Commission, 2018). During recent years, pressures on banks to shift their capital towards sustainable investments have increased from investors and other stakeholders which want to see banks commit to net-zero portfolio alignments. These pressures open for new business strategies where banks could renew their products and services such as their lending processes and emitting of green bonds (Mikkelsen et al., 2021).

SMEs in Europe represent 50% of the total GDP and put together they are responsible for 70% of EU industrial pressure on the environment (Statista Research Department, 2023; Santos et al, 2022). SMEs account for most of the obligations of banks in Europe (ibid), they are also heavily dependent on investment to keep up with the green transition. Because of this the EU action plan on sustainable finance and the taxonomy induce challenges for SMEs. Most prevailing is the relationship between the stated requirements and the size of the enterprise which can be unproportioned. Secondly the relations of SMEs with main banks are recognized to be of a more complex nature (Hainz, Wackerbauer & Stitteneder, 2021). With the new disclosure regulation, major banks, cooperative banks and saving banks are required to disclose sustainability information of their loan portfolios and investment including individual loans. Long-going relationships between main banks and SMEs are dependent on reliable negotiation from both sides, which many argue is seen as an implicit agreement (Hainz, Wackerbauer & Stitteneder, 2021). With this agreement comes motivation to firms to disclose information that is necessary for the bank when conducting credit assessments. However new regulations have created uncertainty in what form and to what extent banks must record gathered information (ibid). With the uncertainties from finance and investment institutions comes also increased requirements on gathering of data and information. This poses challenges that are connected to lack of resources, knowledge and skills within SMEs (ibid).

Banks within Europe are expected to take into consideration the local economic context whilst renewing their environmental and sustainability strategies (Mikkelsen et. al., 2021). In countries where SMEs pose the main driving force of the economy, the sustainability transition may be slower due to for example lack of resources. Here the banks can play a major role in supporting the green transition in financial support to SMEs (ibid). In Sweden, the forestry sector is essential to the Swedish economy and the sector largely consists of SMEs (Ekins et al., 2019; Skogsindustrierna, 2020). Further, there are concerns for how the EU TR may

classify certain economic activities linked to forestry as unsustainable (Skogsindustrierna, 2022), which imposes the question on how banks will interpret and consider the taxonomy when in credit, loans and green bond processes in relation to their SME clients who operates within the forest sector.

1.1 Research gap and study contribution

SMEs plays with no doubt an important role in the European economy. Despite this fact there are as of today few studies examining SMEs together with financial institutions, such as banks, in relation to sustainability (Dinh, Husmann & Melloni, 2023). Although several studies have been looking into the increased pressure on companies to disclose their sustainability work (Danish, 2021; Fonseca et al., 2014; Helfaya et al., 2012), SMEs are often overlooked. Now similar trends are seen in research related to the EU TR where there currently exists a research gap. Studies tends to focus more on large enterprises and how financial institutions will be affected, with emphasis on the possible outcome of GAR and BTAR (Kirschenmann, 2022; Partiti, 2023). As emphasised by Dinh, Husmann & Melloni (2023) more research is needed on how non-listed SMEs will be affected by EU regulations, such as the EU TR, since this will potentially come with changes in the bank lending sector. Further, new regulations like the EU Taxonomy might increase the pressure for sustainability disclosure by SMEs.

In relation to EU regulations and sustainability disclosure by SMEs, there are a limited number of qualitative studies examining the role of voluntary reporting in a legitimization context, and especially in relation to financial opportunities which is becoming increasingly important (Nishitani et al., 2021; Guidry & Patten, 2012). Therefore, this study aims to fill this research gap and contribute to insights by examining to what extent SMEs in Sweden would find motives for voluntary disclosure on the EU TR in their relationship with banks, with the forestry sector used as an example.

1.2 Aim and research questions

The aim of this study is to investigate what financial and disclosure-related implications the EU taxonomy might have on SMEs in Sweden with examples from the forestry sector.

In order to investigate the issue, the following questions will be answered:

- How could bank disclosure requirements imposed by the EU taxonomy influence SMEs?
- What would be the implications for SMEs on reporting EU taxonomy related data?

1.3 Structure of the thesis

The subject of this thesis is set into context in the first chapter of the thesis, called introduction. Here the specific issues surrounding the EU TR are put into context with the pressures on banks as well as how SMEs play a major role in the European economy, thus motivating the subject of this study. The second chapter of the thesis offers a background with key elements for understanding how the EU TR, SMEs and banks are interconnected and affect each other. In the third chapter the empirical case is presented to understand the position of the forestry sector in Sweden. Chapter four presents the theoretical framework of this thesis, which consists of legitimacy theory and voluntary disclosure theory. The fifth chapter presents the method of the thesis, which motivates the choice of how the empiric material was collected, as well as the analysis process of the material. Chapter six presents the results from the collected material and sets it in relation to previous research and the theoretical framework. Lastly, chapter seven presents a final discussion of the findings in relation to the research questions as well as conclusions, limitations and further research suggestions.

2. Background

In this section a background of the EU TR together with GAR and BTAR is presented. A brief overview of the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) as well as a background on SMEs in Europe and Sweden is presented. Lastly, recent research within voluntary reporting is presented. All these subjects act as the foundation to the interview guides, found in Appendix 1-5.

2.1 The EU Taxonomy

As of July 2020, the EU TR is officially in force as by European law, working as a piece of the puzzle which is the European Green Deal. The EGD is a growth strategy for the EU, where the aim is for Europe to become climate neutral by 2050. In 2018, the European Commission released their Action Plan for “Sustainable Financial Growth”. The Action Plan enables the European Commission to shift economic activities towards more sustainable options, where the EU TR becomes one of the most crucial tools (Och, 2020).

2.1.1 Scope of the EU Taxonomy and technical aspects

The aim of the EU TR is to work as a classification tool of economic activities and determine whether they can be regarded as environmentally sustainable or not. The taxonomy also works as a screening tool for financial actors who want to invest in sustainable products and enterprises (Pelikanova & Rubacek, 2022). The EU TR is limited to six environmental objectives which are:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

For each environmental objective there are technical screening criteria (TSC) defined in delegated acts. By the time of writing this thesis, only the first two environmental objectives have screening criteria, where the other four have been out on a four-week feedback period which started 5 April 2023. For an economic activity to be labelled environmentally sustainable by the taxonomy there are three criteria that need fulfilling; significant contribution (SC), do no significant harm (DNSH) and minimum social safeguards (Dumrose, Rink & Eckert, 2022). These criteria are set against the environmental objectives.



Figure 1. Performance thresholds for economic activities. Source: European Union (2020)

There are three market participant groups that will need to report on two aspects of the taxonomy: taxonomy eligibility and taxonomy alignment. Taxonomy eligible will state that an actor has an economic activity which has a substantial contribution to one of the six environmental objectives. Taxonomy alignment then show what percentage of the turnover that is taxonomy-aligned (Dumrose, Rink & Eckert, 2022). The three market participant actors who will have to report on these aspects are presented in the table below.

Table 1. Groups of Taxonomy Users. Source: European Union (2020)

Groups of Taxonomy Users		
1. Financial market participants offering financial products in the EU, including occupational pension providers	2. Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive	3. The EU and member states, when setting public measures, standards or labels for green financial products or green (corporate) bonds.

SMEs are currently not included within the CSRD and thus not obligated to disclose taxonomy data, mainly because SMEs have less resources to gather relevant data. The European Banking Authority (EBA) is one of the actors within Europe who is

strongly supporting the inclusion of SMEs within the EU TR (EBA, 2021a) as well as a lighter version of a reporting standard as they acknowledge the lack of resources for gathering data that most SMEs are facing. Since the EU TR in theory will work as a screening tool for which financial actors can evaluate weather potential clients are environmentally sustainable or not, it is relevant for this study to examine how banks in Sweden will interpret the EU TR and to which extent the regulation will affect their current and potential SME clients.

2.1.2 Limitations and criticism of the EU Taxonomy

The work with creating the EU TR has been very ambitious, and there are without surprise limitations to the regulation. Critical voices have raised concern that the taxonomy and the EGD as whole lacks harmonization in both interpretation of its standards and the TSC needs clarifications (Lee, 2022; EBA, 2021b; De Oliveira Neves, 2022). The EU TR does only include a few sectors which will be obligated to disclose taxonomy data, here criticism has been raised where high-carbon intense sectors have been left out (Schütze & Stede, 2021). Further criticism has been raised regarding how the EU TR will contribute to EU's plan on becoming climate neutral, since not all TSC within the regulation leads to a pathway towards neutrality (ibid).

In terms of how SMEs will be affected by the EU TR, the prospects are somewhat unknown. Although SMEs are not legally obligated to report on taxonomy data, several reports indicate that there might be a trickle-down effect which results in additional reporting burdens for SMEs (Giacomelli, 2022; Tillväxtverket, 2023; Kirschenmann, 2022). The criticism here towards the current construct of the taxonomy lies in that SMEs in need of finance from banks or investors, or who are in the supply chain of a larger enterprise which must report taxonomy data, will have to disclose how their economic activities correlates to the TSC in the taxonomy (Tillväxtverket, 2023). In a report carried out in Sweden by Tillväxtverket, criticism is raised around issues such as the taxonomy being too complex and detailed for SMEs to grasp, SMEs not having the right or correct resources to produce data and lastly, that larger enterprises or investors do not inform SMEs in time for them to prepare themselves (ibid).

Important to keep in mind is that the EU TR is a regulation still taking form, where plans to expand the regulation have been mentioned by the EU Commission. In current research and public debates, mentions of a "brown" taxonomy have been occurring. The brown taxonomy would enable investors to rule out activities which are labelled unsustainable, similarly, having an intermediate level of economic activities could facilitate investors work of recognizing activities which are on a sustainable pathway (Schütze & Stede, 2021; Pettingale, de Maupeou & Reilly, 2022).

2.1.3 ITS Pillar 3 – GAR and BTAR

As the European Union increases efforts to shift the European economy towards a more sustainable one, banks and other financial actors must increase disclosure on their ESG work. Regulations and directives such as the CSRD and the Sustainable Finance Disclosure Regulation (SFRD) aims to increase the transparency and accountability on these ESG issues, which financial actors as well as larger and listed enterprises must disclose on (Kirschenmann, 2022). Although CSRD ups the number of enterprises obliged to report on their sustainability work and includes sustainability disclosures to align with the demands of SFRD, it still exempts SMEs in the directive. In 2022 however, the EBA added new requirements within their Pillar 3 prudential disclosures, which increases disclosure requirements on banks sustainability work mainly in the form of two new key performance indicators (KPI); Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR) (EBA/ITS, 2022). These disclosures can be part of banks financial reports or in separate Pillar 3 reports (European Central Bank, 2022).

The two new indicators are based on the EU TR and are targeted towards disclosure of banks and credit institutions. The GAR indicator calculates a bank's taxonomy-alignment within investments and economic activities from counterparties under the CSRD (Kirschenmann, 2022). However, as GAR includes the total assets, investments and economic activities of counterparties not covered by the CSRD are automatically categorized as non-taxonomy aligned which results in an underestimate of the “real” GAR as explained by Brühl (2023).

BTAR on the other hand, calculates taxonomy alignment exposures of non-CSRD undertakings which includes non-listed SMEs. Here, financial actors and credit institutions are asked to assess their undertakings on a best level basis where they are allowed to collect data which is already available or conduct various estimates on taxonomy alignment (Partiti, 2023). If their counterparty chooses to not disclose taxonomy data, either because they cannot or does not want to, the financial actors or credit institutions can use proxies when calculating BTAR, the calculation process does however need to be disclosed. The BTAR disclosure can thus be overlapped with voluntary taxonomy disclosure (ibid).

A possible challenge for banks in the future is on how to make GAR meaningful and accurate, since the total assets include non-CSRD enterprises who will not be obliged to collect and show the necessary taxonomy data (Kirschenmann, 2022). To make the GAR meaningful and accurate, banks would want to include SMEs and request necessary taxonomy data from them, as discussed by Giacomelli

(2022). On the other hand, if proven to be difficult to collect data from enterprises not obliged to report, banks could instead lean towards excluding SMEs out of loan granting and only lend money to enterprises covered by the CSRD (Kirschenmann, 2022). The EBA is aware of the challenges that come with GAR and the exemption of SMEs, and thus for the GAR to become meaningful, the EBA asks financial institutions to disclose their BTAR on a best level, and a voluntary, basis, which they hope will minimize the pressure on SMEs (EBA/ITS, 2022).

In short, the EU TR together with GAR and BTAR could have possible influence on SMEs in Sweden in relation to funding from banks through trickle-down effects. SMEs are not obligated to report taxonomy data as they are not included in the CSRD, however the CSRD and the EU TR are closely connected. Therefore a short summary of NFRD and CSRD is presented in the next section.

2.2 NFRD and CSRD

The Non-Financial Reporting Directive (NFRD), which determines who must report on taxonomy data, was put into force in 2014 by the European Commission, where the aim was to increase the transparency of companies' sustainability work (Baumüller and Grbenic, 2021). In 2021, the commission announced a new directive which will replace NFRD in 2024, the Corporate Sustainability Reporting Directive (CSRD). The aim of the new directive is to align sustainability reporting with other directives within the EU, such as the Sustainable Finance Disclosure Regulation (SFRD), and to increase the transparency of sustainability reporting where companies must report on specific data. The previous directive, NFRD, did not specify which data should be included in the sustainability report, which resulted in companies freely choosing what to include and using different reporting initiatives and frameworks, lowering the transparency and comparability between companies (Primec and Belak, 2022).

Previously, only large enterprises with 500 or more employees had to report on their sustainability work. With the CSRD this size criteria will be lowered to include a broader scope of enterprises. If a company fulfils two out of three criteria, they will have to report according to CSRD, where data collection will start for fiscal year 2024 and the report should be published in 2025.

Table 2. Criteria for CSRD compliance

Criteria for CSRD compliance		
>250 employees	€40 million in net turnover	€20 million in assets

CSRD thus includes all large companies as well as listed companies in Europe on a regulated market, except for listed micro-enterprises (<10 employees). All enterprises obligated to report according to the CSRD will also be obligated to report on the EU Taxonomy.

Non-listed SMEs are not obligated to report according to the CSRD, and thus not the EU TR. However, the exemption of SMEs in the CSRD has been criticized (Santos, Rodrigues & Morais, 2022) since SMEs have a large impact on both the European economy and the environment, described more in detail in the next section.

2.3 SMEs

The European commission refers to SMEs as the engine of the EU economy, this is given the fact that SMEs create 70% of all jobs in the EU and represent over 50% of the European GDP (European commission, 2020). Hence, they are massive producers of economic growth and employment. SMEs also have important roles in spurring competitiveness and creating innovative solutions, on this note they have been addressed as drivers for sustainable economic development. Regarding climate change and environmental damage, individual SMEs do not impose a huge impact, however put together SMEs are responsible for 70% of EU industrial pressure on the environment (Statista Research Department, 2023; de Oliveira, 2022).

There is no common global definition of what constitutes an SME and the criteria varies across institutions and nations. Since this thesis explores implication on the EU TR on SMEs the following European commission definition will be applied; “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and more than 9 which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million” (European commission, 2020). If the number of employees is between 9 and 50 and the turnover is lower than EUR 10 million the enterprise is categorized as small.

SMEs often tend to be of independent nature where they operate from an informal and personal core (Lepoutre & Heene, 2006). The independence also means that some SMEs are more reliant on internal resources for financial means. Yet the smallness of SMEs sometimes comes with issues connected to lack of resources and expertise which in turn can impose challenges (Hainz, Wackerbauer & Stitteneder 2021). Challenges includes for example being less able to gather data

and other necessary information to voluntarily report and disclose on sustainability efforts. Voluntary reporting on sustainability efforts could offer SMEs competitive advantages, the topic of voluntary reporting in relation to sustainability and SMEs will be presented in the next section.

2.4 Voluntary reporting

Sustainability reporting and other non-financial information is today deemed a cornerstone in enterprises' transparency and communication work (Santos, Rodrigues & Morais, 2022). Public pressure and demand for sustainable and accountable companies along with several initiatives has resulted in ever evolving requirements on non-financial disclosure (Danish, 2021; Fonseca et al., 2014) By now, all large and listed enterprises in the EU are required to gather and disclose information on their activities and following impacts on people and the environment. Expectations on sustainability are not only expected in the company's conceptions towards the environment but also in interactions with stakeholders (Lăzăroiu et al., 2020). As a result, companies of public interest must now report on what environmental and social risks the organization may encounter so that investors and stakeholders are given the chance to make sound and just decisions by evaluating the organization's sustainability work (European commission, 2022). Hence sustainability reporting and disclosure plays an important role in affirming company legitimacy (Helfaya et al., 2012).

Subsequently, more and more reporting standards are becoming mandatory with more extensive requirements (Danish, 2021). One example is the CSRD-directive. The directive is as stated earlier currently focusing on larger enterprises, however the idea of including SMEs has lately been given more space (Santos, Rodrigues & Morais, 2022) Nevertheless this is not a conflict-free matter. Because SMEs lack expertise, resources and financial means to gather data and report an inclusion would likely bring on additional burdens which are likely to become costly (de Oliveira Neves, 2022 p. 264). As a reaction to this there has been a suggestion that a simplified non-financial reporting standard should be adopted for SMEs (Santos, Rodrigues & Morais, 2022). This would both offer SMEs inclusion, giving them a chance to attain legitimacy while at the same time not creating insurmountable burdens. Following this reasoning the ERFAG (European Financial Reporting Advisory Group), in early November 2022, laid out an issue paper which discussed the potential of a voluntary reporting standard (VSRS) for non-listed SMEs outside the scope of CSRD, where non-listed SMEs can voluntarily report taxonomy data. The purpose of the potential standard would be to offer proportionate, fair and simplified reporting which better matches the operations of non-listed SMEs.

Even though a simplified and voluntary reporting standard for SMEs would be more proportionate to the conducted business of SMEs, experts raise concerns that it could jeopardize the comparability and reliability of sustainability reporting (Frade & Formouth, 2022). As stated, sustainability reporting should offer comparable, relevant and reliable information which provides various stakeholders with just information on risks, opportunities and performance. Comparability is an especially important factor as it will provide information on progress and comparison between different actors (Frade & Formouth, 2022). Crucial enablers for this factor are consistency over time as well as standardization, hence lack of these factors could impair the quality of Non-Financial Information (NFI).

To sum up, voluntary reporting would offer a fairer platform from SMEs to disclose NFI. Yet standards with mandatory requirements have been proven to be an effective measure to foster comparability and prevent greenwashing (Santos, Rodrigues & Morais, 2022). In relation to this, one of the main objectives with the EU TR is to enable transparent and reliable decision-making information on organizations. Hence the question on mandatory contra voluntary becomes a difficult dilemma in the ongoing discussion on SMEs and taxonomy linked reporting.

3. Theoretical perspective

The theoretical perspective section of this thesis will present the concepts of legitimacy theory and voluntary disclosure theory. These theories will lay the foundation for answering the research questions in which the empirics will be analysed through these theoretical lenses. Legitimacy theory will be used to examine how the EU TR can increase or create legitimacy for both banks and SMEs in Sweden. This study contributes to studies on voluntary reporting informed by legitimacy theory by showcasing how an EU regulation can be an incentive for both banks and SMEs to increase their legitimacy. Overall, legitimacy theory can be used to assess the implications of voluntary disclosure of EU TR-related data by both SMEs and banks, providing a useful theoretical framework for understanding the motivations and potential outcomes of sustainability reporting and disclosure in the context of the EU TR.

Since this study investigates what implications the EU Taxonomy will have on SMEs in Sweden which are not obliged to report, the voluntary disclosure theory was seen as a relevant complement to the legitimacy theory. Voluntary disclosure theory has been frequently used within environmental reporting research, and recently the use of the theory has increased within environmental research to evaluate and examine the relation between voluntary disclosure and financial opportunities.

3.1 Legitimacy theory

Legitimacy theory was first developed during the 1970's and originates from the domain of organizational theory (Deegan, 2019). Apart from organizational theory, legitimacy theory focuses on corporate interactions with society. Deegan and Rankin (1996) who have significantly contributed to the development of the theory narrates legitimacy theory as “compliance with a social contract”. The objective is to enable corporate operation to be considered desirable with a goal of operating within the frame of prevailing societal norms, values, beliefs and boundaries (Schuman 1995; Deegan, 2002). It is, nonetheless, crucial to keep in mind that societal norms change over time and are reshaped along with developments of the social climate. Likewise, norms and values might differentiate between various

cultures and communities. Hence what is considered desirable in one community is not per se desirable in another. Organizations also strive for legitimacy for different reasons, and it is important to keep in mind that the outcome of the qualification, significance and success of legitimacy efforts is in many cases relevant to the kind of metrics used in the evaluation.

Contemporary legitimacy theory is often linked to corporate social responsibility, ESG performance and disclosure. Because of this the theory is useful to explain a company's incentive to present sustainability performance (Hummel & Schlick, 2016). In relation to sustainability performance Deegan (2002) explains that the theory can be used to answer questions on why a company needs to disclose to stakeholders on sustainability and give insight into engaging activities. The prospect from this is to upgrade the company reputation and improve stakeholder interpretations and achievements of the company activities. Legitimacy theory has been suggested to be "the most widely used theory" when explaining social and environmental disclosure (Cambell, Craven & Shrives, 2003). From this cause, understanding of motivations for actions and disclosure becomes central in legitimacy theory. Considering legitimacy and its causes is not only of importance for the company disclosing but also for those developing regulations and guiding on sustainability reporting (Deegan, 2002).

In legitimacy literature, legitimacy is broadly structured into one of the following groups, Strategic or Institutional (Suchman, 1995 p. 573.). The institutional tradition is described as being centred around normative behaviours which organizations can adopt in order to win support among stakeholders and the broader society. Institutional legitimacy takes into consideration acceptance of the shared community and implies that cultural influences will shape organizational governance (Suchman, 1995 p. 573). In relation to the study, ever developing sustainability demands from regulators, governments and communities puts pressure on organizations to meet "new institutional configurations" to satisfy stakeholder needs (Ceesay, 2020). Corporate sustainability is part of the business system and as sustainability disclosure is like a dialogue between a firm and its stakeholders, legitimacy theory can be argued to work in favor of a theoretical lens when exploring organizational sustainability disclosure (Brammer et al., 2012; Ceesay, 2020), thus it becomes a useful perspective when investigating the relationship between Swedish SMEs and banks regarding EU TR disclosure.

Strategic legitimacy on the other hand, expects that legitimacy can be managed and controlled, and it is through operations of management legitimacy is foremost achieved. This doctrine argue that legitimacy is an operational resource that firms can attain in a more or less competitive manner (Suchman 1995, p. 575) One

example of an strategic legitimacy action could for example be attaining a certification since it is a decision based action which a firm must put effort and money into (Ullah, Wei & Xie; Zhang, Jiang & Noorderhaven, 2019). This perspective could help to understand strategic decisions from SMEs to attain legitimacy through taxonomy disclosure.

For this study it is important to keep both divisions in mind and remember that both doctrines have their limitations. Strategic legitimacy has been criticized to go under pragmatic legitimacy which presumes that legitimacy can be controlled, managed and manipulated to fit a societal context (Castelló, & Lozano, 2011). On the other hand, institutional legitimacy assumes that the societal context rests on a homogeneous background and norms which do not fully accordance with today's globalized conditions. Because these two approaches in many ways can be viewed as insufficient, a third branch has been developed leaning more towards moral legitimacy which better complies with higher expectations from governments, shareholders and consumers (Castelló, & Lozano, 2011). To account for general higher sustainability expectations and more heterogeneous views in society in which SMEs and banks operate, elements of moral legitimacy will be useful. Hence throughout the result all three dimensions will be infused.

3.1.1 Three dimensions for reaching legitimacy

To differentiate Strategic and Institutional legitimacy Suchman (1995 p. 577) describes that Strategic can be viewed as “managers looking out” while the institutional rather is “society looking in”. Linked to the two branches, Schuman (1995) categorizes the theory into three attaining dimensions for reaching legitimacy: pragmatic, cognitive and moral.

I. Pragmatic legitimacy

Pragmatic legitimacy is centred around self-interest, where decisions are made on “active assessment of the expected value that an organization will provide its primary stakeholders” (Alexio & Wiggins, 2019). The idea is that stakeholders will only establish relationships with an organization if the organization's operations are estimated to be gainful for the stakeholder. Hence pragmatic legitimacy is ascribed to the organization only if stakeholders are expected to gain some form of value from it. It is consequently up to the corporation to calculate how they can win interests and convince the stakeholders that their activities are of value (Ashforth & Gibbs, 1990). This category goes under the Strategic approach.

II. Moral legitimacy

In contrast to pragmatic legitimacy, moral legitimacy is not centred around what is beneficial for the evaluator but rather on what is seen as morally right. As the name

implies, moral legitimacy represents a “positive evaluation” of organizational operations and how they might contribute to social welfare. The moral branch of legitimacy is not interest-free, however more difficult to manipulate in contrast to pragmatic. Moral legitimacy is reached by engaging the public and fostering participation through dialogue.

III. Cognitive legitimacy

Lastly is the cognitive category, this dimension is harder to control since it is of a more intuitive character and in line with culture and societal beliefs, assumptions and norms. Suchman (1995, p. 582) explains that this branch can have two sides: either “affirmative backing for an organization or mere acceptance of the organization as necessary or inevitable based on some taken-for-granted cultural account” (Suchman, 1995, p. 582). This last category would go under the institutional approach of the theory.

3.1.2 Legitimacy theory and SMEs

Most companies are dependent and to some extent limited by resources, however due to their size and greater institutional pressure from often being part of a very local context, SMEs are more prone to risk of failure (Freeman, Carroll & Hannan, 1983). SMEs liability of smallness gives them access to fewer resources (financial, human and informational resources) (ibid), because of this, SMEs must often work harder to attain and increase their legitimacy in order to claim access to resources (Russo & Perini 2010; Iovana Ruffo et al., 2020). In relation to attaining finance Ivanova Ruffo et al. (2020) also explains that relationships with banks can be crucial for attaining legitimacy where the “support of the bank, especially in times of crises, is viewed as a source of legitimacy”.

3.1.3 Limitations

Legitimacy as a framework has some limitations that are important to keep in mind, Degan et al., (2002) explains that legitimizing disclosures could become a tool that efficiently hinders needful and real change. Deegan (2019) continuously explains in line with Puxy (2019) that this is because legitimizing disclosures could possibly be contra-productive and not in line with the interest of society. One example of this is laid out by researchers who suggest that legitimacy theory offers an approach to under-performing companies to use sustainability disclosure as a legitimizing strategy to influence the public apprehension of the company (Deegan, 2002; O’Donovan, 2002). Still others argue that this only occurs since companies rather prefer to share low-quality information to conceal bad sustainability performance and whilst doing so be able to retain its legitimacy (Hummel & Schlick 2016). Additionally, if a corporation's operation is successfully legitimized and followed

by legitimizing disclosures, this could potentially restrict stakeholder interest in implementation of restricting and transformative regulations. Regulations which then could change organizational activities. This could indeed be in the interest of the organization but not necessarily in the interest of society. Following this Deegan (2019) and others (Puxy 2019; O'Donovan, 2002;) acknowledges that the theory in some way can be seen as underdeveloped. Spence et al. (2010) elaborates further on this, however in a more critical spirit he argues that the theory fails recognizing the real obstacles for accountability.

3.2 Voluntary disclosure theory

Together with legitimacy theory, voluntary disclosure theory is commonly used in studies of corporate voluntary reporting (Nishitani. et al., 2021). Voluntary disclosure theory stems from financial disclosure literature where aspects such as proprietary costs and uncertainty are discussed (Nishitani. et al., 2021, Guidry & Patten, 2012). Within the frame of environmental and social disclosure, voluntary disclosure is often argued to be a tool for which companies communicate to stakeholders and the public with the aim of influencing their perceptions of the company, which could be argued are closely connected to legitimacy theory (Guidry & Patten, 2012). On the other hand, another perspective of voluntary disclosure theory presumes that a company would find incentives for voluntary environmental and social disclosure when it could positively influence economically powerful stakeholders (Nishitani. et al., 2021, Guidry & Patten, 2012), which in this study is argued to be the banks. Previous research within voluntary disclosure theory shows that investors and creditors increasingly value enterprises which disclose environmental information, especially those who improve their environmental work since it can be viewed as a future asset for the financial actors (Nishitani. et al., 2020).

As argued by Nishitani. et al (2021), voluntary disclosure theory can be seen as a case of game theory, where a company chooses to only disclose favourable information and withhold unfavourable information. Further, a company which performs well on sustainability matters will have a greater incentive to disclose such information with its stakeholder to increase its market value. However, Hummel and Schlick (2016) argues that this correlation only applies to companies who can disclose high quality sustainability disclosure since low quality disclosure cannot be assessed by outside investors. Similarly, Nishitani. et al. (2020) present in their research that companies who voluntarily disclose environmental performance which gets assessed by a third party promotes financial accountability, thus increasing the credibility of their environmental reporting.

Voluntary disclosure theory and legitimacy theory are arguably closely connected to each other, where both explore the correlation between disclosing information to gain favour with stakeholders. The difference lies in that voluntary disclosure theory foresees a positive correlation between voluntary disclosure and increased market value, and legitimacy theory rather focuses on the outcome of disclosure in terms of improved public perceptions (Hummel and Schlick, 2016). Recent research has however been using both theories when investigating voluntary environmental disclosure, where the evidence of voluntary disclosure theory can be found and when legitimacy theory has been used to explain patterns in the data (ibid). In this study it becomes relevant to apply both these theories, as they will provide different perspectives on why SMEs in Sweden would want to voluntarily disclose taxonomy data to banks. The voluntary disclosure theory perspective can shed light on whether there are any incentives for SMEs in Sweden to disclose taxonomy data, in terms of, for example, financial benefits from banks and thus increasing their market value.

4. Empirical case

This study will use the Swedish forestry sector as an empirical case since the Swedish forestry sector is included in the EU TR and is relevant because of the sector's economic importance, environmental impact, investor interest, and policy implications. Moreover, it is an industry where sustainability is becoming increasingly important due to the relevance of circular economy and renewable materials.

4.1 The Swedish forestry industry

Forests provide a broad variety of functions and are because of this in the interests of several different stakeholders. In Sweden 68 % of the land area is covered by forests whereas the vast majority is of productive sort (SCB, 2022), hence forests and forestry are of essential importance to the Swedish economy (Ekins et al., 2019). The forest industry employs over 120 000 individuals across the country, and like other sectors consists of a large body of SMEs (Skogsindustrierna, 2020). It accounts for 9-12 percent of total employment, turnover, exports and value added of the Swedish industry as a whole. This makes Sweden a dominant actor on the global timber market (Naturvårdsverket, 2021). Nonetheless forests are not only of economic significance, but societies across the globe also rely on them as providers of various ecosystem services (Brockhoff et al. 2017; Ninan and Inoue, 2013; Pohjanmies et al., 2017). With its crucial services, forests are expected to play an important role in the circular economy, providing renewable materials, biomass and fuels (UNECE, 2022). Another crucial attribute is that forest carries out carbon sequestration. Global boreal forests, which are most common in Sweden, have the potential to store 33% of global terrestrial carbon (Zhao et al., 2020). Since forests hold a broad variety of both public and private assets, they are eligible under a raft of international and national regulations which strive to sustain its ecological, economic and social values for coming generations (Jakobsson, Olofsson & Ambrose-Oji, 2021). Being both a public and private resource in a complex socio-ecological context, forestry makes the perfect setting for stakeholder conflicts and collisions (ibid).

Because of these sensitive relations the Swedish forest industry has been a matter of debate. Various academics and NGOs have criticized the exploitation of ecosystems and loss of biodiversity which comes with the industrial-like operations occurring in Sweden (Lindahl et al., 2017; Westman and Berglund, 2017; Björklund, Brohult and Widman, 2022). Concerns have now also been raised by the European commission which warns Sweden about "its forest management and its frequent-felling policy" (European commission, 2023a). The forest industry is without doubt crucial for the Swedish green transition (OECD, 2018), yet some warn that the taxonomy risks classifying economic activities related to forest industry as unsustainable (Skogsindustrierna, 2022). Nordic countries have a tradition of aligning production goals with environmental goals, something that often is seen as both necessary and positive for the transition path (Andersson et al., 2022; Beland Lindahl et al., 2017; Landshypoteket, 2022). Meanwhile, the EGD and its implication is mainly focused on biodiversity conservation and climate change and gives less attention to societal benefits, for example, how forest-based industries and products can contribute to climate neutrality (Aggestam & Giuraca, 2021).

The TSC of the taxonomy has been industry adopted to enable organizations to form EU-taxonomy eligible business models (European commission, 2020). One of the 11 businesses included is forestry. The TSC is explained in annex 1 of the taxonomy (The commission's delegated act (EU 2020/1852). Four activities connected to forestry are stated in Annex 1:

- Afforestation
- Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event
- Forest management
- Conservation forestry

All listed activities expected from restoration must establish a forestry plan which defines how the activity significantly contributes to the mitigation of climate change and that also contains requirements from national law. The forestry plan consists of 11 requirements which involves description of the forest in numbers and writing based on measurements and estimations. Moreover, to be classified as green according to the taxonomy, all forest properties with more than 13 ha of productive land must do climate benefit analysis. The point is to show a net balance of emissions and greenhouse gas uptake. The analysis is conducted during a 30-year period and is compared to preference scenarios (EU 2020/852). The climate benefit analysis brings demands in terms of reporting, calculations and information requirements (Landshypotek, 2022).

The SMEs interviewed in this study could be associated with economic activities related to afforestation, forest management and conservation. For example, efforts including logging and “silviculture and other forestry activities”. Moreover, two SMEs are indirectly covered by the taxonomy as large buyer of timber and producers of wood products. As this product is currently not classified as green by the taxonomy, wood and timber enterprises risk declining their production (Skogsindustrierna, 2022b). This could potentially lead to outsourcing to non-Swedish timber which can further aggravate climate emission by long transportation distances.

5. Method

Since the EU taxonomy is a fairly new regulation, questions still remain on how SMEs will be affected through the trickle-down effect and more specifically on how their opportunity for finance will be influenced through the regulation. To get a deeper understanding of how financial institutions and SMEs in Sweden interpret the uncertainty with the regulation, a multiple case study where semi-structured interviews were chosen as the data collection method. By conducting interviews, we could in an exploratory way dig deeper within questions on how the regulation could in practice affect SMEs in Sweden, what concerns are most prominent and explore what possible positive outcomes might arise for SMEs regarding the regulation.

Semi-structured interviews were chosen over other methods such as surveys or document/discourse analysis since interviews open up for a more exploratory and open approach where interesting themes or topics might arise during the interview. These differences were seen as essential to the thesis, since the implication the regulation might have for banks and SMEs are little explored in the current research and articles.

5.1 Research philosophy and research approach

i. Research philosophy

Ontology is the doctrine of what exists or of how reality can be understood and explained (Bell, Bryman & Harley, 2019a p. 5-6). In social constructivism reality is dependent on societal structures whereas reality is seen as a result of human activity (Creswell, 2003 p. 4). Social constructivism is the ontological approach adopted in this thesis. Following the social constructivist approach, reality is dependent on people's interpretation of the world, hence there are several, each as complex, realities co-existing (Creswell, 2003). This thesis was conducted through an interpretive epistemological approach whereas the result is drawn from people's beliefs and values hence fact is not seen as objective but instead subjective as we explore a broad spectrum of people's experiences related to the research issue (Guba & Lincoln 1994 p. 111).

ii. Research approach

Based on the research philosophy of this thesis, an inductive research approach was chosen. The inductive research approach is common in qualitative studies, such as this one, where the inductive approach allows the researcher to explore findings and themes in data rather than a deductive approach which tests theories based on assumptions (Malhotra, 2017; Thomas, 2006). As this study aims to explore how banks and SMEs in Sweden interpret challenges with the EU TR a qualitative case study was adopted with an inductive approach using semi-structured interviews. Since the study had an inductive approach, the research questions were formulated in an explorative way where the results of the empirics could be compared and put in relation to the existing theories to see if there were any connections (Bell, Bryman & Harley, 2019b p. 18-20).

5.2 Qualitative semi-structured interviews

To develop a deeper understanding on how banks and SMEs in Sweden interpret the challenges and uncertainty with the new EU TR, qualitative semi-structured interviews were chosen as the method approach for the interviews. Semi-structured interviews are rather about having a free-flowing conversation where the interviewee moves from one topic to the next with ease, while at the same time the interviewer can use the interview guide to lead the conversation in a certain direction when necessary (Magnusson and Marecek, 2015a).

Qualitative semi-structured interviews have a greater focus on what the interviewees thoughts and experiences on a subject are, in contrast to a quantitative method where the interviewer's perspective is more in focus (Bryman, 2016). When adopting a qualitative semi-structured interview approach, our hope was that the interviewees felt free to talk about their feelings and their thoughts about the new EU TR. By using the qualitative approach and by having open-ended questions which allowed for the interviewee to talk freely, we could get a deeper understanding for what each interviewee felt was particularly important and relevant regarding the new regulation, something that Bryman (2016) highlights as an important and positive aspect of the qualitative approach. With this approach we could use the material to compare the different actors' experiences and what they highlighted as especially important, and as Bell (2006) puts it, get a deeper understanding of the subject.

5.3 Selection

One of the sectors which will ultimately be affected is the forestry industry. For finance, banks become a necessary part of the selection to get their perspective and views on the regulation and to what extent it might affect their clients. Thus, for us to get a broad understanding and include several perspectives on the matter, banks, SMEs within the forestry sector in Sweden and trade organizations were interviewed. The issue on how many interviews and interviewees are viewed as too few within qualitative research is highly debated, and as stated by Magnusson and Marecek (2015c), it depends on the study. In this study we interviewed 15 people from 13 different organizations and companies which we deemed sufficient to make a meaningful and accurate analysis. By the end of our interviews, we noticed that no new information or new perspectives on the matter was raised, which indicated that no further interviews were needed.

5.3.1 Selection of interviewees

The selection was based on the interviewees experience and knowledge on the subject, which is one of the most common forms of selection according to Nicholls (2009). The selection thus included several interviewees from different sectors who all have knowledge and are in some way affected by the TR, see Table 3.

For the selection of the interviewees in this study we chose to use two types of selection methods: purposive selection (Bryman, 2011) and the snowball effect (Magnusson & Marecek, 2015c). We first contacted trade organizations, one for banks within Sweden, one who works with SMEs in Europe and the third being a trade organization for forestry. These three interviews were seen as scoping interviews, and the first objectives for applying the snowball effect method, where the interviewees could recommend specific people of interest for this study. We then contacted people at the largest banks in Sweden who work directly with the taxonomy as well as with credit and green obligations. We also contacted SMEs within the forestry sector in Sweden. The selection resulted in two Sawmill SMEs which were indirectly covered by the taxonomy as large buyers of wood and producers of timber (SME1 & SME2). SME3 and SME4 was also in the wood processing industry however SME4 were more directly covered by the taxonomy as they are on contract agreements to manage forests. Lastly SME5 was a traditional forest company engaging in activities such as forest management and felling and hence directly covered by the taxonomy. At the end of each interview, we asked for other people or organizations who might be interesting for us to talk to which resulted in further contacts and new interviews. The snowball effect method is an effective method, however there are drawbacks as well. As Denscombe (2009) explains it, the snowball effect might lead to interviewees recommending friends

rather than people with different perspectives. Although aware of these drawbacks, for this study we believe that our selection is representative of different perspectives. All interviews were conducted between January 24th and March 24th, 2023.

Table 3. Interview participants, actor description, interview format and duration

Interviewee	Actor	Interview format	Duration (min)
Interviewee 1 (TO1)	Trade organisation (International for SMEs)	Zoom	28:30
Interviewee 2 (TO2)	Trade organisation (Banks)	Microsoft Teams	48:40
Interviewee 3 (TO2)	Trade organisation (Banks)	Microsoft Teams	48:40
Interviewee 4 (TO3)	Trade organisation (Forestry)	Microsoft Teams	30:16
Interviewee 5 (B1)	Swedish bank	In person	53:24
Interviewee 6 (B2)	Swedish bank	Microsoft Teams	46:31
Interviewee 7 (B2)	Swedish bank	Microsoft Teams	46:31
Interviewee 8 (B3)	Swedish bank	Zoom	50:10
Interviewee 9 (B4)	Swedish bank	Zoom	28:09
Interviewee 10 (B5)	Swedish bank	Microsoft Teams	49:47
Interviewee 11 (SME1)	SME (forest industry)	Microsoft Teams	28:22
Interviewee 12 (SME2)	SME (forest industry)	Microsoft Teams	32:12
Interviewee 13 (SME3)	SME (forest industry)	Microsoft Teams	30:00
Interviewee 14 (SME4)	SME (forest industry)	Microsoft Teams	37:35
Interviewee 15 (SME5)	SME (forest industry)	Microsoft Teams	33:48

All interviewees were either directly in charge of the sustainability work in their organization or part of the sustainability team. Since banks have come a lot further with the work with the EU Taxonomy, the interviewees from the banks were working closely with the directive at their organization.

5.4 Interview guide

When conducting interviews, it is important to have a well-structured and comprehensive interview guide. For the interview guide to become meaningful and useful Kvale and Brinkmann (2014) points out the importance of thorough preparatory work so that the interviewer feels comfortable with the subject which is of interest. Thus, we did extensive research on the topic of SMEs, the EU taxonomy and other regulations and frameworks such as TCFD, CSRD and Pillar

3 which affect the reporting requirements of financial institutions and corporations within the EU.

Creating an interview guide can be hard work, as Dalen (2015) puts it, since the research questions and the problem formulation of the research must be converted into discussion themes and questions. This is something that also Magnusson and Marecek (2015a) point out and highlights that research questions and interview questions are not the same thing and that the interview questions should be open and invite conversation where the interviewee can feel free to talk about experiences, thoughts and feelings.

To create an open atmosphere where the interviewees feel comfortable, the interview guides start with introductory questions where the interviewees get the opportunity to talk freely about their role at the organization and what they work with. Following the introduction, the interview guides were divided into themes of sustainability reporting, the EU taxonomy and or finance, depending on which sector the interviewee belonged to. All questions had sub-questions which were used to guide the interviewee to topics of interests if needed. All questions were designed to be open-ended, to let the interviewees talk openly and freely about each topic and questions, something which is important when doing semi-structured interviews (Magnusson and Marecek, 2015a). At the end of the interview guide, we chose to include questions where the interviewees had the opportunity to add comments that they felt were either missing during the interview or they could clarify aspects if necessary. The aim with these last questions was to make sure the interviewees felt heard and comfortable, which Kvale and Brinkmann (2014) argues can fill this function, as well as make the overall experience positive for the interviewee.

Since we had interviews with several different types of organizations and actors, we decided to create five different interview guides, see Appendix 1-5. This enabled us to ask sector-specific questions and explore the different challenges faced within the various sectors regarding the EU taxonomy. The five different interview guides were divided as such;

1. Trade organization for SMEs within the EU
2. Trade organization for financial institutions
3. Trade organization for Swedish Forestry
4. Banks in Sweden
5. SMEs within the forestry sector in Sweden

All interview guides were written in Swedish except for one which was translated to English.

The interview guide as well as information on recording and GDPR was sent out to the interviewees at least one day before the interviews took place. As argued by Bryman (2016), this could affect the answers received from the interviewee since they have time to prepare specific answers. The results of sending the questions beforehand in this study culminated in well prepared interviewees who had had the opportunity to double-check that they had the right and current information as well as include other employees at the organization with expertise on specific topics discussed during the interview.

5.5 Conducting the interviews

The first three interviews were held with trade organizations and were seen as scoping interviews where we had the opportunity to understand on a larger scale what challenges and concerns both SMEs and banks are facing in Sweden in regard to the EU taxonomy. By doing scoping interviews and thus testing the interview guides, we became more confident and had time to refine the interview guides, something that Magnusson and Marecek (2015b) points out as important when doing interviews. All interviews except for one, which was held in English, were held in Swedish where one was held in person and the rest either by Microsoft Teams or Zoom. There are both positive and negative aspects with conducting online interviews. Positives with online interviews are first and foremost the flexibility where either last-minute schedule changes can occur, and both the interviewers and the interviewee can be in any location. The interviewee might also feel more comfortable during an online interview since there is a larger distance between the interviewee and the interviewer (Denscombe, 2016). Negatives with online interviews are aspects such as bad internet connection and sound quality, as expressed by Bryman (2016).

All interviews began in the same way with us the authors presenting ourselves and the aim with the thesis. Then we made sure that the interviewee had read the GDPR information that was sent beforehand and asked the interviewee to give their consent to us recording the interview and to handle their personal information. According to Kvale (1997) the first part of an interview determines whether the interviewee feels comfortable, relaxed and willing to share their experiences and thoughts, thus we tried to make sure we had time for initial conversation and asked the interviewees if they would like to ask us any additional questions before we began the interview. Following the introduction, we began the interview and

followed our interview guide with the respective themes and sub-questions. All interviews were approximately 30-50 minutes long.

5.6 Reliability and validity

When conducting qualitative research, it is important to acknowledge the concepts of reliability and validity. According to Cohen et. al. (2011) validity and reliability are measures of quality of the research and as Cypress (2017) puts it, it is vital when doing qualitative research since the researcher's objectivity or subjectivity can affect the interpretation of the data. The researcher must always try to achieve objectivity, however this is rarely possible since both the researcher's own views as well as the interviewed participants' views are present both within the data and later the interpretation and compilation. To achieve validity within qualitative research, one important aspect is that the data is presented correctly. In this study, we aimed to achieve validity by first and foremost transcribing each interview and then sending the transcription to the participants who had the opportunity to change, add or correct the data. To ensure that we followed the right procedures, we reviewed our process consequently in discussion with our supervisor.

Reliability is defined as replicability, or in other words, using established methods which in turn leads to the same results, thus achieving reliability (Cypress, 2017). However, there is a debate whether this is applicable to qualitative research since humans are not static and thus when doing interviews each answer will be individual based on the person's individuality, thoughts and experiences (ibid). In this study, we aimed to achieve reliability by thoroughly presenting our methods for creating the interview guide as well as our selection of interviewees. The interviews are an important aspect to take into consideration when assessing the reliability, asking similar questions to each interviewee increases the level of reliability as stated by Cohen et. al. (2011). In this study, we created five different interview guides which might affect the reliability, however we used the same themes for each interview and adjusted the questions to become more relevant to the type of organization the interviewee worked at.

5.7 Ethical consideration

It is of high importance when conducting research to reflect upon the ethics of the work, something that Kvale and Brinkmann (2014) points out. Each interviewee has rights to confidentiality, anonymity as well as participating on a voluntary basis (Magnusson and Marecek, 2015c). In this study we made sure that each interviewee participating in an interview properly understood the aim of the study, as well as

being informed that they would be anonymous and that participating was completely voluntary. The interviewees were also informed beforehand that the interviews would be recorded which would only be heard by the authors and when the thesis work was completed the recordings were deleted.

5.8 Analysis method

To facilitate the work of analysing the material from the interviews, we directly after transcribed each interview so that the interviewees answers would still be fresh in memory, something that Magnusson och Marecek (2015d) points out as important when doing qualitative interviews. During the interviews we also made sure to note body-language and emphasis on certain words, as these are often otherwise lost when transcribing spoken words (Bryman, 2016). All but one interview was held in Swedish, which meant that we had to translate the quotes into English, thus some significance might have been lost in the translation or have affected the quotation.

For this study, we chose to analyse the material using a thematic analysis, which is one of the most common methods within qualitative studies (Bryman, 2016). Our aim was to organize the interviews, find similarities and differences between them and identify aspects which were important and closely connected to our research questions, something that Braun and Clarke (2006) points out as a function of identifying themes within transcribed interviews. When finding the themes, we used a circular process where we analysed the empirics of our interviews, considered our theoretical framework, and then again analysed our empirics so that the themes were theoretically informed. The thematic analysis method is a flexible approach, which fits this study since it could be connected to our research question. In order to do the analysis in a structured way, we chose to follow Braun and Clarkes (2006) phases 1-5 for a thematic analysis;

1. Familiarizing yourself with your data
2. Generating initial codes
3. Searching for themes
4. Reviewing themes
5. Defining and naming themes

During the coding process we first used our interview guide as a starting point in which we could separate the material into initial codes. Based on the initial coding,

we created the first overarching themes as well as sub-themes, in other words we began to see the relations between the different coding-sets (Braun and Clarkes, 2006). Lastly, we reviewed our themes, moving coded sections between different themes when necessary and in some cases discarded themes entirely when they did not fill a function. At the end of the reviewing process, we ended up with four themes, which will function as the headings in the result section.

6. Result and analysis

In the following section the empirical findings are presented and related to previous research and analysed through the theoretical lenses, legitimacy theory and voluntary disclosure theory. The section is divided into four main parts.

6.1 Current perceptions and awareness

The gathered material from interviews gives a picture of perception on the taxonomy. The perceptions indicate how the taxonomy has been received by Swedish banks and SMEs within forestry. The overall impression from these two groups is in general positive yet concerns are raised regarding the complexity of regulation, its potential demand for extra resources as well as potential additional burdens for SMEs. Despite good knowledge on the taxonomy from banks and trade organizations, all interviewees agree that the taxonomy is a complicated regulation that leaves room for interpretation which in turn poses challenges. Relative to these discussions, interviewee 8, B3 describes that they are currently putting in efforts for analysing and interpreting the regulation.

To be completely honest, it is not very easy or has not been very easy to understand how to report and what it actually means, we spend a lot of time analysing the taxonomy regulation and what it actually means. (Interviewee 8, B3)

Similar thoughts are expressed by interviewees 6, B2, 7, B2, 8, B3, 9, B4 and 10, B5. In discussions with banks, forestry was recurrently given as an example to demonstrate complexity. In similarity with Jakobsson, Olofsson & Ambrose-Oji (2021), 3 out of 5 banks describe how a combination of public and private resources and conflicts between monetary and ecological/recreational values creates frictions (Interviewees 8, B3, 9, B4 & 10, B5). One of the banks further communicates that it is difficult to use the taxonomy as a governing tool in relation to forestry simply because there are still ongoing discussions on an EU-level regarding forestry within the taxonomy (Interviewee 8, B3).

On a related note, interviewee 8, B3 declares that Swedish forestry owners have a different perspective on sustainable forestry in contrast to the EU perspective, similar to literature by Andersson et al. (2022) and Beland Lindahl et al. (2017). Interviewee 8, B3 emphasizes that this division in perspectives is problematic since the purpose and aim of the taxonomy is to reach unity or consensus on what can be considered sustainable. Two of the interviewed SMEs which manage forests also express an appreciation that there are disagreements of what is to be considered green or sustainable and that the question is still under debate (Interviewee 13 & 14SME3, SME4). From a somewhat different point of view interviewee 4, TO3 explains that they do not experience that the taxonomy deviates from Swedish forest policy nor Swedish forestry holding and that the problem instead lies in the details of the technical screening criteria (Interviewee 4, TO3). According to interviewee 4, TO3 the taxonomy has obstructed basic practice and essential elements by making them too complex. The result from this is first that it takes a lot of time to interpret what exactly the taxonomy requires and secondly it becomes difficult to prove and disclose that one pursues sustainable and taxonomy-aligned forestry. Interviewee 4, TO3 argues that the Swedish forestry sector has always conducted sustainable forestry but with the TSC it becomes hard to prove.

Concerns regarding the influence of the regulation and its relation to non-listed SMEs is also elaborated upon during the interviews, in particular in terms of how the taxonomy is currently affecting SMEs, but the views are somewhat divided. Three of the banks agree that as of today non-listed SMEs are not affected by the taxonomy, however just as the report from Tillväxtverket (2023) states, trickle-down effects will with no doubt reach SMEs who are in the supply-chain of taxonomy covered companies. Most of the interviewed banks express that the impact of the taxonomy on SMEs is as of today low to none, as clearly formulated by one of the banks: “The taxonomy in itself currently has not affected SME customers” (Interviewee 5, B1). However, one of the trade organizations portrays a more urgent picture and argues that if an SME is in the supply chain of a covered enterprise, they are in fact already directly affected by the taxonomy:

“Non-listed SMEs are from a legal point of view not directly impacted by the taxonomy, but this is not the truth: The truth is SMEs are at the moment directly impacted when they are in the supply chain to a company which has to report because this large enterprise need information from the SMEs” (Interviewee 1, TO1)

There are thus disagreements regarding the contemporary influence over SMEs where the conflict revolves around whether they are affected today or if there is still a couple of years left until SMEs will begin to feel the outcomes of the taxonomy. In discussions on familiarity with the taxonomy it stands clear that the taxonomy

has not yet trickled down to the interviewed SMEs. Even though the knowledge varies slightly whereas interviewee 11, SME1 expresses that they understand that there is a set of regulations that under a period will be set in force the overall knowledge is relatively low (Interviewee 12, SME2 and interviewee 14, SME4 express similar thoughts). In questions if they in any way encountered the regulation the medium sized SME expresses that the organization has never been exposed for the term: “No, I actually haven't. So, there is a division of different things [activities], I understand. But the word itself I have not heard before” (Interviewee 13, SME3). The reasoning from the interviewed SMEs indicates coherence with thoughts emphasized by Hainz, Wackerbauer & Stitteneder (2021) where lack of knowledge and insight from SMEs is widespread and poses a potential challenge for future Taxonomy-related operations. Yet one SME stands out, demonstrating a more detailed insight (Interviewee 15, SME5). One explanation for this could be that interviewee 15, SME5 is the only organization who owns and manages its own forests and hence eventually will become more directly affected by the taxonomy.

6.2 Challenges and motivations

In this section challenges and motivations for taxonomy disclosure regarding SMEs are presented from the empirical material.

6.2.1 Challenges

Different types of barriers are consistently lifted throughout the interviews. As earlier demonstrated the uncertainty of the taxonomy, both in interpreting the regulation and its influence on SMEs is particularly prominent among most interviewees (Interviewee 2, TO2, interviewee 4, TO3, interviewee 6, B2, interviewee 8, B3, interviewee 9, B4 & interviewee 10, B5). The challenge for SMEs to make sense of the taxonomy is foremost lifted among the banks who in line with statements from Tillväxtverket (2023) raise concerns that SMEs cannot be prepared nor act right when they do not understand what their challenges might be.

I think the biggest challenge for them [SMEs] is to understand what their challenge actually is. Interpreting the taxonomy: what is relevant for my company? So, depending on the activity within and the size of the company, it is more or less free for them to really get it right, how to embrace the taxonomy which is very large and complex. (Interviewee 9, B4)

One of the banks puts this in terms of game rules explaining that the uncertainty of not knowing what rules to play after spreads worry among SMEs (Interviewee 10,

B5). New regulations from higher levels can put them out of balance whereas they no longer know what will apply in the future. The interviewee concludes however that they experience that SMEs are willing to comply with these types of rules as long as they know what is required of them. The same reasoning is also found among one of the SMEs.

"You always feel a little worried when there are unclear rules, (...) as long as we know the rules of the game, we can play accordingly, but when you change the rules of the game again and again, we have to adapt to new things and we have to change our operations when things change very quickly"
(Interviewee 12, SME2)

Another challenge brought up during the interviews is the gathering of information and data. Information gathering is raised as an issue both in relation to CSRD and the taxonomy which all the bank interviewees elaborate on. The problems originate from the gathering of data which is both time- and resource consuming since SMEs, as emphasized by one of the interviewees, might double their reporting if they are to comply with the taxonomy regulation (Interviewee 7, B2). Further approaches on how the aspect of data gathering can burden SMEs are lifted throughout the interviews. Interviewee 6, B2 explains, for example, that the management and storage of gathered data is an issue that does not get as much attention. However, it can become a real challenge for SMEs which in general do not have systems and structures for this. Related to this, one of the SMEs explains that it might become a challenging task for them as an SME within forestry when the "big giants" starts to report in compliance with the CSRD (Interviewee 13, SME3). The reason for this would be that the larger companies have whole departments working with the task. When the "big giants" start this reporting it leaves an expectation on smaller companies as well, however they do not have the same capacity. In connection to the aspect of data, lack of resources and expertise is lifted as key-challenges by most of the interviewees, in line with literature by Hainz, Wackerbauer & Stitteneder (2021). Lack of resources is also stated as a potential hindering of legitimacy by Freeman, Carroll & Hannan (1983). Interviewee 6, B2 exemplifies how the issue of resources is relative to the aspect of knowledge and expertise.

(...) I would say that it is a problem of resources for most companies and knowledge is also in a way linked to resources, if you have resources then you have the knowledge (...) so yes I would probably say that it is a matter of resources (Interviewee 6, B2)

The problem is raised by all the banks and in further discussions interviewee 8, B3 explains that the resource requirement can become a great risk for SMEs in relation to gathering taxonomy or CSRD-related data and underlines that there already exists an issue with inadequate data. Further, one of the banks describes how

altering internal processes in connection to the gathering of data will also be a demanding task for SMEs. Requirement of resources is hence expressed as a potential risk by the two smaller SMEs (Interviewee 11, SME1 & interviewee 12, SME2). Both SMEs carry out a similar reasoning where they explain that they cannot afford to employ someone for this task, and thereby would become dependent on consultant services, which in turn is costly.

And then of course it is necessary to have someone with competence who might work with these types of issues, and that is the problem with SME, within a large company you can always employ a person for these types of tasks, but if you only have a 20% [position] then it becomes difficult to employ someone and then the task goes to a consultant because you need to buy the services. (Interviewee 11, SME1)

In contrast with the views expressed by the smaller SMEs the medium-sized SME explains that if they would face a bigger reporting burden, they would simply outsource it to consultants who they already are in partnership with. Hence this was not framed as an issue nor risk.

The problem with both uncertainties, gathering of information and resources bounces back to the issue with transparency as lifted by one of the banks. The detected challenges among SMEs which boil down to lack of data is a barrier in banks taxonomy related transparency work. The transparency gap that comes with SMEs then becomes a legitimacy issue for banks. Interviewee 8, B3 points out in line with the literature by Hummel and Schlick (2016) that this can cause negative perceptions among stakeholders which in the long run potentially can affect the bank. Further interviewee 8, B3 emphasizes that SMEs must understand the principles of transparency that comes with the taxonomy. Another bank further elaborates on the matter of transparency and explains that even though they are not currently affected there is a prevailing information gap when SMEs do not share the same information as large enterprises. The gap can cause a breaking effect in banks transparency efforts and a potential effect of this could be that SMEs would be excluded from the bank's client portfolio or be declined loans, as emphasized by interviewee 8, B3. The reasoning agrees with the literature by Freeman, Carroll & Hannan (1983) on SME legitimacy and its relation to access to resources.

When we have to be as transparent as the taxonomy regulation requires, we become a reflection of our customers and the case right now is that there exists an information gap, the data which is actually needed for us to be as transparent as we would like to be do not exist. (Interviewee 8, B3)

In contrast to reasoning from Deegan (2002) and O'Donovan (2002), the discussions from banks does not imply that lack of data or low-quality data is used

as a strategy by under-performing companies to give a false apprehension about their sustainability work. Nor is it anywhere emphasized in the gathered empirics that SMEs would prefer to share low-quality data to conceal bad sustainability performance (Hummel & Schlick, 2016). Instead, most of the interviewed banks and trade organizations points out that there exists a willingness among SMEs in Sweden to improve their data-gathering. Unfortunately, the need for more and better data is accompanied by the risk of creating additional burdens for SMEs. This is something that the international level trade organization points to throughout the interview. They also conclude that this is a crucial task within the development of the taxonomy.

At this moment it is mainly about finding a solution on how to use taxonomy in a way that is helpful for a transition process in the SME sector and not only creates additional burdens. (Interviewee 1, TO1)

In summary the interviewees point at somewhat similar challenges that in the end could discharge into additional burdens for SMEs.

6.2.2 Motivations

Despite many challenges for SMEs regarding taxonomy disclosure, there are also several advantages that SMEs can derive from reporting on taxonomy alignment data. One that is mentioned throughout the interviews is competitive advantages in relation to other companies within the same sector. The competitive advantages are something that both SMEs and banks discuss during the interviews, where an SME who operates within the sawmill industry argues that “We might get an advantage that shows that we are the best sustainable option [...] we can get benefits by communicating this and maybe stress the big sawmills even more” (Interviewee 12, SME2). In the same way, banks argue that by reporting on taxonomy data SMEs will be years ahead of their competitors. Another SME argues that not only could taxonomy data reporting increase their competitiveness, but they also argue that it could lead to increased knowledge amongst the public on the sustainability work they do (Interviewee 11, SME1). All interviewed SMEs discuss how they believe that the forestry industry in Sweden is often misunderstood as unsustainable where they would rather argue that the industry is sustainable and crucial for the sustainable transition in Sweden. This confirms previous research on Swedish forestry, where there has been a heated debate in which academics and NGOs have criticized the industry (Lindahl et al., 2017; Westman and Berglund, 2017; Björklund, Brohult and Widman, 2022). Thus, could taxonomy reporting by SMEs function to communicate to the public on their sustainability work, increasing their legitimacy towards the public. In this case, the legitimacy could be seen as a form of moral legitimacy, where SMEs in the forestry sector communicate how they can contribute to social welfare (Schuman, 1995).

Not only can SMEs in Sweden benefit from taxonomy reporting in terms of staying ahead of competitors and by communicating their work to various stakeholders, but also gain access to finance from banks. Several banks argue in the interviews that they view the taxonomy as a sort of quality stamp which could facilitate the process of analysing the risk of new or existing clients. As one of the banks argues;

We are very used to assessing both risks and opportunities with our business customers, and we will continue to do so, and the more they can tell us in a structured way, the easier that task will be [...] it is always easier for us to assess then [taxonomy data] and feel safe with what is actually there. (Interviewee 8, B3)

The interviewed banks argue that since the EU taxonomy and the associated TSC has been produced by an expert group (TEG), taxonomy alignment data can be seen as reviewed by a third party. Two out of five banks interviewed argued that when having data which is comparable and validated by a third party, financial opportunities from the banks increase (Interviewee 6, B2 & interviewee 8, B3). As a result, reporting of taxonomy alignment data could lead to increased opportunities to get access to finance in terms of loans and credits for SMEs in Sweden. The thoughts raised in the interviews regarding potential positive outcomes of voluntary reporting on EU taxonomy data by SMEs in Sweden is correlating with previous research, where Nishitani et al. (2020) argues that third party reviewed disclosure increases credibility. Thus, could voluntarily reporting by SMEs potentially lead to financial opportunities, as explained by one of the banks; “Small and medium-sized companies have no requirement to report [...] it will be more voluntary and it can increase the possibility of broadening your capital base so that you can get more bank financing” (Interviewee 9, B4). This is strengthened by another bank who states that;

The whole purpose of this [EU taxonomy] is to achieve uniformity and comparability and all of that is of course positive [...] it is clear that it would be a huge advantage the more finely calibrated uniform information there is for us to assess in a financing process. (Interviewee 8, B3)

Comparability as an important and positive outcome of the taxonomy is raised by several interviewees throughout the empirics, especially by the banks who argue that by having comparability between their SME clients, the work of knowing how far their clients have come in their sustainability transition can be facilitated. One SME also argues that comparability is a positive outcome of the taxonomy, although they still find it unclear how it will be compared and between whom: “If you have to report on the percentage of protected forests, we can do that, but what should it be compared against? Is it against other countries? Other parts of the

world? It is important that there are clear guidelines” (Interviewee 15, SME5). Within research on voluntary reporting, comparability is argued to be an important factor for which progress can be measured (Frade & Formouth, 2022; Santos et al., 2022), which is in line with the empirics of this study. On the other hand, avoiding greenwashing through comparability is also raised within research on voluntary reporting, something that neither banks, trade organizations nor SMEs mention in the interviews regarding voluntary taxonomy data disclosure. Although banks, SMEs and trade organizations can perceive benefits for SMEs to disclose taxonomy data, the level of perceived benefits or advantages that comes with additional environmental disclosure differs between the SMEs. One is more positive towards the regulation and rather has a feeling of being excluded if the banks would not ask for taxonomy data;

We believe that we are sustainable and that we are a good alternative, we would even perhaps find it a little uplifting if they [banks] ask these questions because we do so much around this [...] it would be a little sad not to be included. (Interviewee 12, SME2)

Where one SME can perceive benefits on taxonomy data reporting in relation to their bank, another SME argues that only if their clients, or their own employees, would request such data could they see benefits of reporting. Here the latter leans more towards strategic pragmatic legitimacy, where the SME would only report in self-interest of retaining clients who would ask for taxonomy disclosure.

6.3 Development of banks and SMEs relationships

As seen throughout the empirics derived from the interviews, the SMEs within the Swedish forestry sector are currently not familiar with the EU taxonomy although they have heard of the regulation. The lack of knowledge within SMEs is not surprising, as previous research clearly states that one main reason for which SMEs are not included is because SMEs usually lack resources for gathering data and having the opportunity to familiarize themselves with new regulations (Kirschenmann, 2022). Three out of five banks state that they are willing to work closely with their SME clients where they will have an advisory function regarding the taxonomy (Interviewee 8, B3, interviewee 9, B4 & interviewee 10, B5) and all stress that they view their relationships with SMEs as a long-term dialogue.

As part of viewing the relationship as long-term, all banks stress that they do not want to put additional or unnecessary stress on their SME-clients in terms of asking for too much data. This is strengthened by the bank trade organization who argues that; “We are absolutely keen that it should work well for small and medium-sized

companies, that you don't put too much of a burden on them, that's an important perspective.” (Interviewee 3, TO2). Further they argue that this topic is often a point of discussion when their members meet and discuss the taxonomy. The voluntary reporting standard (VSRS) which is under discussion on EU level could potentially facilitate the dialogue between SMEs and banks within Sweden, wherein the argument is that several parameters are clarified as to what should be included in the disclosure for SMEs (Interviewee 3, TO2).

Throughout the interviews opinions and perceptions differ amongst banks, SMEs and trade organizations during discussions on voluntary disclosure for SMEs. Banks argue that voluntary disclosure for SMEs is beneficial only if the reporting standard is conducted in a correct and easy way in which the SMEs can easily grasp and understand it. When asked if they could imagine what incentives for using a voluntary reporting standard would be, the answers amongst the SMEs differ. Overall, the answers again surround the issue of resources, the interviewees argue that even though there is a voluntary standard, they would still need to find resources for which to increase their reporting. One of the interviewed SME could see potential benefits of using the voluntary standard without great concern for lack of resources (Interviewee 12, SME2), where the improved and increased relationship to their bank would be the incentive which is in line with the voluntary disclosure theory (Nishitani et al., 2021, Guidry & Patten, 2012).

On one hand, banks say they will help SMEs on their sustainable transition journey and advise them on taxonomy issues, and on the other hand there are still questions on how the banks interpret the regulation amongst themselves. As a mean to mitigate the issue of banks interpreting the regulation differently, a taxonomy interpretation group was formed under a banking association group in Sweden, where one of the interviewees describes the interpretation groups aim as;

The purpose of this [taxonomy interpretation group] collaboration is that we want to avoid a situation where if we say that [B5] applies the technical screening criteria in one way and [another bank] does it in another way and [another bank] does it in another way and then you have customers who end up jumping around a little and check which apply the highest requirements and which apply the lowest requirements. We are really trying to find a common view on this to avoid different banks applying criteria in different ways, because then the purpose is undermined. (Interviewee 10, B5)

In line with previous literature (Tillväxtverket, 2023; Lee, 2022; EBA, 2021b), there are uncertainties on how the banks interpret the taxonomy and that further efforts are required to mitigate this issue. The findings in the report by Tillväxtverket correlates with the empirics of this study which are that when the financial institutions have reached a common understanding of the taxonomy, the

potential requirements on SMEs will be clarified. There is however a consensus amongst all interviewed banks, where all argue that the taxonomy will not have a great negative effect on the relationship between banks and SMEs in Sweden. Although a few banks mention that they will include certain elements from the taxonomy in risk assessments and credit loan processes, the taxonomy will not be seen as decisive. One bank gives an example on how the taxonomy will be applied in the risk assessment when talking about SME clients who operate within the forestry sector:

We will request a climate benefit analysis from our small and medium-sized companies as well, it is connected to the bank's own taxonomy reporting of course. We want to be able to show that we are working in a way that is as taxonomy aligned as much as we can. (Interviewee 10, B5)

Thus, the intent is to be able to gather as much taxonomy alignment data as possible, to facilitate the taxonomy reporting for the bank itself. In this particular case, the size of the client is irrelevant, and the assessment will be applied in the same way regardless of a larger company or an SME. Although this specific bank will use the same assessment, interviewee 10, B5 stresses that if an SME client does not have the resources to produce a climate benefit analysis, they will not be declined a loan based on that aspect. The taxonomy is seen as a small piece of a large puzzle, where it will rather function to understand banks clients in a more comprehensive way and also facilitate the assessment of where the clients currently are in their sustainability transition, as expressed by one of the banks: “Our customers' taxonomy alignment, it's really just another area for transparency so I wouldn't say it makes a huge difference but it will still help us understand our customers even better” (Interviewee 5, B1). Here it is hard to argue that the taxonomy can be viewed as an incentive for SMEs to disclose taxonomy data in their data reporting to the banks. In this case where taxonomy reporting is not seen as essential in terms of gaining finance from banks, SMEs would not pragmatically achieve legitimacy by disclosing taxonomy data, since their stakeholders at the moment do not find decisive value within it (Ashforth & Gibbs, 1990).

6.4 Outlook of the taxonomy

Future concerns regarding the taxonomy are namely two, where the first one touches upon the indirect consequences of ITS Pillar 3 reporting, thus GAR and BTAR. One bank in particular argues that;

There is a risk in that the big banks present GAR and BTAR and that they either look good or less good. I don't know what it will look like but as soon as you report something both internally and externally there will be

questions about how can we raise it or how can we lower it depending on how you want to look at it, and I think we will get a spillover effect on financing for small and medium-sized enterprises. It might happen that you de facto apply the taxonomy requirements or the CSRD requirements to them indirectly, even if according to the legal texts they must not necessarily fulfill it. (Interviewee 10, B5)

This statement can be connected to previous research on GAR and BTAR, where Giacomelli (2022) discusses how banks could in fact want to request taxonomy data from their SME clients. Further empirics from the collected interview material suggest that banks do in fact acknowledge the issue of GAR and BTAR becoming a form of performance contest between banks. An aspect raised in relation to this is the issue where banks start to exclude SMEs who do not report on taxonomy data (Kirschenmann, 2022). However, one interviewee states that.

That we would, based on the technical aspects of reporting [GAR & BTAR], choose to do one way or the other depending on that, I have a very hard time seeing that. I don't think any other bank either, I'm not going to speak for other banks, but it's not a scenario I believe in. (Interviewee 8, B3)

Here, interviewee 8, B3 argues that they do not view GAR nor BTAR as decisive parts which would determine whether the bank will or will not grant loans to SMEs. Based on the empirics derived from banks in Sweden, there are still uncertainties surrounding how GAR and BTAR will play out in the future and what consequences the KPIs might inflict on SMEs. On the one hand, there could possibly be consequences for SMEs if there in fact becomes a contest between banks to showcase the highest GAR score, where in theory banks could establish pragmatic legitimacy towards their stakeholders and the society by proving that their operations are of value (Alexio & Wiggins, 2019; Ashforth & Gibbs, 1990). And on the other hand, if banks do not perceive GAR and BTAR as factors for which they achieve legitimacy from their stakeholder they would not inflict any consequences for their SME clients. During the interviews, one bank raises thoughts about another potential conflict which is the new standard for green bonds which is currently taking form in the EU, The European green bond standard (EU GBS). Within the new standard there is a connection to the EU taxonomy, which states that 85% of the green bonds must be taxonomy aligned, however the EU GBS is a voluntary standard (European Commission, 2023b). The bank argues however that by introducing this standard, it will become harder for them to emit green bonds within the forestry sector specifically, as they will want to report on the EU GBS and be able to have 85% taxonomy alignment. This would increase their need to collect taxonomy data from their clients, including SMEs who apply for green bonds, thus potentially leading to declined application if the SME cannot provide taxonomy alignment data.

The other concern regarding the taxonomy is more focused on the outcome of the regulation itself, and if it will work as intended. Mainly one bank argues that if organizations and companies fail to report on their taxonomy alignment data, or if the alignment is too low, the taxonomy may very well not be considered and the purpose of it might fail, expressed as: “It will be an anti-climax, everyone's alignment reporting is very low and what are we going to do with the taxonomy then? [...] I think that it can determine the taxonomy's justification for existence” (Interviewee 9, B4). In the same way how there is a consensus amongst all interviewees that the taxonomy will not be a definitive aspect for whether a company has financial opportunities with a bank, there is also to a large extent a common idea that CSRD will play a much larger role in the future than the taxonomy in regards to the relationship to SMEs, as exemplified here;

I will say this, it will play a certain role but it is not the taxonomy that is crucial in my eyes. I personally believe much much more in CSRD and ESRS, they go much further than the taxonomy and I am not alone in believing that [...] CSRD and ESRS will be the driving force for really difficult decisions on the banks' part [...] CSRD and ESRS it will affect our relationship with SMEs more [than the taxonomy]. (Interviewee 10, B5)

Thoughts on how the CSRD will have a greater impact on the relationships with SMEs are raised by several banks throughout the interviews, where especially one bank expresses how they believe that financial opportunities will change for SMEs who do not disclose how they relate to CSRD. Here pragmatic legitimacy may become more relevant for SMEs when banks value CSRD disclosure highly and might view it as a decisive part for whether SMEs get access to finance or not.

7. Discussion

This chapter presents a discussion on the result from the previous chapter. To meet the aim of this study concepts of legitimacy theory and voluntary disclosure theory are applied. From the foundation of theories together with previous literature this chapter aims to elucidate relevant knowledge applicable to the research questions.

i. Potential effects of the EU Taxonomy on SME and bank relationships. As stated by Dinh, Husmann & Melloni (2023) there is a need for further research investigating how SMEs can be affected by EU regulations in relation to bank funding. This study has contributed to filling this research gap by exploring how a few SMEs and banks in Sweden interpret the possible influence by the EU Taxonomy, with a special emphasis on bank funding.

Firstly, the thoughts amongst the interviewees are divided on how and when SMEs will be impacted by the EU TR. The opposed perspectives regarding current impact could derive from different views of what counts as “impacted”, whereas some are referring to alignment and eligibility whilst others rather speak of impact in relation to trickle down effects. Despite the possible difference in the reference of impact there is reasoning that contradicts this statement. For instance, one bank explains explicitly that even if an SME is within the supply chain of a taxonomy covered enterprise, they will not feel the consequences until a couple of years from now (Interviewee 1, TO1 interviewee 5, B1, interviewee 6, B2 and interviewee 8, B3 express similar reasoning). The difference in opinion and understanding of impact could be an example of how the complexity of the regulation makes it unclear, hard to interpret and predict possible outcomes, as stated in previous research (Lee, 2022; EBA 2021b; Skogsindustrierna, 2022; de Oliveria, 2022). Empirics from the interviews indicate that the uncertainty becomes yet more prominent in discussions related to SMEs, the reason for this could be because SMEs bring another level of interpretation to the applicability of the taxonomy. Difference in interpretation could likewise be argued to back up earlier evidence that the unclearness of the taxonomy hinders a harmonization of the regulation. A Harmonization of the requirements is further needed to use the taxonomy as a device for transparency which will also provide elements of legitimacy for banks as well as for SMEs. Moreover, harmonization of the requirements, standards and criteria could hinder

divisions in interpretation and simplify the process of involving SMEs and facilitate the process of setting attuned disclosure requirements.

Secondly, discussions regarding the complexity of the taxonomy were further exemplified throughout the interviews in relation to Swedish forestry. Again, finding a common definition, now on sustainable forestry, is expressed by most interviewees as a focal point. Most interviewees express that there are challenges with perspectives on sustainable forestry whereas the EU has one perspective and Swedish forest owners another. It is important to keep in mind that this part of the taxonomy is still under development and a conclusion has not yet been reached. Yet, if there is no unified view of what is to be considered sustainable the taxonomy is hindered to fulfil its purpose according to some of the banks. The thoughts expressed are in line with the literature (Aggestam and Giura, 2021) and (Andersson et al., 2022), and most interviewees emphasized that the division in perspectives will continue to create challenges. On the other hand, interviewee 2, TO2 declared that there is no division on what is considered sustainable from the taxonomy and Swedish forestry policy. Instead, the fundamental problem lies within the TSC which are unnecessarily complicated and hence difficult to interpret (Interviewee 10, B5 expresses similar thoughts). The thoughts raised by interviewee 2, TO2 moreover demonstrate that there are not only divisions in how to interpret the taxonomy but also lack of consensus regarding where the true challenge with the taxonomy lies.

Thirdly, the relationship between banks and SMEs in Sweden is highly valued from both parts, where the banks argue that they view their relationship with their SME clients as long-term and the SMEs state that they have good communication. Based on the empirics from this study, it is still unclear to what extent the taxonomy regulation will affect the relationship. Some banks argue that the regulation will have no effect regarding loans and credits in relation to SMEs, and a few argue that there are still uncertainties that need clarification before they can state how the relationship will be affected. First, the lack of unity in how to interpret the taxonomy amongst the Swedish banks affects the bank's ability to advise the SMEs on how to work with the taxonomy and specify what kind of data they will need to collect. The issue surrounding the lack of a unified view on the interpretation, and thus the uncertainties of what kind of data will be collected from SME clients have been raised in previous studies (Tillväxtverket, 2023), since the consequences would be that SMEs are informed too late for them to prepare themselves. As seen throughout the interviews with banks, they are keen to reach a common view and interpretation on the taxonomy and are currently working on these issues.

Lastly, the interviewed SMEs argue that if they know what is expected of them in terms of reporting and disclosure, they will be able to produce the correct data. This study thus confirms that there needs to be good communication between the banks and SMEs, and that the SMEs are willing to disclose if they know what rules to play after. In relation to knowing what data to ask for, there are still differences in the view on to which extent the banks will have an advisory function to their SME clients. The empirics show that a few of the banks are willing to advise their clients on how to interpret and gather information for taxonomy disclosure, and a few of the banks rather argue that this advisory function should be put elsewhere such as with trade or sector specific organizations. The latter aligns with the SMEs views, who state that they would prefer more information regarding the taxonomy coming from trade organizations. The report conducted by Tillväxtverket (2023) highlights the need for guidance and support of SMEs in regard to understanding the taxonomy regulation. Here, the case of having sector specific trade organizations as guiding actors for SMEs are highlighted as a positive driver as they can help SMEs navigate the complex landscape of sustainability disclosure, offer education and facilitate collaboration and networking. While there are challenges that SMEs will be facing when it comes to taxonomy disclosure, the empiric of this study also shows that they can gain benefits when it comes to financial opportunities. A unified theme amongst the interviewed banks establishes that comparability between companies and within sectors is of high importance and facilitates risk assessments when in loan or credit processes.

ii. Possible influence on SMEs by GAR and BTAR

Previous research investigating how financial institutions will be affected by new disclosure requirements imposed by the EU Taxonomy often discuss the unknown outcomes of GAR and BTAR. Kirschenmann (2022), Partiti (2023) and Brühl (2023) state that one possible outcome of GAR and BTAR could be that banks exclude SMEs from bank lending as to increase their own taxonomy disclosure. This study partly confirms and partly contradicts these statements withing previous research.

Firstly, the opinions are not uniform between the interviewed banks but rather two out of five could see potential negative effects for SME clients regarding GAR and BTAR. Here the possible outcome lies in whether the two KPIs could result in a performance contest between banks, affecting SME clients in the form of declined loans as a means to increase banks GAR and BTAR score. These statements are in line with previous research on the two KPIs, where the exclusion of SMEs by banks are stressed as a possible outcome (Kirschenmann, 2022; Brühl, 2023). Although BTAR has been portrayed to mitigate these issues of SMEs being excluded (EBA/ITS, 2022), the two KPIs were discussed by the banks on the same premises

during the interviews where there was no difference made between the two. However, three out of five banks argue that neither GAR nor BTAR will have any implication on the relationship with their SME clients and thus contradicts previous research which states the opposite (Giacomelli, 2022; Kirschenmann, 2022).

Lastly, although there are some uncertainties expressed by the banks in the form of negative impact on the relationship inflicted by GAR and BTAR disclosure, all interviewed banks state that they value their SME clients and do not have the intentions of applying additional reporting burdens on them. The discussions surrounding the avoidance of additional burden on SMEs also stems from banks not wanting to lose clients, which is also in line with the discussion on taxonomy interpretation. Here, another competition might arise as to which bank has interpreted the regulation to the extent that the requirements become more lenient in comparison to their rival banks. One possible scenario could thus be that banks lose SME clients to their rivals. Instead, the banks would rather want the SMEs to use the taxonomy as a form of transparency tool which could aid both the banks and the SMEs in knowing how far they've come in the sustainability transition, rather than having the taxonomy as a requirement when SMEs are applying for loans. The interviewed SMEs in this study value a good relationship with their banks for everyday services, however because they get their funding internally from the organization, they are not dependent on banks as legitimizing agencies (Iovana et al, 2020). Thus, drawing a conclusion from the empirics of this study on whether SMEs would switch bank to get soft requirements is difficult.

iii. Voluntary disclosure and legitimacy

As stated by Nishitani et al. (2021) and Guidry & Patten (2012), research within voluntary disclosure have been mostly carried out through quantitative methods where there is a need for more qualitative investigations. This study has used a qualitative method to investigate why SMEs would voluntarily disclose EU Taxonomy data in a legitimation context.

Firstly, legitimacy theory has been argued to explain organizational motives to carry out and disclose sustainability efforts towards stakeholders (Deegan 2002; Hummel & Smick 2016). In this study such incitements have been exemplified throughout the empirics in a qualitative manner to add on the research gap highlighted by Nishitani et al. (2021) and Guidry & Patten (2012). In this thesis some interviewees demonstrate that there is an intrinsic willingness to act sustainably, derived from reverence and respect of the forest. This is moreover indicated to be an incitement to comply with the taxonomy and disclose accordingly. All SMEs describe some elements of moral legitimacy as they account for engagement in societal sustainable development through their contribution to a

circular economy. Being transparent about efforts and communicating their environmental impact is hence a moral way of attaining legitimacy and credibility and could be argued to be an incitement for voluntary disclosure.

Lastly, pragmatic ways of attaining legitimacy are yet more explicitly emphasized throughout the interviews. The interviewed SMEs describe (in similar ways) how the value of an effort is always estimated towards requests from stakeholders, in particular customers. Two interviewees also describe that it is important to stay in tune with sustainability expectations as employees consider employers' sustainability profile. Hence a strong incitement for voluntary reporting is stakeholder demand. Whilst there exist several incitements to disclosure and voluntary report taxonomy related data, the lack of resources is described as a main obstacle. The lack of resources therefore becomes a hindrance for improved legitimacy for SMEs in line with thoughts expressed by Freeman, Carroll & Hannan (1983) and Hummel & Schlick (2016). The data issue becomes however not an isolated problem for SMEs since it is described to spill over to banks. Some of the banks explain this as a transparency gap where the lack of SME taxonomy data becomes an obstacle in banks transparency work, eventually leading to reduced legitimacy in their taxonomy alignment disclosure. This is emphasized as a challenge which could have an impact on SME and bank relations.

7.1 Critical Reflection on Research Implications and Limitations

Firstly, the study is based on previous research surrounding the implications and potential impact the EU taxonomy might have on banks and SMEs in Europe. As stated in previous research, there is a lack of qualitative research which investigates the incentives for SMEs to voluntarily disclose environmental data to either gain access finance or improve relationships with their economically powerful stakeholders (Nishitani et al., 2021). This study aims to fill this research gap, however the scope of the study is limited to only one country within Europe and one specific sector, the forestry sector. Thus, the findings of the study are limited to only one small sample and may not be comparable with other countries which have different challenges than the ones the forestry sector in Sweden are facing. However, as a case study, comparability is not the focal point but rather functions as an example of how the topics of the study may play out.

Secondly, the SME selection within the study is limited to a small sample of actors within the forestry sector in Sweden. Desirably, the selection would have been more diversified and included more forestry owners who are to a larger extent included

within the taxonomy. Additionally, the SMEs who had the opportunity to participate in interviews were established enterprises with stable economic conditions, hence they were in no need of external financial support. If the selection instead included novel enterprises in need of finance, the outcome of the interviews might have been different as the taxonomy might have been a driver to gain access to finance from banks. The SMEs representatives within this study lacked in-depth knowledge or practical experience of the taxonomy as well as applying for green finance. Thus, discussions and questions relating to specific examples were not elaborated upon. The lack of knowledge was anticipated, however not to the extent that was presented in the interviews.

Lastly, as the empirics indicates, banks are currently more occupied with interpreting the taxonomy within their own organizations and how they will gather data from corporations directly affected by the regulation. Hence, the focus on how the taxonomy will affect their SME clients is seen as an upcoming issue. Consequently, the empirical material regarding these questions in previous studies were scarce since discussions have taken place to a limited extent within the banking system in Sweden.

7.2 Future research suggestions

The focus of this study was to further explore how SMEs and banks interpret the taxonomy regulation and how it may affect the relationship between the two actors. As of today, the taxonomy regulation is not yet complete, thus future research could investigate how the regulation will affect SMEs once all environmental goals have screening criteria and explore if the demands on disclosure increase and if it might affect financial opportunities for SMEs. Further, the selection in this study is limited to one specific sector within Sweden specifically, since the regulation is functioning across the EU a wider exploration on how it will affect SMEs in all of Europe would be of interest as well as if there exists a potential difference between nations.

Furthermore, as proven by the empirics of this study CSRD and EU standards will likely have a greater impact on the relationship between banks and SMEs, as expressed by the interviewed banks. Further research could thus investigate what implications that CSRD might inflict on SMEs in Sweden in relation to accessing finance and how it might differ from the implications of the EU taxonomy.

Additionally, the potential outcome of GAR and BTAR are still uncertain where the empirics conclude that there might be conflicts between banks and SMEs connected to the KPIs. Based on previous research together with the findings of this study suggests that once financial actors and credit institutions disclose these KPIs,

further research on how these affect the relationship between SMEs and banks should be conducted.

8. Conclusions

In this section, the findings as well as answers to the research questions stated in the first section of the thesis are summarised.

1. How could bank disclosure requirements imposed by the EU taxonomy influence SMEs?

The findings of this study contribute to current knowledge by showing that there are uncertainties and divisions in how banks in Sweden believe that the taxonomy will affect their SME clients. Here, the empirics show that SMEs will be influenced to an extent, where at least one bank is including taxonomy data requirements within their risk assessments. The empirics further shows tendencies of banks wanting to include taxonomy data collection from SMEs to improve their own taxonomy alignment disclosure, which can be related to the two KPIs GAR and BTAR. Again, there are divisions between the interviewed banks where these two KPIs bring forth further uncertainties regarding influence on SME clients.

Although the taxonomy might influence SMEs to a certain extent, all banks agree that taxonomy data will not be vital when SMEs apply for loans or credits. This is because banks value their relationship with SMEs highly and have no desire to put additional or unnecessary burdens on them. The study can conclude that the EU taxonomy could be used as a transparency tool for SME clients in which to showcase how far they have come in their sustainability transition, and thus potentially increase their legitimacy towards banks.

2. What would be the implications for SMEs to report EU taxonomy related data?

This study has in line with previous literature on the EU taxonomy and SMEs showed that additional reporting burdens connected to the taxonomy could become a challenge for Swedish forestry SMEs. The result shows accordingly that the general lack of resources found within SMEs is the main objective for this outcome. The empirical material confirms that there remain difficulties with interpreting the regulation amongst banks as well as SMEs. A harmonization with clarified

requirements could hence be crucial to simplify the process of involving SMEs and facilitate the process of setting attuned disclosure requirements.

This study further contributes to the current knowledge by demonstrating that by voluntary report on taxonomy data SMEs would potentially have an advantage when it comes to accessing finance from banks. Additionally, this is framed as an effort that could improve bank and SME relations. Lastly this study contributed to current knowledge in the subject by showing that a few SMEs in this study had great willingness to showcase their sustainability work as this may make them more competitive, and due to customer demand and an inherent reverence for sustainability and forestry. However, the pragmatic approach was more dominant where customer demand was the determining factor.

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Popular science summary

In 2019 the European Union launched the EU taxonomy as an incentive to classify economic activities that contribute to the transition towards a more sustainable future. The taxonomy is hence a regulation and an aid that will help to distinguish which activities are environmentally sustainable and which are not. It partly consists of a long list of “technical screening criteria”, the list deploys different economic activities based on environmental impact. The list with criteria is supposed to help investors and other stakeholders make more informed decisions about where to point their efforts and invest.

The EU taxonomy will come with significant implications for organizations and investors all around Europe but one group that could need more attention is non-listed small- and medium sized enterprises (SMEs) since it is not yet fully clear how this group will be affected by the regulation. Despite not being covered by the Taxonomy, academics and business anticipates that SMEs might start feeling the regulation through so-called trickle-down effects. This means that SMEs would have to consider their business activities regarding the EU Taxonomy when for example applying for a loan. Yet this is not the only challenge that SMEs in the EU are facing, the trickle-down effects of the taxonomy will potentially require technical expertise to classify and report data in line with the Taxonomy. This can be both a time-consuming and complex process for SMEs with limited resources. Moreover, the cost of complying with the regulation can become expensive because of software, data storage, and training of staff.

It is necessary to investigate how these implications will play out among SMEs operating within the EU. Therefore, this study interviewed 15 representatives from Swedish SMEs, banks and trade organizations in a qualitative manner. The aim was to explore what financial and disclosure-related implications the EU taxonomy will have on SMEs in Sweden and if there exists a willingness to voluntarily disclose according to the taxonomy. To demonstrate this the study gives examples from the Swedish forestry industry.

The research findings highlighted how banks in Sweden are uncertain of how the taxonomy will impact their SME-clients. There are thus divided opinions and

perspectives in the banking industry regarding the outcomes of the regulation. Overall, the insights from this thesis add to current understanding of the impact of the taxonomy on banks and their SME clients, highlighting some current complexities. Moreover, by voluntarily reporting in line with taxonomy data SMEs might get advantages when applying for loans from banks. This means that by providing this kind of information, SMEs can potentially increase their chances of funding. Additionally, the thesis indicates that some SMEs are eager to disclose their sustainability efforts. This willingness is driven from competitive advantage, motivations to meet customer demands, and a genuine care of the forest.

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Appendix 1

Interview guide SMEs

1. Briefly tell us about [organization/company] and your role within [organization/company]
2. How familiar are you with the EU Taxonomy within the [organization/company]?
- Have you done any work with the EU Taxonomy within the organization or do you plan to do so? If so, how?
3. What is your general opinion about the EU Taxonomy?
4. Do you see challenges or advantages with the EU Taxonomy for your organization?
5. How important is bank financing for your organization?
- Are there any particularly important loans/grants for your organization?
- How do you think the EU Taxonomy might affect this?
6. What type of sustainability data do you share with banks today and in what way?
- Is there currently any dialogue about the taxonomy from the banks' side?
- How do you think the EU Taxonomy might affect the relationship with banks?
7. Do you currently carry out any form of sustainability reporting, if so in what way?
- How do you work with data collection for sustainability reporting? Are there currently any challenges with this?
- What are the main incentives for your company to report on sustainability?
8. What challenges and what advantages do you see for your organization with possible extended reporting linked to the EU Taxonomy?
9. The EU Taxonomy takes into account the following activities: afforestation, forest conservation and forest management. All activities must establish a forestry plan and carry out a climate benefit analysis to be classified as sustainable.
- What could this possibly mean for your organization?
- What would be the short-term and long-term consequences of this for your organization?
10. Do you currently receive any support or advice regarding sustainability reporting according to the EU Taxonomy?
- If yes, from who? If not, would you have liked it and in what way would you have liked support?
- How do you think reporting according to the EU Taxonomy could be improved to be more adapted for organizations like yours?
11. SMEs will possibly be offered a voluntary reporting standard that is more adapted and simplified. The aim is for SMEs to be included in a fairer way.
- What would be the incentives for your organization to use such a standard?
- What kind of support do you think will be needed?
12. Do you feel that there is some important aspect about the topics we discussed that we missed to address today?
- Is it ok if we contact you if any additional questions arise during the course of the work?

Appendix 2

Interview guide Banks

1. Briefly tell us about [organization/company] and your role within [organization/company]
 2. What aspects do you look at when doing a risk assessment on SMEs?
- How might the risk assessment change with the implementation of the EU taxonomy?
 3. How do the risk assessments differ depending on the sector?
- How do the challenges in the forest sector differ compared to other sectors?
 4. What challenges and advantages can you see for your SME customers to report EU Taxonomy data?
- Which parts are more essential for you as a bank that SMEs report and disclose?
- Does [the bank] plan to help SME customers with sustainability reporting according to the EU Taxonomy, if so how? If not, why?
 5. How does [the bank] reason around Pillar 3 reporting, specifically around GAR and BTAR?
- How could GAR and BTAR affect SMEs' opportunity for finance in the long term?
- Is there a possibility that GAR and BTAR can influence how risk assessments are made on SME customers? If so, how? If not, why?
 6. Forest owners with over 13 ha of forest need to do a climate benefit analysis to be classified as green according to the EU Taxonomy
- What will be the consequences of the requirement for climate benefit analysis for smaller forest owners?
- Is this something that the bank will also take into account for small businesses when granting credit/loans?
 7. The EU Taxonomy is one of many puzzle pieces in the EU's Green Deal. How important will the EU Taxonomy be in banks' relations with SME customers?
 8. Do you feel that there is some important aspect about the topics we discussed that we missed to address today?
- Is it ok if we contact you if any additional questions arise during the course of the work?
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Appendix 3

Interview guide Trade Organisation (SMEs)

1. Briefly tell us about [organization/company] and your role within [organization/company]
2. Can you describe the major challenges that the EU Taxonomy inflicts on SMEs sustainability reporting?
- Even if it is not mandatory, is there a risk that SMEs could “fall behind” other corporations?
3. How can the EU Taxonomy positively impact SMEs sustainability reporting?
4. Voluntary reporting standard has been suggested by the EU in light of the CSRD and the EU Taxonomy for non-listed SMEs. What would be the incentives for SMEs to utilize this opportunity?
5. What are your overall impressions regarding the current state of environmental data collection for SMEs?
- How do the possibilities and resources differ from SME to SME?
- How do expectations across sectors differ in terms of expectations for disclosure, resources and materiality for the EU Taxonomy objectives?
6. How do disclosure expectations for SMEs differ across nations in the EU?
- Does Sweden stand out in any particular way? How?
7. In what ways can listed and non-listed SMEs be impacted differently by the EU Taxonomy in terms of opportunities for finance?
8. Where do you think financial implications and disclosure expectations for SMEs are heading?
9. Do you feel that there is some important aspect about the topics we discussed that we missed to address today?
- Is it ok if we contact you if any additional questions arise during the course of the work?

Appendix 4

Interview guide Trade Organisation (Forestry)

1. Briefly tell us about [organization/company] and your role within [organization/company]
2. What would you argue are the main incentives for SMEs to engage in sustainable forestry?
- Describe the typical SME companies in the forest industry
3. What would it mean for SMEs in the forestry industry if the EU Taxonomy and Swedish forestry differentiate between what is considered sustainable forestry?
- Why do you think that no clear connections are made in the EU Taxonomy between active forestry and the transition to a fossil-free society?
- What would be the biggest challenges regarding the EU Taxonomy for SMEs in the forest industry?
4. What are your overall impressions of the current state of environmental data collection for SMEs in the forest industry?
- Is there any support for SMEs in the forest industry when it comes to reporting and data collection? If yes, from where? If not, is it needed and who will act as support?
5. Forest owners with over 13 hectares of forest need to do a climate benefit analysis to be classified as green according to the EU Taxonomy, what could this mean for SMEs?
6. How could the reporting linked to the EU Taxonomy be improved to be more adapted for SMEs in the forest industry?
- What would be the incentives for SMEs to report on EU Taxonomy data?
7. How dependent are SMEs in the forest industry on financing from banks?
- What type of financing is most common?
8. There is a risk that investments will be diverted away from the forest as forestry risks not being classified as sustainable according to the EU Taxonomy, alternatively that banks will refuse loans to companies that do not meet the requirements within the EU Taxonomy
- What would this mean for SMEs in the forest industry?
- What would be the short-term and long-term consequences?
9. Do you feel that there is some important aspect about the topics we discussed that we missed to address today?
- Is it ok if we contact you if any additional questions arise during the course of the work?

Appendix 5

Interview guide Trade Organisation (Banks)

1. Briefly tell us about [organization/company] and your role within [organization/company]
2. How does the [Trade Organisation] help Swedish banks' with the EU Taxonomy?
3. How does the [Trade Organisation] experience Swedish banks' attitude towards the EU Taxonomy?
- Are most positive/negative, why?
4. How is the relation between banks and SME clients today?
- What environmental/sustainability data do banks' gather from SME clients?
- How will this process/data collection change in relation to the introduction of the EU Taxonomy?
5. In what ways could the EU taxonomy affect small and medium-sized companies in the form of, for example, interest rates, repayment time etc.?
6. Voluntary sustainability reporting by SMEs has been discussed at EU level and a standard is being developed. How can voluntary sustainability reporting, in line with the EU Taxonomy, be factored in by banks when taking out loans for small and medium-sized companies?
7. Have the [Trade Organisation] discussed GAR and BTAR with banks and the outcome and impact of these metrics?
- How could GAR/BTAR change what type of data banks collect from SMEs?
8. How could Swedish banks guide SMEs with EU Taxonomy disclosure?
- What would be the benefits for banks when helping SME:s with EU Taxonomy reporting?
9. Do you feel that there is some important aspect about the topics we discussed that we missed to address today?
- Is it ok if we contact you if any additional questions arise during the course of the work?

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