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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES IN INVESTING WITH GHANAIAN SME's

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I hereby declare that I have compiled the thesis independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading.

The document length is 14,206 words from the introduction to the end of conclusion.

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| | |
|---|---|
| BERD | – Business Enterprise Research and Development Expenditure |
| CAPM | – Capital Asset Pricing Model |
| CER | – Corporate Environmental Reporting |
| CS | – Corporate Sustainability |
| CSD | – Corporate Social Disclosure |
| CSR | – Corporate Social Responsibility |
| CSRD | – Corporate Social Responsibility Disclosure |
| ESG | – Environmental, Social and Governance |
| EU | – European Union |
| GDP | – Gross Domestic Product |
| GNP | – Gross National Product |
| GRI | – Global Reporting Initiative |
| MSCI | – Morgan Stanley Capital International |
| OECD | – Organisation for Economic Co-operation and Development |
| PRI | – Principles of Responsible Investment |
| ROA | – Return on Asset |
| ROE | – Return on Equity |
| SME | – Small-Medium sized Enterprises |
| SRI | – Social Responsible Investment |
| TBL | – Triple Bottom Line |
| US | – United States of America |

# ABSTRACT

From its roots in the exclusionary screening of listed equities based on moral principles, the tradition of considering environmental, social, and governance (ESG) issues in investing has advanced significantly. Both value-motivated and values-motivated investors are now considering ESG problems across asset classes using various approaches. However, there is a persistent misconception that the body of empirical evidence demonstrates that ESG considerations have a negative impact on financial results. A key concept in discussing ESG issues among investment professionals is that consistently considering ESG issues would likely result in more comprehensive investment assessments and better-informed investment decisions. Investors and policymakers are increasingly interested in ESG investment, which promises to use various non-financial data to align finance with long-term value and social values.

This research aims to determine whether ESG plays a contributing factor to the growth of SME's and the economy as a whole. To achieve the aim, these research questions were asked:

*What are the obstacles to SMEs disclosing ESG data?*

*What is the relationship between ESG Disclosure and return on investment?*

The research employed quantitative data from SMEs in Ghana with a sample size of 200 participants, of whom 71 answered. The findings demonstrated that demographic and business factors influence SMEs' ability to deal with environmental, social, and governance issues. In the SME sector, most respondents were middle-level managers in their mid-30s, with practically all having tertiary education. ESG investors pay attention to how ESG data is published in reports; according to the research, investors are concerned about employees' health and safety related to social and governance issues.

Furthermore, the data demonstrate that ESG disclosure increases opportunities for incorporating ESG into investment choices. SMEs that fully report ESG information to attract long-term investment and greater returns.

Keywords: Small Medium-sized Enterprises, ESG, Investing, Disclosure

# INTRODUCTION

How important are a company's environmental, social and governance (ESG) variables? To demonstrate accountability in its activities, the fundamental value of today's business environment is essential. In reality, some stakeholders demand unlimited access to corporate information. The number of environmental, social, and governance scandals has been dominated newspapers worldwide (Christensen, Langer 2009). As a result of the transparency movement, information is more readily available than ever before. Businesses are becoming more transparent about the ESG aspects and other operational information. Consequently, one might wonder how this increased flow of knowledge would help investors. Are ESG knowledge the key to how conventional financial analysis can be complemented and more insight into businesses can be obtained and investment decisions facilitated?

ESG refers to three main fields, essential factors in determining sustainable business practice. An extensive range of issues and non-financial considerations are discussed for each of these three regions. Many fund managers prefer to integrate these variables into their valuation of assets (UNEP FI 2005). In what has become commonly regarded as socially responsible investments, ESG is a catchall term for the parameters used. Several scholars and experts suggest that we should "rethink" how we consider the analysis of investments. They claim that achieving a more sustainable business climate is possible as good returns as today. They may be even higher returns, using ESG criteria when assessing businesses (Nielson, Noergaard 2011).

Small and medium-sized enterprises contribute to the growth of an economy, especially in developed countries, as an essential source of flexibility, creativity and dynamism. Compared to multinational corporations, SMEs are often referred to as producers of productive and efficient employees, the driving force of economic development, key employers, and the core of large corporations in the economy. Due to the simple registration, primarily personally written, SMEs in all economies appear to be spawning more companies than large companies worldwide.

Talking about economic growth without involving SMEs has no effect. The driving force of a good economy depends on the contribution of SMEs, especially in developing nations. SMEs are the mainstreams enterprises worldwide and contribute significantly to job creation and global economic development. They make up about 90% of businesses and more than half of all jobs globally. In emerging markets, formal SMEs generate up to 40% of national income (GDP). Considering informal SMEs, the number is much higher (World Bank 2019).

SME's plays an essential role in the socio-economic activities of developing nations. They help create jobs, manage wealth, improve livelihoods and reduce absolute poverty. SMEs also generate significant tax revenues that contribute to the county's GDP. According to a report released by Muriithi in 2017, SMEs continue to be one of the world's emerging economies. In 2003, SMEs in Nigeria contributed 95% to production and 70% to industrial work, and SMEs in Ghana contributed 70% to the workforce and owned 70% of the company. In Zambia, SMEs make up 97% of the company and 18% of the workforce (Kaudial, Okumu 2019). Around the world, small and medium-sized enterprises (SMEs) are acknowledged as an integral part of sustainable trade and industry growth and social development. It is also noted that SMEs are the sector with the highest employment. Eight of the ten companies in Ghana have SMEs, which account for 75% of Ghana's gross domestic product (Ghanaweb 2021).

SMEs suffers from many problems such as a lack of consistent bank financing, insufficient capital and knowledge, inadequate production capacities, inefficient marketing strategies, and difficulty identifying new markets, various constraints that prevent modernisation and expansions, particularly the lack of highly skilled labour at an affordable price and the tedious task of following up with several government agencies. Shortly, SMEs in African countries lack the infrastructure and strong government policies to support and protect them from contributing to economic development (Appiah 2016).

This research aims to find out whether Environment, Social, and Governance play a contributing factor to the growth of SME's and the economy. In addition to the purpose, these survey questions were asked to guide the survey process:

1. What are the obstacles to Small, Medium-Sized Enterprises disclosing ESG data?
2. What is the relationship between ESG Disclosure and return on investment?

There is a limitation to this study that needs to be considered before generalising its findings. The study focuses on ESG investment problems; this is a wide range of areas that cannot be thoroughly investigated given the time and other resources available to the author. Therefore, only from Ghana was the data obtained, which was restricted in the author's view. This constrains the degree to which the author's conclusions were drawn. The author of this research is a Ghanaian who wants to find solutions for our SMEs concerning investors' environmental, social, and governance issues. In terms of the world path towards ESG, the author's interest in this area of research will be an asset and valuable for the general public. Most small and medium-sized companies do not consider ESG an essential part of their business. They do not pay proper attention to it, while other investors consciously or unknowingly ignore ESG in their investment decisions.

The introduction includes a basic overview of the subject, research issues, research goals and questions, study motivation, and a thesis summary.

The first chapter will discuss previous, theoretical, and analytical literature relevant to the research. The author's methodology and study design, and data collection and analysis are covered in the second chapter. The third chapter examines the findings of the study area's data and presents them in an accessible way. An overview of the results and outcomes will be presented and study conclusions.

# 1. OVERVIEW OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE: GENERAL INFORMATION AND RELEVANT THEORIES

In recent years, substantial academic research has focused on environmental, social, and governance (ESG) concerns. Measuring corporate governance quantitatively or based on the correlation between corporate governance and key performance indicators is challenging. In other words, investigations into these types of associations described in reports on positive, neutral, and negative relationships between a company's financial results and ESG are not yet known. How do you integrate ESG into your views on investment, and does it increase your returns or decrease your returns? Some people may say that ESG would inherently increase returns because it must be an excellent investment to invest in good companies. At the same time, other individuals argue that returns must be lower because it is an extra constraint and constraints lower returns.

## 1.1. Conceptual Overview

### 1.1.1. Meaning of SME's

Small and medium-sized companies (SMEs) have a variety of definitions and meanings throughout the world; each country has its own but ensures that it is consistent with the widely accepted definition. Even though definitions differ, the meaning is the same worldwide. Small and medium-sized businesses employ between 1 and 250 personnel. The European Union (EU) considers its limit to be 250, whereas the United States (US) considers 500.

According to the EU, companies use employee count measurements to explain small and medium-sized business definitions. The recommendations of the European Union (EU) Commission on May 6, 2003 are international standards commonly used to describe SMEs as enterprises with 250 personnel. According to the EU, micro-enterprises are those with less than 10 personnel, Small enterprises are those with less than 50 personnel, and medium-size are those with less than 250 personnel.

The innovative definition of all community laws and financing programs, which came into effect on January 1, 2005, defines small, medium-sized enterprises in terms of financial assets. By definition, SMEs are expected to raise their financial limits to a certain threshold. The thresholds can be divided into three categories: the annual financial status of SMEs not exceeding 10 million euros and the yearly financial condition of SMEs not exceeding 43 million euros are small size and medium-size enterprises, respectively. Micro enterprises are SMEs that do not reach small and medium-sized enterprises and have an annual financial position of no more than 2 million euros (OECD 2005).

Each country has its definition of small and medium-sized enterprises (SMEs). Still, one of Singapore's interesting points is the existence of the local sector in relation to SMEs, claiming that SMEs make up at least 30% of the local shareholdings and the SME's must have annual sales of 100 million dollars. The vast majority of companies cannot meet the threshold they operate with a million dollars and are recognised as micro SMEs. The sector has contributed to economic growth by contributing 70% of the workforce, resulting in a 50% increase in the gross domestic product (Hayat, Orsagh 2015).

The following articles 4 (2) and (3) of the Kosovo Law govern and support the definition of SMEs. In the previous 12 months, a microenterprise must have employed up to 9 people and had total sales of less than 2,000,000 EUR; in the previous 12 months, a small size enterprise must have employed up to 49 people and had total sales of less than 10,000,000 EUR. In the previous 12 months, the medium-sized enterprise had to employ less than 250 people and have a total turnover or balance sheet total sales of less than € 43 million (Republic of Kosovo 2014).

The definition of SME by the Government of Ghana uses various purposes and standards to identify so-called micros and SMEs operating in the country. Businesses with less than 5 employees are classified as micro enterprises, businesses with up to 29 employees are classified as small enterprises, while businesses with 30 to 39 employees are classified as Medium-sized enterprises and businesses with 100 or more employees are classified as large enterprises.
According to Ghana's registrar general division records, about 90% of registered businesses are SMEs. Also, data from the Social Security and National Insurance Trust (SSNIT) support this claim, as 90% of companies employ less than 30 people (Ghana Statistical Service 2016).

Of all the definitions of SMEs, the one used by the European Union is most commonly used in SME research. But it is still a long way to go before being diverted by public administrations and politicians. Recommended by the EU, this definition is mandatory only for establishments and companies applying for funding (Carter, Jones-Evans 2006). According to a World Bank survey embodied through a journal known as MSMB Country Indicators, 46 or one-third of the 132 countries surveyed define SMEs as companies with less than 250 personnel (Kushnir et al. 2010).

### 1.1.2. Characteristics of Ghana's SMEs

According to Kayanula and Quartey (2000), many policymakers concerned about accelerating growth in low-income nations are concerned about SMEs. These businesses are the driving force behind emerging countries' growth objectives. In many developing nations, they constitute a potential source of employment and revenue. One of the distinctive structures of SMEs compared to large companies is that the latter has direct access to international and domestic capital. At the same time, the former is disqualified due to the high brokerage costs of small projects. In addition, small and medium-sized enterprises must adhere to the exact fixed costs as large enterprises but have limited opportunities to sell their products overseas.

In Ghana, SMEs are divided into rural and urban groups. Local companies focus on individual artisans whose expertise in various activities helps run the sector. These artisans were engaged in so many local productions. Urban enterprises rely on family, friends and loved ones. Most of them do business in or around the house. It is interesting not to leave women in the process, as they make essential contributions in these areas when it comes to production in urban enterprises. According to Kayanula and Quartey (2000), their activities include agriculture, soap making and wood processing.

### 1.1.3. Contributions of SMEs Economic Development

According to Advani (1997), SMEs have many economic advantages in developing countries and their success is crucial to their economic and social growth. In their efforts to accelerate the growth rate of low-income nations, policymakers have identified SMEs as a primary area of concern. These enterprises have been identified as driving forces that can help developing countries achieve their developmental goals. In many developing countries, they are potential sources of employment and income. SMEs are more labour-intensive and have a lower cost of capital than large organisations, accompanied by job creation.

They play an essential role in ensuring income permanency, employment and fiscal growth (Liedholm, Mead 1987; Schmitz 1995). SMEs have an advantage over large competitors because of their extensive skills, allowing them to adapt more quickly to market conditions. Due to their adaptability, they can withstand difficult economic conditions (Abor, Quartey 2010). SMEs employ more people than large companies, so the cost of capital associated with job development is lower (Anheier, Seibel 1987). They help ensure revenue stability and job formation. Because SMEs are human capital intensive, they are likely to thrive in small cities and rural areas, paying for more distribution of regional economic activity and delays in migration to large cities. Small assembly components can produce a more equitable income distribution than large companies because of their large distribution and human resources. It also enables long-term economic growth by increasing the efficiency of the local market and using fewer resources efficiently (Abor, Quartey 2010).

However, from an economic point of view, a company is a supplier and a consumer. This is important if you can enter the market with purchasing power. Just as customers' needs excite their activities, the demand for their industrial products or consumer goods will excite the doings of their suppliers. In the market, investing in the demand for goods and services serves two goals; the request for the supplier of industrial products and the mass supply lateral for industrial product manufacturers through the possibility of purchasing new products with modern equipment. Demand is also essential for SMEs' ability to generate revenue and stimulate requests for consumer and capital goods (Berry et al. 2002).

## 1.2. Origin of ESG and Definition of Concepts

The goal of ESG metrics is to capture additional organisational performance variables that are not disclosed in the accounting data. Reliability, efficiency, staff welfare, product equity, working strategy, expertise, and the ability to educate the administrators and investors on the reputation of many other assets that are more important than ever in the global knowledge economy are missing on the yearly financial statements. ESG metrics provide a wider variety of non-financial environmental, social performance and corporate governance data and can be used to measure an organisation's management capabilities and help risk management. ESG information, especially for management purposes, is essential. Managers need to provide extensive and timely information on their activities around the globe. Management will then make necessary improvements to its business planning and understand and proactively impart significant changes to analysts in its forecasts. This point of interest helps analysts' forecasts be more reliable and practical and allows management to provide more accurate information to cope with the results regularly to meet or exceed investor desires. In addition, businesses with high ESG output have a keen understanding of the long-term structural challenges in their markets, and managers in these companies can handle long-term strategies. To ensure the success of their company over long periods, such businesses make the requisite long-term decisions to remain sustainable.

Environmental, social, and governance (ESG) refer to substantial non-financial knowledge of organisational issues consequences that enable investors to act for the best long-term interests of the community and beneficiaries (Bassen, Kovacs 2008, 184). Environmental, social, and governance (ESG) considerations are considered when making investment decisions to make more sustainable investments. The ESG problems differ from one company to another, implying no definitive and exhaustive list of these variables. By MSCI Research Group, the components are described as;

Environmental (E): Refers to investment and management policy concerns and environmental opportunities in areas that are beneficial to the environment, such as emissions and waste, packaging and waste, and e-waste.

Social (S): Every business has its social variables, and you can see how these affect your business. Social transactions related to human resources, finance, product quality, work-related health, and safety. Employee well-being and welfare are paramount to business growth, while small businesses must successfully combine social variables.

Governance (G): addresses corporate-investor relationships, ethics, reporting, and accountability (MSCI 2011).

Sustainability: The ability to meet today's generation without negotiating the needs of our future generation (Marrewijk 2003, 101)

SRI: Abbreviation for socially responsible investment. "Defined" is an investment in a company that meets specific essential social and environmental responsibility criteria. Active involvement of a particular company to become a stronger and more responsible corporate citizen. Allocate some of the assets to the economic development of the community (Gay, Klaassen 2005, p. 35).

Corporate social responsibility is abbreviated as CSR. Davis (1973) highlighted the company's examination and reaction to challenges outside its restricted economic, technical, and legal needs... (to) provide social advantages in addition to the usual economic rewards that businesses seek" (Wood 1991).

## 1.3. Literature Review on ESG Performance

The financial sector has turned its attention to the degree to which, compared to conventional investments, ESG investing can generate higher returns or prevent lower returns, which does not involve sustainability considerations beyond immediate financial results and corporate strategy to boost future performance.

### 1.3.1. Stakeholder Theory

According to stakeholder theory, the actions and disclosure of social responsibility offer an opportunity to show the contributions of an enterprise towards sustainability, and the business is thus viewed as trustworthy (Freeman 2004). An overview of how consumers perceive the consistency of financial statements is also done. At the same time, many stakeholders need to look at more data contained in financial reporting to reduce differences in standards, it increases the auditor's workload and increases audit risk and possible responsibilities and accountability. I agree that it is essential to clarify. Therefore, stakeholder misunderstandings about the scope and outcome of audit reports may have significant weaknesses in the corporate governance mechanism (Chen et al. 2020). Many studies also provide additional evidence that ESG transparency and stakeholder discussions about the continuing concern about financial reporting are challenging areas. Disclosure of ESG data also shows that it is beneficial for businesses to raise awareness of these issues in society. But it also helps explain the ecological, social and financial outcomes of a company. Other studies suggest that optimising stakeholder interests concerning ESG transparency variables can improve a company's financial performance and shareholders (Cooper 2017; Dhaliwal et al. 2014). Companies want to meet the need for financial and non-financial outcomes in the long run while strengthening partnerships and trust with stakeholders. You need to identify potential links between corporate social responsibility practices and performance indicators. This is reinforced by the fact that the stakeholder principles explain who the company's stakeholders are. The fact is that every company needs to aim to meet the needs of every stakeholder. Therefore, this study focuses on the stakeholder position to capture everyone involved (Oncioiu et al. 2020).

Companies are accountable not only to shareholders but also to other stakeholders, including suppliers, customers, employees, governments, and society as a whole in the social responsibility model (Lokuwaduge, Heenatigala 2017). ESG disclosures need to communicate important issues to a wide range of stakeholders. They cover topics that may be financially relevant beyond financial concerns (Gray et al., 1995; Jenkins 2004). Therefore, one theory that provides similar visions to the legitimacy theory is the stakeholder theory. Stakeholders are individuals or groups of individuals who can or are affected by the activities of a company to achieve its goals (Freeman, McVea, 2001). Correspondingly, the idea of maximising shareholder wealth has changed from maximising shareholder wealth. Corporate value management systems are based not only on maximising economic profits but also on maximising ESG values. This can only be achieved if the enterprise management system implements the stakeholder involvement process (Martirosyan, Vashakmadze, 2013).

A report by Peiris and Evans (2010) shows that there is a positive link between ESG disclosure and corporate valuation, suggesting that highly rated companies have higher multiples of revenue, with ESG factors as it affects the financial performance of a company and thus indicates that it is relevant for investment considerations. This shows that to be successful, a company must be responsible to its shareholders and rely on the management of various stakeholders involved in its social and financial performance (Donaldson, Preston 1995). This has been demonstrated by Gray et al. (1995), who found that the more important stakeholders are to the company, the greater the effort to maintain good relationships. Therefore, organisations tend to use the information to manage or manipulate stakeholders to support their survival and strategic marketing tools to create a positive image of their stakeholders.

### 1.3.2. Theoretical Framework: Institutional and Legitimacy Theories

Earlier literature on ESG disclosure practices has used various theoretical perspectives to support such exercises (Reverte 2009). However, most studies seem to agree that institutional and legitimacy theories best explain the variables that determine changes in ESG disclosure (Ioannou, Serafeim 2012).

The institutional theory deals with the relationship between enterprises and society and promotes an understanding of the effectiveness of ESGs in the institutional field of economic governance (Brammer et al. 2012; Campbell 2007; Campbell et al. 1991). This theory assumes that corporate organisations are influenced by broader social structures such as public and private regulations and the presence of non-governmental and other independent organisations that oversee corporate behaviour (DiMaggio, Powell 1983). These social structures influence how a company does business and how it works. The institutional perspective of non-financial disclosure is that companies do not make decisions on ESG issues purely based on instrumental decisions. Still, such decisions are formulated with the broader social context in mind. It suggests that it will be "(Jackson, Apostolakou 2010, p. 374). Therefore, previous studies have used this theory to explain the impact of country-level characteristics on corporate behaviour regarding ESG disclosure (Muthuri, Gilbert 2011; Oliver 1991). The legitimacy theory emphasises the importance of social acceptance to ensure a company's survival (Singh et al. 1986). Legitimacy is defined as "a general perception or assumption that an entity's behaviour is desirable, appropriate, or appropriate within a system of socially constructed norms, values, beliefs, and definitions" (Suchman 1995, p.574). Mitchell et al. (1997) adopt Suchman's definition of legitimacy, "legitimacy is a desirable social good, that it is something larger and more shared than mere self-perception, and that it may be defined and negotiated differently at various levels of social organisation". According to legitimacy theory, a company can only survive if it believes that it meets society's expectations (Gray et al. 1996). As a result, companies are using ESG disclosure as a tool to appear to be socially aware and to show acceptable behaviour regarding stakeholder expectations (Beelitz, Merkl-Davies 2012). Therefore, this theory was used in previous literature to explain how the characteristics of SMEs affect ESG disclosure levels (Claasen, Roloff 2012).

However, these theoretical perspectives are not mutually exclusive, and their overlap helps investigate a particular social event. Legitimacy can be managed through several theoretical lenses, including institutional theory (Reast et al. 2013). Therefore, when looking at social disclosure from an institutional point of view, the organisation and its legitimacy appear to be shaped and primarily influenced by the external environment. The legitimacy of a company is broader social beliefs, values, and norms (Meyer, Scott 1983). To this end, Beelitz and Merkl-Davies assume that "the institutional perspective considers legitimacy as the collective consciousness and recognises organisational practices as acceptable, appropriate, and desirable" (2012, p. 102). The institutional approach focuses on how organisations build legitimacy while maintaining value and respecting community expectations, using links to institutionalised structures (Castelló and Lozano 2011). ). Panwar et al. (2014) emphasise that the determination of legitimacy is partly a matter of the evaluator's decision heuristic and cultural value (Bitektine 2011) and does not necessarily depend on actual knowledge (Doh et al.). 2010) or an objective assessment of corporate behaviour.

Legitimacy theory is another motivation for disclosing ESG. The legitimacy theory is based on the idea that an organisation can exist and grow through social acceptance (Guthrie, Parker1989). Therefore, the legitimacy theory is that companies must disclose certain information (community participation, human resources, physical resources, environmental contributions, products and services) to convince society that organisational activities are tolerated and increase social value. With increasing pressure from social media and stakeholder attention, ESG disclosure provides potential businesses with benefits such as increased transparency, employee motivation, and improved reputation and brand equity. , Thereby avoiding the market stigma associated with having a reputation for environmental recklessness (Brammer, Pavelin 2008). According to legitimacy theory, companies voluntarily provide ESG disclosures to show that they meet the expectations and norms of society. Therefore, disclosing ESGs reduces information asymmetry and avoids adverse selection when one party (manager) of a potential transaction has higher quality corporate information than various stakeholders. I can do it. Healy and Palepu (2001) argued that signalling theory suggests that voluntary disclosure decisions lead to value-related information about economic, environmental, and social performance. Because corporate disclosure helps investors predict future returns, companies voluntarily publish ESG reports to demonstrate sustainability, improving EES performance. (An et al. 2011) ESG disclosure recognises three consequences of a high level of transparency. (1) Reduce information asymmetry between management and external users of corporate information, such as investors and other stakeholders. (2) Inform society of legitimacy and excellence (or superior quality). (3) Strengthen corporate accountability to various external users of corporate information, such as investors and other stakeholders. In general, these theories are related and mutually helpful in explaining the relationship between ESG disclosure practices and corporate sustainability performance (EES).

## 1.4. ESG Information

### 1.4.1. The Needs for ESG Reporting

ESG data is becoming more and more demanding for investors. This is because ESG data that is appropriate, dependable, and similar is essential to investment decisions. This investor expectation allows businesses to spend more capital on producing ESG reports to meet their needs.

At the end of the 1980s, due to the environmental threat, social challenge, and economic challenge, the reasons for sustainability reporting, the first environmental reports were published and quickly became widespread among multinational companies. According to Lamberton (2005), the primary purpose of the Sustainability Performance Framework is to measure business performance against sustainability goals (Wong 2017).

Corporate Social Responsibility (CSD), Corporate Environmental Report (CER), Triple Bottom Line (TBL), Corporate Social Responsibility Disclosure (CSRD), Corporate Sustainability (CS) Report typically apply to practices that evaluate, disclose, and take responsibility for corporate performance in ESG reports. ESG information on sustainable development goals for internal and external stakeholders is essential for investors to conduct financial research and make investment decisions. ESG monitoring includes actions related to corporate emissions, resource use, environment, and natural resources, labour and human rights practices, health and safety, supply chain management, product liability, anti-corruption, and community investment. Investors increasingly recognise the value of an overview of ESG studies in the context of organisational strength and organisational effectiveness. ESG reports can also support traditional financial and investment analysis and include additional relevant details to influence the long-term assessment of a company's safety. Organisations contribute to sustainability priorities and goals, positive and negative outcomes that enable fair and rational reflection on sustainability success.

ESG reporting is a valuable resource for both reporting companies and stakeholders. It is responsible for the company's performance and interacts with stakeholders such as shareholders, investors, employees, consumers, and committees. The importance of ESG issues in society is for everyone to know when to create an ESG report that anyone working in any department can use.

### 1.4.2. ESG Investing and ESG Issues

ESG stands for Environment, Society and Governance and is a common term in the other two categories of responsible investment. A cautious investment's backbone and starting point can be considered ESG variables. ESG investing is equivalent to SRI but is an asset class in itself. SRI aims to exclude investments in real estate or sectors that do not meet ethical guidelines from the portfolio building process. On the other hand, investments in the environment, society and governance require a very high level of attention. They should be included in the fundamental investment analysis to increase the efficiency and effectiveness of the investment. In this way, investors can build their portfolios according to their principles. The United Nations enacted six Principles for Responsible Investment (PRI) in 2006 to integrate sustainability into the investment process and build a more sustainable financial system (Barclays 2016). This study describes ESG investments based on (MSCI) ESG analysis. When investing in ESG, environmental, social, governance factors, and financial variables are incorporated into the investment decision phase. An essential strategy for sustainable and responsible investment is to allow investors to better manage risk by taking into account environmental, social and corporate governance (ESG) constraints in portfolio creation and financial analysis across asset classes; investors will manage risk better and achieve sustainable long-term returns by incorporating environmental, social and governance (ESG) variables in investment decisions. Remember that the design of governance indicators is different from environmental and social indicators, as investors can prioritise them at the time of evaluation. Investors can consider environmental, social and governance issues when investing (MSCI 2018).

Environmental risks from business-related environmental threats have a natural or potential negative impact on air, soil, water, habitats, and human health. ESG considerations incorporated into a company's environmental practices include resource management and pollution control, emission and climate impact mitigation, and environmental monitoring or disclosure. Positive environmental outcomes involve eliminating or reducing environmental responsibility, reducing energy and other efficiency costs, increasing profitability, and reducing regulatory, judicial, and reputational risks.

Social risk refers to the impact a company has on society. Corporate social practices include promoting health and safety, fostering partnerships with labour administration, protecting human rights, and focusing on product integrity. Increasing efficiency and morale, reducing variability and absenteeism, and improving brand loyalty are socially beneficial.

Governance risks affect how a company operates through business practices such as increasing board diversity and transparency, protecting shareholders and their interests, reporting and disclosing details, corporate brand autonomy and quality, managing business opportunities. Good corporate governance outcomes include coordinating the priorities of shareholders and management to avoid unexpected financial surprises.

### 1.4.3. ESG Transparency and Financial Results Relationship

One of the reasons why harmonisation is not achieved is the strict requirement to classify key performance indicators for each aspect of ESG disclosure. ESG metrics that analyse potential impacts on financial records show performance and transparency. This discussion supports the need for a central ESG composite metric approach, as the effects of ESG components varies widely by country, sector and industry. A collection of European-level scores represents compound ESG indicators surveyed in the economic sector and provides an overview of the three most important environmental, social, and governance aspects. In addition, the mapping of compound ESG indicators in critical elements of each ESG statement reflects stakeholders' views on the issues investigated (Aouadi, Marsat 2016).

ESG definitions, on the other hand, relate to a collection of pertinent environmental and governance-related essentials that allow us to assess long-term sustainability as a socially constructed object. The most common explanation was to gain legitimacy from their external world because they write papers. By combining the economic-financial criteria, may mean the highest degree of financial transparency (Tamimi, Sebastianelli 2017).

Another study conducted in Norway used triple-bottom-line components for voluntary reporting to analyse non-financial information in four categories: corporate governance, business review, performance, and procurement management. In addition, it was proposed that the degree of internationalisation, brand name, and public visibility impacted reporting on sustainability.
Perhaps that is why the non-financial aspects of the entity's performance have deepened over the past few years, leading to the growth, acceptance and application of reporting principles. For this reason, the European Commission adopted guidelines for non-financial reporting in June 2017 to improve corporate transparency on social and environmental issues. The new guidelines will enable companies to comply with reporting requirements under Directive 2014/95/EU and facilitate reporting environmental, social and employee-related issues, risks and consequences. We respect human rights and diversity on board.

However, equally important is the Global Reporting Initiative (GRI). This arose from the need for economic institutions to assess non-financial performance factors by developing socio-economic and ecological impact studies. This international initiative is significant if it is somehow adopted as a benchmark within the EU.

Garvey et al. 2016 Established research has shown that companies have varying degrees of stakeholder orientation. This is reflected in the well-discussed sustainability topic. Similarly, ESG disclosures are more reliable because ESG-related rules are implemented more efficiently, and there is a stakeholder direction to improve this process. It is worth noting that disclosing the value of ESGs can enhance financial performance information by looking at financial performance information and supplementing it with other non-financial data. At the same time, more companies are voluntarily producing ESG reports, providing annual financial statements and more relevant information for determining non-financial and financial outcomes.

In addition, some researchers have found that corporate governance is positively linked to a company's financial performance, and ESG reporting can have significant implications for assessing corporate valuation. In this context, we use accounting indicators such as Return on Invested Capital (ROIC), Return on Capital Employed (ROCE), and the Q Ratio.

### 1.4.4. Connecting ESG and Financial Transparency Disclosure

The relationship between financial reporting transparency and ESG disclosure is widely discussed in the literature. Overall, increasing financial transparency is needed to improve stakeholder understanding of the quality of financial information. However, it should be emphasised that this financial clarity is a difficult concept to measure. According to Latridis (2013), corporate governance makes little sense in public when there is no confidence in environmental, social, and governance disclosure. Good financial data and performance are also needed to determine confidence in environmental, social issues and corporate governance.

Researchers believe that the new requirements will increase the accountability and credibility of annual reports and increase the fairness and credibility between stakeholders and auditors. If the auditor is a stakeholder in the company, it is also a supplier to the company, so the auditor is also a supplier to other stakeholders. Therefore, simple financial statements are the cornerstone of accounting, and therefore the accuracy of accounting information is considered as reliable as any additional financial information (Knechel, Vanstraelen 2007).

Previous research on ESG has shown that ESG disclosures can increase an organisation’s credibility and lead to more beneficial cash flow results (anticipation) for more meaningful reporting. The reason why many companies have begun to understand the potential benefits of ESG transparency is a key component of strategic business growth. This strategic component significantly speeds up financial transparency and achieving financial reporting goals (Gorte 2008).

To maintain consistency between ESG and financial results, quality checks are now needed to support the infrastructure. Some authors have shown that this indicator also represents the impact of investment in the infrastructure that underlies the level of quality checks and financial transparency. Due to the inadequate infrastructure to support professional statutory audits, public confidence in statutory auditors' security to their services has diminished (Knechel, Vanstraelen 2007).

Most empirical evidence suggests that ESG disclosures are negatively linked to the cost of capital (Dhaliwal et al. 2011). Disclosure helps reduce knowledge asymmetry between investors and managers. For example, financial statements and ESGs can convey historical information to users that do not necessarily lead to plant decisions. As a result, a high degree of financial transparency also minimises the cost of capital duplication. On the other hand, greater involvement in research is needed to find out how financial transparency and disclosure systems can work together to explain adverse effects on ESG knowledge and other management systems that are not involved. As desired, we extend this study by describing the impact of ESG disclosure that differentiates information from financial transparency and stakeholder status (Dhaliwal et al. 2011).

Even though ESG information has grown exponentially in today's sense, previous studies have shown that this information is still inadequate due to the lack of control of a large amount of information about all companies (Clarkson 1995). Organisations also choose to disclose social responsibility reports to improve the comparability and clarity of financial disclosure by developing standard accounting tools that inform stakeholders about the use of information. I can do it. With proper use of the device, you will know how to store information and rely on it as needed. This literature review summarises many claims that suggest that ESG disclosures can be investigated through future research on the impact of ESG disclosure on corporate performance and transparency. In this regard, accounting law in many countries is moving towards the so-called non-financial details (Schipper 1981). Much needs to be done to report financial data that creates the financial transparency demanded by investors and other stakeholders. On the other hand, when transparent, ESG disclosure is seen as a mechanism for finding economic and economic reasons for doing business efficiently and effectively.

### 1.4.5. ESG Data Collection and Financial Outperformance

Due to the lack of clarity and reliability of the information obtained from the investee firms, fund management companies operating in emerging and frontier markets face significant challenges in collecting ESG data (Graham, Anderson 2015). As a result, gathering reliable audited and comparable data may continue to be a barrier to practising sustainable investing. (United Nations Global Compact 2012). This can be seen in a case study in which the experiences of a Swedish mutual fund manager Robur and a Norwegian bank Storebrand reveal that difficulties in obtaining reliable information from investee companies to the level of detail they needed to be hindered their social analyses, indicating limited options for selecting these investee firms into their portfolios (O'Rourke, Connolly 2003).

However, as investing in emerging markets with less transparency, audited reporting processes, and underdeveloped legal frameworks have become a popular way to benefit from the extensive growth, the need for transparent corporate governance and efficient knowledge exchange between investors and investees has become more recognised (Schmitz 1995). Even if a fund manager receives direct responses from investees in emerging markets about ESG results, these data should be viewed with caution due to the possibility of unreliability. Nonetheless, J. P. Morgan (2016) emphasises the importance of local presence to improve knowledge sourcing in a particular market to maximise the information obtained from investees. Furthermore, it should be noted that no assumptions can be drawn about the entire developing or frontier market, as distinct cultural variations exist even within these countries' borders, implying a variety of perspectives and methods for displaying and documenting ESG issues in the background markets (Doh *et al.* 2015).

While receiving accurate responses about sustainability performance directly from investee companies is more complex, data about the environmental or community's essential impacts may be publicly available through other outlets. Indeed, according to a media and stakeholder study, ongoing monitoring and the use of data from media, NGOs, governments, and international organisations may reveal helpful information about investees' responses to ESG issues such as fraud, corruption, economic crime, illegal business practices, human rights, labour disputes, workplace safety, catastrophic accidents, or environmental disaster issues (RobecoSAM 2015). However, it is essential to note that governments and environmental or social organisations with strong agendas can lobby for their interests, representing more or less biased views on the impacts of the investee companies in question.
Furthermore, in emerging markets (Ness, Patel 2021), external ESG data providers are scarce or non-existent, necessitating the development of internal sustainability performance evaluation systems (Doh *et al.* 2015).

According to Graham and Anderson (2015), using ESG analysis to the same degree as financial analysis would draw more capital and produce returns. Many academics agree that sustainable investment leads to a company's profitable growth plan by lowering risk and increasing productivity (O'Rourke 2003; Campbell 2007; Bansal, Roth 2000). Furthermore, according to

Stagars (2014), “a robust qualitative vetting method mitigates counterparty risk and portfolio management overhead over the term of the fund.” However, ESG analysis is often viewed as a burden imposed by stakeholders rather than a critical success factor that businesses can seek. Many scholars are also worried about whether sustainability is only assessed in extreme cases, such as when a target company's egregious environmental and social performance has a detrimental effect on its credibility and financial potential (Searcy 2012; Lingane, Olsen 2004).

### 1.4.6. ESG Investing in the time of Covid-19

Faced with adversity, hope and determination, human power re-emerged. We knew it was time to reaffirm our commitment to investing in ESG for long-term profits. It will have consequences for the industry performance. Social impact and climate industry. This interesting learning experience covered three aspects of planets, people, and politics that should affect ESG investment.

Companies recognise that ESG investments are closely linked to shareholder value as they support the development of sustainable business models, but the crisis reminds us to act swiftly. According to WEF COVID19 Risks Outlook, outbreaks of infectious diseases can become more common as global warming results in the release of viruses stored in permafrost and polar ice sheets. There is more evidence to show, after the initial downturn in dealing with pandemics, policymakers in many parts of the world are aware of the magnitude of the dangers we all face.

The transition from climate change to changes in human life was interpreted as a metaphor for COVID 19. This will help reduce carbon dioxide emissions by engaging in activities that encourage efforts to understand carbon dioxide emissions and investigate different environmental impacts. The steps to make a network of built environments cyclical, sustainable, comprehensive and resilient must be enhanced through more creative processes and cleaner technology solutions. COVID19 has made corporate management more complicated. After it occurs, the board will address many issues such as re-planning, monitoring a broad set of operational and efficiency indicators, managing long lists of threats, rethinking payroll policies, and rebuilding employee health and experience. An organisational culture that is useful to all must begin with a competent and professional board of directors that inherits strategic control and defines and embodies corporate principles with complete transparency. Employees, partners, and distributors need to fulfil this responsibility in the value chain. Today, society is a company that works well with the government to meet its needs, such as securing shared ecological capital, promoting equitable development, mass employment, or advocating for the consumer interests of social contracts and licenses (Roy 2021).

The understanding between the government and the private institutions has aided in mitigating some of the world`s most persistent issues, including pandemic-related problems, and enabled faster solutions. All ESG investing promises that we do today will be a more welcoming “new standard”. After all, no company can afford to ignore its responsibility to uncheck the possibility of a new era of success.

# 2. METHODOLOGY AND RESEARCH DESIGH

The author designs a guide structure to carry out this research paper, defines how to collect data, suitable methods for this research, population, and selects study sampling methods and sample size. The tool to be used in analysing the data. The author also describes the challenges encountered in conducting this research.

## 2.1. Research Approaches

According to Creswell (2014), research approaches are research strategies and processes that cover anything from general assumptions to specific data collecting and after applying the method in analysing the data. There must be theoretical assumptions, strategies, and techniques to connect the applied approaches. To be able to achieve research work, it is essential to use the research approaches. Creswell mention qualitative, quantitative and mixed approaches Creswell (2014).

The technique of gathering data by including participants in the knowledge and exploration of an individual or group approach to providing meaning to particular environmental or social challenges is known as qualitative research. This is accomplished by posing research questions, analysing data, and interpreting results to conclude human society's problems. It is appropriate to test objective theories when studying the relationships between variables. These variables can usually be measured instrumentally, and statistical techniques can also analyse the numbered data. Thus, we can say that you are using a quantitative research approach. The process of integrating two forms of data, which can include rational expectations and theoretical structures, using qualitative and quantitative data, is relevant to mixed-method research. This method gives you a complete understanding of the research problem (Creswell 2014).

## 2.2. Research Design

According to Creswell (2012, p. 627), "Research design is set of procedures for collecting, analysing, and reporting, research can be quantitative or qualitative research or both." In assessing the analysis, the researcher employed a quantitative approach. The approach to quantitative analysis relies on empirical evidence and numerical data. Its use enables researchers to produce statistics that can be generalised and look at ties between variables to determine cause and effect. According to (Bryman, Bell 2007, 39), Research Design provides a framework to guide the collection and analysis of research data. This was further defined by (Saunders et al. 2009) as a general plan to guide researchers in answering research questions. My approach to this analysis is quantitative, as mentioned above. I use deductive discussions when trying to apply them to the target population to develop evidence to support them. Content analysis is used to collect quantitative data, and the results and analysis are explained based on the data already mentioned at the end (Amankwah, Abonge 2011).

## 2.3. Data Collection

This study's data was gathered from both primary and secondary sources. The researcher contacted 200 SME stakeholders in Accra to collect accurate and valuable information. Questionnaires are used to obtain the majority of the data. These are Likert-style questions.

### 2.3.1. Questionnaires

The purpose of the questionnaires was to obtain information about the obstacles facing small, medium-sized enterprises in disclosing ESG data. The questionnaires also enable the researcher to establish the relationship between ESG disclosure and returns on investment in Ghana.
Participants were conducted through email to answer the questions in this research, which took approximately ten (10) minutes (Ragab, Arisha 2018).

## 2.4. Sampling

Sampling refers to examining a small group of "cases" that represent a larger population. It is widely used in research because resource constraints often prevent researchers from collecting data from the entire population (Saunders et al. 2009). Sampling provides a practical and effective alternative to help research projects run on time and within budget. Due to the limited number of cases in the sample, more time can be spent designing and testing data collection tools, collecting large amounts of data, and executing them, resulting in more accurate results than censuses (Henry 1990).

### 2.4.1. Population

The population represents a world of units that share a common attribute from which the sample is selected (Bryman 2012). For data collection purposes, the population includes people who have the information researchers want to obtain to answer research questions. The sample frame in the population is a list of all individuals from whom the sample can be selected (Greener 2008).
The researcher seeks to concentrate on Small, Medium-sized enterprises in the Greater Accra region of Ghana for this research paper which according to the Ghana Statistical Service 2021, the population census of Greater Accra represents 5.4 million of the 30.8 million populace in Ghana. The researcher will not cover the entire Greater Accra region due to time and cost constraints, and for that matter, a sampling technique method would be adopted to enhance the exercise.

### 2.4.2. Sampling Techniques and Sample Size

Sampling techniques can be divided into two main types: probabilistic sampling and non-probabilistic sampling. With probability sampling, all individuals in a population have an equal chance (or probability) of being randomly selected to generate a sample that statistically represents the population (Ragab, Arisha 2018). In contrast, the selection of individuals from people with low sampling potential is not random and is determined by the investigator (Greener 2008). The researcher chose non-probability sampling techniques to engage eager and available participants to participate in the research. The time the author spent on accessing the participants was reduced. The author is interested in obtaining quantitative data from small, medium-sized businesses, so he selected an online survey from a sample of 200 members and submitted it for a response. All members chosen from the 200 participants were in the Greater Accra region of Ghana. It was estimated that at least 37 percent of all participants would complete the questionnaire.

### 2.4.3. Sampling Process

The survey was conducted in Ghana through an online platform, which formal inquiries were sent to designate SMEs in the region (Accra). This method was chosen because it is essential to have respondents with various views and ideas in quantitative research. The email methodology will be able to reach more people, explaining the nature of the question, the time frame to be used in answering, and the interpretation of the results that help Accra and Ghana's SMEs. In particular, the author also notified potential members by email to ensure the disclosed information. Its purposes were only for this particular research and not for any other purpose.

In addition, the anonymity of the members will be preserved as they are not to write their names on the questionnaires. The questionnaires were sent after receiving a corresponding number of the report. The questions were online-based, so filling out the questions was less stressful, and participants were asked to take time from their busy schedules to answer the questions (Owusu 2019).

## 2.5. Data Analysis

For this study, a descriptive statistical tool was determined to be an excellent analysis approach for gathering data on environmental, social, and governance concerns in small and medium-sized businesses. The frequency distribution, percentage, means, and standard deviation would analyse the data. For presenting, the researcher utilises Microsoft Excel and charts.

## 2.6. Constraint

One of the challenges in conducting this research was the time pressure of the minimal size of 74 SMEs. This limits the degree of generalisation of the issues raised. Again, it would be desirable to include almost all SMEs operating in northern Ghana in the sample to get a good and ideal picture of what is happening in the SME sector. The author could not contact these people, focusing on southern Ghana due to lack of time. It is challenging to acquire information from selected SMEs owing to worries that the information supplied would somehow reach the tax authorities because, despite the promises offered by the researchers, most of them did not comply with their tax responsibilities.

# 3. DATA PRESENTATION, ANALYSIS, AND DISCUSSION

The use of a questionnaire primarily gathered this study's data. The author chose 200 SMEs as the target audience and circulated the questionnaires. Out of 200 questionnaires distributed, 74 were answered, reflecting a response rate of about 37%. The author thought it was remarkable given the limited time given to these respondents. While a higher response rate would have been preferable, the percentage obtained was several factors. The following are two of the most important reasons:

- Some SMEs were hesitant to respond to the questions because they believed the information they provided would end up in the hands of the tax authorities in some way, despite assurances given in writing that all information provided would be treated confidentially.
- Others expressed disappointment with the amount of time they were provided to respond to the questions. They said it was too short, resulting in their inability to answer any question.

Despite these issues, the 37 percent response rate for the purpose of this study is outstanding. The specifics of the answers are presented in the sections below.

## 3.1. Demographic Data Analysis

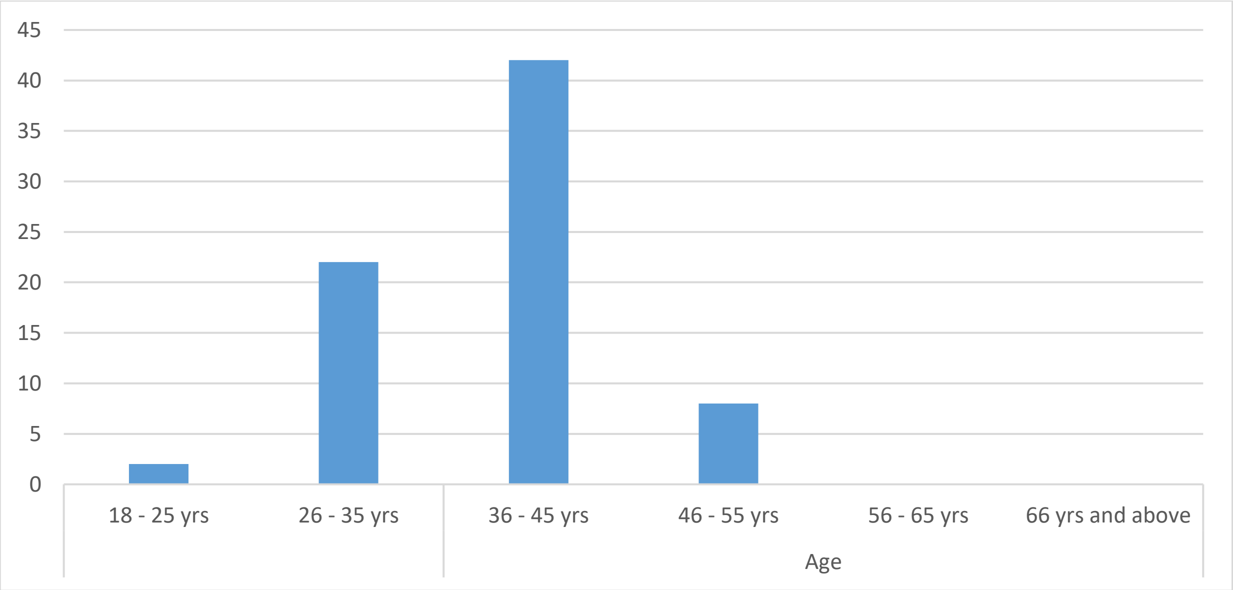
The demographic data in Section A of the questionnaire were analysed using frequency distributions and simple percentages. Out of the 200 questionnaires sent out, 74 responses were received, which will be analysed.

Table 1. Age respondent

| **Age Respondent** | **Frequency** | **Percentage %** |
|---|---|---|
| 18 - 25 years | 2 | 2.7 |
| 26 - 35 years | 22 | 29.7 |
| 36 - 45 years | 42 | 56.8 |
| 46 - 55 years | 8 | 10.8 |
| 56 - 65 years | 0 | 0.0 |
| 66 years and above | 0 | 0.0 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

The survey's age respondents were categorised into six barracks of 18 – 25, 26 – 35, 36 – 45, 46 – 55, 56 – 65 and above 66 years. Out of the 74 respondents, which represent 100 percent of the sample size, age 18 – 25 had 2 answers representing 2.7%, being the least number of the survey, age 26 – 35 had 22 answers representing 29.7% being the second-highest number of the survey, age 36 – 45 had 42 answers representing 56.8% being the highest number of the survey, age barrack 46 – 55 had 8 answers representing 10.8% being the third-highest of the survey. Those in the age barrack of 56 years and above did not respond to the questionnaire representing 0.0% of the survey. The data indicates that most of the respondents were in the age barrack of 26 – 45, representing the active workforce. A graphical bar chart presentation is shown below:




"Figure 1." Age respondent

Source: Gorleku (2021), author's calculations

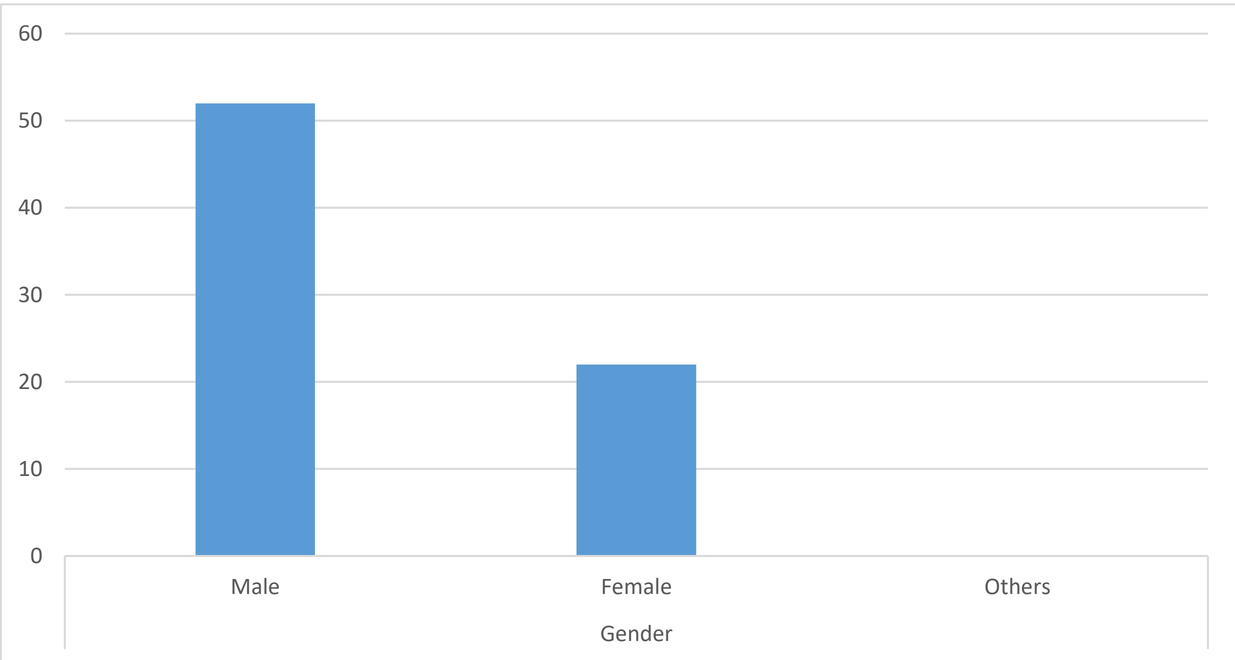
From the gender side of the survey, there were fifty-two (52) males in the survey, representing seventy percent (70%) of the total number, and twenty-two (22) females representing thirty percent (30%) of the total number; there were no others.

Table 2. Gender

| Gender | Frequency | Percentage % |
|---|---|---|
| Male | 52 | 70.3 |
| Female | 22 | 29.7 |
| Others | 0 | 0.0 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

This demonstrates that there were more males than females in the participants, which may be attributed to the basic random method employed to select responders and was not biased in the selection process. The results of the data have been shown graphically below:




"Figure 2." Gender

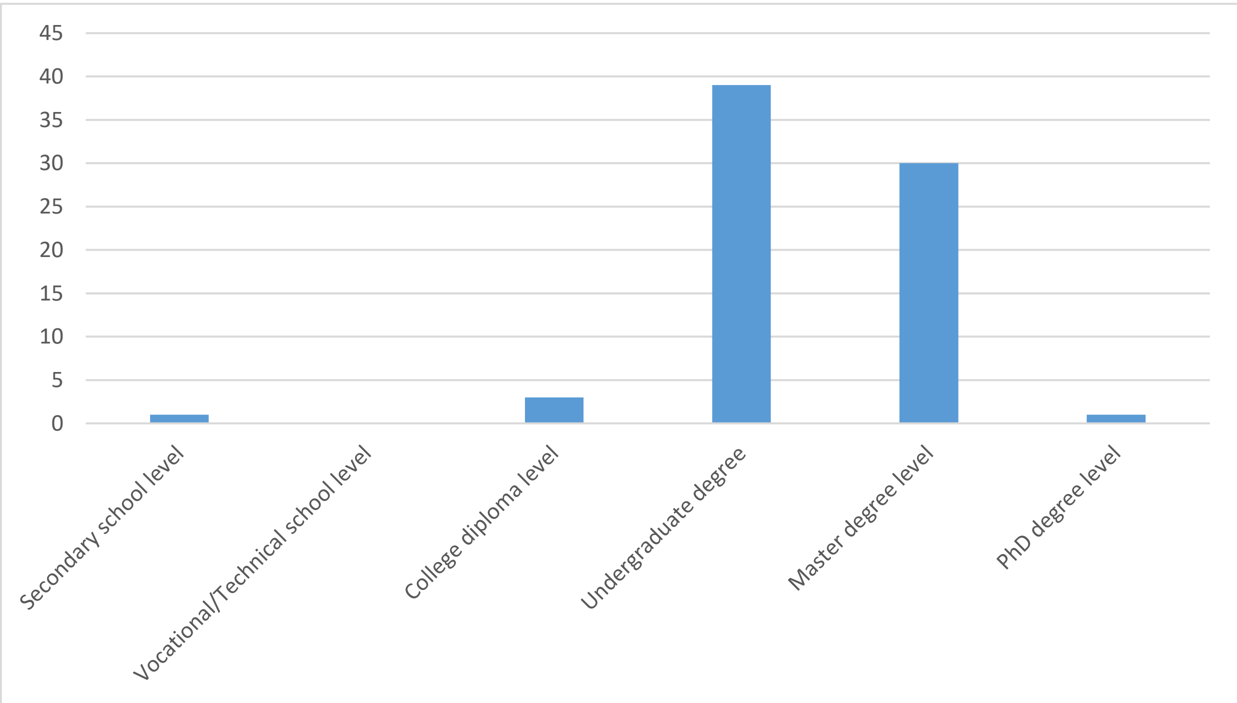
Source: Gorleku (2021), author's calculations

Table 3. Education

| Education | Frequency | Percentage % |
|---|---|---|
| Secondary school level | 1 | 1.4 |
| Vocational/Technical school level | 0 | 0.0 |
| College diploma level | 3 | 4.1 |
| Undergraduate degree | 39 | 52.7 |
| Master degree level | 30 | 40.5 |
| PhD degree level | 1 | 1.4 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

Respondents were found to be well educated, with the least educated holding a Secondary level qualification. Undergraduate degree holders obtained the highest by 39 counts, or 53%, while masters, college diploma, PhD and secondary credentials obtained 30 counts, 3 counts, 1 count and 1 count, or 41%, 4%, 1% and 1%, respectively. The findings showed that many undergraduate and master's degree holders recorded the most elevated 69 counts representing 94%. Below is a graphical presentation:




"Figure 3." Education

Source: Gorleku (2021), author's calculations

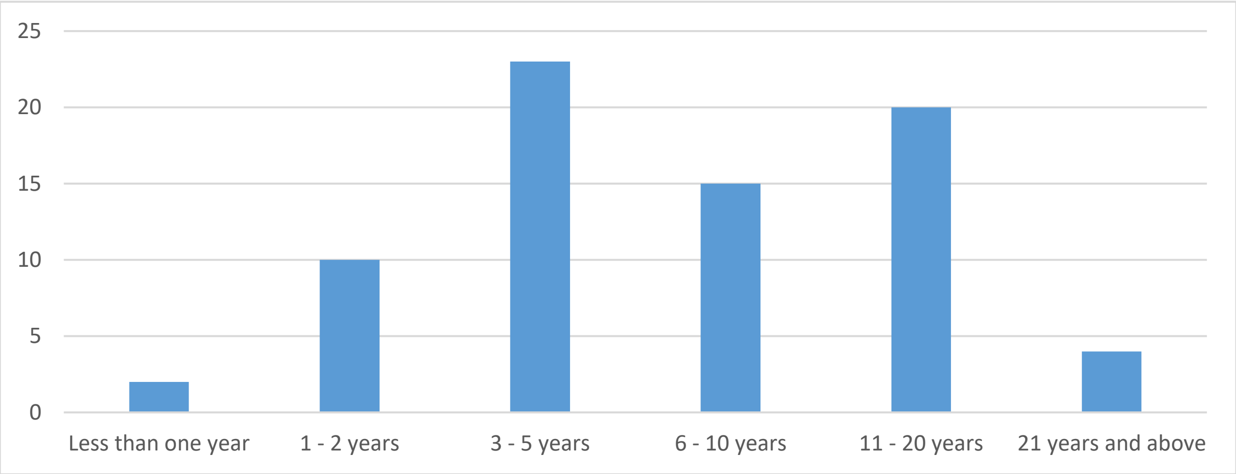
This section seeks to determine the number of years respondents have worked with their various SMEs where the study was conducted.

Table 4. Years of Experience

| **Years of Experience** | **Frequency** | **Percentage %** |
|---|---|---|
| Less than one year | 2 | 2.7 |
| 1 - 2 years | 10 | 13.5 |
| 3 - 5 years | 23 | 31.1 |
| 6 - 10 years | 15 | 20.3 |
| 11 - 20 years | 20 | 27.0 |
| 21 years and above | 4 | 5.4 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

It revealed a high number of the respondents have been working with SMEs for between three to five years. It showed that 23, the highest frequency of respondents, had worked between 3 to 5 years, representing 31%. It was also observed that 20 representing 27% of the respondents have been with their SMEs between eleven to twenty years, 15 representing 20% were between six to ten years, 10 respondents representing 14% were between one to two years, twenty-one years and above had 4 respondents representing 5% and the least years of experience was found out to be less than one year. From Figure 4 it shows that majority of the respondents had enough experience with SMEs in providing meaningful answers to the questions. Below is a graphical presentation:




"Figure 4." Years of Experience

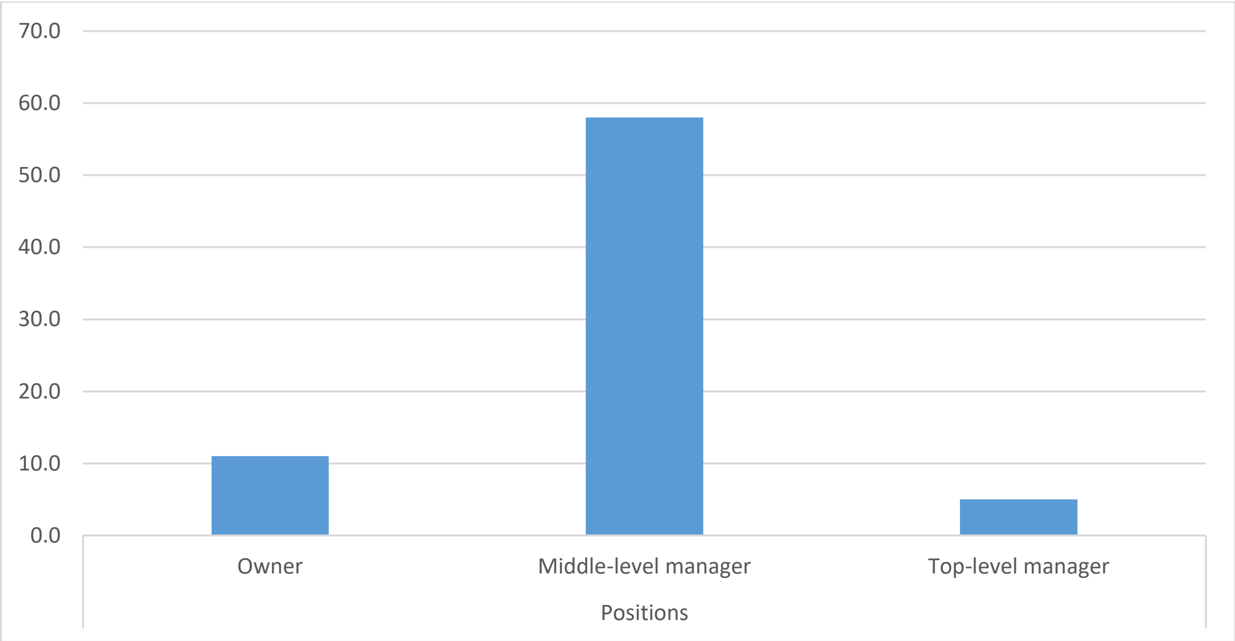
Source: Gorleku (2021), author's calculations

Table 5. Positions

| Years of Experience | Frequency | Percentage % |
|---|---|---|
| Owner | 11.0 | 14.9 |
| Middle-level manager | 58.0 | 78.4 |
| Top-level manager | 5.0 | 6.8 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

From the data it shows that Middle-level managers have been holding the highest position of SME's in Ghana with the number of 58 of the survey representing 78%, the second-highest was the owners of SME with a response of 11 representing 15%, where top managers had 5 answers representing 7 %. Below is a graphical presentation:




"Figure 5." Positions

Source: Gorleku (2021), author's calculations

## 3.2. SME Profile

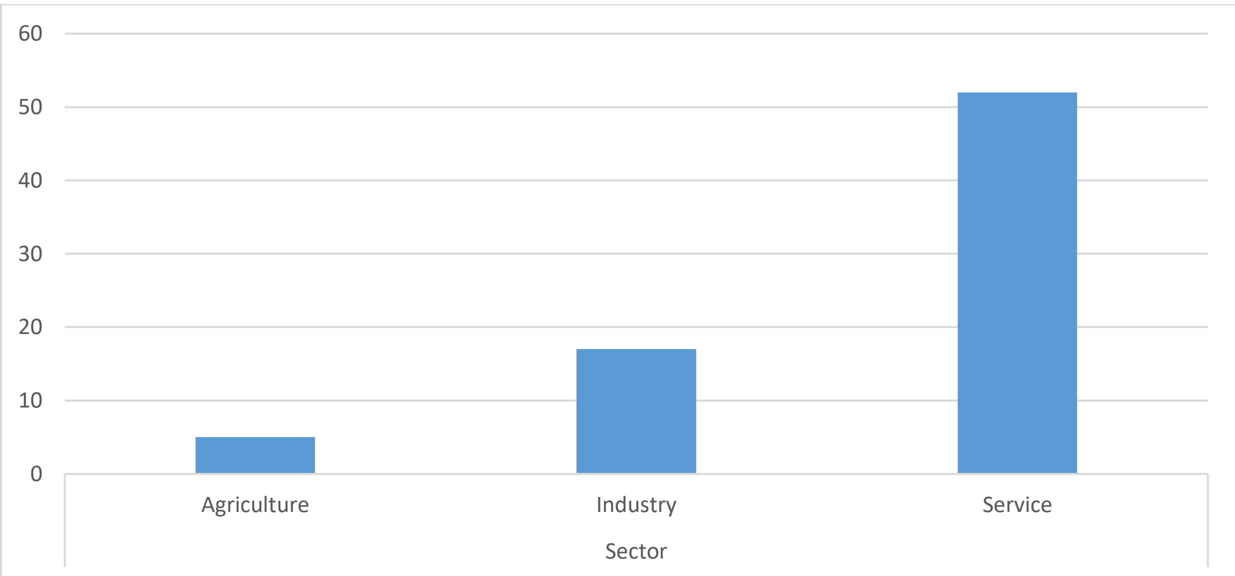
The trend in Small, Medium-sized Enterprises shows that the service sector is growing in Ghana, where a lot of people are venturing, the survey report shows that two-thirds of the respondent was in the service sector, representing 70% of the total.

Table 6. Sector

| **Sector** | **Frequency** | **Percentage %** |
|---|---|---|
| Agriculture | 5 | 6.8 |
| Industry | 17 | 23.0 |
| Service | 52 | 70.3 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

Another sector that is growing in the SME sector is the Industry sector. This sector had a response of 17 representing 23%. Agriculture used to be one of our significant sectors, but of late that sector is declining, and the data shows the accurate picture on grounds in our agriculture sector which had 5 responses representing 7%. Below is a graphical presentation:




"Figure 6." Sector

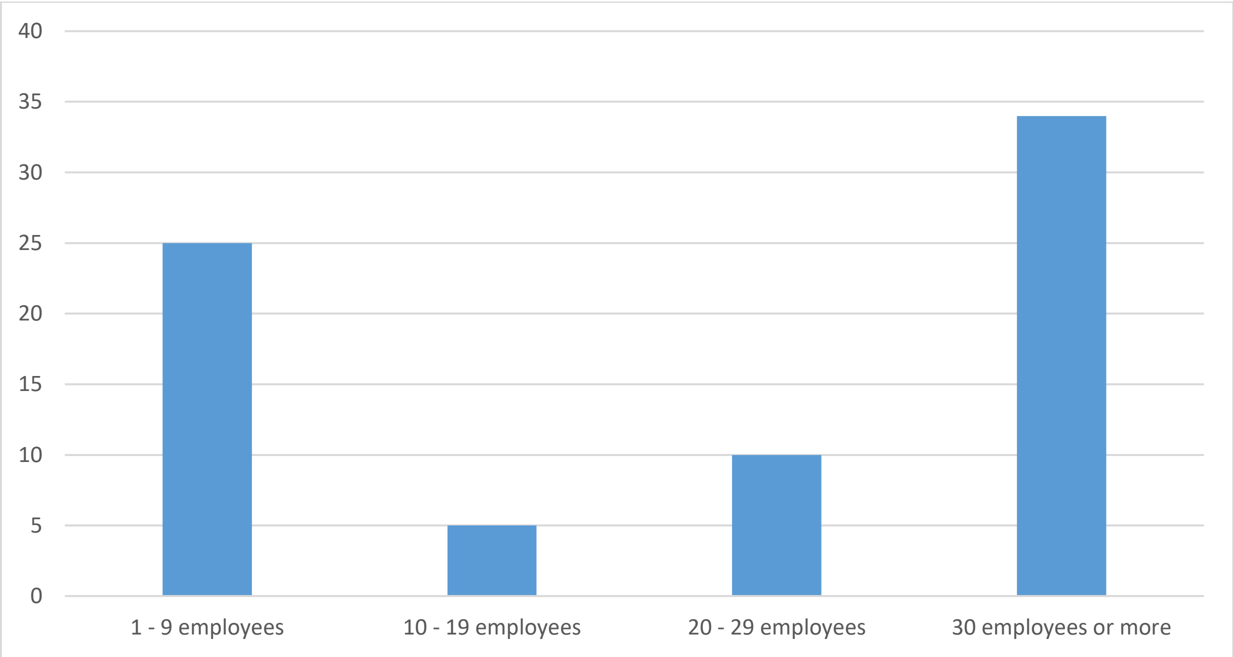
Source: Gorleku (2021), author's calculations

Table 7. Number of Employees

| **Number of Employees** | **Frequency** | **Percentage %** |
|---|---|---|
| 1 - 9 employees | 25 | 33.8 |
| 10 - 19 employees | 5 | 6.8 |
| 20 - 29 employees | 10 | 13.5 |
| 30 employees or more | 34 | 45.9 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

Looking at the statistics of the employment responses by the survey, many of the employees hired to stay for a long time in contributing to the developmental growth of SMEs in Ghana. A total of 34 answers representing 46% being the highest have 30 or more employees, this continues to show that Small Medium-Sized Enterprise is the engine growth of every economy. The least number of employees was 10-19 years in that barrack with 5 answers representing 7%. The barrack of 1-9 years and 20 -29 years had 25 and 10 answers, respectively representing 34% and 14 %. Below is a graphical presentation:




"Figure 7." Number of Employees

Source: Gorleku (2021), author's calculations

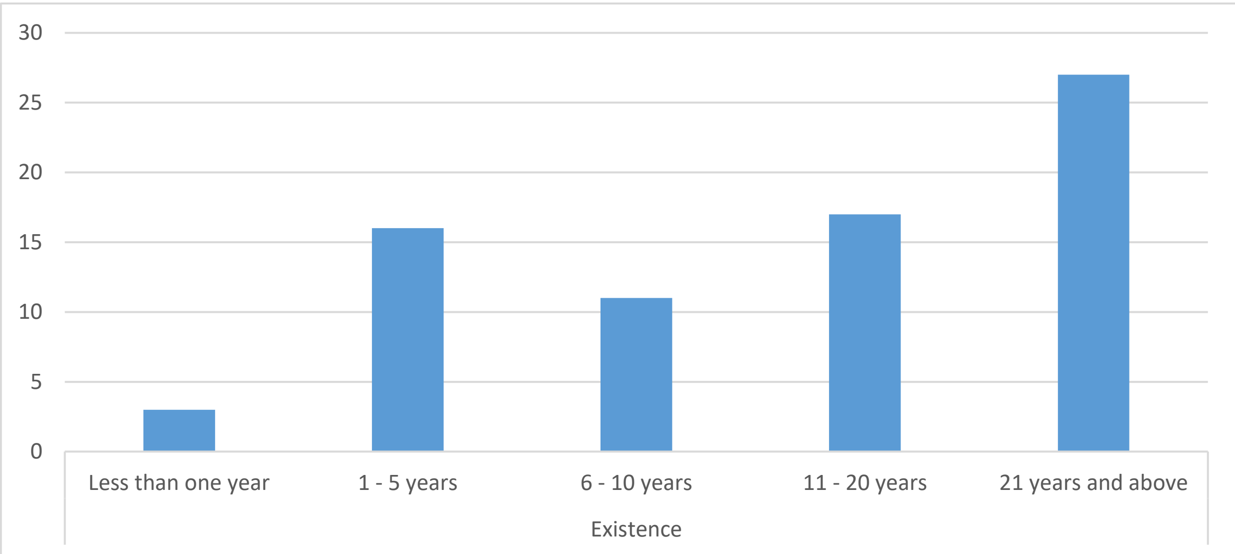
This section seeks to find out the number of years the Small, Medium-size Enterprise has been in existence, and the results show several SME's have been in existence for an extended period.

Table 8. Existence

| **Existence** | **Frequency** | **Percentage %** |
|---|---|---|
| Less than one year | 3 | 4.1 |
| 1 - 5 years | 16 | 21.6 |
| 6 - 10 years | 11 | 14.9 |
| 11 - 20 years | 17 | 23.0 |
| 21 years and above | 27 | 36.5 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

From the survey it shows that 27 respondents, which represent 37% have been in existence for more than 21 years and above, followed by 11 – 20 years which had 17 respondents representing 23%, 16 respondents also showed that they have been in existence for 1 – 5 years whiles 6 – 10 years had 11 respondents for their existence which represent 15%, the least years was less a year group which had 3 responses representing 4%. General everything indicates that SMEs had been in existence, promoting the economy's growth despite challenges facing them. Below is a graphical presentation of the survey:




"Figure 8." Existence

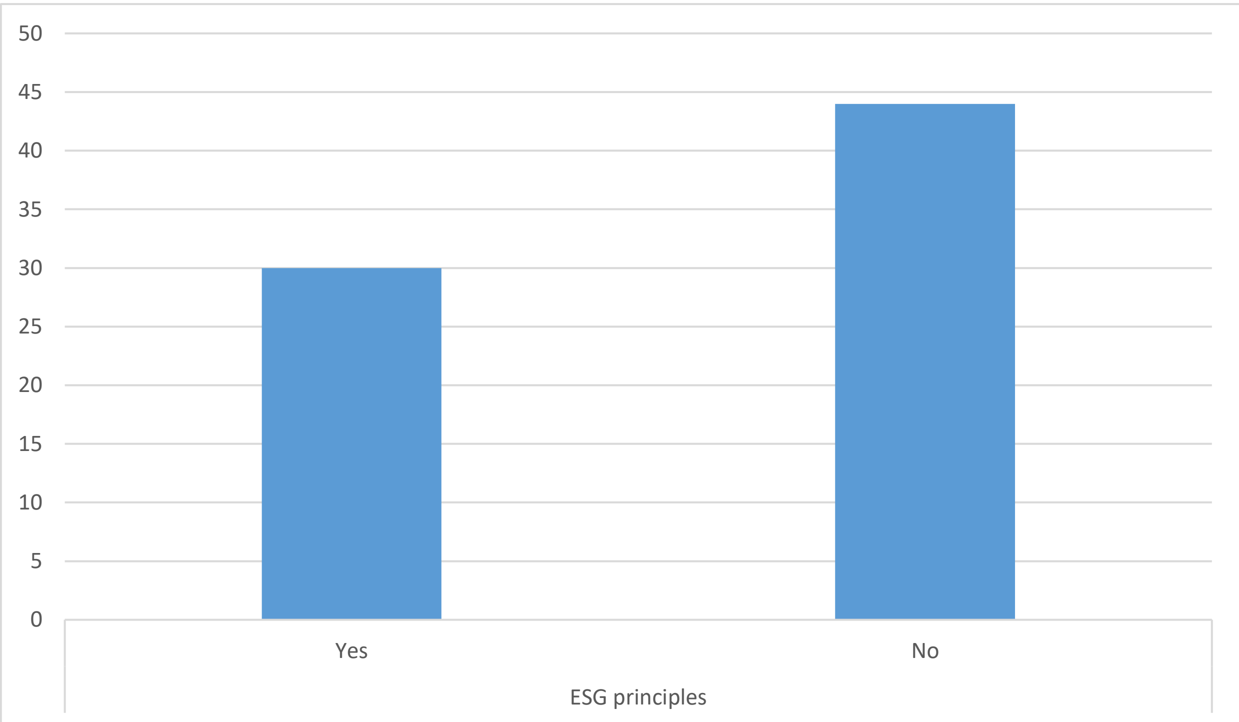
Source: Gorleku (2021), author's calculations

Table 9. ESG Principles

| ESG Principles | Frequency | Percentage % |
|---|---|---|
| Yes | 30 | 40.5 |
| No | 44 | 59.5 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

From this angle, the researcher wants to determine whether the Small Medium-size Enterprise have ESG principles in the establishment and the board and management have implemented it. The results show most SMEs does not have ESG principles guiding their operation. The survey shows that 44 out of the 74 respondents representing 60%, answered NO, and 30 representing 40% answered YES. There is a worry when ESG principles do not guide SMEs, it may turn out to be that some of their failure in operation may lead to a lack of certain principles and implementation. Below is a graphical presentation of the survey:




"Figure 9." ESG Principles

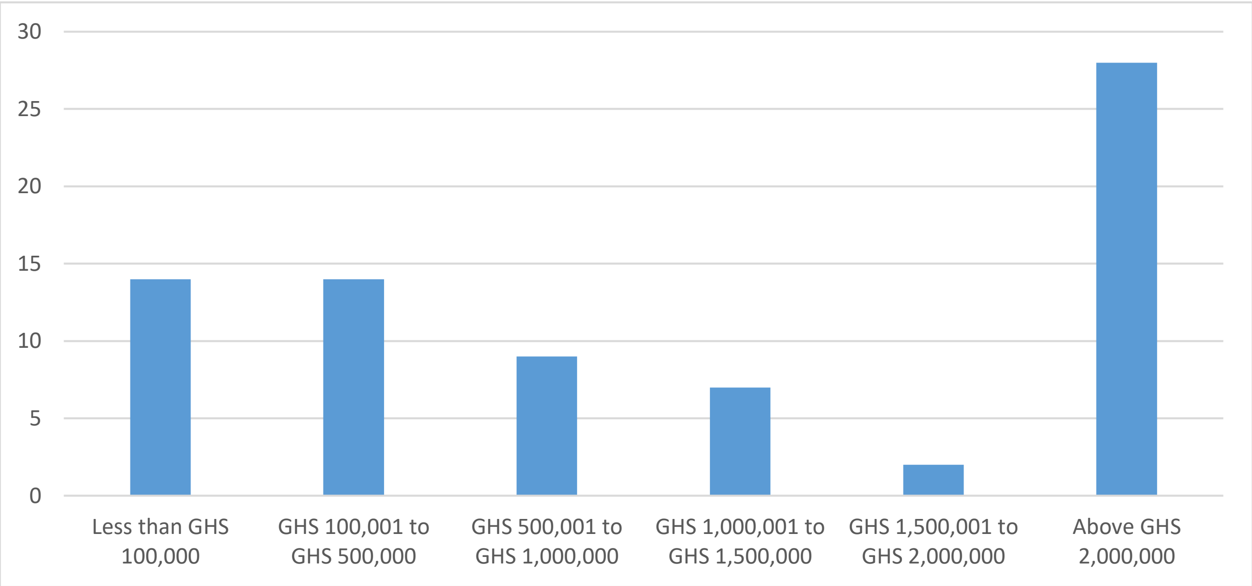
Source: Gorleku (2021), author's calculations

Table 10. Valuation of Fixed Assets

| **Valuation of Fixed Assets** | **Frequency** | **Percentage %** |
|---|---|---|
| Less than GHS 100,000 | 14 | 18.9 |
| GHS 100,001 to GHS 500,000 | 14 | 18.9 |
| GHS 500,001 to GHS 1,000,000 | 9 | 12.2 |
| GHS 1,000,001 to GHS 1,500,000 | 7 | 9.5 |
| GHS 1,500,001 to GHS 2,000,000 | 2 | 2.7 |
| Above GHS 2,000,000 | 28 | 37.8 |
| **Total** | **74** | **100** |

Source: Gorleku (2021), author's calculations

The valuation of fixed assets in Ghana determines the SME category of a business belongs to. Although this is not the only factor of determinate but one of them, valuation is used to place every business on the scale. From the data obtained, it was realised that there is a significant growth in SME in the sense that every business tries to re-investment in their fixed asset for further expansion. From the survey, those less than GHS 100,000 and up to GHS 500,000 had 14 answers each, while those up to GHS 1,000,000 had 9 answers, those of GHS 1,500,000 had 7 answers, and up to  GHS 2,000,000 had 2 answers. Those above GHS 2,000,000 have demonstrated their capabilities in the industries, and for that matter they had 28 answers representing 38% of the total. Below is a graphical presentation of the survey:




"Figure 10." Valuation of Fixed Assets

Source: Gorleku (2021), author's calculations

## 3.3. SME’s Issues

The information was collected using 30 questionnaires, mostly Likert scale questions from 1 (Totally disagree) to 5 (Totally agree).

### 3.3.1. Accessing Loans from Banks and other Financial Institutions

Ghanaian SMEs have limited access to capital, making it difficult for them to start up and expand (Aryeetey *et al.* 1994). Small, medium-sized businesses have been funded by informal savings and credit unions, family, friends, and withholding profits. These are unstable due to the nature of the sector and have no opportunity to share risks. Access to formal funding is restricted due to the high risk of SME defaults and lack of sufficient funding. SMEs' access to credit is limited due to the asymmetry of information about borrowers and imperfect competition in the credit market. Andrea (1981) claims that small and medium enterprises account for a more significant percentage of the Ghanaian economy. However, there are several barriers to SME growth, the most significant of which is a lack of access to capital and financial markets. Many banks tend to focus their money on large organisations rather than small businesses. This is because large businesses have a lower chance of default and have more transparent financial statements. On the other hand, SMEs are riskier from lenders’ perspectives because they lack specific accounting details.

### 3.3.2. Low Level of Business R&D in SME Sector

BERD (business enterprise research and development expenditure) is crucial for innovation and economic growth. Over the last decade, BERD strength increased dramatically in many African economies, including the Federal Republic of Nigeria, the Republic of South Africa, Kenya, and Ghana. However, it slowed or did not increase dramatically in many other African economies. Research and development in an economy are typically concentrated in a limited number of large companies. On the other hand, in some countries, SMEs make up a significant proportion of a company's total Research and development determinations. Many SMEs have realised the need to improve their R & D by creating a particular department in handling the affairs, also larger companies do engage SMEs in undertaking R&D for them. In some African economies, such as Ghana, SMEs make up only 4% of the total BERD. This is one of the main reasons why the country's economic development is slow. However, in many non-African developing countries such as Estonia and New Zealand, this ratio is more important than two-thirds (OECD 2013; Yoshino, Taghizadeh-Hesary 2016).

### 3.3.3. Insufficient Use of Information Technology in SMEs

Information technology has advanced at a breakneck rate. In recent years, household possession of cell phones, laptops, and tablet computers has exploded. As a result, more customers opt for online purchases over in-store purchases, and the e-commerce market for individuals is growing. On the other hand, SMEs have been unable to exploit such resources fully. The majority of small businesses do not have their websites. According to Braunerhjelm (2010), SMEs will not use Information Technology unless the need for developing and maintaining a more advanced ICT-based structure is relevant. As a result, SMEs in Ghana must understand the value of integrating Information Technology into their business activities to compete with large organisations. Suitable technology and related support systems such as hardware and software make it easy for enterprises to work efficiently and effectively, reducing production and operating costs. African governments and others need to be aware of this for SMEs to play an essential role in their development (Asare, Yun-Fei 2015; Benzing, Chu 2012).

### 3.3.4. Issues of Multiple ESG Rating Service and Information Infrastructure for SME

We're probably all aware that the big ESG rating SMEs take vastly different approaches to SME evaluations, resulting in a worryingly poor correlation between scores from other providers. Depending on the prism you examine the portfolio, it could have positive or negative ESG characteristics. The lack of consistency is often highlighted as a significant flaw in ESG investing; however, we should also consider an alternate scenario in which one firm had the power to define what constituted "good" in terms of ESG ratings. In this respect, being reliant on a single judge is equally unappealing. Monetary organisations are primarily database information. However, fund companies and fund buyers can usually experience extreme difficulties in understanding. Information infrastructure is needed to meet this challenge. Many large organisations are indexed in fixed income, which is challenging to trade in inventory and fixed income. Therefore, institutional investors in capital market-related data have access to the vast amount of information needed to check company creditworthiness. On the other hand, most SMEs no longer have access to capital markets. Financial institutions can target debtors in real-time, which is expensive for small debtors. The loss of SME data infrastructure makes it challenging to understand asymmetry.

We asked respondents six questions to substantiate the SME problem and summarised the results. This table shows the issues that received the highest frequency or response of 3.54 from multiple ESG rating services. This means that some ESG rating service issues are the main operational concern. On the other hand, respondents disagreed that loans from banks and other financial institutions were easy and accessible. They also did not agree to get additional funding from investors for their business.

Table 11. SME Issues

| **Details** | **TD** | **D** | **N** | **A** | **TA** | **Total** | **Mean** | **Stand. Dev.** |
|---|---|---|---|---|---|---|---|---|
| Is it simple to receive loans from banks and other financial institutions? | 16 | 22 | 17 | 13 | 6 | 74 | 2.61 | 2.39 |
| To what extent does your company involve in Business R&D in the SME sector | 6 | 10 | 38 | 16 | 4 | 74 | 3.03 | 2.67 |
| Do you think SME's have utilised Information Technology in this sector | 9 | 16 | 17 | 29 | 3 | 74 | 3.01 | 2.71 |
| Do Investors put in additional funds to run the business | 7 | 25 | 21 | 15 | 6 | 74 | 2.84 | 2.56 |
| Do you think every SME has to deal with the issue of multiple ESG rating services | 2 | 10 | 20 | 30 | 12 | 74 | 3.54 | 3.16 |
| Information Infrastructure for SMEs has not been fully utilised. | 2 | 12 | 19 | 32 | 9 | 74 | 3.46 | 3.08 |

Source: Gorleku (2021), author's calculations

The results of SMEs issues show that SMEs face the challenge of disclosing ESG data in their annual reports, making access to funding difficult. Borrowing costs are lower for companies with high ESG disclosures. The low cost of borrowing allows businesses to benefit from reducing the risks and funding costs associated with borrowing. Companies that adopt a corporate social responsibility strategy have better access to funding due to stakeholder involvement and transparency.

## 3.4. Environmental Issues

### 3.4.1. Climate Risks in Investments and Investment Decisions

When conducting research and making investment decisions, serious investors examine environmental, social, and governance (ESG) factors. This is because it impacts the capital you invest and, as a result, your return on investment. Agriculture is one of Ghana's most reliant economies, and it is also one of the most climate-sensitive. As a result, the Environmental Protection Agency must analyse socioeconomic concerns and provide climate-related recommendations. There has also been progressing in securing the country's electrical supply all year. Most businesses rely on hydropower for a significant portion of their electricity. SMEs will face an economic burden if they provide alternative sources, which will impact their operations long-term.

### 3.4.2. ESG Stocks Increases Returns on Investment and Risk

SMEs that score well in terms of their approach to ESG variables appear to outperform their sector peers in terms of cash returns on equity, providing a stable and long-term source of alpha. Over the last decade, the growth rates of high and low return companies demonstrate the value of sustained high cash returns, strong cash production, and the ability to invest it in growth profitably. According to a growing body of evidence, the stock of companies that meet high expectations for environmental, social, and governance factors (ESG) are increasingly likely to outperform the market. In other words, investing in businesses that do good will pay off handsomely. SMEs with high ESG ratings have higher risk management and enforcement standards, which results in more minor extreme events like fraud, corruption, and litigation (and their negative consequences). As a result, high ESG-scoring companies have lower tail risks than low ESG-scoring companies. The ESG firms with the highest scores also had lower idiosyncratic risk.

### 3.4.3. Covid-19 Pandemic has Affected ESG Reporting

COVID-19 has a well-documented impact on worker health and safety, corporate culture, consumer behaviour, the global supply chain, and society. When properly ethical investment principles are applied, it increases investor confidence in SMEs' structure. Investors are interested in profits, governance and social issues, especially human capital efficiency. Investors are pressing businesses to "strengthen employee benefits" following the coronavirus. Covid-19 has affected businesses generally. In the author's opinion, with or without corona, a company's specific focus is to make returns by delivering a service or product that may require disclosing ESG issues. Protocols to manage Covid-19, a pandemic, must be infused into strategies to address ESG issues.

Table 12. Environmental Issues

| Details | TD | D | N | A | TA | Total | Mean | Stand. Dev. |
|---|---|---|---|---|---|---|---|---|
| Do you think asset managers factor climate risk into their investments and investments decisions? | 4 | 29 | 15 | 24 | 2 | 74 | 2.88 | 2.54 |
| Does high ESG stocks increase returns on investment? | 2 | 12 | 33 | 21 | 6 | 74 | 3.23 | 2.83 |
| Does high ESG scoring companies manage the business and operational risk? | 1 | 9 | 29 | 28 | 7 | 74 | 3.42 | 3.00 |
| The covid-19 pandemic has affected ESG reporting | 1 | 6 | 17 | 30 | 20 | 74 | 3.84 | 3.44 |

Source: Gorleku (2021), author's calculations

The most common response to the question "Why do you take ESG issues into consideration in your investment analysis/decisions?" was that it "helps control investment risks." This response aligns with the literature on ESG issues, which often refers to risk factors. Managers must listen when asset owners demand that investment managers pay attention to environmental, social, and governance (ESG) issues. The asset owners' motivations may be based on merit and values. Many investors are worried about environmental and social issues such as climate change, leading to more severe climate crises, gender and racial disparities, and data protection and privacy. They want to avoid investing in SMEs that worsen or contribute to these issues, preferring to support companies that are pioneers in leading ESG movements. With the Environmental issues, respondents were asked four questions, and the outcome has been shown in summary. From the table, the case of the Covid-19 pandemic affecting ESG reporting to SMEs scored the highest mean of 3.87, followed by high ESG scoring companies manage the business and operational risk of 3.39, which means that government stakeholders need to put in more effort in tackling ESG issues. Using ESG analysis to the same degree as financial analysis will raise more returns from the financial outperformance information.

Results on environmental issues show that ESG disclosure reduces information asymmetry and improves investor awareness and the reputation of a company's investment strategy. From the respondent's point of view, there was a positive relationship between ESG data disclosure and return on investment. Therefore, a company's desire to implement higher disclosure can be linked to a tendency to increase investment through lower funding costs. Companies with high ESG disclosure value are looking to develop solutions that not only optimize results, but also improve quality of life, leading to long-term investment.

## 3.5. Social Issues

### 3.5.1. Employees Training on ESG Issues in Investment Analysis

More education and training are needed for those who consider ESG issues when investing. From the survey, workers at SMEs do not receive training on ESG issues, according to 41% of respondents, while 29.5 percent of respondents do receive training on ESG issues. The remaining 2.95 percent responded by being neutral. Various sources (e.g., conferences and publications) and learning are the most popular methods used by those who do. A lack of formal education and training does not inspire trust in how thoroughly ESG issues are treated in investment research. Even though the literature on ESG issues extensively covers their effect on financial results, there is still a void in considering ESG issues in practice and expanding on the "how-to" could now be a higher priority on the ESG research agenda.

### 3.5.2. ESG Investing Reduces Portfolio Risk and Social Benefit of ESG Investing

The ESG approach to capital allocation decreases portfolio risk and assists in identifying attractive long-term investment opportunities. Regardless of the business, stakeholder concerns related to the climate, social justice, and corporate governance pose significant risks to a company's operations and income. From the literature review, Merton and Becker's theories sighted that investors consider the ESG score, which can be insightful about the risk and return of a business. This can produce higher returns or have a different risk profile. Investors are interested in how an organisation handles its relationships with staff, vendors, clients, and the societies in which it works while looking at social criteria. Investors can consider whether a business provides a secure and healthy workplace for its workers, as well as whether it donates time, money, or resources to the communities in which it operates. Unsafe working conditions or a disregard for neighbourhood or consumer needs are real dangers for many businesses. Companies that treat their workers well and give back to society, on the other hand, are seen as less risky and may benefit from increased productivity and the opportunity to recruit top talent.

### 3.5.3. Expectation of ESG Reporting

Investors are concerned that they cannot obtain consistent, comparable, and reliable ESG data. Many people suspect that the lack of transparency standards is part of the problem. Companies are paying more attention to ESG disclosure and transparency due to the investor and shareholder interest. Investors are increasingly expecting ESG performance transparency on par with financial performance disclosure, highlighting the value of ESG as a component in developing an overall company assessment. Evaluating ESG data at the outset of a potential investment will assist investors in better understanding and determining the investees' governance and short- and long-term strategies for managing material risks and opportunities. Investors use ESG data to monitor success after investing, much as they do with financial data.

To attest to Social issues, respondents were asked four various questions, and the outcome has been shown in summary. From the table, the respondents agree that there is a social benefit of ESG investing, which gave us a mean of 3.96 being the highest, while's employees receiving training on how to consider ESG issues in investment analysis was the lowest.

Table 13. Social Issues

| Details | TD | D | N | A | TA | Total | Mean | Stand. Dev. |
|---|---|---|---|---|---|---|---|---|
| Do employees receive training on how to consider ESG issues in investment analysis? | 12 | 18 | 22 | 17 | 5 | 74 | 2.80 | 2.53 |
| Does ESG investing reduce portfolio risk? | 4 | 8 | 24 | 31 | 7 | 74 | 3.39 | 3.01 |
| Do you think there is a social benefit of ESG Investing? | 0 | 5 | 11 | 41 | 17 | 74 | 3.95 | 3.50 |
| Does ESG investing affect employee engagement and staff turnover? | 4 | 12 | 27 | 22 | 9 | 74 | 3.27 | 2.92 |

Source: Gorleku (2021), author’s calculations

## 3.6. Governance Issues

### 3.6.1. Transparency in ESG Disclosures

A true reflection of a company’s report in operation allows investment managers to support investor decision-making by providing multifaceted records, providing additional security for integrating ESGs into investment decisions. Companies need to deliver high-quality investor-grade ESG transparency for external stakeholders’ interests and management decision-making in line with current trends. In addition, directors will almost certainly be involved in assessing and presenting a company's sustainability account. Those who act swiftly to identify ESG risks and opportunities can better design, control, and communicate narrative presentations.

Taking a constructive approach to ESG disclosure helps businesses improve their public image while reducing the threat to their brand and credibility.

### 3.6.2. Long-Term Assessment of ESG View of Company and Regulatory Bodies

ESG data depicts a company's long-term wellbeing, while financial data depicts the company's short-term skeleton. Both data sets are critical for adequately evaluating investment options for capital preservation and impactful capital allocation that will result in long-term economic and social development. Addressing these issues has been a challenge for many years until the regulators devised measures to protect the environment and society. For this reason, these relevant laws and regulations apply to everyone doing business in Ghana.

Table 14. Governance Issues

| Details | TD | D | N | A | TA | Total | Mean | Stand . Dev. |
|---|---|---|---|---|---|---|---|---|
| Is there transparency in ESG disclosures? | 9 | 16 | 32 | 15 | 2 | 74 | 2.80 | 2.45 |
| Is an ESG view of the company’s vita essential for a thorough long-term assessment? | 5 | 7 | 24 | 36 | 2 | 74 | 3.31 | 2.92 |
| Is there any relationship and history with Food and Drug Authority (FDA), Security and Exchange Commission (SEC) and other regulatory bodies about SMEs? | 10 | 10 | 21 | 26 | 7 | 74 | 3.14 | 2.84 |

Source: Gorleku (2021), author’s calculations

Respondents were asked three questions on governance issues, and the outcome has been shown in summary. The table shows that the respondents agree that ESG view of the company's vital importance for a thorough long-term assessment is needed, which scored the highest of 3.31 mean, followed by the regulatory bodies with SMEs and transparency in ESG disclosures.

The results of governance questions show that increased ESG disclosure is related to government ownership. Government support in the form of standards, equipment, and resources is essential for the development of ESG disclosures in Ghana, as it has a direct and indirect impact on a company's long-term investment. Government and financial institution approvals improve investor confidence and improve company profits in the form of reduced borrowing costs. Stakeholder initiatives to raise awareness of ESG disclosure motivate companies to become involved in ESG. In fact, ESG disclosure companies are recognized as market leaders and most admired companies.

## 3.7. Summary of Findings

This research aims to identify the challenges of ESG data disclosure for SMEs and how ESG data disclosure affects return on investment. Investigations have made it difficult for some SMEs to report it because no regulator is responsible for ESG information. Investors are more likely to invest in companies that carefully disclose ESG data that have a long-term impact on profitability and return on investment.  Based on the results of this survey, most small, medium-sized enterprises do not have an ESG policy within the organization, in that instance, SMEs will have very little disclosure of ESG information. Another aspect of the results is that there is a relationship between ESG disclosure and return on investment which indicate that businesses that engaged in ESG activities attract more investors to achieve a high return on investment in the long run. This can benefit various stakeholders in emerging markets such as Ghana as companies begin to focus on social environmental, social and governance issues.

As a result, the research recommends that the government make concerted efforts through structural and legislative reforms to boost investor trust in companies that engage in ESG activities. As part of the UN's recommendation that businesses disclose ESG practices by 2030, regulatory bodies should help firms with a lower competitive advantage by providing tax incentives, training, or financial assistance so that they can actively engage in ESG disclosure activities that benefit their value chain from customers, suppliers, and shareholders (Jallai, 2020). Furthermore, improvements in corporate governance and transparency allow for a better understanding of how non-financial disclosures, such as ESG, affect a company's value (Ho, 2020).

## 3.8. Limitation

There were a few limitations in this research. First, the author reduced the definition of SMEs to certain countries and continents, as well as how SMEs manage ESG disclosures connected to information. These concerns received little attention from respondents which is a challenge to SMEs in attracting potential investors. Second, most organizations' information was restricted throughout the research data collection period, and the author was unable to get additional ESG data components. Third, the data is narrowed to Ghana; further research reveals a comprehensive disclosure of ESG across Africa, as well as a legal structure that supports transparency and long-term stakeholder interests. Initially, the poll was only conducted in Ghana's Greater Accra region. In comparison to other African SME markets, Ghana offers a distinct SME ecosystem. As a result, extrapolating outcomes outside of Ghana's SME sector should be done with caution. The sample size selected is small and may not reflect the entire SME environment in Ghana.

## 3.9. Recommendation for Future Studies

The findings of the study have substantial consequences for investors. Many investors may be active in corporate social responsibility or sustainability initiatives, and it is critical that these actions be communicated to their customers, fund providers, and the general public. This will help them gain a reputation as reputable investors, which will help them recruit entrepreneurs and investors. Investors should be aware that, as the sustainability agenda grows, investment in ESG has the potential to lead to greater ESG ratings as well as long-term financial gains. Future research should look into how various forms of ESG disclosures, such as climate change, diversity, human rights, and employee health and wellbeing, impact business performance. Furthermore, legal frameworks for SMEs are still in their infancy, and regulators should encourage SMEs to include ESG disclosures into their daily operations. Because SMEs account for over 90% of all firms in Ghana, further research on SMEs can focus on topics such as the firm's resources and technical skills in undertaking ESG disclosure efforts.

# CONCLUSION

This research aimed to identify obstacles to SMEs disclosing ESG data and the relationship between ESG disclosure and return on investment. The findings show that most respondents and business reports are the primary sources of ESG information. The majority agrees that there is no ESG policy which is a big challenge to SMEs in disclosing ESG information on their annual report and financials. The challenge with voluntary disclosure is that businesses may disclose and exaggerate only what reflects well on them and downplay or not disclose what does not. This behaviour could limit ESG analysis and bias it favouring disclosure rather than performance. Disclosures go beyond the annual report and how SMEs see environmental, social, and governance issues to attract potential investors. Ghana's SME business sector had shifted from the agriculture sector to the service and industry sector, respectively. The agricultural boom is a significant contributor to the economy, but according to the research, the service sector is growing at 70%, and the industry accounts for 24% of the total. This is why these sectors are proliferating, and governments need to pay close attention to job creation and business expansion in these sectors. The year of its existence shows that this sector has made a significant contribution to the development of GDP as most of them have been in operation for over 20 years.

Today's business world is globally networked. Stakeholders know that a company's commitment to ESG is essential to its success and long-term profitability. According to the findings, responsible management of ESG issues fosters a business spirit and atmosphere that strengthens the company's social image and the trust of the company's stakeholders. As a result, SMEs announcing ESG activities need to improve their image, build investor confidence, use capital more effectively, and remain competitive. One aspect of a rewarding SME is the financing of the company. By their nature, they struggle to raise funds for the company. One of the incentives that governments can use to recognise the importance of developing a country for growth is to provide incentives, including tax incentives, to improve access to credit from government schemes. Despite their noteworthy contributions to the national economy; yet, they will continue to be a vital source of growth and development. Small and medium-sized enterprises (SMEs) have long relied on more expensive alternatives to traditional lending than large companies.

ESG disclosures in Ghana have proven to be of low value to investors as well as to win business adoption. This result also supports stakeholder theory that ESGs make companies more competitive. Therefore, ethical and responsible behaviour by businesses to improve social services leads to more value and performance. The results also suggest that companies with low competitive advantage may need support to increase ESG disclosure activities and improve performance. Generally, Fatemi et al. (2018) makes a special distinction between ESG information and return on investment that companies with high (low) ESG disclosures increased (decreased) returns on investment. If environmental, social, and governance issues are considered an integral part of a company's future performance, the result is higher shareholder’s returns. Ethically controlled companies have a high market acceptance and increase public confidence. Therefore, integrating ESG into a company's investment portfolio tends to result in a portfolio that is more effectively and flexibly managed when investors trust management.

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# APPENDICES

## Appendix 1. Questionnaire

**Dear respondent,**

Thank you for participating in this study. The questionnaire should take approximately ten (10) minutes to complete. The study aims to recognise the difficulties associated with environmental, social and governance (ESG) issues of investing in SMEs in Ghana. The questionnaire is designed to capture data from owners or managers of SMEs voluntarily and be used for academic purposes only.

Your contribution to the research is highly appreciated. Data collected will be treated with the utmost confidentiality. As such, names, IDs, other personal information or identifying details are not required. Your responses will be used anonymously.

Thank you very much for your participation, and I look forward to receiving your responses very soon.

Best Regards

**Allanscohtt Ofoe Gorleku**

**algorl@taltech.ee**

Please check the box next to the option that best reflects your opinions in the following sections to complete the questionnaire.

**Section A: Demographics Information**

1. What is your age group?

   18—25 years [ ]  26—35 years [ ]  36—45 years [ ]

   46—55 years [ ]  56—65 years [ ]  66 years and above [ ]

2. What is your gender?

   Male [ ]  Female [ ]  Other [ ]

3. What's your highest standard of education?

   Secondary school level [ ]  Vocational/ Technical school level [ ]

   College diploma level [ ]  Undergraduate degree [ ]

   Master degree level [ ]  PhD degree level [ ]

4. How long have you worked in the SME sector?

   Less than one year [ ]  1—2 years [ ]  3—5 years [ ]

   6—10 years [ ]  11—20 years [ ]  21 years and above [ ]

5. What is your current position in this organisation?

   Owner [ ]  Middle-level manager [ ]  Top-level manager [ ]

**Section B: SME Profile**

6. What sector does your organisation operate in?

   [ ] Agriculture (Farming, agro-processing, food production or food processing)
   [ ] Industry (Manufacturing, mining, oil or gas production)
   [ ] Service (Telecom, tourism, transport, banking, insurance, retail, wholesale)

7. How long has this organisation been in existence?

   Less than one year [ ] 1 —5 years [ ] 6 —10 years [ ]

   11 —20 years [ ] 21 years and above [ ]

8. What is the total number of employees in your company?

   1—9 employees [ ] 10—19 employees [ ] 20—29 employees [ ]

   30 employees or more [ ]

9. Does your strategy incorporate ESG principles? YES [ ] NO [ ]

   If Yes Explain…………………………………………………………………………
   …………..…………………………………………………………………………….
   ……………………………………………………………………………………..

10. What is the estimated market value of your organisation's fixed assets, except buildings and land?

    Less than GHS 100,000 [ ] GHS 100,001 to GHS 500,000 [ ]

    GHS 500,001 to 1,000,000 [ ] GHS 1,000,001 to GHS 1,500,000 [ ]

    GHS 1,500,001 to GHS 2,000,000 [ ] Above GHS 2,000,000 [ ]

SECTION C: SME's Issues

In this section, the left side of the table lists affirmative statements while the right side gives five response options from 1 to 5. (1 = totally disagree, 2= disagree, 3= neutral, 4= agree, 5= totally agree).

Read the statement and for each, check the box that most agrees with your opinion.

| | | totally disagree | disagree | neutral | agree | totally agree |
|---|---|---|---|---|---|---|
| 11 | In your opinion, is it simple to receive loans from banks and other financial institutions? | | | | | |
| 12 | To what extent does your company involve in Business R&D in the SME sector | | | | | |
| 13 | Do you think SME's have utilised Information Technology in this sector | | | | | |
| 14 | Do Investors put in additional funds to run the business | | | | | |
| 15 | In your opinion, do you think every SME has to deal with the issue of multiple ESG rating services | | | | | |
| 16 | Information Infrastructure for SMEs hasn't been fully utilised. | | | | | |

SECTION D: Environmental Issues

| | | totally disagree | disagree | neutral | agree | totally agree |
|---|---|---|---|---|---|---|
| 17 | In your opinion, do you think asset managers factor climate risk into their investments and investments decisions? | | | | | |
| 18 | Does high ESG stocks increase returns on investment? | | | | | |
| 19 | Does high ESG scoring companies manage the business and operational risk? | | | | | |
| 20 | Covid-19 pandemic has affected ESG reporting. | | | | | |

21. Why do you take ESG issues into account in your investment analysis/decisions?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

SECTION E: Social Issues

| | | totally disagree | disagree | neutral | agree | totally agree |
|---|---|---|---|---|---|---|
| 22 | Do employees receive training on how to consider ESG issues in investment analysis? | | | | | |
| 23 | Does ESG investing reduces portfolio risk? | | | | | |
| 24 | Do you think there is a social benefit of ESG Investing? | | | | | |
| 25 | Does ESG investing affect employee engagement and staff turnover? | | | | | |

26. In your opinion, do you think ESG reporting has met the need of investors and other stakeholders?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

SECTION E: Governance Issues

| | | totally disagree | disagree | neutral | agree | totally agree |
|---|---|---|---|---|---|---|
| 27 | In your opinion, is there transparency in ESG disclosures? | | | | | |
| 28 | Is an ESG view of the company’s vita essential for a thorough long-term assessment? | | | | | |
| 29 | Is there any relationship and history with Food and Drug Authority (FDA), Security and Exchange Commission (SEC) and other regulatory bodies about SMEs? | | | | | |

30. In your opinion, do you think ESG issues in investing is guided by regulation?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

## Appendix 2. Tables



## Appendix 3. Figures

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