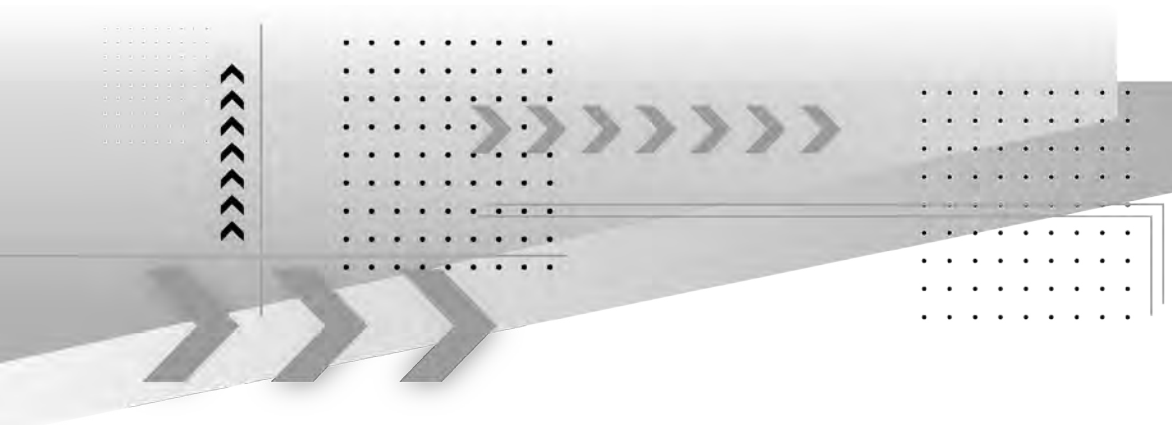


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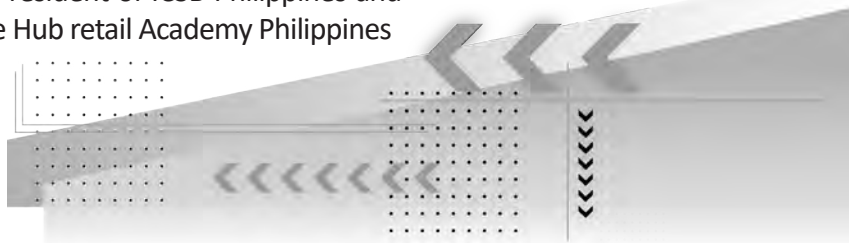
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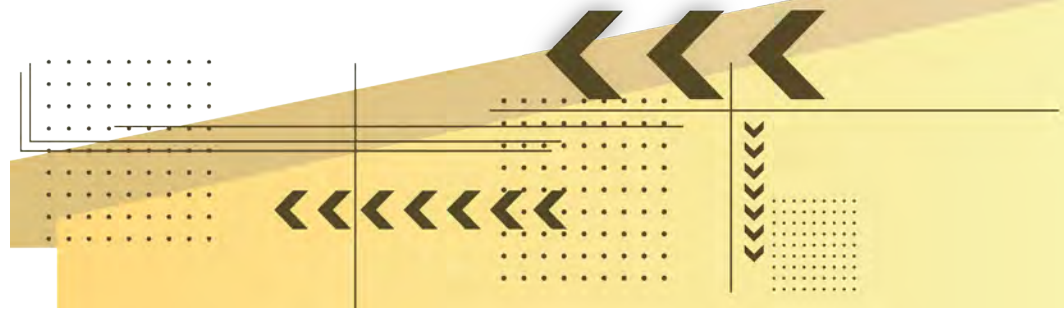
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Sustainability Performance of MSMEs Standardization and automation of ESG rating and reporting may help MSMEs improve their sustainability performance

Rico Baldegger, Dean and Professor, School of Management FR/ HES-SO.

The European Commission presented its proposal for a Directive on corporate sustainability and due diligence in February 2022. Its primary purpose is to promote sustainable and responsible corporate behavior throughout global value chains by obliging companies above a specific size to consider and mitigate adverse effects upon human rights and the environment

caused by their business activities. In this context, these ‘Relevant Companies’ are to conduct due diligence on third-party companies in their value chain and prove, via reporting, that they are not destroying the environment or committing human rights violations in politically unstable low-income countries. Otherwise, they can be sued in Europe under civil liability law.

Even though the aim to make large companies more accountable for their potentially negative impact on people and the environment is commendable, it is highly questionable whether corporate reporting effectively combats human rights violations, climate change, and environmental destruction on this planet.

Even though the EC Proposal points out that MSMEs will be exempted from such obligations, it also states that the Directive will be applicable to ‘Relevant Companies’ and their subsidiaries and entities in their Value Chain, which have an “established business relationship.” This refers to suppliers who are mostly MSMEs. In this regard, the additional administrative burden for MSMEs could become a real challenge. Moreover, the means that have to be mobilized to comply with new due diligence requirements may no longer be available for investing in future markets and innovations. If that is the case, the Directive may not be in line with the UN Sustainability Development Goals (UN SDGs), which aim to enable sustainable change through inclusive economic growth driven mostly by MSMEs. Furthermore, the entrepreneurial ecosystems are reacting, and the awareness of new business models is increasing. Data provided by the Global Entrepreneurship Monitor show that, despite the impact of Covid 19, starting a business to make a difference in the world remains a strong motivator and increased impressively in 2021.¹

The need to ensure compliance with corporate responsibility and sustainability standards throughout the supply chain may also lead to growing tensions within the

real economy because large international companies are likely to make their suppliers pay the costs for implementing their widely proclaimed, ambitious, and sustainable value chain targets. Already today, many MSMEs lack the means to comply with the Environment, Social, Governance (ESG) reporting standards prescribed as prequalification requirements in tenders. Even those who can comply complain that each client demands compliance with a different proprietary ESG reporting system. The best-known systems are based largely on self-assessment, and they lack any possibility to measure, compare, and verify the sustainability performance within a particular industry. Therefore, they have often been criticized for promoting ‘greenwashing’. Moreover, these ESG rating and reporting systems are expensive and merely designed to provide data to a particular client. This makes it difficult for MSMEs to present this data to other parties as a sustainability certificate.

With [esg2go](http://www.esg2go.org) (www.esg2go.org), the Center for Corporate Responsibility and Sustainability (CCRS) at the School of Management Fribourg and its academic and private sector partners have developed an automated rating and reporting system that effectively addresses the shortcomings listed above. Its two main goals are to

- prevent greenwashing by enabling the measurability and comparability of a company’s sustainability performance
- lower transaction costs for MSMEs through standardization and automation of sustainability rating and reporting.

For that purpose, the first version of [esg2go](http://www.esg2go.org) was used in a pilot phase in which more than 200 MSMEs were prepared to enter

their verifiable raw data in the area of E, S, and G. The test data obtained provided the basis for the first calibrated benchmarking system that enables an MSME to compare its sustainability performance with its peers in the same industry. In order to achieve the greatest possible acceptance and legitimacy in the business community, as well as compatibility with existing standards, esg2go is systematically compared with various established reference sustainability standards. It also offers MSMEs the opportunity to improve their overall sustainability score by indicating and documenting through a 'handprint' self-assessment that its core business also generates positive externalities for society and the environment. In this context, the rating is also more compatible with the spirit of the UN Sustainable Development Goals that regard business as part of the solution.

In short, esg2go could help MSMEs cope with the proposed EU Directive and the increasingly strict national legislation

in Europe on corporate responsibility and sustainability by offering a rating and reporting system that produces an automated sustainability report based on hard numbers. As such, it generates a sustainability certificate that should be accepted by all large clients because it contains less greenwashing and is more compatible with the UN SDGs. Esg2go may require an initial effort to collect the required data within the company, but once this initial effort is completed, it can be integrated into the company's management system; it will require only a few hours to obtain the automated annual sustainability report. As such, many MSMEs would finally be able to leave the hamster wheel of completing different sets of ESG criteria for various clients. Instead, they could re-focus on where they generate true value for society, namely, investments in innovations and new markets to create good jobs and provide scalable solutions to scarcity problems.

(Endnotes)

1 Baldegger, R., Gaudart, R., Wild, P. (2022). Global Entrepreneurship Monitor (GEM) 2021/2022:

Report on Switzerland. Fribourg: HEG-FR (HES-SO)