esg2go

Subjects: Others

Contributor: Isa Cakir, Philipp Aerni, Manfred Max Bergman, Benjamin Cakir

‘esg2go’ is a sustainability rating and reporting system that aims at reducing bias while improving coherence and practicality in corporate sustainability assessment. It does so through a rigorous rating methodology that enables the measurement and comparison of sustainability performance, taking into account firm size, industry category, and win–win potential for the firm, as well as for sustainability.

Keywords: corporate sustainability assessment ; rating bias ; ESG ; SME ; SDG

1. Addressing the Data Quality Problem

The esg2go rating tool relies on the data entered by user firms, which complete an online questionnaire covering the dimensions E, S, and G, as well as an optional handprint assessment. Consequently, it is the user firm that is accountable for the veracity of the input data. The input consists of concrete and verifiable data that are found either in the accounting system or can be obtained with respective providers (energy, water, waste disposal), as well as discrete answers (‘yes’, ‘no’, ‘in process’) referring to the existence of specific corporate documents or policies. Prior to data entry, the user firms sign a data protection agreement with the esg2go rating provider, who is committed to strict data confidentiality.

2. Ensuring Firm Ownership While Enabling Data Quality

Since the user firm remains the official owner of the data, it ultimately decides who has the right to see it and in which degree of granularity. In return, as an academic research institute, the esg2go rating provider (CCRS) has the right to use the data for research purposes as long as the user-identity remains strictly anonymous. This right enables the CCRS to conduct sustainability research in the real economy based on reliable data. Furthermore, it will also help to continuously improve the accuracy of the rating over time.

3. Sustainability Understood as a Process Rather Than a State or a Product

esg2go provides the user firm with a first base assessment of the actual sustainability performance. As such, the fully automated esg2go rating report offers SMEs a mirror in the form of a spider graph that shows where they currently stand in regard to 10 scored key areas compared to their peers (benchmark). Based on this knowledge about their actual sustainability performance, the semi-automated esg2go reporting system provides them with the opportunity to explain their rating outcome and define measures and set targets for relevant key areas. This makes it possible to track ESG performance in a fair and consistent way and to monitor the possible gap between actual and target states over time. In this context, corporate sustainability is defined as a process rather than a state, represented through a traffic light procedure (red, orange, green). Understanding sustainability as a process provides a differentiated view and regards concrete improvements over time as being more relevant than an aggregated judgment of the current performance.

esg2go also addresses the concern that the overall ESG score may conceal large disparities between ‘E’ and ‘S’ performance [1] by clearly separating scores obtained in key areas in the dimension ‘E’, ‘S’, and ‘G’. Disparities between ‘E’ and ‘S’ performance are thus revealed and can be addressed as part of a firm’s sustainability transformation.

4. A Qualitative Handprint Assessment as Optional Input

A comprehensive sustainability rating should not just assess the potential sustainability risks of business but must also take into account that business can be part of the solution. Contemporary handprint assessments that capture such positive external effects are primarily focused on product assessment [2]. esg2go offers a qualitative handprint assessment on the firm level based on a set of questions regarding the potential positive side effects of the core business activity on society and the environment (‘yes’ or ‘no’ answers). If a question is answered with ‘yes’, then the corresponding documentation has to be uploaded and will be reviewed by the established independent esg2go expert committee. The committee then decides if a certain improvement of the overall esg2go score is justified. The handprint ensures that the esg2go risk assessment is also in line with the SDG spirit, with its emphasis on sustainability as a business opportunity [3].

5. The Mindset of esg2go

The mindset underpinning the esg2go framework is pragmatic in the sense that it is not assumed that SMEs aim to become sustainability champions for its own sake. Instead, there must be an expected ‘return on investment’ which internally justifies the mobilization of company resources. Resource mobilization must be based on a ‘win–win’ mindset, where measures taken to improve the overall corporate sustainability performance are not just good for society and the environment, but also for the company. After all, a company that invests available resources in expensive sustainability measures may ultimately not be sustainable if it leads to a general neglect of its core business activities and eventual bankruptcy. Therefore, the ‘governance’ part of esg2go also takes into account the financial condition of a company and thus goes beyond non-financial reporting.

Defining Corporate Sustainability as the Ability of a Firm to ‘Coexist’

A credible sustainability rating that captures and monitors the sustainability performance of SMEs in different contexts over time must start with a definition of sustainability to which all parties can agree, including the SMEs that are expected to use the tool. Otherwise, the gap between practice and research in sustainability assessment will remain [4].

In a report published in 1987 entitled ‘Our Common Future’ [5], the World Commission on Environment and Development provided a well-established general definition of sustainable development related to intergenerational equity, which was approved by the UN General Assembly. The 17 UN SDGs build on this concept, but also include the need for ‘inclusive growth’, emphasizing the importance of sustainable technological and economic change through institutional framework conditions that enable ‘business to become part of the solution’ [6]. The need for inclusive and sustainable economic change represents the relevant link to corporate sustainability. Firms are the primary engines of job creation, innovation, and income generation and therefore play a potentially crucial role in economic empowerment, poverty reduction, and sustainable and inclusive change [3]. At the same, the SDGs also recognize that business activities may generate risks for society and the environment that have to be addressed by regulation and self-regulation.

The practical definition of corporate sustainability used for the esg2go framework builds on the assumption that the investment in corporate responsibility must pay off in the long run. The concept of materiality is indirectly based on the idea that there must be a return on investment in the improvement of corporate sustainability, and some methodologies have been developed for certain industries to assess it [7][8]. However, materiality has not yet been linked to a pragmatic definition of corporate sustainability that is required to narrow the divergence of rating outcomes and track sustainability improvements over time. For SMEs, investments in sustainability should be supported through a favorable institutional environment and be recognized by the relevant stakeholders in business and society [9].

In this context, most SMEs pursue a pragmatic approach to corporate sustainability, with a primary focus on responding to changing expectations articulated by the relevant stakeholders (e.g., employees, customers, investors, authorities) on which the business depends. If stakeholder expectations for ESG disclosure rise in response to stricter regulatory requirements, SMEs will re-assess the return on a sustainability assessment [10].

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