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Bridging the Gap: A Comparative Analysis of ESG Assessment Tools for SMEs and Startups

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Supervisor

Ch. Prof. Ugo Rigoni

Assistant supervisor

Ch. Prof. Caterina Cruciani

Graduand

Francesco Mercante

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Abstract

The increasing importance of sustainable factors is reshaping global business practices, impacting investment strategies, consumer behavior, and regulatory landscapes. All this has led to the evolution of various concepts such as non-financial information (NFI), Corporate Social Responsibility (CSR), and Environmental, Social, and Governance (ESG). Around the latter in particular, a world has been built, and the perspective and business methods of a company have changed accordingly. New methods of reporting ESG data and evaluating them have emerged and are still developing. This trend is particularly relevant for SMEs and startups, which represent the backbone of most national economies and drive significant innovation and job creation. However, SMEs often lack the resources and established structures to efficiently implement comprehensive ESG practices and reporting. Furthermore, the rapid growth and dynamic nature of startups present unique challenges. This thesis addresses this critical gap in understanding, particularly concerning the application of existing ESG frameworks and the development of targeted methodologies. It investigates the challenges and opportunities associated with assessing and reporting ESG factors for SMEs and startups, looking at what was done and how it was done. Finally, some considerations and future suggestions are made on how the situation should evolve in order to fill these gaps and inefficiencies.

Key words: ESG, Startup, SMEs, sustainability disclosure, ESG valuation, ESG rating agencies

Table of Contents

Introduction	4
CHAPTER 1.....	7
1.1 <i>Small and Medium Enterprises</i>	7
1.2 <i>Defining Startups</i>	10
1.2.1 <i>Startups' lifecycle</i>	12
1.2.2 <i>Typical issues and challenges</i>	13
1.2.3 <i>Startups and their financial needs</i>	16
CHAPTER 2.....	20
2.1 <i>The concept and the evolution of sustainability</i>	20
2.2 <i>The ESG: Environmental, social and governance</i>	22
2.2.1 <i>ESG disclosure</i>	25
2.2.2 <i>ESG frameworks and reporting standards</i>	26
2.2.3 <i>European Mandatory Disclosure</i>	30
2.2.4 <i>How ESG factors impact on financial performance</i>	34
2.2.5 <i>ESG evaluation tools</i>	36
2.3 <i>ESG in the SMEs context</i>	40
2.4 <i>ESG and startups</i>	43
CHAPTER 3.....	46
3.1 <i>The background of ESG rating agencies and SMEs</i>	46
3.2 <i>Tools for ESG evaluation of SMEs</i>	47
3.3 <i>The dimensions of the analysis</i>	49
3.3.1 <i>EcoVadis</i>	50
3.3.2 <i>Ecomate</i>	54
3.3.3 <i>ESGeo</i>	57
3.3.4 <i>Sustainalytics</i>	60
3.3.5 <i>ISS ESG</i>	63
3.3.6 <i>MSCI</i>	66
3.3.7 <i>Overview of ESG rating agencies and instruments</i>	70
3.4 <i>Consideration and future insight for SMEs</i>	70
3.4.1 <i>Implications for Startups</i>	73
Conclusion	75
References.....	77

Introduction

The global landscape of business is undergoing a profound transformation, driven by increasing awareness of sustainable factors and the whole world around them.

Investors and stakeholders looking at a company no longer look only at its purely financial side. Everything concerning so-called non-financial information (NFI) is now taken into great consideration. The sector has been growing for over 30 years and the whole context of the economy is evolving around this trend (Tarquinio & Posadas, 2020). The importance given to how a company behaves and acts with regard to sustainability choices, which can be summarised by the concept of Corporate Social Responsibility (CSR), is enormous (Gheraia et al., 2019). Companies must therefore adapt to it if they want to survive in today's business environment. The evolution of the environment has paved the way for the transition from the concepts of CSR and NFI to a broader notion of sustainability. Companies are now called upon to adapt their business models and decisions to three fundamental pillars: environmental, social, and governance. Synthesized in the famous ESG concept (Każmierczak, 2022).

Given the high level of attention to these issues and the need for more sustainable information, several fields have developed because of that. New methods of disclosing ESG and sustainability-related data, such as ESG reporting, have emerged (Buallay, 2018). With it, new standards, guidelines, and frameworks have also developed internationally and otherwise, to guide companies that want or need to communicate such data (Bose, 2020). Take the European Union with its Corporate Sustainability Reporting Directive (CSRD) as an example. The directive was created with the aim of regulating the field of ESG disclosure, bringing greater transparency, and clarity, and allowing for greater comparability (Fornasari & Traversi, 2024). With all this need to read and evaluate also this kind of information, new methods and specialized companies for evaluating a company's ESG performance are born. So-called sustainable rating agencies were born, specializing in evaluating this type of information (Clément et al., 2022).

Despite this great evolution, not everything has been touched in the same way. The area of small and medium-sized enterprises (SMEs) and start-ups deserves to be analyzed.

SMEs make up the majority of companies in Europe, and their contribution to the ESG world is vital and fundamental. Despite this, however, there are still shortcomings in the

implementation of ESG practices in these types of companies (Garrido-Ruso, 2024). Among the various problems that SMEs may have in the ESG context, the most notable is their difficulty in communicating their practices and results in the world of sustainability in an efficient and effective manner. This also results in greater difficulty for ESG rating agencies, and other tools on the market, to evaluate their performance and progress in this area (Ozkan et al., 2023).

Similar, if not bigger, problems arise for startups. Problems that need to be solved and analyzed. In fact, the innovative and disruptive nature of these companies means that their contribution to the evolution of the sustainability field is of extreme importance to the economy (Aspegren, 2023). Despite this, the main problem of startups in the ESG field lies in their lack of resources and knowledge. This results in strong difficulties in the disclosure of ESG data and performance on the one hand and in their evaluation on the other (Wang et al., 2022).

This thesis aims to examine and analyze the field of ESG evaluation tools and rating agencies for SMEs and startups, understanding their methodologies, and their evolution, and drawing conclusions on possible developments.

This goal is achieved in several steps. Initially, to give a background of the context in which we find ourselves, a summary of what SMEs and startups are, will be made. Their characteristics, similarities, differences, and their context in the modern world economy will be highlighted. We will then move on to introduce the topic at the centre of the analysis, namely the world of sustainability. We will understand what is meant by NFI, CSR, and ESG and all their changes and impacts over time. Focusing then on the topic of ESG we will see the whole world that has been built around it. So, all the methods of data disclosure, the various frameworks, and standards that have developed over time with a focus on the European situation, the evaluation methodologies, and the impact of ESG factors on the economic and financial aspects of a company. Going deeper into the analysis, SMEs and startups will be presented in relation to ESG factors. Where the literature has arrived so far and the main problems that characterize them.

Once you have this overall vision, the thesis analyses six rating agencies and ESG assessment tools in order to outline their methodologies and fundamental

characteristics. The focus always remains on SMEs and startups, especially the former, understanding how the aforementioned six organizations could move towards them.

At this point, we will have a complete vision that will allow us to establish conclusions and final considerations. These will be done in light of what has been done so far for SMEs and startups, and therefore the examples and paths to follow, and above all what can be done in the future to improve the situation.

This thesis aims to provide a valuable contribution to the field of ESG by addressing the significant knowledge gap concerning the unique challenges faced by SMEs and startups in assessing and reporting their ESG performance. The findings and recommendations will have significant implications for investors, policymakers, and businesses seeking to promote sustainability and responsible business practices within these crucial sectors. The study offers practical insights and recommendations that can contribute to more effective ESG frameworks and a more sustainable future.

CHAPTER 1

1.1 Small and Medium Enterprises

The literature on small and medium-sized enterprises (SMEs) reveals that there isn't a singular definition that can serve as a standard reference across different economies. Despite that the importance of defining what SMEs are is indisputable. (Berisha & Pula, 2015).

Nowadays in an always more unified market with no internal borders, it is crucial, for many purposes, to have a common definition of what an SME is. The first step was made in 1996 when the Commission adopted a recommendation establishing a first common definition of SMEs, which was widely used in the European Union. However, on 6 May 2003, the Commission decided to adopt a new recommendation to update this last definition according to economic developments, which entered into force on 1 January 2005, applying to all Commission SME policies and operational measures. (European Commission & Verheugen, 2005).

First of all, the European Commission defines the category of small and medium-sized enterprises (SMEs) as a category formed by enterprises with less than 250 people, in general. Then, within this larger category, the European Union recognized three sub-categories in which the criterion for determination is the number of workers, the annual turnover, and the annual balance sheet.

According to these criteria, the three sub-categories are divided as follows:

- Medium enterprises, which are composed of a maximum number of 250 persons, a maximum annual turnover of EUR 50 million and a balance sheet not exceeding EUR 43 million annually.
- Small enterprises, made of less than 50 people, and a turnover and balance sheet below EUR 10 million.
- Micro enterprises, whose employees are less than 10, and a maximum turnover and balance sheet of EUR 2 million (European Commission, 2003).

Another important definition of Small and Medium enterprises that deserves to be mentioned is the one given by the World Bank Group. The World Bank Group (IEG, 2008) always uses three criteria when defining what SMEs are. In differentiating them, it also provides for the same three sub-categories. These criteria are the number of employees,

annual sales, and total assets (the latter two values are given in dollars). The definition used applies more to companies in the US territory. Concerning employees, the criteria are practically identical to the ones used by the European Commission, except that the Word Bank has a ceiling of 300 instead of 250. For financial criteria, however, the values differ: both total assets and total annual sales must remain below \$100,000 for micro-enterprises, between \$100,000 and \$3,000,000 for enterprises considered small, and not exceed \$15,000,000 for medium-sized enterprises (IEG, 2008). From a financial point of view, therefore, we see more pronounced criteria between the two.

Although both definitions are well accepted, the most widely used for studies and research in the field is the one provided by the EU (Berisha & Pula, 2015).

The importance of SMEs in Europe and worldwide is evident and the data show us how it plays a fundamental role in the economies of the various countries. Indeed, the OECD estimates that this category accounts for 90% of the world's companies and employs 63% of the world's occupants (Munro, 2013). The European Commission defines its 25 million SMEs as the “*backbone of the EU economy*” (European Council and European Parliament, 2020), making us understand its essentiality for the European economy.

The EU Commission then goes on to state how its web of European small and medium-sized enterprises brings benefit and innovation to all sectors by spreading it across the regions. It provides jobs for almost 100 million people, accounting for almost two out of every three private sector jobs. It is no coincidence that more than half of the EU's GDP is made up of the services offered and goods produced by these companies. These figures testify to the essential role of SMEs in the development and the eco-sustainable transition, enabling Europe to compete globally (European Council and European Parliament, 2020).

To understand the importance of SMEs in the European Union, just look at Figure 1 which presents the impact of SMEs in the EU, in those that are defined as Non-Financial Business Sector (NFBS) in 2022, for three important variables (European Commission, 2023).

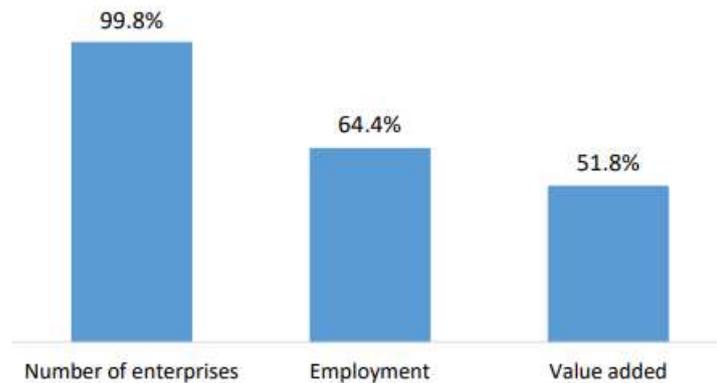


Figure 1- EU-27 SMEs in Non-Financial Business Sector in 2022 (EC, 2023)

This is precisely why we find investment and SME growth on the EU agenda. For example, the EU's single market program (2021-2027), in its attempt to strengthen the functioning of the European internal market, has as one of its main aims the protection and improvement of SMEs. Part of this program's budget is in fact specifically earmarked for them. We are talking about EUR 1 billion, which, together with supporting activities and policies, will help small and medium-sized enterprises to freely pursue their objectives, increasing their productivity, competition, and sustainability. (*Small and Medium-Sized Enterprises - EUR-Lex, 2023*).

In general, going beyond the European scene, we can say that the centrality of these companies is recognized by the entire globe. Especially in innovation, country development, securing, providing, and creating new jobs and generating wealth (Kira & He, 2012). Especially in developing countries, the data speak clearly. SMEs contribute 40% of the GDP of these countries and employ 60% of the population, and this only considers formal SMEs. The numbers would otherwise be higher. (Bayraktar & Algan, 2019).

SMEs are essential not only because the innovation they create does not only generate improvements in the company itself or even in the sector, but the benefit is general and the economic impact spreads throughout the economy. They represent a keystone between the micro and macro economy, providing specialized jobs and products. In a context where the market is increasingly flexible and open to change, SMEs represent the perfect element. Their small size allows for a faster decision-making process and implementation of change, and their greater proximity to consumers allows them to better adapt to their needs (Savlovski & Robu, 2011).

The corporate apparatus formed by SMEs promotes and contributes to greater social inclusion, allowing women or under-represented working classes to take part in company activities. Small businesses are surprisingly heterogeneous in all their facets (we are talking about age, social class, size, business models, etc.) (Bayraktar & Algan, 2019)

Of course, small and medium-sized enterprises do not only have positive characteristics of strength, but they also face many difficulties. Among the most common are the lack of large funds, particularly negative in cases of economic shocks, the too close link with a limited group of consumers, a less effective and well-structured distribution and marketing system, and the lack of some managerial and economic knowledge, being formed by a limited number of people (Neagu, 2016).

Furthermore, one of the most recurring themes when talking about difficulties related to SMEs is that of raising capital. They must rely more on internal funds or help from friends and/or family to launch their business. In fact, one of the objectives of the World Bank is precisely to create opportunities, such as government aid or favorable credit lines, and give these companies the possibility to access the funds they need more easily (*World Bank SME Finance*, 2019.)

We have therefore understood what SMEs are and their importance throughout the world, which despite the difficulties, allows the spread of innovation and development and has the ability to play a fundamental role in the eco-sustainable transition.

1.2 Defining Startups

If for the definition of SMEs we have noticed how there can be differences and how there have been evolutions in defining them, for Startups the topic is much more complex. Although it is a word we hear more and more and seems to be the basis of many successful economies, it is difficult to give a real definition of Startups that everyone agrees on.

Many people have an idea of what Startups really mean based on such varied factors and variables that at the end of the day it seems fair to say there is no real definition (Shontell, 2014). For example, Research by the Mumbai Institute of Technology shows how, by interrogating the literature on Startups, there are many names given to them. The researchers derived as many as 26 different definitions and 23 characteristics that these definitions have in common (Krishnan et al., 2020).

Some use the term Startup not in reference to a type of company, but to an evolutionary process that is an integral part of the company itself, a phase, an activity that lasts a limited period of time (Gartner & Carter, 2003).

Many others instead see Startups as innovative businesses, recognizing them as a real way of thinking. Rebecca Baldrige and Benjamin Curry use the word “*disruptors*”, to describe these kinds of companies. They state how, according to their vision, Startups want to give the world not just something new that has not yet been conceived, but something that represents progress and change. If they work they lead to very high returns and products that then become essential and irreplaceable (Baldrige, 2024).

Steve Blank describes them as “*organizations formed to search for a repeatable and scalable business model*” (Steve Blank, 2010). So, for it, a Startup, and thus the entrepreneur who creates it, has the ability to find a business model that works and grows rapidly in the future, bringing an innovative product that meets market demands or creates new ones (Steve Blank, 2010).

Alternatively, but with substantial connections to the previous definition, Eric Rise sees a Startup as something whose mission is to create a service or product, that brings innovations, especially at a time of high uncertainty (Ries, 2011). The best part about looking at it this way, according to Rise, is the part that is omitted. There is never any mention of size, capital, type of industry, or sector of the economy, but only of mindset and goal. According to this definition, any business that follows these characteristics can be considered a Startup (Ries,2011).

So, while SMEs, despite their differences, are differentiated on more punctuated and measurable variables Startups are not. What is interesting is that in many cases the definitions of Startup (UP) and SME are used univocally, as if they were the same company (Krishnan et al., 2020). The link between the two certainly exists, later we will see similarities and differences, but not everyone agrees that it is the same thing.

Although the small size of Startups, being new enterprises launched from scratch, may superficially confuse them and make them mistaken for SMEs, the two have significant differences. The former are designed to bring precisely innovative ideas and break into the market with them, while the latter do not see innovation as the source of their success, or at least they are not designed in this sense (Ojaghi et al., 2019). Again, returning to

their size, it is true that Startups are initially small businesses by necessity, but they are designed to grow potentially indefinitely. SMEs, on the other hand, can be very much and already complete as they are a small model of a larger enterprise (Ojaghi et al., 2019).

SUs and SMEs are linked by the place they give to the economy, employment, the creation of value for consumers, and the constant initial focus on seeking funds and resources to take their projects forward. Although both to different degrees and from different perspectives (Krishnan et al., 2020). Startups are more characterized by a flexible structure than SMEs (Csorba, 2020). SUs “*aim to disrupt the market*” by developing and using new technologies, while SMEs’ focus is on seeking a secure and stable presence over time (Krishnan et al., 2020). The communication of the former to their investors is different. They are more projected into the future and rapid expansion; this would not be possible without core planning and a detailed business model. It is not strange to see how the sources of funding between the two differ (Csorba, 2020).

So, we see how the term Startup (unlike that of SMEs) is not related to numbers, but more to the concept of innovation, mentality the vision of the future, and the ability to use new scalable business models that enable rapid growth.

1.2.1 Startups’ lifecycle

The Startup life cycle and its definition, like so many others in the world of SUs, is not a one-size-fits-all concept. Many studies use Startup life stages consisting of more or less points and with different names. Fortunately, the literature on the subject is very extensive.

For the purposes of our analysis, to understand how Startups work, we will take two papers as main sources as a reference to talk about the Startup life cycle. The first one was written by Aidin Salamzadeh and Hiroko Kawamorita Kesim (Salamzadeh & Kawamorita Kesim, 2015), and the other one was written by the Italians Passaro, Quinto, Rippa, and Thomas (Passaro et al., 2016). By taking the main ideas of both, together with those of other research, we can understand the life stages of a Startup concisely.

These life stages can be divided as follows:

1. *Ideation.* The conceptualization phase is the real initial phase, which is the basis of the entrepreneurial activity of those who create a Startup. Based on market needs and/or the need to solve a problem, the entrepreneur through intuition and the creative process comes up with an idea that is considered by it to potentially be the solution.
2. *Bootstrapping stage.* After the initial idea and the conviction that it can be concrete, there is the need to implement it. The bootstrapping stage consists precisely of putting the pieces together and taking all those actions necessary to realize the idea and turn it into a business. It is assessed whether it actually has the capacity to be a business, whether it is well received by consumers, and above all whether it is economically viable. By many the term bootstrapping is also seen as the practice of acquiring funds without borrowing them.
3. *Seed stage.* Also called a Startup stage by many, the seed stage is one of the most focal parts of the business. Many in fact fail during this part. After the feasibility has been assessed and the initial implementation of the idea has been done, it is time to start the actual business. In this seed stage, the focus is on investments to grow the Startup and get it to market, commercial and strategic planning, and everything related to finding support, financial and otherwise, to make this growth process happen as fast as possible.
4. *Creation stage.* If the Startup manages to pass the previous phase well, the creation phase also called expansion begins. The company has entered the market (has been created), sells its product, hires employees, and has an organized structure. Now the next step and the skill of the entrepreneur and his team will be to expand the business and make it scalable. Attention will now be given to the choice of employees, suppliers, and customers.

1.2.2 Typical issues and challenges

Startups, given their use of innovative ideas and technologies and their willingness to enter unexplored market areas, may face difficult challenges.

Innovation is dangerous and brings society face to face with a high degree of risk, many are unable to cope with it and fail (Maital & Barzani, 2021). The degree of failure of Startups is indeed high. In the US it's estimated that more than ninety percent of these businesses fail, only in the first five years and become 'orphans' (Kalyanasundaram, 2018). The failure of Startups is no small thing, it has a big negative impact. It affects the entrepreneur himself and then creates a wider effect on the economy and the growth of the nation (Kalyanasundaram, 2018). Starting a new business with new ideas can be a very complicated process. The market and its requirements change rapidly. Technologies expand and keeping up is difficult. The success of a Startup lies in its ability to cope with these changes, riding on them and profiting from them (Judith & Karlovitz, 2020).

There are many reasons why an innovative new business like a Startup fails. In the US, the main reasons are usually non-functioning business models, the inability to scale legal and regulatory challenges, lack of funds, not being able to compete with larger companies, a product that is not sustainable in terms of cost/sales price, or not having had the ability to interpret market needs (Maital & Barzani, 2021). And in general, they suffer from problems related to small and new enterprises. Unexpected growth in demand and difficulties in sustaining it. Poor access to credit, especially in times of need. Difficulty in being recognized by consumers (Núñez, 2007).

In Western Europe, on the other hand, it has been seen that many problems of Startups are also related to the mentality and surrounding environment (van Weele et al., 2018). Many Startups fail because of problems related to the environment they are in. Usually, legal problems, market-related problems, or the support of external bodies and structures enable them to develop, grow, and prosper (Salamzadeh & Kawamorita Kesim, 2015). In the Western Europe scenario, the main challenges that lead to failure are other factors. Poor product sales and exploitation skills, entrepreneurs who therefore have strong technological foundations but poor skills in presenting their product to investors and consumers. Lack of European entrepreneurial culture and a large and homogeneous market, in Europe we see more fragmented and small markets. All this leads to the biggest problem for Startups and their main challenge to ensure their survival, i.e. the ability to receive initial funding to start the business (van Weele et al., 2018).

Then again, there are the challenges of attracting human resources to carry on one's business, potential human resources management problems, and last but not least,

problems related to financing and funds (Salamzadeh & Kawamorita Kesim, 2015). Indeed, of all the challenges that Startups face, that lack of cash and the ability to raise capital is the biggest and most significant and important to their resurrection (Saleem & Atiq, 2023).

One of the initial and most difficult steps of a Startup is that of financing. Various studies reveal how a Startup starts with initial internal financing and then moves on to external sources. Furthermore, the propensity of investors to inject capital into a Startup is also linked to the degree of reliability and experience of the entrepreneur who found it (Čalopa et al., 2014).

The process of finding these resources is very often long and difficult. It is the entrepreneur's job to have the ability to attract new investors in the early stages. The problem begins with the fact that traditional financing methods such as banks are reluctant to grant credit to Startups (Núñez, 2007). Small businesses such as Startups find it more difficult to secure long-term financing, especially from institutions such as banks. This is a major constraint on their development (Winborg & Landström, 2001).

One of the main reasons why they have such great difficulty in obtaining it is due to what is called information asymmetry between the managers and the potential external investors (Storey, 2016). Managers of Startups and small businesses have more information about the potential of their ideas. Information that is often either difficult to articulate, given the particularity of the idea and the difficulty in making concrete comparisons or tends to remain vague so as not to actually reveal the full potential of the business and risk it leaking to the competition. This information asymmetry makes capital more expensive and more difficult to obtain (Winborg & Landström, 2001).

Another problem of access to capital is the formal requirements that Startups and small businesses must meet. Requirements that are quite unrealistic. Banks and credit institutions treat them like any other company and the constraints and procedures that provide access to credit (Saleem & Atiq, 2023). High financing costs, meeting the collateral demands that lenders require, and complex application procedures make life very difficult for small businesses (Chilembo, 2021).

In addition to the difficulty in accessing financing due to issues related to the lack of assets and guarantees, there is also one related to the difficulty in being understood and sharing

the same vision. Very often investors who are willing to give capital to new, smaller, and higher-risk businesses struggle to understand their vision. So, although the investor's proposal is there, it is not what the founders of the SUs are looking for. In this case, the issue is finding the right investor (Saleem & Atiq, 2023).

1.2.3 Startups and their financial needs

Now that we've seen why it's so difficult for Startups to access more traditional lines of credit, let's understand how they are able to finance their business and meet their financial needs. In the following, we will look at the main players that play a key role in financing but also in the development of these types of innovative companies.

- *Owner and family and friends' capital.* In the very early stages, where raising external funds seems almost utopian, owner capital is essential. It is considered 'seed financing' and is the first accessible resource for a Startup (Tariq, 2013). Financing a Startup initially only with the owner's funds certainly means not having to submit to all the obligations due to financing by third parties and is the basis of the entrepreneurial idea. The business remains the sole property of the person who creates it. To this extent, it is certainly a good thing but it also implies that you have sufficient funds, in fact, it only happens if the investment is not large. Furthermore, you do not benefit from all the experience and knowledge of potential external financiers (Čalopa et al., 2014). This type of financing method happens in the initial stage, the so-called 'bootstrapping stage', where the degree of risk is highest and nothing is certain, and in continuing to develop their product and idea the entrepreneur decides to rely on their own capital, that of their team or ask family and friends (Salamzadeh & Kawamorita Kesim, 2015).
- *Business Angels.* Business angels, who can operate alone or together, are these individuals who directly invest their capital in new companies and then benefit from a return. This return is often not directly monetary, but they guarantee themselves a position as managers or directors with this investment (Mason & Harrison, 2008). They are, as the name suggests, high-value individuals who therefore invest directly in the company (N. Berger & F. Udell, 1998). their investments are more likely to take place in the early stages of the business

(Salamzadeh & Kawamorita Kesim, 2015). Since they provide their own financing during the initial stages (Unlike Venture Capitalists) of the business, vital stages for the success or otherwise of the project, the investment risk is at its highest. In fact, many angel investors, looking for big returns, fail in their objective (Sohl, 2022).

- *Venture capitalist.* This involves individuals, funds, or companies, single or multiple, directly investing their money in a new business, effectively financing it. Venture capital investment works differently from banking. It does not have a time limit set by a contract and does not lead to the same financial burdens. Venture capitalists, however, actually enter into the ownership of the company (Gompers & Lerner, 2001). Obtaining their funding is not easy and by making their contribution they also expect a large return, which is often generated at the moment the company enters the market (Caparello, 2023). In fact, they enter the company not in the initial stages but rather when the product is already finished and has started to be sold on the market, that is, in the creation stage (Salamzadeh & Kawamorita Kesim, 2015). By investing in these stages when the business is already established, venture capital funds participate in one of the last investment rounds of these young but established businesses. By doing so, the risk they take is less and more calculated. This is also because they have to evaluate the capital left available in the fund and maintain the fiduciary obligation to those who have invested their money in the fund objective (Sohl, 2022). To understand the venture capitalist business properly, one must see it as a cycle that begins with the creation of a venture fund, then the collection of the capital needed to form the fund, then proceeds with the investment in a new venture and its monitoring, the improvement of the business in which it invests, and ends with an exit when the value of the company has increased (Gompers & Lerner, 2001).
- *Startup accelerators.* Startup accelerators also referred to as seed or business accelerators, can be defined as time-limited programs that in various ways help a new business to grow, giving it the initial push on several fronts (Cohen et al., 2019). Accelerators can be really important for new businesses in helping them to define their business model, product, and market, and in benefiting from

workspaces and small initial funding. Despite their similarity to incubators and even angel investors, their difference lies in their time constraints. They are designed precisely to guarantee this support for a period that is usually limited to roughly three or four months of activity (Cohen & Hochberg, 2014).

- *Business Incubators.* A business incubator is an establishment that gives support “to ‘accelerate’ the successful development of a new enterprise” (Núñez, 2007). In helping Startups in the pursuit of their goals, they provide support through physical spaces where they can operate or advice with respect to company management. There are several types of business incubators such as technology, industrial, and university incubators. Depending on the needs and the type of incubator, they follow the company from the pre-seed phase to the commercialization phase (Spender et al., 2017). Their aim is to create a company that once without their support is independent and free to operate (Núñez, 2007).
- *Others.* Then there are other smaller players and other methods for Startups to raise funds. Such as crowdfunding platforms, funds specific to a goal composed of small sums of money contributed by a crowd of small investors, which have become increasingly present and seem to be perfect for Startups. There are now several types of crowdfunding (Paschen, 2017). Government funds go to finance innovative companies and young entrepreneurs. Funding is justified by gaps and socio-economic motivations given by the positive externalities that this funding will bring (Schiopu & Soppelsa, 2019). Then there are other minor players, but they should not be underestimated, such as customers, who can be an “*important source of technological know-how*”, and communities formed by similar organizations that represent a valuable network for Startups (Spender et al., 2017).

Startup financing is a crucial phase in the life of the company. This decision can mean the difference between a successful Startup and a failure. Given the various players an entrepreneur can face, choosing the best one remains one of his tasks. Therefore, the choice of the external financier, which can change depending on variables not necessarily

related to the cost but also to the orientation of the entrepreneur, is added to the skills required for the survival of the company (Vaznyte & Andries, 2019).

CHAPTER 2

2.1 The concept and the evolution of sustainability

Usually, when we talk about investments, the only parameters we take into account are the purely financial ones. An investor assesses his or her return on investment, how quickly the initial capital will return, and evaluates among various options the one with the highest rate of return. Or at least this is the conventional view. For a while now, however, the parameters for evaluating investments have changed. Lately, what is being looked at is not only the financial and monetary aspects, but more qualitative factors related to the society in which one is investing has come into play. Factors such as respect for the environment, respect for the community around the company, and the way people in the company are treated and considered. Clearly, to do this, new parameters and evaluation standards have been introduced (Hastalona & Sadalia, 2021).

So, the issue of sustainability, and the social impact of companies is now central.

The topic of so-called 'non-financial information' (NFI) has grown a lot in the last 30 years and will continue to do so. With it comes the demand for disclosure by companies. Investors and stakeholders in general consider it essential to assess the long-term survival of a company (Tarquinio & Posadas, 2020). The term NFI can be summarised as everything in the company that is not financial and cannot be expressed in monetary terms (Federation of European Accountants, 2016).

The needs and attention of consumers and investors regarding these issues have changed and consequently, the approach of companies has also changed. Since, over the past decades, the focus on these issues has become more and more vital for investors as well, if they want to have cheap capital, they have to follow the needs and wants of those who provide this capital (Garcia et al., 2017).

The value a company places on so-called Corporate Social Responsibility (CSR) has therefore increased. CSR can be defined as a voluntary commitment by individual companies to perform all those actions that have a positive impact on society and the environment (Gheraia et al., 2019).

CSR is a dynamic and relative concept. A company's ethical values and commitment to certain issues rather than others are very much influenced by the environment in which the company operates. Therefore, it is a concept that encompasses several issues. In

general, however, the commitment of companies, to adhering to the defined behaviors of Social Responsibility, addresses issues of sustainability (economic, environmental, and social), governance, and citizens. It is usually voluntary, but certain areas, such as human rights, have standards predefined by the law itself (Bassen et al., 2006).

The Stakeholders Approach (Freeman & Mcvea, 2001) also helps us understand the importance and relativity of Corporate Social Responsibility. It states that society makes decisions based on its environment and based on its stakeholders. They determine what brings prosperity and what does not (Garcia et al., 2017).

CSR is a business decision due to several factors: legal, ethical, and especially economic. A company decides to pursue these behaviors not necessarily because it is right to do so or because it is forced to, but because it is good for its economy. It is a tool to grow profit. A company that has a strategic plan in which investments in CSR are highly present is a company with a higher long-term economic return than those that do not (Gheraia et al., 2019).

Despite this last statement, the relationship between CSR and a company's financial performance (FP) is a topic of debate and finds different results in the literature. Existing research on the value of CSR has produced mixed results: some studies suggest a positive relationship between CSR and FP, while others suggest a negative or neutral relationship (Awaysheh, A. et al., 2020).

In several publications, we find a positive effect of CSR on FP. The higher the company's involvement in CSR, hence higher social performance, the lower its financial risk (Orlitzky & Benjamin, 2001). Given investors' interest in CSR, a low company involvement would lead to a higher perceived risk. It is positively correlated with the cost of capital, the higher the former the higher the latter becomes; and the risk is one of the factors that most influences a company's cost of capital. Consequently, one of the ways for the company to reduce it would be to increase its commitment to social and environmental issues (Bassen et al., 2006). In addition, some empirical studies address the fact that there is a positive correlation between the CSR and the FP. A study of 150 senior managers of Indian manufacturing companies, shows how a commitment to CSR benefits both FP measures (industry-adjusted Return on Assets or ROA) and non-financial performance (NFP) measures (a multi-item scale assessing various aspects of long-term firm success). This

suggests a strategic rationale for implementing CSR initiatives, focusing on multiple stakeholder relationships (Mishra, S. et al., 2010).

Another study, analyzing 84 empirical studies between 2001 and 2011, examines the correlation between CSR and a company's corporate social performance (CSP), defined as the actual outcomes and results of a company's social responsibility initiatives, with its corporate financial performance (CFP). The study reveals that the overall relationship between CSR/CSP and CFP remains inconclusive. While most studies showed a positive relationship, a significant number indicated a non-significant relationship and only a few found a negative relationship. Interesting, however, is the analysis done on decomposed CSR/CSP, which examines the impact of individual dimensions or aspects of CSR on CFP. This type of analysis yielded more consistent results. Indeed, positive relationships are observed in several decomposed analyses (Lu, W. et al., 2014).

Instead, a study that employs a sample of 179 publicly held Canadian firms shows other results. This study examines data on corporate social performance (CSP) of a firm, which were obtained from the Canadian Social Investment Database (CSID) for the years 2004 and 2005, and its FP, which is measured using return on assets (ROA), return on equity (ROE), and market returns. No significant relationship was found between the aggregate CSP measure and FP. There is evidence of a negative relationship only with market returns. At the same time, a significant negative relationship was found between the environmental dimension of CSP and three FP measures. This negative relationship is consistent with the trade-off, which states that CSR is expensive and can reduce FP. This negative relationship suggests that socially responsible environmental investments may negatively affect financial performance in the short term (Makni, R. et al, 2009).

We see then that there is not necessarily, as claimed by other studies, a linear relationship between a company's commitment and outcomes in CSR and its financial performance (Nollet, J. et al., 2016).

2.2 The ESG: Environmental, social and governance

The topic of corporate sustainability, especially in the new generations, is seeing exponential growth compared to the past. Consumers and stakeholders require

companies to manage their business and produce their goods using techniques that are increasingly focused on social and environmental sustainability.

The pressure on companies is increasingly high. The need for consumers to have transparent and detailed information on internal processes is also high. For this reason, CSR cannot be enough, something more precise and specific is needed for these purposes. There is a need for business operations and consequently the disclosure of the company's activities to be centred and guided by environmental (E), governance (G), and social (S) issues. A concept summarized in what is called ESG (Każmierczak, 2022).

ESG is an acronym that stands for: "environmental", "social", and "governance". The term as we see it today was coined in 2005, the year in which the report "Who cares who wins" was published by the UN in collaboration between the environment department and the Global Compact. In the report there are various sections in which the term ESG is indicated, opening the door to a new world, and a list of examples relating to each of the three themes (Pollman, 2022).

ESG is therefore a composite of these three non-financial macro-areas to which a score is usually attributed which is used as an evaluation method for investment decisions (COGNIGNI, 2023).

The concept of ESG is different from that of CSR. Although they ultimately share the same goal, that of having a positive impact on the environment and society, there are divergences between the two. ESG therefore considers the impact that the company's business has on environmental, social, and governance issues. So, it is a tool for evaluating the company's performance of these three factors, and it is used by investors who are interested as a measure. CSR instead is more a commitment made by the company in the way it operates, it is always of interest to investors, but it is more of an internal and voluntary thing of the company itself (Każmierczak, 2022). CSR focuses more on the company's behaviors, whether forced or voluntary, while ESG focuses more on the disclosure for the investors (Namgung Jin, 2022).

Each of the three pillars of ESG has different metrics for its assessment and has a different impact on the company and the external environment:

- *Environmental*. This pillar refers to everything that has a real impact on the environment. Thus, the materials the company uses, the pollution of water, soil,

and land, energy sources (renewable or not), and the consequences on biodiversity (Każmierczak, 2022). Companies with strong environmental strategies and therefore with large investments and a big focus on this issue manage to improve both their financial performance and reputation (Eccles et al., 2014). A company's commitment to environmental issues can benefit from several factors. The first is financial, as investors welcome companies that pursue environmental initiatives. Then, these investments can act as a kind of insurance in case a catastrophic and damaging event related to the environment occurs, allowing for a smaller loss (Flammer, 2013).

- *Social*. The social sphere concerns all those factors that can influence and come into contact with the social environment surrounding the company formed by all its stakeholders, among which we find local communities and consumers (Każmierczak, 2022). The social dimension must pay attention to both the internal side of the company, i.e. its employees, and the external side, i.e. society, which can be directly or indirectly influenced by the company's decisions. In all this, special attention is always given to the issue of respect for human rights (Becchetti et al., 2022). The social issue includes topics such as fair wages, workers' rights, diversity, and inclusion of employees in the company (robertadavino, 2023). Commitment to the social aspect can help the company mitigate various risks, like negative events on stock or bond prices (Li et al., 2021).
- *Governance*. By the dimension of corporate governance, we mean everything that concerns the internal processes within the company. Management, the way decisions are made, whether the law is respected, and rules are followed (Każmierczak, 2022). The assessment in this area looks at how internal relationships are managed, the quality of internal controls and transparency, respect for shareholder rights, the diversity of the board of directors, the absence of corruption and unfair practices, and the commitment and resources put in by the company to achieve its sustainability results. A good company in terms of corporate governance usually adopts a Code of Ethics (robertadavino, 2023).

2.2.1 ESG disclosure

Although requests for sustainable and non-financial performance information are increasingly on the rise, their disclosure by companies remains an issue to be addressed. Since financial reporting was no longer sufficient to fulfill the demands of policy and investors, new reporting related to the world of sustainability and ESG was developed (Buallay, 2018). ESG reporting, better known as sustainability reporting, consists of the disclosure by the company to the public of its impact in relation to environmental, social, and governance issues, its ESG goals, and the effort and the way to reach those sustainability goals (Darnall et al., 2022). ESG reporting has a positive impact on both the company and its stakeholders. It brings greater transparency, marking the company's environmental impact, contributes to the development of corporate sustainability, enhances its reputation and competitive advantage, and also shows the connection between the financial and ESG side of the business, helping to improve the former's performance (Buallay, 2018).

While there are well-defined and common reporting standards for financial information and performance, the disclosure of non-financial performance, including ESG-related performance, has no globally recognized standard. Many investors complain that ESG data are too different between companies and complex to read (Eccles & Strohle, 2018). Therefore, in contrast to financial reporting, ESG reporting practices are much less defined and clear and are mostly carried out voluntarily (Darnall et al., 2022). Indeed, given this lack of guidelines, most of the ESG data provided to assess the company's ESG performance, are provided voluntarily. This creates a lot of confusion and divergence in the disclosure of data (El-Hage Javier, 2021). In 2018, the Global Reporting Initiative reported that there has been a considerable increase in voluntary disclosure of ESG reports by many companies worldwide (Alsayegh et al., 2020). This lack of standardized frameworks, of guidelines, forcing companies on how and what information to disclose, and the lack of review on these reports creates a major problem (El-Hage Javier, 2021).

For example with the rise of phenomena such as greenwashing (Lokuwaduge & De Silva, 2022). Greenwashing refers to the action of spreading misleading information about the environmental or social commitment of projects financed through green bonds. This practice can undermine investor confidence and diminish the effectiveness of sustainable finance instruments (Baldi & Pandimiglio, 2022). The pressure from external agents to

be socially responsible and consequently to make more disclosure, many times voluntary, unreliable, and opaque increases the potential risk of greenwashing by society. Providing misleading and untruthful information (Lokuwaduge & De Silva, 2022). All this growth in the importance of ESG leads to a risk of *'extremely hypocritical ESG efforts'*, aimed solely at increasing the company's ESG performance and score, enhancing its reputation, and allowing it to reap the benefits of this, such as lowering the cost of capital (Zhang, 2023). This risk is mainly due to the lack of common frameworks for ESG performance reporting, and the voluntary nature of many ESG disclosures, thus their lack of reliability and transparency (Lokuwaduge & De Silva, 2022). In addition to strengthening regulations to prevent greenwashing practices, an improvement by policymakers in ESG rating systems is therefore called for (Baldi & Pandimiglio, 2022), and the implantation of a common global framework for all, which reduces the complexity associated with ESG disclosure and also its risk (Lokuwaduge & De Silva, 2022).

In general companies with a lack of common and mandatory directives are very much geared towards only disclosing what suits them and makes them look better to investors and those who go to assess their performance by giving them a certain score. Furthermore, not having a standard also makes it difficult to read such information afterward (El-Hage Javier, 2021).

2.2.2 ESG frameworks and reporting standards

The increasing demand for non-financial, ESG-related information from investors and stakeholders towards companies has led to an evolution of accounting frameworks. They have evolved to try to create standardization of ESG information and to regulate and guide companies in disclosing ESG information. Frameworks aim to create information that is more easily readable, and standardized and makes it easier to understand the truly sustainable impact that a company has. (Bose, 2020). Also, the voluntariness and lack of guidelines in ESG disclosure have brought institutions to find solutions. Solutions that took the form of ESG reporting guidelines indicating the contents and methods of disclosure and reporting. These guidelines are used by companies to understand how they should disclose certain data on a specific topic, to make it clearer, and to standardize the way these types of information are communicated. These guidelines also suggest and

push for the verification of these reports by third parties, so as to improve the quality and veracity of the information presented (Darnall et al., 2022).

Nevertheless, these trends in the creation of frameworks and standards for ESG reporting have led to their multiplicity, variety, and fragmentation, confusing those for whom this information is intended. Indeed, we do not find a common framework and standard worldwide for the disclosure of ESG information (Adam et al., 2022).



Figure 2 – ESG standards and frameworks worldwide (Icebreaker One, 2024)

With this in mind, let us now look at the most widely used and recognized standards and frameworks and all the bodies, both private and public, that are working and have worked to create them and that aim through their collaboration to achieve common guidelines and directives, and help companies in disclosing ESG data.

- *Global Reporting Initiative (GRI)*. Founded in 1997, the GRI had the important role of publishing in 2000, through the GRI guidelines, the first global framework for sustainability reporting. It aims to bring greater transparency regarding the environmental, social, and governance impact that companies have, and to ensure that in the future all organizations disclose information regarding this impact (GRI, n.d.). The framework created by GRI for disclosing both the positive and negative impact of actions has such a broad scope that it can be used for all organizations and sectors (Darnall et al., 2022). GRI constantly publishes updated standards that are applied to specific disclosures. A company can prepare its reporting based on other frameworks and use the GRI standards to assess its performance and its impact on specific matters. The standards promulgated by

GRI are the most widely used standards worldwide. In 2017 alone, 58% of sustainability reports were prepared following the GRI guidelines (Bose, 2020).

- *Sustainability Accounting Standards Board (SABS)*. The organization was founded in 2011 in the USA and focuses on providing specific guidelines for companies in the disclosure of sustainability information. The focus of these standards is on the financial materiality of this information. That is, it provides standards for reporting on all sustainability issues that have a financial impact on the company, integrating ESG factors into the classical financial reporting of an organization and giving a wider vision to the stakeholders (Wielechowski & Krasuski, 2024). Unlike the GRI, the SABS standards focus more on investors (Sætra, 2021). The standards this organization provides are designed to cover 11 different sectors, for each of which all sustainability issues that have a material impact on the company are specified. To do this, SABS developed the so-called 'SABS Materiality Map', a tool used to assess the material impact related to specific sustainability topics for each sector covered by the organization (Bose, 2020).
- *International Integrated Reporting Council (IIRC)*. This organization provides an integrated reporting framework that aims to combine financial and non-financial information. Created in 2010 in the UK, the IIRC improves the quality of information, allowing for better capital allocation and a more efficient approach to corporate reporting. It focuses on how a company creates value through the use of various types of capital including natural, social, and human capital (Wielechowski & Krasuski, 2024).
- *IFRS Sustainability Disclosure Standards*. Those standards were developed by the International Financial Reporting Standards Foundation to create a global benchmark for sustainability reporting. They aim to enhance the consistency and comparability of sustainability information, addressing the increasing investor demand for reliable data. By aligning sustainability reporting with financial reporting, they provide essential information that supports investor decision-making and complements existing frameworks (Wielechowski & Krasuski, 2024).

- *Task Force on Climate-related Financial Disclosures (TCFD)*. This task force was created in 2015 by the Financial Stability Board (FSB) and was set up with the intention of establishing a framework for reporting on environmental risks and opportunities related to a company's business operations. The aim is therefore to raise awareness of the environment and climate change, encouraging companies to incorporate these considerations and this perspective into their business plans (Wielechowski & Krasuski, 2024). is a tool to show stakeholders the environmental impact of the company's financial assets and the environmental risk associated with the financial system. In fact, the target audience of this tool is investment intermediaries, such as banks or lenders. It will allow such organizations to report on the climate change impact and climate change risk of their business activities (Bose, 2020).

- *Carbon Disclosure Project (CDP)*. It is not a real framework, but a survey given to the largest and most listed companies that aims to evaluate their environmental impact through questions. However, it remains very important for the disclosure and standardization of sustainable and non-financial information, as is common for all lead companies to standardize their reporting and the type of data they make public. It also increases the transparency and accuracy of this type of information (Sætra, 2021).

- *United Nations Global Compact (UNGC)*. It's defined as the framework dedicated to sustainable and responsible business practices. To do so, it issues 10 principles that look at human and labor rights, corruption, and environmental preservation. Principles that must be incorporated into a company's business strategy. It also suggests that companies should work towards achieving the 17 Sustainable Development Goals, linked to macro-issues such as poverty and pollution. It also describes itself as the world's largest corporate sustainability initiative (Sustainable Business Matters, 2022).

This great variety of frameworks and standards therefore leads to a lack of comparability and an increase in complexity on both sides, that of those who read and evaluate the data

and that of those who disseminate it. Despite attempts at collaboration, there is still a long way to go and a great need for harmonization between the various frameworks and standards. Indeed, it is not necessary to cull them all and leave only one out; but a truly effective solution would likely involve a more collaborative and nuanced approach, promoting clarity and comparability while preserving the diverse perspectives crucial to understanding sustainability in its various dimensions (Adam et al., 2022).

With the aim and task of harmonizing existing frameworks and standardizing sustainability reporting practices, we can find two different main organizations. At the international level, we have the International Sustainability Standards Board (ISSB). It aims to establish globally recognized sustainability reporting standards, creating a common framework for consistent reporting worldwide, and facilitating comparability and transparency. The standards converge with other existing frameworks and guidelines, such as the GRI (Global Reporting Initiative) standards, highlighting potential positive correlations between them and transparency in non-financial disclosures. On the other hand, at the European level, we can find the European Financial Reporting Advisory Group (EFRAG) and its European Sustainability Reporting Standards (ESRS), which aims to harmonize European sustainability reporting practices. Thus, Unlike the ISSB's global focus, the ESRS is designed to standardize sustainability reporting specifically within the European Union. The ESRS encourages the integration of sustainability considerations into companies' overall strategies and risk management, and they are presented as a mandatory reporting framework within the EU, signifying its significance in regulatory compliance for European businesses (Elidrisy, 2024).

2.2.3 European Mandatory Disclosure

To bridge the gap between the demand for sustainability and non-financial information and the provision of such information, many national bodies moved to make disclosure of this information mandatory for some companies. In order to make it clearer and more accurate, to increase the company's own efforts to generate quality information and greater commitment to sustainable choices, and to raise the awareness of investors and stakeholders (Krueger et al., 2024).

One of the institutional-level interventions that were taken to address the issue of voluntary disclosures was the European Union's EU Directive (2014/95/EU) on non-financial and diversity reporting, also called Non-Financial Reporting Directive (NFRD) (Arvidsson & Dumay, 2022).

This directive therefore had, at least in Europe, the very important role of laying the foundations for a transition from voluntary to mandatory disclosure in the field of a company's sustainability performance (Cordazzo et al., 2020). The NFRD directive states that public interest entities (such as banks, listed companies, and insurance) with more than 500 employees in the EU are required to include in their financial reports, or report in a separate document, a non-financial statement in addition to the already mandatory financial information. This statement must include everything related to the environmental, social, and governance issues of the companies. It touches on topics such as respect for human rights, maneuvers related to combating and discouraging corruption, and inclusion within the company. This maneuver at the time it was implemented covered approximately 6000 public interest companies within the EU context (Hahnkamper-Vandenbulcke, 2021). To produce this type of statement, the companies in question can turn to the most commonly used and recognized European or global frameworks. Indeed, one of the problems and criticisms levelled at the directive is that it does not provide harmony in the standards used for reporting. Yes, frameworks are indeed recommended to be followed, but no unambiguous framework or guideline is provided to be in line with the directive. This then contributes to the low clarity and confusion of reports, and the difficulty of understanding and assigning performance for those who read and evaluate them (Breijer & Orij, 2022). Also, the NFRD's definition of materiality is ambiguous and contested. Within the directive, we can identify two different types of interpretation of materiality. The first one, more related to the GRI, considers materiality broadly, encompassing both a company's impacts on stakeholders and the impact of external factors on the company. The second one, closer to the International Integrated Reporting Council (IIRC) framework, focuses narrowly on materiality from the perspective of financial impact on the company itself (Raith, 2022).

It was then seen how, especially after the first year of the directive's implementation, there was an improvement in ESG performance for companies required to disclose sustainability reports and an increase in companies that voluntarily disclose such

information as well (Aluchna et al., 2022). The positive effect of better ESG performance and more companies publishing sustainability reports was stronger for smaller firms, firms with high analyst following, and firms located in countries with robust legal systems (Cuomo et al., 2024).

In support of this disclosure law, Regulation (EU) 2020/852, also known as the EU Taxonomy Regulation, deserves to be mentioned. The regulation is a legislative framework established by the European Union to guide investments toward sustainable activities. It establishes criteria to determine whether economic activities are environmentally sustainable. These criteria are meant to guide investors, companies, and policymakers in identifying and supporting sustainable projects. The regulation aims to encourage sustainable investment by providing clarity and uniformity in what is regarded as "green" or "sustainable," reducing the risk of greenwashing and fostering transparency in the financial sector (David Henry Doyle, 2021). As Article 9 states (European Commission, 2020), the European regulation is based on six environmental objectives, which are: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. The regulation also provides technical screening criteria to define which activities can be considered to contribute substantially to environmental objectives (European Commission, 2020). It is interesting to see how the regulation ties in with the NFRD. Even though the taxonomy is a classification tool, it modifies certain disclosure requirements enshrined in the NFRD so that companies subject to the directive can report the degree to which some of their activities are aligned with the taxonomy (David Henry Doyle, 2021).

The European regulation, about mandatory disclosure of ESG data, then moves forward. In fact, on 5 January 2023, a new directive comes into force: the Corporate Sustainability Reporting Directive (CSRD). This new directive proposes to strengthen, improve, and increase the scope of its predecessor, the CSRD (European Commission, 2024).

Specifically, the CSRD imposes the disclosure of a sustainability report on all EU companies with more than EUR 20 million in total assets, a net turnover of more than EUR 40 million, and more than 250 employees. In addition to European companies, the directive also includes EU subsidiaries of non-EU companies, and all those non-EU

companies that generate a turnover in the EU territory of more than €150 million and have at least one subsidiary or business unit within the European Union. This directive will have an impact on more than 50,000 companies, thus much larger than before, of which almost 10,000 of these companies are outside the EU (IBM, n.d.). Compliance with this directive is expected for its member companies for reports published in 2025, thus covering the year 2024, (European Commission, 2024) while for non-EU companies compliance is expected in 2028 (IBM, n.d.).

In addition to this, the CSRD is also a turning point in terms of the way information on environmental, social, and governance issues is reported. Trying to take one step further in the standardization of sustainability reporting standards and frameworks and bring a solution to all those companies that find themselves in difficulty and confusion due to the extreme variety of these (European Commission, 2021). The directive is very clear on the subject and states that the companies in question will have to report according to European Sustainability Reporting Standards (ESRS), of which the first set of standards was published on 22 December 2023. Those standards have been developed in cooperation with EFRAG. Furthermore, the directive provides for assurance on the information that is reported by companies (European Commission, 2024).

In essence, the CSRD is a major step forward in promoting transparency and comparability in sustainability reporting within Europe. It emphasizes the increased scope, enhanced detail and quality of information, mandatory verification, and standardized reporting requirements as key improvements over the previous NFRD (Fornasari & Traversi, 2024).

About this regulation taken by the government, it's important to underline, the positive impact of mandatory ESG disclosure on stock liquidity that has been noted, especially if this obligation is given by government institutions. The increase in information, even if not directly related to financial issues, reduces information asymmetry which in turn reduces the risk perceived by investors, giving them an idea about the 'value' implications of a firm's ESG activities. By providing information that aligns with these values, mandatory disclosures reduce uncertainty about a firm's alignment with investor preferences, thus increasing demand and facilitating trading (Krueger et al., 2024).

2.2.4 How ESG factors impact on financial performance

The impact of ESG factors on company performance is a subject of debate and research. Analyses on the influence of ESG disclosure and ESG performance on firms' financial and market performance yield varied and sometimes conflicting results.

A positive relationship between ESG disclosure and accounting performance, such as ROA, ROE, and ROI, is found for large companies. This positive link has also been seen for the market-based performance, when the main one considered is Tobin's Q, a market-based measure of a company's financial performance (Elmghaamez, I. K. et al., 2024). Although in the short term, the costs may outweigh the benefits, companies that maintain a consistent commitment to ESG disclosure see improvements in financial performance through building social capital, reducing operational risks, and increasing stakeholder loyalty. ESG disclosure is therefore not only a regulatory requirement but also a strategic opportunity to improve financial performance (Abdi, Y. et al., 2022). It has also been seen how the transition to mandatory NFD under the EU Directive 2014/95 had a positive and significant impact on the relationship between ESG performance and financial performance. This suggests that the mandatory regime encourages companies to better manage and report on their ESG activities, leading to improved financial outcomes (Bruna, M. G. et al., 2022).

An analysis conducted on German companies listed on the Prime Standard between 2010 and 2014, finds a significant positive relationship between the overall ESG score and ROA, where governance performance shows the strongest positive. This supports the idea that strong ESG performance is associated with better accounting-based financial performance. While for market-based measures, such as Tobin's Q, The analysis finds no significant relationship (Velte, P., 2017). Other studies conducted for European companies show other interesting results. The first conducted on 350 European firms confirms a non-linear relationship between ESG performance and financial performance. The impact of ESG on these latter is not consistent across all levels of ESG performance or company sizes. Confirms a non-linear relationship between ESG performance and financial performance (Bruna, M. G. et al., 2022). The second, which uses a sample of the top 50 European companies based on ESG performance, shows that no major difference in the debt-to-equity ratio is observed between the ESG best performer and other companies, this indicates that ESG doesn't significantly impact capital structure.

However, it has been seen how ESG performance is positively linked to higher profitability, that is, better ROA and ROE (Koundouri, P. et al., 2022). Differently, an analysis of the impact of ESG disclosure and performance on the financial performance of Norwegian-listed firms from 2010 to 2019, shows different results. The regression model used shows a statistically significant negative relationship between ESG initiatives and ROA, at least in the short term, while indicates a statistically significant positive relationship between ESG initiatives and Tobin's Q in the long term (Giannopoulos, G. et al., 2022). Another study conducted on 100 global manufacturing companies from 2005 to 2020, states that there is a non-linear relationship between ESG performance and financial performance, recognizing that the impact isn't simply linear. The study finds an interesting result. Initially, improvements in environmental performance correlate positively with better financial performance. However, as companies invest more heavily in environmental initiatives, this positive relationship diminishes and eventually becomes negative, impacting operating profits (Chen, H. M. et al., 2022).

It is also important to mention the impact that ESG factors have on a company's reputation and consequently on its risk. Robust ESG performance and disclosure enhance the reputation of the company itself in the eyes of outsiders, especially investors. Companies with better financial performance show lower beta, that is, lower risk, compared to other companies. This suggests that strong ESG practices may reduce systematic risk (Koundouri, P. et al., 2022). Indeed, companies with better ESG performance and which spread more information about ESG are considered stronger and more reliable. However, the effect of ESG disclosure is lower compared to the one brought by ESG performance (Maaloul et al., 2023). This more responsible behavior towards ESG issues, and thus better performance, leads to a better perception by stakeholders, boosting the company's reputation (Liu, 2022). However, this purely qualitative aspect also has positive implications for the company's financial dimension. A better reputation leads to a lower perceived risk and lower cost of debt (Maaloul et al., 2023). ESG performance indirectly, due to the perceived reach and reputation given to the company, has a great impact on the risk taken and thus can influence the cost of external financing (Qiu Muyuan and Yin Hong, 2019). Corporate reputation fully mediates the relationship between ESG and financial performance and the profitability of the company, linked above all to a lower cost of debt capital (Liu, 2022).

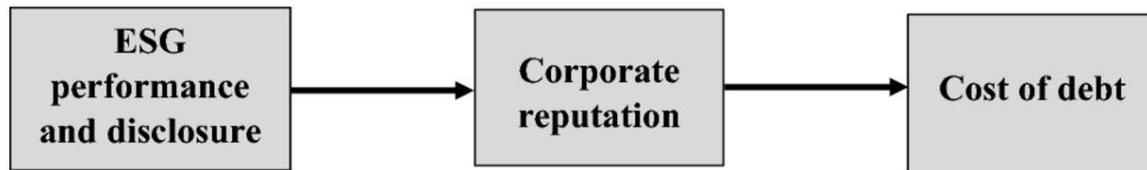


Figure 3 – The mediation role of corporate reputation between the ESG and the cost of debt (Maaloul et al. 2023)

In general, although most research attributes a positive link between ESG disclosure, ESG performance, and a company's financial performance, the various results show that it cannot be claimed that there is univocal causal relationship. However, the difference in research is also given by a difference in the data used, which therefore leads to mixed results. In the future, it will be important to stick to more standardized studies to have more convincing and more easily comparable results.

2.2.5 ESG evaluation tools

Through the information disclosed by companies, it's possible to get an idea of the impact of the three areas of ESG on the company itself and vice versa. Nevertheless, managers, investors, and stakeholders in general want to have effective tools to assess the sustainability performance of the business and compare it with others. Tools, and metrics, capable of quantifying the social, environmental, and governance impact of a business. A standardized metric that makes it possible to understand which is doing better than the others and on which issues we can go and improve. The primary and most popular solution is the use of ESG scores. With the ESG scores, external bodies develop a metric, a methodology, that combines the assessment of all three pillars of the ESG dimension (the E, the S, and the G) into a single quantitative measure that is the ESG score, which tells those who see it how well a company is performing in terms of the measure highlighted by the score. Thus, the methodology used to assess and compare ESG performance can be given by these scores. They are provided, following personal processing and evaluation of the issues, by different data vendors and by the relevant agencies; the so-called “*sustainability agencies*” (Clément et al., 2022). Through the use of all available information the sustainability or rating agencies, or other ESG raters and data providers, will produce and present these ESG scores for the company which will then be used by interested parties, such as investors or even financial analysts, to understand the organization's performance in these areas (Miller, n.d.). These ESG scores are based on the criteria that make up a company's environmental, social, and corporate

governance setting. There are various of them and with various outputs, but they usually range between 0 and 100 with a score of 50 considered negative and positive if it is greater than 70 (Hayes, 2023).

ESG scores, firstly created only for companies related to the financial sector, are therefore primarily generated and evaluated by private commercial firms, such the agencies, whose main clients are portfolio managers and investors. These private firms use proprietary methodologies involving both qualitative and quantitative data, leading to variations in scoring across different organizations (Clément et al., 2023).

The rapidly increasing demand for ESG data, driven by responsible investing and the growing evidence linking positive ESG performance with better financial results, has led to a wide universe of ESG data vendors and rating agencies, each with its approach. The ecosystem is vast and varied, offering various products and services beyond simple ratings, including rankings, issue-specific scores, and analytical tools. (Eccles et al., 2014).



Figure 4 – The evolution of ESG data vendors and ESG rating agencies from 2009 to 2017 (Wallace, et al., 2019)

The landscape of data providers is therefore huge. For instance, we find various ESG performance rating agencies each with its scoring range, output, and evaluation methodology. In the United States alone, we can count more than 140 (Hayes, 2023).

Among the many agencies, data providers and vendors, and indices for assessing ESG scores and performance, some are most important and most used by investors and

interested analysts. We can see for example *Bloomberg*; the world-famous financial and business data platform also provides an extensive collection of data related to a company's ESG performance. The platform provides subscribers with access to various ESG rankings and ratings, reporting this data for thousands of companies. Given its reputation and reliability, it is regarded as the leading provider of ESG data by stakeholders (Wallace, et al., 2019).

Among the most famous ESG rating agencies there is the *MSCI ESG Research*. In this case, the ESG rating of a company ranges from AAA (the highest) to CCC (the lowest) where three levels of companies are established: the 'leader' (from AAA to AA), the best in their industry for ESG performance, the 'average' (from A to BB) who have a good mix of risk management and ESG performance, and the 'laggard' (from B to CCC) who have high exposure to ESG-related risk and low performance. Associated with the ESG rating is then given an ESG score that ranges from 1 to 10 and is calculated and adjusted for the average ESG score of the reference industry (MSCI, 2024).

There are other famous rating agencies. Such as *Sustainalytics*, which produces an ESG score ranging from 0 to 100 and is normalized for the reference industry in which the company is located. *Refinitiv*, formerly known as Thomson Reuters ESG Research Data, whose score always ranges from 0 to 100 with 100 being the best value, calculates the final score using a combination of the environmental, social, and corporate governance scores taken individually. By doing that it gives a more specific view to the investors. *Vigeo Eiris*, a data provider and rating agency specializing in the ESG field. Famous for having been acquired by Moody's, it assesses a company's ESG performance according to 38 different criteria divided into 6 macro areas and assigns a rating that always ranges from 0 to 100 (Hayes, 2023). In addition to the presence of multiple agencies, there are also several data providers. *KLD Research & Analytics*, for example, acquired now by RiskMetrics, it's a unique and big ESG performance data provider that mainly focuses on institutional investors (Eccles et al., 2014).

One of the most used data providers is however *EcoVadis*. Founded in 2007, is a platform that allows companies to learn about the ESG performance of their suppliers through the Supplier Sustainability Rating it provides on its platform. Its reputation has led it to provide a huge amount of this data, have many partners, and be used over time by more

than 30,000 companies interested in reducing the risk associated with their suppliers and collaborators (Wallace, et al., 2019).

Then there are other important indices linked to ESG performance and used by investors for their evaluations. For example, *The Dow Jones Sustainability Index (DJSI)*, tracks the performance of the top 10% of companies, in terms of sustainability, within the Dow Jones Global Index. Or we can find *The Indicators of Sustainable Development of the Commission on Sustainable Development (CSD)*, which is a set of sustainability-related indicators developed by the United States. It is also important to mention *The Triple Bottom Line Index (TBL)*, an index that aggregates financial and sustainability performance (Delai & Takahashi, 2011).

It is important to understand how each of these agencies and data providers provides its own evaluation, based on different methodologies and analyses, such as different weights given to each of the three pillars of ESG (Hayes, 2023). Investors need reliable data to implement ESG-focused strategies, and ESG rating agencies provide this data. However, unlike credit ratings, which show high consistency across agencies, ESG ratings exhibit significant divergence. A company might receive a high ESG score from one agency but a mediocre or low score from another. There's very little agreement between ESG ratings from different agencies (Dimson et al., 2020). Indeed, this proliferation of sources has created a significant problem: a lack of agreement on how to construct and use ESG measures. Different vendors frequently offer conflicting assessments of a company's ESG performance, and this could be a problem. By looking at the history of these data vendors over the past 30 years, we can see their evolution and their efforts to merge and acquire to reach consolidation between themselves. Despite this consolidation, significant diversity persists in terms of organizational structure, focus, and service offerings. ESG data isn't objective; it's a social construct shaped by the values, perspectives, and motivations of the organizations that create and disseminate it. We can see this lack of consistency also from the varied methodologies used by ESG data vendors to collect information. These range from surveys of companies and stakeholders to analyses of company documents (such as the sustainability report) and web scraping techniques. The wide array of approaches used highlights another contributor to the lack of consistency in ESG data. They also highlight the limited transparency regarding

methodologies used by various vendors, further complicating efforts to assess the reliability and comparability of ESG data. (Eccles et al., 2014).

In conclusion, a solution it's not today fully available. Investors and analysts need to fully understand the limitations of ESG ratings, including the lack of standardization, potential biases, and the inherent challenges in measuring complex, multifaceted concepts like ESG. Investors should not rely solely on ESG ratings but should conduct thorough research and develop a holistic understanding of a company's ESG performance beyond the aggregate scores provided by rating agencies (Dimson et al., 2020).

2.3 ESG in the SMEs context

It is therefore noticeable how the importance and necessity of integrating the concept of ESG and ESG factors for company valuation, risk management, and regulatory compliance has grown over the years. Also, for investors and their investments, the ESG factor is becoming fundamental in their decisions and portfolio strategies. Here then comes the growing need to build rating systems, such as those of the ESG rating agencies, despite the lack of consensus on ESG rating methodologies and lack of standardization (Markopoulos et al., 2023).

Since this world of ESG is so important to all businesses in general, we can see a growing trend in the use of ESG practices by SMEs as well. The fact is not so surprising when one considers their economic impact, the increased stakeholder expectations, regulatory pressures, and the recognition of ESG's impact on brand reputation (Mezzio et al., 2022). SMEs are particular enterprises, in which the choices of the managers often and frequently coincide with the choices of the ownership, being these two figures the same person, and in which there is a lot of proximity to the society and the surrounding territory. This means that ESG choices are made by the ownership itself, and the proximity of this ownership to the territory can make the commitment to these choices even greater. It also increases the impact these choices have on the company's reputation and competition. Despite this, their importance, their presence on the ground, such as in Europe where they make up more than 99% of total companies, and the growing need for the introduction of ESG practice, the literature and implementation of ESG tools towards SMEs is still lacking and insufficient (Garrido-Ruso, 2024). While various sustainability

management tools have been proposed in the literature, there's a lack of research on the actual rates of awareness and implementation of these tools among SMEs (Johnson, 2015).

Indeed, numerous publications discuss sustainability management in SMEs, but a comprehensive review of tools and their implementation is lacking. The importance of implementing sustainability management tools (environmental management systems, social audits, CSR reports, stakeholder dialogues, etc.) is not obvious. They can help SMEs improve stakeholder relationships, simplify complex sustainability initiatives, improve decision-making through data-driven insights, meet legal compliance (Johnson et al., 2016) enhance brand reputation, increase customer loyalty, improve employee engagement, and access to ESG-focused investments (Mezzio et al., 2022).

Despite the benefits, it's not easy for the SMEs to implement ESG strategies. The key challenges SMEs can face in doing that are given by reasons such as lack of international visibility of their ESG actions, limited understanding of ESG scoring methodologies, high cost of ESG compliance, difficulty in tracking and managing ESG activities, challenges in developing effective ESG strategies, and in general lack of resources and support (Markopoulos et al., 2023). Those are more internal factors, but also external ones have a strong impact. Indeed, we can see insufficient external drivers, such as regulatory pressures or market demand, the problem of the unsuitability of standardized tools for the informal structures common in SMEs, the complexity of internationally designed tools, and heterogeneity within the SME sector. All factors that led SMEs to find it difficult to implement and integrate ESG strategies and tools into their business (Johnson et al., 2016). The problems and limitations just presented point out the need for tailored ESG strategies for SMEs, the role of organizational culture in ESG adoption, and the potential of specific methodologies to support ESG implementation (Markopoulos et al., 2023).

Furthermore, other differences between large companies and SMEs have been seen in the world of ESG. The positive association between ESG performance and financial performance is well-established and studied for large firms, this link is less explored for SMEs, where ownership structures and disclosure practices often differ. Potential explanations for the differences in findings between large firms and SMEs could be given by the lack of resources to fully implement ESG initiatives and reap the financial benefits, different stakeholder pressures and expectations compared to large firms, and also the

fact that the financial benefits of ESG initiatives may take longer to materialize for SMEs than for larger firms (Gholami et al., 2022). Thus, it is more challenging for SMEs to translate ESG investments into quantifiable financial benefits compared to larger companies. This is likely due to limited resources and the less formal nature of ESG management in SMEs. It has also been seen how the lack of a universally accepted method for measuring ESG performance in SMEs leads to a more difficult study and analysis of the impact of the former on the performance of the latter (Garrido-Ruso, M. et al., 2024). This highlights the need to consider firm size, resources, and stakeholder pressures when studying ESG and its financial implications (Gholami et al., 2022), and the need for standardized measurement tools applicable across different SME contexts (Garrido-Ruso, M. et al., 2024).

Also, the differences between the impact of ESG disclosure and its impact on SMEs are notable. SMEs often lack the resources (financial, human, technological) to implement comprehensive ESG practices and prepare detailed ESG reports. The costs associated with ESG reporting, including hiring consultants, developing internal ESG frameworks, and acquiring necessary software, are considered substantial barriers, particularly for smaller businesses. Thus, even if many SMEs acknowledged the importance of ESG, actually implementing practices proved challenging (Shalhoob, H. et al., 2022). The research and results in its field are limited also due to the lack of mandatory ESG disclosure requirements for many unlisted companies (Momtaz, P. P., at al., 2024).

Besides that, even if an SME discloses its ESG data, the results are still very often. Some SMEs' reports did not cover their core business activities and often failed to provide sufficient data to justify their claims. Small companies used different methods to calculate environmental KPI intensities, and they included information that was not relevant to the required KPIs. These reports lacked the specificity and detailed information needed to fully assess ESG performance and its impact (Yip, A. W. et al., 2023). The lack of widely accepted standards and methodologies for ESG reporting makes it difficult for SMEs to determine the most appropriate metrics to use and ensure consistency in their reporting efforts (Shalhoob, H. et al., 2022).

The difference and gap between large companies and SMEs that exists in the disclosure of ESG data and information leads to a major problem for the evaluation of sustainability performance. Rating agencies, to develop and release an ESG score, need multiple and

reliable information. In the case of SMEs, the existing ESG rating agencies face a conflict of interest because they rely on data provided by the very companies they are rating. Indeed, while large companies are often mandated to disclose ESG information, SMEs are not. This leads to a disadvantage for rating agencies in collecting data and evaluating it, but also for small companies themselves that find it more difficult to access capital and attract investors (Ozkan et al., 2023).

2.4 ESG and startups

Thus, we see how each firm plays an essential role in sustainability. Indeed, despite their nature as young and innovative companies, also startups play a truly central role in sustainable development. They are seen as an example by the societies to come. Their ability to innovate and bring about radical change and sustainable development through new business models and new technologies then spreads throughout the market, acting as a guide for new and established businesses in how to operate to achieve that goal. Their contribution to sustainable change is therefore key to the economy (Aspegren, 2023).

The importance of innovative business models that challenge traditional approaches and integrate social and environmental considerations is essential, and startups are one of the key drivers for doing so. Despite their potential, the implementation of sustainability for startups in business practices is by no means an easy task. The factors are many. Lack of resources, including financial and human resources, to implement sustainable measures is among the top reasons. In addition, for the business to have the resources it needs to live startups need investors, investors who little often see the return given by sustainability, preferring the financial return. Also, they often need quick financial returns that can hinder the development of sustainable businesses that require longer-term investment. A handbrake of startups is then the great competition from established companies with less sustainable practices (Bocken, 2015). Then also from an institutional point of view, there are problems. Government policies and regulations are inadequate and sin by providing little incentive for sustainable innovation, preferring financial returns, or putting little pressure and incentive on the introduction of sustainable practices. In addition, for a young business that needs to sell its product, it is difficult to find someone willing to prefer sustainability to other aspects, and it is therefore difficult

to find a wide range of consumers. There is insufficient consumer awareness regarding sustainability (Nunes et al., 2022).

The problems related to the ESG world for startups are then also linked to the evaluation of the first. Unlike more mature companies, startups, by nature, lack the long operational history needed for traditional sustainability impact assessments. Assessments rely more on prediction and modeling. Their continuous evolution and their dynamic nature then, make assessment challenging. Furthermore, the issue of lack of resources and lack of knowledge always comes back. Startups often lack the internal expertise to accurately assess and manage their sustainability impacts and in general have few resources to dedicate to the disclosure and evaluation of non-financial and ESG-related information (Fitcher et al., 2023). Collecting and reporting ESG data requires financial resources and time, creating an additional burden for startups, already busy surviving and growing. The available ESG data are often not adequate or accurate enough to properly reflect the sustainability performance of startups. Furthermore, current ESG metrics for ESG reporting are generally designed for large or medium-sized companies. This "top-down" approach ignores the needs and limitations of startups, which often have limited resources. Therefore, taking the problem of evaluating ESG data to a further level, where there is an underlying difficulty in having access to a sustainability report. The lack of specific and relevant data for the context, moreover, increases the risk of deceptive practices (Wang et al., 2022).

There may be several possible solutions, at least theoretical, to these problems. A contribution to the development of sustainable business practices can be given from the outside, specifically from venture capital funds. Venture capital funds can support the sustainability development of their portfolio companies, specifically focusing on startups. They can provide templates and knowledge to suggest board meeting topics, connect startups with experts, bring ESG topics to board meetings, influence sustainability through board work, provide benchmarks for ESG data and processes, organize ESG training, and create ESG documents (Aspegren, 2023).

As we have seen also the evaluation of sustainability factors is a topic to be solved. One way to do it could be to assess the environmental and social impact of a startup by focusing on specific projects rather than the company as a whole. This granular approach allows for more accurate and effective evaluations, aligning with the specificity needed

to understand and manage sustainability in startups. There will then clearly be a need to develop tools for startups as well (Guerrieri, 2024).

Finally, regarding the issues related to ESG reporting and frameworks, a possible solution would be to create common infrastructures to collect, share, and analyze ESG data. These structures could reduce costs and improve data accuracy, adapting to local and sector needs. Furthermore, an improvement to this system would be to involve stakeholders in the co-construction of ESG metrics to ensure that they are relevant and applicable to their needs. This is because the main problem is not the lack of ESG frameworks, but the difficulty in connecting startups' business practices to sustainability needs. An approach that integrates existing data and metrics into a flexible framework is needed (Wang et al., 2022).

Despite the problems found in startups in implementing ESG practices and evaluating them in this respect, as we stated earlier they being innovative companies also play a key role in the field of sustainability. Startups can indeed develop innovative business models that are also sustainable in the long term. This implies that startups can explicitly design their business models around principles of sustainability. They may be founded for examples on technologies or processes specifically designed to minimize environmental impact, increase efficiency, or use renewable resources, or on fair labor practices, community involvement, ethical sourcing, and giving back to society. Those kinds of startups explicitly position themselves with a strong sustainable value proposition, making sustainability a core element of their brand and marketing strategy, and the main field in which they decide to operate and make their innovative and revolutionary contribution (Deu, I., 2022). A publication from Jannic Horne and Klaus Fichter (Horne, J. et al., 2022), defines "*impact startups*" as startups explicitly aiming to create solutions with a net positive sustainability benefit. This implies that sustainability is fundamentally integrated into their mission, strategy, and operations from their inception. The focus of these impact startups is to replace less sustainable practices with their innovations, presenting sustainability-oriented market innovations and transforming markets towards sustainable development.

CHAPTER 3

3.1 The background of ESG rating agencies and SMEs

As we have seen previously, ESG data and scores are more difficult to find for SMEs than for large companies.

Indeed, current ESG rating systems, while useful for larger corporations, often fall short when applied to SMEs. Traditional ESG rating approaches are often not well-suited to SMEs due to their smaller scale and different operational structures. Quantitative techniques commonly used for larger companies (e.g., statistical methods or composite performance indicators) are less effective. In addition, we should not forget the main problem of data scarcity. In general, there is a significant challenge to data availability for ESG modeling, especially for SMEs. These latter often have limited incentives to disclose sustainability information publicly, leading to data scarcity for ESG analysis. This is a key issue compared to larger companies with more readily available data (Barro, D. et al., 2023).

The regulatory environment that pushes SMEs to disclose ESG data, and therefore to foster evaluation, is also poor and the cause of the problem. ESG rating agencies often rely on subjective methods to compensate for missing data. This introduces uncertainty into the scores assigned, penalizing SMEs that do not disclose complete data. The agencies therefore lack an uniform approach and are influenced by disparate methods used by rating agencies. These discrepancies between agency methods undermine the reliability of ESG ratings and comparability between companies in different industries or countries. Despite this at the regulatory level something is moving. The CSRD Directive, for example, will make ESG reporting mandatory for listed SMEs from 2027, pushing many of them to adapt to sustainability standards. Data on ESG by these companies will therefore be increasingly reliable and standardized, allowing them to be better evaluated by agencies (Barro, D. et al., 2025).

Because of these agencies' difficulties, and especially to make up for the lack of data, various models have been theorized for evaluating ESG factors of SMEs. For example, a neural network is trained using data from large companies with publicly available ESG ratings, allowing it to learn the relationship between environmental data and ESG scores. The trained model is then used to predict environmental scores for SMEs (Ozkan et al., 2023). Or other methods such as a specific methodology that involves a literature review,

analyses of existing questionnaires, and the development of a revised, more suitable questionnaire, specifically designed to capture the characteristics and challenges faced by SMEs. This questionnaire covers all three ESG pillars, emphasizing a forward-looking perspective, not just focusing on current practices but also on future plans (Murè, P. et al., 2024).

These were just examples of the many approaches and methodologies that have been developed in the literature inherent to ESG rating agencies, ESG evaluation tools and organizations, and SMEs. With this, we understand the importance of NFI assessment, specifically ESG, in these types of companies, the need to develop increasingly standardized and accurate methods, and the need for regulatory guidelines that encourage this, as has been done more for large companies.

3.2 Tools for ESG evaluation of SMEs

Thus, we have seen how rating agencies and other organizations find quite a few problems in evaluating SMEs from an ESG perspective. This difficulty clearly translates into less data available to investors and stakeholders, or at least less reliable data. This is true in part since in recent years we can find several agencies and tools, offered by different companies, collecting and evaluating ESG data for SMEs. These organizations make those data publicly available, and they issue scores, ratings, detailed analyses, and useful commentary for anyone interested. Therefore, despite the difficulties, there has been growing commitment from agencies and other companies' tools in collecting and evaluating ESG data for SMEs.

The next sections of this paper will look at the ESG tools, between agencies and solutions given by other companies, who are involved in analyzing and evaluating a company's ESG issues. Specifically, more emphasis will be given to their methodologies, to finding the necessary information and rating it, and the way these ratings are then synthesized and issued. Of the various agencies in the global landscape, six are the ones considered for the purpose of the analysis: EcoVadis, Ecomate, ESGeo, Sustainalytics, ISS ESG, and MSCI with its MSCI ESG Ratings tool.

The choice of these six companies specifically is not random. Each has characteristics that make sure that the landscape of ESG rating and evaluation about the world of SMEs, and

the evolution there has been so far in this field, is well understood. Many of these are particularly focused on analyzing data even for SMEs, while others are less so. Understanding how these analyses are conducted and what differentiates and/or brings these six companies closer together, will help to get a clear view of the practices used, those that are most likely to work well for SMEs, and take the study forward in this area. The reasons why this specific choice therefore is not random and are summarized below.

1. *EcoVadis*. First of all, it is one of the most well-known and widely used sustainability assessment platforms in the world, offering a comprehensive view of ESG performance. This makes it ideal for SMEs that want to gain credibility in the international market, and its huge network allows SMEs to compare themselves with other similar companies and benefit from specific best practices and advice. It is also known for its broad coverage of ESG parameters specifically designed for the SME sector. In addition, EcoVadis' emphasis on supply chain assessment is critical for SMEs that are part of larger value chains.
2. *Ecomate*. Specifically designed to assess the ESG performance of SMEs, it offers tools and resources tailored to their needs. It helps companies measure and improve their environmental impact with accessible digital solutions, providing calculation tools for carbon emissions and guides on how to improve environmental impact. It helps SMEs set measurable and achievable sustainability goals. It has also been able to create a large community by facilitating the exchange of experiences and best practices among SMEs.
3. *ESGeo*. Its strength lies in its ability to integrate ESG data with existing enterprise systems through powerful AI-based business intelligence tools. This allows companies to gain a clear and comprehensive view of their ESG performance in real-time, customizing reports flexibly to meet specific stakeholder needs, including regulatory obligations and competitive advantages. ESGeo has also developed specific indicators and assessment criteria for European SMEs, taking into account the peculiarities of different national contexts. In addition, one of its strengths is that it aligns its assessments with the main ESG frameworks, facilitating comparisons between companies.

4. *Sustainalytics*. It provides an in-depth analysis of ESG risks and opportunities, helping companies make informed decisions, and has a long track record in the financial sector, offering a unique perspective on ESG risks for investors. It is also important to note how it aligns its assessments with leading ESG frameworks, facilitating comparisons between companies.
5. *ISS ESG*. It's a leading ESG rating agency and a leader in the field of corporate governance; its deep knowledge of this area is particularly relevant to SMEs. It offers modular solutions, adaptable to the specific needs and size of each SME. This means that small and medium-sized companies can obtain targeted assessments that accurately reflect their operations and challenges. In addition to ESG assessment, it also offers consulting services to help companies define and implement an effective sustainability strategy. Its high reputation gives the company greater credibility in the eyes of investors, customers, and other stakeholders, and allows it to compare its performance with other companies in the industry, both domestically and internationally.
6. *MSCI*. It's a leading global agency for evaluations and delivery of indices and ratings used by investors. In recent years its commitment to the ESG world has increased dramatically by offering ESG rating solutions and other various tools related to the world of corporate sustainability. It is an example of how ESG ratings are constructed specifically for the level of company being analyzed, and what the difficulties might be in analyzing companies whose data publicly are difficult to find - as is the case of SMEs.

3.3 The dimensions of the analysis

Of these organizations and tools suitable for the analysis and evaluation of the ESG performance of enterprises, and with a particular focus on SMEs for some of them, various aspects will be analyzed. Each organization will be divided into several main dimensions so that their characteristics can be fully understood and given a comprehensive overview. This subdivision will also allow a detailed comparison of them to understand their strengths, differences, and similarities.

The overview will be essential then at the end of it, given the big picture, to understand the implications this world has with SMEs, considering the progress that has been made and could be made for these types of companies. Although the below analysis is specific to these fields, the focus always remains on ESG assessments for SMEs, which will be considered at the end of the individual analyses.

The proposed fields of analysis for the six organizations above mentioned are as follows:

- *Industry sector.* The industry sectors in which the organizations are most active and in which they focus more.
- *Geographical area.* The geographic areas in which the organizations are most focused.
- *Methodology of assessment.* The methods used to collect the data and evaluate ESG performance, risk, and opportunities.
- *Communication of the results.* How they present the final data analysis to the public or to the individual company that requested the analysis. Thus, the output of their analysis.
- *Company size and focus.* The size of the companies on which the organizations focus most.
- *Emphasis on ESG pillars.* On which of the three pillars of ESG the analysis is most centered, and in which they most lead its assessment.
- *Integration of international standards.* It shows which international sustainability standards the organizations are most aligned with following and carrying out their analysis, considering also the level of compliance.

The most important aspects to understand are the methodology of assessment and the communication of the results. These elements help us grasp how the organizations in question conduct their analyses, select their data analysis methods, and ultimately present the processed results in a way that is accessible to the public.

3.3.1 EcoVadis

EcoVadis is a French company founded in 2007 in Paris with the goal of providing sustainability assessments for companies. To date, it has grown to expand globally and it is capable of creating a network of more than 150000 companies assessed; its goal is also

to improve a company's sustainable business practices and its sustainability performance, allowing it to reduce risks and costs related to this issue, and encourage a green transition.

- *Industry sector.* The types of industries that EcoVadis assessments consider are really many, with more than 250 sectors covered. Specifically, however, speaking of macro sectors, it focuses primarily on providing analysis and support to companies in finance, pharmaceuticals, consumer goods, electronics, beauty, retail, food and beverage, energy and utilities, and manufacturing and machinery. Different and ad hoc valuation models are used for each of these sectors. In addition, EcoVadis offers what it calls sector initiatives, where groups of companies in the same sector with similar ESG challenges and values can share their results in a secure, members-only space.
- *Geographical area.* EcoVadis is a globally known company in the truest sense of the word. It has offices around the world, mostly in Europe, and to date has evaluated companies in more than 150 countries, touching every continent.
- *Methodology of assessment.* The evaluation method of EcoVadis is really detailed; the model is based on ESG performance and ESG risks related to the company. It measures 7 ESG-related management indicators using 21 sustainability criteria divided into four themes: environment, labor and human rights, business ethics, and sustainable procurements. When a company requests an ESG assessment on behalf of EcoVadis, it first receives a truly specific customized online questionnaire designed to assess the above criteria. The questionnaire is tailored and customized depending on the sector, country of operation, and size of the company. The assessment then continues by taking into account internal documents of the company itself, such as financial reporting or if available sustainability reporting, and information provided by third parties such as brands and certifications. Finally, to get a complete, dynamic, and up-to-date picture, an artificial intelligence-driven engine that monitors external news, watchlists, and databases is integrated with the assessment. During the evaluation phase, there is also the possibility of having constant operational support all day and in 14 different languages. The questionnaire itself is provided in the language desired by the

company, allowing for easy understanding and compilation. EcoVadis also specializes in supply chain assessments, providing lighter questionnaires to suppliers and analyzing their documentation for interested companies. Through another business branch, called Ulala, EcoVadis is able to have direct and anonymous feedback from the workers themselves; this allows EcoVadis to have reliable and real-time data on human rights and working conditions from the company's employees, and also to create a network between workers.

- *Communication of the results.* Once all the available data and necessary information are collected, EcoVadis' team of experts analyzes it. When the analysis is complete, EcoVadis provides a rating of the company's sustainability through a rating platform. The results are delivered in the form of a score from 0 to 100, categorized into above mentioned four main thematic areas. Each area is assessed individually and then combined to form an overall score. After the assessment, companies receive a detailed report that includes: an overall score and scores for each thematic area, areas of improvement and strengths compared to industry best practices, benchmarks against other companies in the same industry, and the so-called scorecard based on the total score. These results, in general, help companies identify areas in which they can improve their sustainability practices and communicate their successes to business partners. Scorecards are a trademark of EcoVadis. They are a recognition of the results achieved compared to other companies evaluated in the EcoVadis database, they are a summary of the total score and do not indicate that a company has no room for improvement or potential weaknesses in its corporate sustainability practices. To be eligible for a scorecard, a company must achieve a minimum score of 30 in each of the four themes. Then, comparing all companies in all sectors evaluated in the previous 12 months, it assigns 4 different scorecards. The platinum one is given to the best 1%, gold to the best 5%, silver to the best 15%, and bronze to the best 35%.



Figure 5 – EcoVadis ESG valuation Scorecard (EcoVadis, n.d.)

- *Company size and focus.* EcoVadis presents assessments for all types of businesses. Its dynamic and specific assessments enable an ESG assessment suitable for companies of all sizes, including SMEs.
- *Emphasis on ESG pillar.* EcoVadis analyses touch on all three pillars of ESG. In fact, by analyzing four main themes, divided into 21 sustainability criteria, it allows a complete vision. The criteria with the greatest number are those related to environmental and social, but thanks also to the direct collaboration with the company's employees, there is also a great focus on the governance part.
- *Integration of international standards.* The EcoVadis evaluation methodology is carried out according to the main international standards, such as GRI, UNGC, ISO 26000, and CSRD for the EU, and to the specific standards of the company being evaluated. This allows both those who use the data to have a standard reading, facilitating comparison and the evaluated companies to be compliant and in line with the rules and directives of their country (EcoVadis, n.d.).

EcoVadis thus represents a truly comprehensive ESG rating and assessment agency. Moreover, its way of doing assessment, through a questionnaire and measures tailored to the type of company, and its focus on the supply chain process, allows the field to be extended fully to SMEs as well.

Here below a table shows a summary of what has just been analyzed.

Industry sector	Multi-sector, more than 250 sectors covered.
Geographical area	Around the world, touching more than 150 countries.

Methodology of assessment	A customized online questionnaire, valuation of all the disposable documents, third parties certification, and benchmarks.
Communication of the results	The output is given by a score that goes from 0 to 100 for all areas, and an overall score. Moreover, they give scorecards based on the results.
Company size and focus	All sizes, listed and big companies, and also SMEs.
Emphasis on ESG pillars	All three pillars are well analyzed.
Integration of international standards	Analysis in line with international standards such as GRI, ISO 26000, UNCG, and CSRD.

Table 1 – Summary of EcoVadis's dimensions

3.3.2 Ecomate

Ecomate Srl is an Italian company specializing in ESG data assessment for private companies. Their vision focuses on sustainability with the goal of making it accessible to all companies and becoming a leader in Europe for ESG assessments. Furthermore, in their manifesto, it is evident that there is a strong commitment and broad focus on SMEs for this type of assessment, fostering their economic and sustainable development. Ecomate provides multiple innovative ESG-related services for businesses, using a sustainability algorithm capable of providing solutions tailored to each type of business.

- *Industry sector.* The areas for which it offers his assessment services are many: we find, for example, manufacturing, energy, construction, and agriculture. It also offers specific solutions for public administration, while we find a low presence in the financial one.
- *Geographical area.* The area in which Ecomate focuses is predominantly European, specifically EU member countries and Italy.
- *Methodology of assessment.* Data collection is initially done through the company's enrolment on the Ecomate site, this allows the identification of key characteristics and links the company's profile to the right databases. Using the available data and the use of algorithms, the system prepares a customized questionnaire specifically created for the company profile to be evaluated. This questionnaire consists of

more than 200 questions based on 70 main topics related to the ESG world. This data is then compared with that of similar industries and sizes of companies. The analysis is then conducted based on 11 different modules of ESG topics, European sustainability frameworks, and data from other companies; only inputs that are consistent and relevant to the analysis are processed. Moreover, even before producing the actual output, the system is already capable of providing preliminary indicators of ESG risk.

- *Communication of the results.* Once all the available data has been analyzed, Ecomate shares its results. An ESG performance rating is provided on a scale of 0 to 100, divided by each individual ESG pillar and an overall ESG risk assessment ranging from AAA to E. The risk is company-specific and reflects how the company is managing its ESG practices related to various factors that may arise. AAA represents the maximum degree where the risk related to sustainability is considered very low, where the company is not only a leader in ESG practices but also has an extremely positive internal and external impact on everything related to the ESG world. D is used when the risk is very high and its impact is negative, and E when there is not enough data for the assessment. Ecomate then summarizes all the results of the analysis and its evaluations and provides the company with a control panel. Through this complete tool, the company has the possibility to keep track of its results, its progress and compare them with industry benchmarks and the results of other companies. Furthermore, on this control panel provided by Ecomate, there are also compliance indicators with the various European and non-European frameworks and transversal KPIs with relative benchmarks. Furthermore, the algorithm automatically generates a customized report for the resolution of those that have been identified as the most relevant critical issues.

AAA	80-100	VERY LOW RISK	Being fully in line with the European Union 2030 strategy and even anticipating some 2050 targets, the company can not only be an ESG leader, but also looking ahead with very positive internal and external impacts among the entire ESG materiality and a very high transparency level towards the stakeholders.
AA	65-79		
A	55-64	LOW RISK	A resilient company capable of complying and reporting into different frameworks, understands how to deliver the right ESG strategy along with solid results.
BBB	45-54	MEDIUM/LOW RISK	The company has surely started a journey of sustainable development, which is opening the doors to new opportunities of growth. However, it needs to focus more for not being left behind.
BB	35-44	MEDIUM RISK	There is an initial awareness level towards sustainability issues, but the progress may be too slow. There is also a poor transparency towards the stakeholders.
B	25-34	MEDIUM/HIGH RISK	
CCC	15-24	HIGH RISK	While the company may comply with the minimum requirements of the national regulatory system, it is still vulnerable to one or more ESG negative events. These events can arise from an inability to meet compliance terms, achieve sustainability objectives, fulfill reporting obligations, or even face the risk of ESG litigation or ESG default.
CC	6-14		
C	0-5	VERY HIGH RISK	
D	ANY	JUNK	There is a very high risk of fraud and/or the company has several negative events.
E	00	NOT APPLICABLE	Not enough information in order to rate the company or the issuer has evaluated that there is no significance in initiating a process of review.

Figure 6 – Ecomate ESG risk assessment (Ecomate, n.d)

- *Company size and focus.* Despite the possibility of including companies of all sizes in the evaluation, Ecomate's focus is very specific for SMEs. It's mentioned in their company objective, and it is also evident from the evaluation model used, versatile and tailored also for small-sized companies. To date, the SMEs evaluated are approximately 4000.
- *Emphasis on ESG pillar.* The focus on ESG is comprehensive across all three pillars, evaluating performance across 11 key themes across all three ESG areas.
- *Integration of international standards.* Ecomate allows the company to align its ESG performance assessments with various standards and frameworks. It first offers the ability to select the desired standard on which to primarily base the analysis and understand compliance with them, such as ESRS, EU Taxonomy, and GRI, and also automatically generates support assessments to understand compliance with other reporting standards such as IFRS, ISSB, SASB, OECD, and TCFD (Ecomate, n.d.).

Ecomate is therefore a truly complete and versatile solution for ESG performance and risk analysis and evaluation. Its questionnaire and its personalized analysis make it particularly suitable for SMEs, for which it pays special attention with the aim of improving their sustainability.

Here below a table shows a summary of what has just been analyzed.

Industry sector	Multi-sector analysis, including public administration.
Geographical area	Europe and specifically EU countries.
Methodology of assessment	Customized questionnaire prepared with algorithm, all data provides by the company, industry benchmark.
Communication of the results	Final score that goes from 0 to 100 for each ESG pillar and an overall ESG risk from AAA to D/E. All the results of the analysis are provided in a panel.
Company size and focus	Specifically tailored for SMEs.
Emphasis on ESG pillars	11 key items analyzed across all three ESG pillars.
Integration of international standards	Possibility to select the compliance with the desired standard or framework such as GRI, SASB, ESRS, IFRS, OECD, and TCFD.

Table 2 – Summary of Ecomate's dimensions

3.3.3 ESGeo

ESGeo was born in Italy in 2019. It is a software platform that deals with the collection, evaluation, and validation of a company's non-financial data. It also helps companies in creating ESG reports and sustainability reporting, and in identifying risks and opportunities related to ESG issues by cross-referencing available data with industry data. The main focus of ESGeo is helping companies with the sustainability report. Their mission is precisely to enable a company, no matter what stage it is in, to have access to sustainability-related data so that it can make decisions to improve in this respect.

- *Industry sector.* ESGeo's clients are companies of all types, from manufacturing to finance. Precisely because of the way the company's philosophy is constructed, there are no limitations to the industries it works with.
- *Geographical area.* Again, in company policy there are no limits to the geographical regions in which companies can be found for analysis, in fact collaborating with various multinational companies. However, being an Italian company to date their focus is mainly on Italy and Europe.

- *Methodology of assessment.* When a company decides to collaborate with ESGeo's platform, ESGeo collects against the former all available data for the purpose of analysis. Among the data collected are relevant company documents and reports, external information, and industry-specific information. The platform helps the company understand which issues are the most important and impactful to be reported later in sustainability data reporting. After this, and the collection of all available data, a survey tailored to the analyzed company is generated, so that its chosen Key Performance Indicators (KPIs) are assessed. These KPIs will be used precisely to understand the level of performance, risks, and opportunities related to these indicators and will then be used by the platform to draw its own conclusions. Simultaneously, ESGeo also analyzes the relevant dual materiality indicators regarding the company's supply chain in order to monitor the direct and indirect impacts of suppliers. This will allow for insight into how they will then impact and influence the company's own sustainability data and performance. ESGeo then chooses strong stakeholder engagement, so the ability to gather information directly from stakeholders.

- *Communication of the results.* Once the above process is finished, ESGeo analyzes all the data available on its platform. This allows it to produce a sustainability report for internal and external stakeholders. The report produced is in line with the strategic goals communicated by the company, and contains all the assessments done by the platform, including precisely the KPIs, supply chain analysis, and stakeholder contribution. It allows the company to disclose its ESG goals, progress towards achieving them, and all risk and opportunity indicators related to ESG issues. In addition, ESGeo not only acts at the reporting level but also allows once a company is assessed to have a view on a monthly and weekly basis of all performance and targets set. Allowing the company to make corrections or improvements in the desired area.

- *Company size and focus.* The platform's customers range from multinationals and large companies to small and early-stage companies that have never prepared a sustainability report or have no idea what their KPIs are needed to evaluate the

non-financial dimension. This approach makes ESGeo suitable for SMEs and their inexperience in the field.

- *Emphasis on ESG pillar.* The performance indicators on which ESGeo conducts its analyses include all three ESG pillars, with none left out or considered in a lower light.
- *Integration of international standards.* In the possibility of integrating international standards into its analyses, ESGeo is one of the best tools on the market, being precisely focused on the reporting of ESG data. ESGeo is in fact a GRI and SABS-certified tool. In the identification of objectives and KPIs and in the subsequent reporting of the collected data, ESGeo allows you to represent non-financial information in line and understand the compliance with the main standards and frameworks required. We find for example: GRI, ESRS, SASB, CDP, SDGs, TCFD, GRESB, and IIRC (ESGeo, n.d).

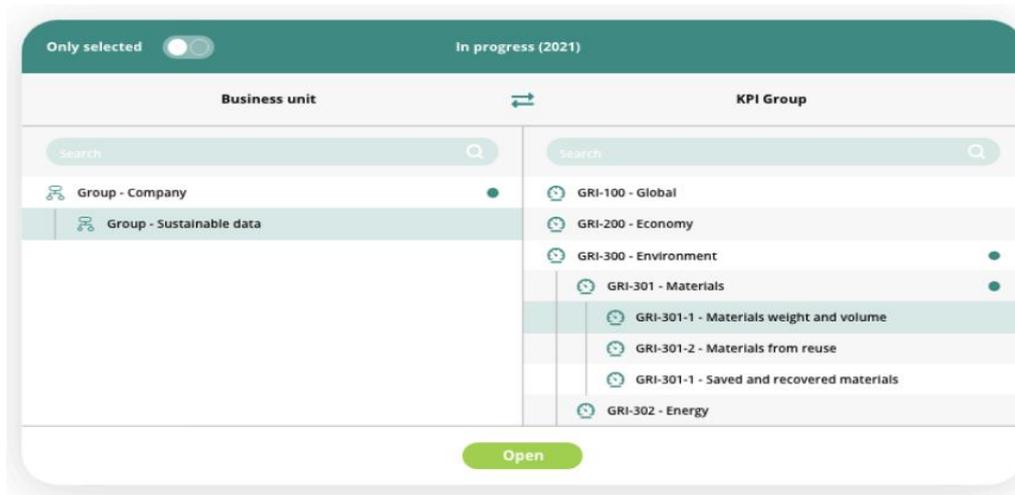


Figure 7 – ESGeo integration of international standards and frameworks (ESGeo, n.d)

ESGeo is in short a very important tool for the ESG world. It allows companies, including SMEs, to understand their performance and their ESG impact, to establish the relevant objectives and indicators to evaluate and on which to work, and then allows strategic reporting aimed at improving the company's image and its sustainability impact in the long term.

Here below a table shows a summary of what has just been analyzed.

Industry sector	Multi-sector analysis.
Geographical area	Collaborate with all companies, focusing on Europe and Italy.
Methodology of assessment	Assessment of all internal and external documents, a tailored survey, and analysis of KPI and the company's supply chain.
Communication of the results	Provide a sustainability report with all KPI required risks and performance, and ongoing progress insight.
Company size and focus	From multinational companies to SMEs and early-stage companies.
Emphasis on ESG pillars	All three pillars are included.
Integration of international standards	Really complete for this purpose, including in its analysis GRI, ESRS, SASB, CDP, SDGs, TCFD, GRESB, and IIRC.

Table 3 – Summary of ESGeo's dimensions

3.3.4 Sustainalytics

Sustainalytics is a research and analysis firm that focuses on sustainability and corporate social responsibility (CSR) practices. Founded in 1992 in Amsterdam, Sustainalytics offers ESG (Environmental, Social, and Governance) assessments and ratings to help investors and companies understand the risks and opportunities related to sustainability. Helping them also in the disclosure of ESG data and giving them sustainable investment suggestions. Sustainalytics in 2020 was acquired by Morningstar, a global research and asset management company that provides investment analysis and financial data.

- *Industry sector.* Sustainalytics comprehensively and specifically covers more than 42 industries. However, it is very specialized, especially after the acquisition of Morningstar, in the financial, banking, and investment-related fields such as oil and real estate.
- *Geographical area.* It is a rating agency that has offices in different parts of the world, including Australia. Its reach is therefore global, with greater concentration in the U.S. and Europe. Sustainalytics provides also analysis based on country-specific indicators, making it suitable for all countries.

- *Methodology of assessment.* Sustainalytics' ESG assessment is based on a holistic, multidimensional approach that considers a wide range of environmental, social, and governance factors. Their analysis focuses on assessing a company's ESG risk, i.e., the likelihood that ESG factors could have a negative impact on its financial performance. Sustainalytics collects data from a variety of sources, including company reports, news, industry research, and information from stakeholders. In addition, the rating agency interacts with various stakeholders, such as investors, NGOs, industry experts, and local communities, to gather information and views on the ESG factors most important to the company. This information is carefully analyzed by experts to assess companies' ESG performance. Quantitative indicators and metrics are used to measure companies' ESG performance in an objective and comparable way. It then assesses how exposed a company specifically is to material ESG risks, considering factors such as its industry, business model, and geographic location. Its assessment of the specific company is based on two main macro dimensions. The first is the company's exposure to ESG risk, which is divided into manageable risks, i.e., all those that the company can manage by improving its performance, and unmanageable risks, all risk exposures that are less dependent on the company's choices and are due to the inherent nature of the business. The second dimension is management, which is how prepared and able the company is to manage these risks. The risk that is not managed properly forms the so-called management gap.

- *Communication of the results.* Sustainalytics experts, based on the data collected and analyzed in the previous steps, estimate the ESG risk of each company. The final ESG risk attributed to a company is given by the overall unmanaged risk, i.e., that which the company could not manage and on which it could not go to act, and that which it did not manage as well as it could, that is precisely formed by the management gap. The ESG risk assessment is translated into a numerical score, ranging from 0 to 100. A lower score indicates lower ESG risk, while a higher score indicates higher ESG risk. Of course, the level of risk is weighted to the company's industry, business model, geographic location, and other specific factors that may influence its ESG risk profile. Once the ESG risk score is obtained, Sustainalytics classifies companies into different risk categories, from the lowest ESG risk to the

highest. Negligible, low, medium, moderate, high, and severe risk. The ESG risk classification provides a clear and concise indication of the level of ESG risk associated with a company. Investors can use this classification to make more informed investment decisions and to manage ESG risk in their portfolios. Sustainalytics then offers ESG Top-Rated Badges, such as the one given to the top 50 companies of the year out of all those analyzed. The output of the analysis does not stop there. The rating agency produces detailed reports on companies' ESG performance, including both ESG risk assessment and risk ranking. These reports contain an analysis of the most relevant ESG factors for the company, rating and ranking, risk comparison of the company's ESG performance with that of its competitors in the industry, and recommendations on how to improve its ESG performance.



Figure 8 – Sustainalytics ESG Risk Rating output (Sustainalytics, n.d.)



Figure 9 – Sustainalytics's ESG Top-Rated Badges (Sustainalytics, n.d.)

- **Company size and focus.** The way Sustainalytics analyzes data makes it less suitable for SMEs and much more set on large enterprises and multinationals.

- *Emphasis on ESG pillar.* In this case, the analysis is comprehensive under all three profiles of ESG issues, with more than 200 indicators analyzed divided among all three pillars.
- *Integration of international standards.* Sustainalytics analyses and results provided are designed to be in line with the various ESG frameworks and standards of the companies analyzed, providing the degree of compliance with them. Frameworks and standards such as the GRI, UN Global Compact Principles, EU Taxonomy, TCFD, and CSRD (Sustainalytics, n.d.).

Sustainalytics therefore represents one of the most recognized rating agencies for the evaluation of ESG risk of companies worldwide. Free access to its databases allows investors and all those interested to evaluate the ESG impact of a company and draw their own conclusions, thus favoring the opening to new investors. It also allows the undertaking to understand the ESG issues that will allow it to improve its rating and its performance also in the perspective of reporting them.

Here below a table shows a summary of what has just been analyzed.

Industry sector	More than 42 sector, including banking and financial sector,
Geographical area	Provides analysis in every country.
Methodology of assessment	Assessment of the company's specific ESG risks by analysing internal and external documents and all available information.
Communication of the results	ESG risk is range from 0 to 100 weighted for company's industry and specific profile and divided then in 5 category.
Company size and focus	More suitable for multinational and big companies.
Emphasis on ESG pillars	200 indicators divided for all the three pillars.
Integration of international standards	Analysis in line with ESG standard and framework such as GRI, UN Global Compact Principles, EU Taxonomy, TCFD, and CSRD.

Table 4 – Summary of Sustainalytics's dimensions

3.3.5 ISS ESG

ISS ESG is a division of Institutional Shareholder Services (ISS). It is a U.S. rating agency specializing in the assessment and analysis of ESG factors for companies and entire

countries. It therefore offers ESG research and analysis, evaluation and rating, and consulting services always in the area of sustainability encouraging companies to improve in this respect (Institution Shareholder Services, n.d.).

- *Industry sector.* Focuses on a wide range of industries. The ESG assessment system distinguishes 73 industries in detail, where specific methodologies are used for each, which allows for consistent comparative analysis (Institutional Shareholder Service, 2023).
- *Geographical area.* It is a globally recognized organization and has offices in 15 countries other than its country of origin. The subjects of its analyses are companies located all over the world (Institution Shareholder Services, n.d.).
- *Methodology of assessment.* The data for the analysis are mainly collected from publicly available information about the company, including all documents and reports disclosed by the company itself, articles, and government reports. In addition, the company itself can provide relevant information that has not been made public. There is a strong dialogue between the company being rated and ISS ESG. This allows the company to provide feedback and provide information where there is a lack of it. In fact, for SMEs, where public information is usually lacking, ISS ESG adopts a different approach so as not to penalize them for the purposes of the evaluation. In addition to asking them directly to the company, the rating agency adopts different indicators and asks for less data aware of the fact that they cannot always have the same data present in large companies with respect to sustainability issues. The analysis will also be carried out on the basis of this reasoning. The analysis is then conducted tailored to the type of sector. For each specific company, different measures are evaluated for which each is given a weight weighted according to the company-specific context. The context is given by the characteristics of the business, the sector, the country, and the ESG framework standards required. Based on this context, several key issues related to ESG themes are identified. The indicators taken into consideration for the analysis are all those considered important for the specific case and are both qualitative and quantitative indicators.

- *Communication of the results.* Once the analysis has been conducted by expert analysts, the agency issues its results. The primary output is a 12-point letter grade rating, ranging from A+/4.00, excellent, to D-/1.00, poor, and indicating the overall ESG performance. The letter grade is directly linked to a numerical score, with intervals of 0.25 between each grade. This result is then also translated into a numerical score ranging from 0-100 enhancing comparability, especially across industries. The score is normalized, with 50 representing the industry-specific threshold. This allows for easier comparisons between companies in different sectors. Regarding the industry, a qualitative result is also provided, called Prime Status. It indicates whether a company's ESG performance surpasses a specific threshold for its industry. This threshold is determined by the Industry Classification Matrix, recognizing varying levels of materiality and risk across industries. Achieving Prime status means that a company is considered a leader in its sector concerning ESG performance. There are also other secondary outputs resulting from the analysis. Such as the opinions provided by analysts, the level of transparency of ESG data disclosed by the company or obtained from third parties, and temporal analysis of the evolution of ESG performance.

Letter Scale	Numerical Scale	PERFORMANCE SCORE CONVERSION FOR DIFFERENT PRIME THRESHOLDS		
		C	C+	B-
A+	3.75 - 4.00	≤ 100	≤ 100	≤ 100
A	3.50 - <3.75	< 93.75	< 92.86	< 91.67
A-	3.25 - <3.50	< 87.50	< 85.71	< 83.33
B+	3.00 - <3.25	< 81.25	< 78.57	< 75.00
B	2.75 - <3.00	< 75.00	< 71.43	< 66.67
B-	2.50 - <2.75	< 68.75	< 64.29	< 58.33
C+	2.25 - <2.50	< 62.50	< 57.14	< 50.00
C	2.00 - <2.25	< 56.25	< 50.00	< 41.67
C-	1.75 - <2.00	< 50.00	< 40.00	< 33.33
D+	1.50 - <1.75	< 37.50	< 30.00	< 25.00
D	1.25 - <1.50	< 25.00	< 20.00	< 16.67
D-	1.00 - <1.25	< 12.50	< 10.00	< 8.33

Figure 10 – ISS ESG's complete rating model (Institutional Shareholder Service, 2023)

- *Company size and focus.* ISS ESG's analysis is suitable for all companies' sizes. There is indeed an adjustment for SMEs where several data usually missing.
- *Emphasis on ESG pillar.* The indicators and themes underlying the analysis and rating cover all three ESG dimensions, each of which is divided into categories.

- *Integration of international standards.* The rating builds upon international regulatory frameworks like the UN Global Compact, OECD Guidelines, UN Guiding Principles on Business and Human Rights, and SDGs. It incorporates disclosure standards such as GRI, SASB, TCFD, and CDP, and considers regulatory changes and technological advancements. A dedicated SDG-based component assesses the positive and negative impacts of a company's products and services (Institutional Shareholder Service, 2023).

ISS ESG provides a comprehensive view of the ESG performance of the company being assessed. The search for information is methodical and adjusted for data that may be missing, as in the case of SMEs. Furthermore, the assessments are not standardized but are performed on measures for the type of company and the context, making the result reliable and comparable with the benchmark and the performance of similar companies.

Here below a table shows a summary of what has just been analyzed.

Industry sector	Multi-sector, 73 industries are specifically identified.
Geographical area	Analysis of companies all over the world.
Methodology of assessment	All publicly available information about the company. Assessment based on ESG specific key issues of the company.
Communication of the results	The main output is given by a range that goes from A+/4.00, excellent, to D-/1.00, poor. Then translated to a numerical score ranging from 0-100 and normalized with 50 representing the industry-specific threshold. Other output are then provided.
Company size and focus	Suitable for all sizes, tailored analysis for SMEs.
Emphasis on ESG pillars	Covering all the three pillars.
Integration of international standards	The analysis all tailored for all the main ESG standards and framework.

Table 5 – Summary of ISS ESG's dimensions

3.3.6 MSCI

MSCI was founded in 1969 as Morgan Stanley Capital International, a division of the investment bank Morgan Stanley. It is headquartered in New York, USA. Over the years,

MSCI has become an independent and leading provider of indices, portfolio analysis, and decision-support tools for global investors. MSCI is one of the world's leading ESG companies. In fact, among various solutions, it offers solutions related to the sustainability sphere, including MSCI ESG Ratings. This solution aims to measure and evaluate a company's ESG practices. By identifying ESG performance, risks, and opportunities (MSCI, n.d. a).

- *Industry sector.* MSCI offers ESG ratings services to companies of all types. They also do ratings of equity and fixed income securities, loans, funds, ETFs, and entire countries. Thus, a great focus on the financial sector.
- *Geographical area.* Even from the perspective of geographic area, there are no limits. MSCI is a company that given its importance and size has developed over the years for analysis of companies located in all countries.
- *Methodology of assessment.* The MSCI ESG Ratings is based on the analysis of all those ESG factors of the company that have a dual impact, both financial and sustainability. Of these factors, MSCI rates the risk and opportunity. The analyses are company specific. It looks at what are the industry-specific risks, based on the business activity, the size of the company and its operations, and the geographic location of its operations. After understanding the industry-specific risks, it looks at how the company is managing these risks or its future risk management goals. So, the two main indicators are the exposure to ESG risks, given by the specific case, and the company's ability to manage them. MSCI takes all useful public data available to assess this. The sources from which they are taken are as varied as media, academic, NGO, government sources, documents, and reporting disclosed by the company. For these sources, only the data considered most relevant is taken, and through the use of artificial intelligence tools and an expert team of more than 200 people, the data is evaluated. In addition, company-related controversies that may indicate performance failures are also considered. Each firm-specific ESG risk is then given a weight according to the temporal and material impact it may create. Percentages are then combined and normalized for industry characteristics and benchmarks.

- *Communication of the results.* Once all the data are combined MSCI provides the final rating. In doing so it identifies industry leaders and laggards based precisely on the company's ESG risk exposure and how well it is managing this risk. The ESG rating provided by MSCI consists of letters and is divided into three main categories. AAA, and A identify industry leaders, A, BBB, and BB those with average ratings, and laggards, i.e., those with poor and negative ratings, which fall into the B, and CCC categories. This output allows investors to understand the ESG opportunities and risks associated with a company, and its performance since the rating is based on how well a company manages these risks, which usually cannot be detected by typical financial analysis. Helping them with fundamental and quantitative analysis, and portfolio construction and management. In addition, MSCI regarding sustainability and ESG issues provides detailed reports to its clients. Providing them with specific information on strengths and weaknesses regarding ESG performance and their level of compliance with relevant government regulations.



Figure 11- MSCI ESG Ratings scheme (MSCI, n.d. b)

- *Company size and focus.* MSCI provides analysis for all company sizes, theoretically including SMEs. Despite this, no specific effort and focus for them or specific methodology of analysis is apparent. Large funds and big companies remain the rating agency's main target to date (MSCI, n.d. b).
- *Emphasis on ESG pillars.* ESG ratings are based precisely on several key issues. There are 33 in all, and they touch on all three pillars of ESG. Not for all companies

and industries are the key issues related to the environmental pillar and the social pillar used for ratings, because perhaps they are not considered impactful in the specific case, while those related to the governance pillar are applied to all cases of analysis. The latter are divided into two macro categories: corporate governance and corporate behavior (MSCI, n.d. c).

- *Integration of international standards.* MSCI's sustainability-related tools and related assessments include alignments with ESG frameworks and standards such as the SDG, EU Taxonomy, ESRS, and SFDR. Thus evaluating the compliance of the company with these standards and frameworks (MSCI, n.d. b).

MSCI with its ESG ratings and sustainability solutions is an example of how large such institutions can evolve and adopt tools aimed at improving a company's ESG practices and their reporting. In addition, its global credibility positively influences the companies that are rated by opening doors for new investors sensitive to these issues.

Here below a table shows a summary of what has just been analyzed.

Industry sector	Multi-sector including investment funds and financial instruments.
Geographical area	Assessing companies all over the globe.
Methodology of assessment	Using all disposable data and AI for assessing the company's ESG-specific risk and opportunities based on all impacting factors.
Communication of the results	MSCI provides a rating that goes from AAA to CCC and divides the companies into three categories: leader, average, and laggard.
Company size and focus	All company sizes, including SMEs but with no specific method.
Emphasis on ESG pillars	There are 33 key issues that touch all three pillars of ESG.
Integration of international standards	The assessments include alignments with ESG frameworks and standards such as the SDG, EU Taxonomy, ESRS, and SFDR.

Table 6 – Summary of MSCI's dimensions

3.3.7 Overview of ESG rating agencies and instruments

NAME	INDUSTRY SECTOR	GEOGRAPHICAL AREA	METHODOLOGY OF ASSESSMENT	COMMUNICATION OF THE RESULTS	COMPANY SIZE FOCUS	EMPHASIS ON ESG PILLARS	INTEGRATION OF INTERNATIONAL STANDARDS
EcoVadis	<i>Multi-sector</i>	<i>Globally</i>	<i>Questionnaire, public and private data</i>	<i>Final score from 0 to 100 and scorecard</i>	<i>All dimensions, focus on SMEs</i>	<i>E, S, G, Focus on G and S</i>	<i>GRI, ISO 2600, SDGs</i>
ESGeo	<i>Multi-sector</i>	<i>Focus on Europe, but also North America</i>	<i>Qualitative and quantitative data, surveys, report analysis, interviews</i>	<i>Personalize report with score on ESG issues based on KPI, and suggestions</i>	<i>Big corporates, SMEs and early-stage companies</i>	<i>E, S, G, Focus on E</i>	<i>GRI, SASB, CDP, TCFD, ESRS</i>
ISS ESG	<i>Multi-sector</i>	<i>Europe, North America, and Asia</i>	<i>Corporate reporting, benchmark. Public data, KPI</i>	<i>Score from A+/4.00, to D-/1.00, and a numerical score</i>	<i>Big and large companies, institutional investors, and SMEs</i>	<i>E, S, G</i>	<i>GRI, SASB, OECD, UN Global contact, ESRS</i>
MSCI ESG Rating	<i>Multi-sector, financial services</i>	<i>Globally</i>	<i>Qualitative and quantitative private and public data</i>	<i>Final score from AAA to CCC</i>	<i>All dimensions, not specific for SMEs</i>	<i>E, S, G Focus on G</i>	<i>ESRS, SFDR, GRI, EU taxonomy</i>
Sustainalytics	<i>Multi-sector</i>	<i>North America and Europe, but also emerging markets</i>	<i>Public and private data, risk analysis</i>	<i>Ranking from 0 to 100 and divided in 5 area</i>	<i>Large, institutional investors mainly</i>	<i>E, S, G</i>	<i>GRI, SAB, TCFD, CSRD, OECD Guidelines</i>
Ecomate	<i>Multi-sector</i>	<i>Europe and EU countries</i>	<i>Sector benchmark, surveys, report</i>	<i>Score from 0 to 100 and numerical ESG risk score</i>	<i>Specifically tailored for SMEs</i>	<i>E, S, G</i>	<i>GRI, SASB, ESRS, IFRS, OECD, and TCFD</i>

Table 7- Overview of ESG rating agencies and instruments previously analyzed

3.4 Consideration and future insight for SMEs

The analysis of previous ESG rating agencies and ESG assessment tools provides an overview of what the main assessment methodologies are and how they can differ from each other. Although other organizations exist for this purpose, the study of the most famous and used ones and those with more unique methodologies makes that several conclusions and further considerations can be drawn. Particularly from the point of view of SME-specific analyses.

Not all of them have tailor-made methodologies for analyzing SMEs' ESG performance and key factors. However, by looking at the difference between those that focus more on that issue and their *modus operandi*, some general lines and common traits can be established that help in research in this area.

Observing the available data, a diriment character can be seen between those organizations that are more focused on SMEs and those that are less so: the way in which data are collected. This is not surprising considering that one of the biggest barriers to assessing SMEs in the ESG sphere is precisely the lack of data. Some agencies, such as EcoVadis and Ecomate, distinguish themselves by developing evaluation methodologies specifically adapted to the size and characteristics of SMEs. These methodologies take into account the limited resources and specific sustainability challenges that SMEs face. The most effective SME agencies and tools often adopt simplified data collection processes, using online questionnaires, public documents, and other easily accessible sources. This reduces the burden on SMEs and facilitates participation. Online questionnaires are the common and most effective way for them to overcome the lack of publicly available data. The questionnaire is tailor-made and customized, therefore allowing the SME to communicate all the data, and the agency to have them available. The use of software and artificial intelligence for more targeted searches is also a common trait we see in the most cutting-edge evaluation tools and agencies for SME analysis. An additional feature to be considered in methodologies that help evolution and effectiveness in this area.

On the other hand, ESG analysis agencies and tools, such as Sustainalytics, MSCI ESG, and ISS ESG, conduct their own research based mainly on publicly available data. Although in theory, they can also analyze SMEs, in practice this methodology makes the available data scarce and insufficient, leaving a big hole for these types of companies. As they are larger organizations very focused on the financial sector, it makes them less attractive to SMEs.

The burden of being evaluated is higher, the evaluation less specific, and the possibility of comparison with companies of the same size is lower. At the same time, those organizations themselves are less attracted to analyzing SMEs, given the more difficult and onerous evaluations and the lower profitability of the sector. This dualism leaves aside the SME sector from the most recognized agencies and tools worldwide. Therefore, there is a need for the data of SMEs to be more easily available without necessarily resorting to specific methods. This is one of the main problems.

Furthermore, another problem could be the output. The ESG rating or score is important for SMEs, but it is not the only thing they need. Since they are small companies and less trained on the ESG subject, the outputs should include practical advice and suggestions for taking concrete actions. A personalized report and ongoing management and analysis of performance are also needed. Such as the service offered by ESGeo and partly by Ecomate. This clearly requires higher costs on both sides and more effort on the part of those following the SMEs step by step.

To overcome these issues, rating agencies and other organizations could then adopt tailored methodologies, create more relevant outputs, and provide practical and ongoing support. Thus, applying integrative and customized approaches. Looking at the cases cited, there are many who take such an approach. This therefore gives grounds for hope. Despite this, a tailored questionnaire, tailored methodologies, and continuous support to SMEs from an ESG perspective cannot be the only solutions. The other side of the coin is that overly specific evaluation methodologies, such as questionnaires, are slower and provide data that is not always complete and reliable. In addition, continuous support makes the work complex and more burdensome for those who carry it out. This is precisely why superior help, that of governments, becomes essential. The role of the government in this case would then be of great help, solving the various inefficiencies that are created.

Governments could in fact introduce tax incentives for SMEs that adopt sustainable practices, thus facilitating access to ESG consultancy. Creating dedicated funds to support the implementation of ESG systems in small businesses could be an effective strategy too. Also, to make up for the lack of data, governmental and supranational associations should work on the disclosure of ESG data by SMEs. An example is given by the EU effort in this area with the CSRD. Greater disclosure makes the possibility of evaluation more precise

and simpler, without necessarily addressing specific methodologies. It is however necessary to develop simplified ESG reporting standards that are suitable for the needs of SMEs, which consider their limited resources and the specificities of their business.

Another main issue is also that of the standardization of ESG guidelines. Various tools and agencies, such as the ones above mentioned, allow SMEs to adapt their analyses and reporting to various international ESG standards and frameworks, helping understand the company compliance with these latter. This is already for sure such a great result, however, the multiplicity and lack of standardization generate greater efforts and poor comparisons. To address this problem, for example, public-private collaborations could be created to develop sector-specific ESG standards, which, with the regulatory support of governments, could help create a common ground for assessments. Governments and public organizations in general are also required to do a more qualitative part, namely raising awareness. Too many SMEs are not aware of the benefits brought by improving ESG performance and reporting this data. Incentivizing them will also increase their willingness to open up to the sector, allowing it to grow and continue to evolve.

To conclude, the presence of agencies and tools specialized in the evaluation and reporting of ESG practices show the evolution and importance that this sector is having. Today, many rating agencies and companies specializing in data collection and evaluation of ESG practices for SMEs have taken hold. They have developed methods of measures, and their approaches are a guide and a benchmark for the sector. However, research and practices cannot be said to be concluded, there is still much to improve, and the need to integrate SMEs in this scenario is still open. They represent a huge number of companies at a global level and the idea of this part being cut off is simply not an option. Work on data availability, standardization of guidelines, and facilitation of ESG reporting are the key issues. The work of private organizations is as important as that of public ones. The task of the latter is really important. They have the duty to encourage improvement in this field, working on a still fertile ground with ample room for growth.

3.4.1 Implications for Startups

Despite the room for growth and room for improvement, we find several instruments and rating agencies specialized in the ESG assessment of SMEs. It is a different story when it comes to Startups. Of the various organizations mentioned above, practically none mention specific tools for this type of company.

Startups, as seen in the previous chapters, differ from SMEs and have singular characteristics and needs that deviate from other types of companies. As far as the ESG sector is concerned, Startups are often focused on innovation and rapid growth, which may entail specific ESG risks and opportunities. They have dynamic and constantly evolving business models, risks and KPIs can change constantly. Their resources are also limited, which makes access to certain assessments more difficult. As they have no specific constraints on ESG disclosure, they are very poorly prepared and need help in doing so, making data available to the public very scarce. All these factors make it difficult for ESG assessment agencies and tools to carry out Startup-side assessments. Solutions to date are practically non-existent. They aren't specific tools or rating agencies tailored for Startups. The approach nowadays it's also too normative based, evaluating the companies' compliance with regulations that Startups are not required to follow. However, it's important to remember that although small, some Startups can have a significant impact on the environment or society, for instance in the area of clean technologies or artificial intelligence. It is therefore important that various tools capable of making such assessments are developed. In addition, there would be several benefits that Startups would get from an ESG assessment. First and foremost, that of having the possibility of keeping business-related ESG risks under control, assessing their implications and future consequences, and the possibility of attracting new investors.

To sum up, therefore, Startups need ESG assessments that take into account their rapid growth and changes in the business model, support and resources to improve their ESG disclosure and prepare for assessments, and increased access to cost-effective assessments. ESG valuation tools and agencies should focus on these main points. Given the uniqueness of the Startup business, there is an obvious need to integrate customized tools. As in the case of SMEs, where public data is not always available, it is first necessary to develop data collection tools based on measurements. Questionnaires are certainly a valid initial alternative, despite their inefficiencies. These customized questionnaires

could be integrated with IT systems based on artificial intelligence that allows for greater customization and, above all, a different reading on a case-by-case basis. The KPIs to be considered are specific to the Startup analyzed and could vary over time, given the evolution of the business. There is therefore a need for a method of data extrapolation and recalculation of performance, risks, and opportunities that is dynamic and continuous over time. The integration of a software-based and specific analysis therefore remains a valid solution for these issues, as it is in the case of evaluation for SMEs. Furthermore, the output should be designed not to stop at a simple rating but to guide the company in disclosing ESG data, and following it step by step to identify a good strategy that aims to improve its performance.

Even in the case of Startups, government support can be helpful. The creation of specific incentives that help Startups to be evaluated without incurring high costs, given the scarce resources, and the introduction of clearer and more cohesive standards that help and facilitate the possible disclosure of ESG data.

For Startups, therefore, the field is still very much unexplored. Taking point from the systems and methodologies used for SMEs is a base from which to start, a base that must be expanded and implemented for the specific peculiarities required by these innovative companies. Government support and dedicated methodologies are just one of the many insights that the ESG assessment field in Startups needs. The evolution in this field is potentially one of the most important given the nature of Startups and their contribution to the advancement of the sustainability market.

Conclusion

This thesis has investigated the multifaceted challenges and opportunities surrounding ESG performance assessment and reporting for SMEs and Startups. The research has revealed a complex interplay of factors that significantly impact the ability to effectively measure and utilize ESG data within these crucial sectors of the global economy.

Starting from the definitions, differences, and similarities between SMEs and Startups, a comprehensive and detailed picture of their characteristics and their possible difficulties in implementing ESG factors was obtained.

Then, the analysis of the tools and the various organizations for assessing and collecting ESG data ensured that all facets related to this world came out concisely. By understanding their methodologies, we see how some come closest to the world of SMEs and Startups. For the former, there are specialized and tailored methodologies that actually can and must improve. Many rating agencies have specialized and built rating methods on measures for SMEs. Their contribution is vital as their methodologies can be the basis from which to build and help fill a previously much larger gap. Whereas, for Startups there is a big gap yet to be filled. Both regulations for data reporting and methodologies for collecting and evaluating ESG data are almost non-existent for these types of companies. Despite their potentially rich contribution to the evolution of the ESG context, it almost seems as if they are cut off from this kind of dynamic. In part what has been seen to apply to SMEs can apply to Startups, but their unique nature in all facets requires alternative and much more case-specific solutions.

Considering all the various factors and today's landscape on the subject, we can draw several conclusions. In general, effective ESG assessment and reporting for SMEs and Startups requires a multi-faceted approach. It necessitates a collaborative effort involving policymakers, rating agencies, investors, and businesses to develop tailored ESG methodologies and tools appropriate for the unique contexts of SMEs and Startups, promote data standardization and transparency, provide increased support and resources to assist SMEs and Startups in implementing ESG practices, and carefully consider the implementation challenges when designing and enforcing ESG regulations.

By addressing these critical issues, we can promote more effective ESG reporting, enhance data reliability and comparability, reduce information asymmetry, and ultimately foster

more sustainable and responsible business practices within these vital sectors of the economy. The future of sustainable business relies on enabling all companies, regardless of size or stage of development, to effectively integrate ESG into their operations and contribute to a more sustainable and equitable global economy.

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