



EcoGradeX Methodology

SME Edition



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EcoGradeX Launches ESG Methodology for SMEs

A practical global methodology enabling small businesses to assess and improve sustainability performance.

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EcoGradeX is proud to introduce the EcoGradeX Methodology, a globally applicable Environmental, Social, and Governance (ESG) methodology developed specifically for small and medium-sized enterprises (SMEs). This Methodology provides SMEs with a clear, proportionate framework to assess ESG maturity, promote transparency, and support continuous improvement without disproportionate reporting burdens. Designed around the operational realities of smaller organizations, the EcoGradeX Methodology enables SMEs to participate meaningfully in responsible business practices, respond to stakeholder expectations, and contribute to broader sustainability goals. Through this initiative, EcoGradeX reinforces its commitment to inclusive, practical, and credible ESG assessment across all sectors.

Disclaimer

This document is provided for informational purposes only. The EcoGradeX Methodology is a voluntary ESG assessment framework and does not constitute legal, regulatory, financial, or investment advice, nor a certification, audit, or assurance of any kind. Use of this Methodology does not guarantee compliance with any law, regulation, or third-party requirement.

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1. Introduction and Purpose of EcoGradeX Methodology

The EcoGradeX Methodology is a practical, globally applicable Environmental, Social, and Governance (ESG) assessment Methodology designed specifically for small and medium-sized enterprises (SMEs). The purpose of this Methodology is to provide SMEs and their stakeholders with a clear, consistent, and credible way to understand, measure, and improve sustainability maturity without imposing disproportionate reporting or compliance burdens.

EcoGradeX recognizes that SMEs play a critical role in global value chains, employment, and innovation, yet are often excluded from ESG frameworks due to their complexity, cost, and resource intensity. This Methodology addresses that gap by translating widely accepted ESG principles into a simplified, business-friendly structure tailored to the operational realities of smaller organizations.

The EcoGradeX Methodology produces a standardized ESG outcome, including:

- An overall ESG score on a 0–100 scale.
- Pillar-level scores for Environment, Social, and Governance
- A clear maturity profile
- A practical improvement-oriented roadmap

This Methodology is designed to support decision-making, transparency, and continuous improvement. It does not replace legal compliance obligations, financial audits, or formal certifications. Instead, it functions as a readiness, benchmarking, and improvement framework that enables SMEs to engage meaningfully with ESG expectations.

2. ESG and the SME Context

Environmental, Social, and Governance considerations are no longer limited to large multinational corporations. SMEs increasingly face ESG-related expectations from customers, banks, investors, regulators, and employees. In many jurisdictions, sustainability reporting requirements are expanding through both direct regulation and indirect value-chain pressures.

Despite this, most ESG Methodology and rating systems were originally designed for large organizations with dedicated sustainability teams, advanced data systems, and significant reporting budgets. As a result, SMEs often struggle to interpret ESG requirements, determine what is relevant to their size and sector, and communicate their sustainability efforts in a credible way.

The EcoGradeX Methodology responds to this challenge by:

- Focusing on ESG fundamentals that are broadly material to most SMEs.
- Prioritizing proportionality and relevance over exhaustive disclosure
- Emphasizing real practices and operational maturity rather than narrative reporting

For SMEs, ESG is not primarily about compliance or public reporting. It is about risk management, operational efficiency, workforce stability, customer trust, and long-term resilience. The EcoGradeX Methodology is built on the understanding that even incremental improvements in ESG practices can generate meaningful business value for smaller enterprises.

3. EcoGradeX Design Philosophy

The EcoGradeX Methodology is guided by a set of core design principles that shape its structure, language, and application.

3.1 SME-First Approach

EcoGradeX Methodology is intentionally designed around the realities of SMEs. Indicators, scoring logic, and evidence expectations are calibrated to reflect typical SME governance structures, resource availability, and operational complexity. It avoids assumptions that are only realistic for large enterprises, such as formal boards, extensive reporting systems, or advanced ESG software.

3.2 Proportionality

EcoGradeX applies the principle of proportionality, meaning that expectations scale with the size, sector, and risk profile of the organization. Practices are evaluated based on their appropriateness and effectiveness within the SME context, rather than against large-corporate benchmarks.

3.3 Practicality and Clarity

All indicators are expressed in plain, business-oriented language. The focus is on whether practices exist, are implemented consistently, and are improving over time. Excessive technical metrics and jargon are intentionally avoided.

3.4 Credibility and Consistency

While simplified, the ESG Methodology is aligned with internationally recognized ESG frameworks and principles. A structured review process and evidence-based assessment model support consistency and credibility across assessments.

3.5 Continuous Improvement

EcoGradeX is designed as a maturity-based framework. The objective is not perfection, but progress. The scoring and Leaf Rating System reward measurable improvement and repeatable practices, encouraging SMEs to strengthen ESG performance over time.

4. Scope, Applicability, and Target User

4.1 Scope

The EcoGradeX Methodology applies globally and is sector-agnostic. It is suitable for SMEs across manufacturing, services, technology, trade, and other industries. Sector context is considered during assessment to ensure relevance and fairness.

4.2 Target Organizations

This ESG Methodology is designed primarily for organizations that:

- Employ fewer than 250 people
- Typically generate under USD 10 million in annual revenue
- Do not have extensive in-house ESG reporting or compliance functions.

Larger organizations may reference EcoGradeX when engaging SMEs in their value chains, but the ESG Methodology itself is optimized for smaller enterprises.

4.3 Target Users

The EcoGradeX Methodology is intended for use by:

- SME owners, founders, and management teams
- Banks and financial institutions assessing ESG risk and maturity.
- Corporate buyers and supply-chain partners
- Investors and advisors
- Public and private stakeholders are seeking a standardized SME ESG snapshot.

5. Overview of the EcoGradeX Framework

The EcoGradeX Methodology evaluates sustainability maturity across three core pillars: Environment, Social, and Governance. Each pillar is assessed through a structured set of indicators that reflect actionable practices within an SME context.

5.1 Pillar Structure and Weighting

The overall ESG score is composed of weighted pillar scores:

- Environment: 40%
- Social: 30%
- Governance: 30%

This weighting reflects the operational nature of most SMEs, where environmental impacts often arise directly from day-to-day activities, while social and governance practices underpin organizational resilience and trust.

5.2 Indicator-Based Assessment

Each pillar consists of defined indicators that capture key ESG themes such as energy use, labor practices, ethics, and accountability. Indicators are assessed using a maturity-based scoring model rather than binary compliance checks.

5.3 Outputs

The EcoGradeX framework generates:

- Pillar-level scores (0–100)
- An overall ESG score (0–100)
- A Leaf Rating that summarizes sustainability maturity
- A qualitative profile highlighting strengths and improvement areas.

The primary output is the GradeX Card, a one-page ESG snapshot designed for clear internal and external communication.

6. The Three Pillars of EcoGradeX

The EcoGradeX Methodology is structured around three universally recognized pillars: Environment, Social, and Governance. Together, these pillars provide a holistic view of an SME's sustainability maturity, covering operational impacts, people-related practices, and organizational integrity.

Each pillar is assessed independently and contributes to the overall ESG score according to defined weightings. The three-pillar structure ensures balance: strong performance in one area cannot fully compensate for significant weaknesses in another.

Table 1 – EcoGradeX Pillar Overview

Pillar	Weight	Primary Focus	Objective
Environment (E)	40%	Resources, emissions, waste, compliance	Reduce environmental impact and improve efficiency
Social (S)	30%	Employees, safety, inclusion, community	Ensure fair, safe, and responsible social practices
Governance (G)	30%	Ethics, accountability, controls	Strengthen trust, integrity, and resilience

7. Environment Pillar – ESG Methodology and Intent

7.1 Purpose and Scope

The Environment pillar assesses how an SME manages its interaction with the natural environment through its operations, resource use, and risk management practices. The focus is on awareness, control, and continuous improvement of environmental impacts that are relevant to the organization’s activities.

EcoGradeX does not expect SMEs to demonstrate advanced environmental management systems or full carbon accounting. Instead, the ESG Methodology evaluates whether environmental considerations are understood, addressed through practical actions, and progressively improved over time.

7.2 Key Environmental Themes

The Environment pillar covers the following core themes:

- Energy use and greenhouse gas awareness
- Waste generation and material efficiency.
- Water use and pollution prevention (where relevant)
- Environmental compliance and risk management
- Continuous environmental improvement

7.3 Environmental Indicators

Table 2 – Environment Pillar Indicators

Code	Indicator	What It Assesses
E1	Energy and Emissions	Energy use tracking, efficiency actions, emissions awareness
E2	Waste and Materials	Waste reduction, recycling, material efficiency
E3	Water and Pollution	Water use management and pollution prevention
E4	Environmental Compliance and Risk	Regulatory compliance and environmental risk awareness
E5	Environmental Improvement Actions	Ongoing improvement planning and progress tracking

7.4 Intent

The intent of the Environment pillar is to encourage SMEs to move beyond passive compliance toward active environmental management, without imposing excessive technical or reporting burdens. Progress is rewarded based on consistency, practicality, and demonstrated improvement.

8. Social Pillar – ESG Methodology and Intent

8.1 Purpose and Scope

The Social pillar evaluates how an SME manages relationships with employees, customers, and the wider community. It focuses on fair treatment, safety, inclusion, development, and social responsibility within the organization's sphere of influence.

The ESG Methodology recognizes that SMEs often have close-knit teams and strong local presence. Social practices are therefore assessed based on fairness, care, and proportional systems rather than formal corporate programs.

8.2 Key Social Themes

The Social pillar covers the following core themes:

- Health, safety, and employee well-being
- Fair employment and labor practices
- Inclusion and non-discrimination
- Training and professional development
- Customer responsibility and community engagement

8.3 Social Indicators

Table 3 – Social Pillar Indicators

Code	Indicator	What It Assesses
S1	Health and Safety	Workplace safety systems and incident management
S2	Fair Employment Practices	Contracts, pay fairness, working conditions
S3	Inclusion and Equal Opportunity	Non-discrimination and inclusive practices
S4	Training and Development	Skills development and learning culture
S5	Customer and Community Impact	Responsible customer practices and community engagement

8.4 Intent

The intent of the social pillar is to ensure SMEs create fair, safe, and respectful workplaces while acting responsibly toward customers and communities. ESG Methodology emphasizes real behavior and outcomes rather than formal statements alone.

9. Governance Pillar – ESG Methodology and Intent

9.1 Purpose and Scope

The Governance pillar assesses how an SME is directed, controlled, and held accountable. It focuses on ethical conduct, transparency, financial responsibility, and oversight mechanisms appropriate to smaller organizations.

EcoGradeX recognizes that many SMEs do not have formal boards or complex governance structures. Governance maturity is therefore evaluated based on clarity of roles, ethical culture, and effective controls rather than corporate formality.

9.2 Key Governance Themes

The Governance pillar covers the following core themes:

- Ethical conduct and integrity
- Accountability and decision-making
- Financial responsibility and controls
- Data protection and privacy
- Ownership of ESG responsibilities

9.3 Governance Indicators

Table 4 – Governance Pillar Indicators

Code	Indicator	What It Assesses
G1	Ethics and Integrity	Code of conduct and anti-corruption culture
G2	Accountability and Oversight	Decision-making clarity and role definition
G3	Financial Responsibility	Accounting integrity and financial controls
G4	Data Protection and Privacy	Data security and privacy compliance
G5	ESG Ownership and Tracking	ESG responsibility assignment and monitoring

9.4 Intent

The intent of the Governance pillar is to reinforce trust, integrity, and resilience in SME operations. Strong governance underpins credible environmental and social performance and reduces operational and reputational risk.

10. Indicator System and Definitions

10.1 Indicator Design

EcoGradeX indicators are designed to be practical, action-oriented, and proportionate. Each indicator captures a defined ESG theme and is assessed using maturity-based criteria rather than binary compliance checks.

Indicators evaluate both:

- The existence of relevant practices or policies
- The consistency and effectiveness of implementation

Where quantitative data is available, it is used to strengthen scoring. Where data is limited, qualitative evidence is accepted.

10.2 Applicability and Context

Not all indicators are equally material for every SME. During assessment, sector and operational context are applied transparently. Indicators that are genuinely not applicable may be adjusted or excluded from scoring without penalty.

10.3 Evidence Expectations

Evidence may include policies, records, utility data, training logs, screenshots, photographs, or written explanations. The ESG Methodology prioritizes credibility and relevance over formality.

11. Maturity Levels

EcoGradeX uses a maturity-based assessment model to evaluate ESG practices.

Table 5 – Maturity Levels

Level	Label	Description
0	Not Started	No awareness or actions in place

Level	Label	Description
1	In Progress	Initial actions underway; partial implementation
2	Implemented	Clear practice in place and used consistently
3	Advanced	Measured, reviewed, and continuously improved

12. Scoring Methodology

Table 6 – Scoring Conversion

Maturity Level	Points Assigned
Level 0	0
Level 1	1
Level 2	2
Level 3	3

Pillar scores are calculated by dividing achieved points by the maximum possible points and converting the result to a 0–100 score.

$$\text{Overall ESG Score} = (\text{Environment} \times 0.40) + (\text{Social} \times 0.30) + (\text{Governance} \times 0.30)$$

13. Weighting Logic and Pillar Balance

The EcoGradeX weighting model reflects the operational reality of most SMEs while maintaining balance across ESG dimensions.

Environmental impacts often arise directly from daily operations and resource use, justifying a higher weighting. Social and governance practices, while equally important, tend to manifest through internal systems and culture and are weighed accordingly.

EcoGradeX emphasizes balance: strong performance in one pillar cannot fully offset significant weaknesses in another. Material gaps may limit overall maturity classification.

14. Leaf Rating System

The Leaf Rating System is the core communication mechanism of EcoGradeX.

Table 7 – Leaf Rating Levels

Leaf Level	Score Range (Indicative)	Interpretation
1 Leaf	0–49	Foundational ESG practices
2 Leaf	50–74	Established and consistent practices
3 Leaf	75–100	Strong ESG maturity for an SME

The gradient visually reinforces continuous improvement rather than pass/fail assessment.

Leaf assignment considers balance across pillars and may be capped if a significant weakness exists.

15. GradeX Card and Outputs

15.1 GradeX Card Overview

The primary output of the EcoGradeX assessment is the GradeX Card. It is a one-page ESG snapshot designed for clarity, comparability, and credibility.

Company Information

Company name: ABC

Country: India

Sector: Manufacturing

Size: 45 employees

Assessment date: 31st January 2026



Overall ESG Maturity

2 Leaf – Established ESG Maturity

ABC demonstrates **consistent ESG practices** across Environmental, Social, and Governance pillars, with implementation in place and clear opportunities for further improvement.



Overall ESG Score

68 / 100



Pillar Scores

- **Environment (E):** 72 / 100
- **Social (S):** 65 / 100
- **Governance (G):** 67 / 100

(Scores reflect weighted pillar performance based on the EcoGradeX scoring methodology.)



ESG Profile Summary

Key strengths

- Consistent workplace health and safety practices
- Clear ethical expectations and basic governance controls
- Waste reduction and recycling measures implemented.

Priority improvement areas

- Formal monitoring of energy consumption and efficiency
- Clear assignment of ESG responsibility at management level
- Structured employee training and development tracking

15.3 Use Cases

The GradeX Card can be used for:

- Internal ESG management and improvement planning
- Communication with banks, investors, and customers
- Supply-chain ESG transparency.

16. Evidence, Review, and Credibility Model

16.1 Evidence-Based Assessment

EcoGradeX assessments are grounded in evidence. SMEs are encouraged to support their responses with relevant documentation or data to increase credibility and consistency. Evidence requirements are intentionally proportionate and flexible.

Accepted evidence may include policies, procedures, utility bills, training records, screenshots, photographs, logs, or written explanations. Formal documentation is not required where it would be disproportionate to the size or nature of the organization.

16.2 Review Process

EcoGradeX applies a structured review process to validate submitted information. This review focuses on completeness, consistency, and plausibility rather than audit-level verification.

Reviewers may request clarifications or additional context where information is unclear. The review process strengthens credibility while remaining accessible to SMEs.

16.3 Limitations

EcoGradeX assessments are not audits or certifications. Scores reflect sustainability maturity at the time of assessment and rely on the accuracy of information provided by the organization.

17. Self-Assessment and Review Boundaries

EcoGradeX is designed as a reviewed self-assessment framework. SMEs complete structured questionnaires describing their ESG practices, which are then reviewed for consistency and credibility.

The responsibility for data accuracy remains with the assessed organization. EcoGradeX does not independently verify information through site visits unless explicitly agreed.

Clear boundaries between self-reporting and review help balance accessibility with trust.

18. Implementation Guidance for SMEs

18.1 Getting Started

SMEs are encouraged to begin with a baseline assessment to understand current maturity. Leadership commitment and clear internal responsibility for ESG topics are critical success factors.

18.2 Prioritization

Assessment results should be used to identify priority improvement areas. Compliance gaps and low-effort, high-impact actions should be addressed first.

18.3 Integration into Operations

ESG practices should be integrated into existing business processes wherever possible. Simple tracking systems and regular internal reviews support sustainability progress.

19. Continuous Improvement Cycle

EcoGradeX is designed for repeated use over time. Organizations are encouraged to reassess periodically, typically annually.

The assessment cycle follows a simple logic:

- Assess current maturity.
- Identify improvement actions.
- Implement changes.
- Reassess and track progress.

Incremental improvement is central to the EcoGradeX philosophy.

20. Alignment with the Global Reporting Initiative (GRI)

EcoGradeX aligns with the thematic structure of the Global Reporting Initiative (GRI) standards while remaining proportionate for SMEs.

Environmental indicators align with GRI topics such as Energy, Emissions, Waste, and Water. Social indicators reflect GRI themes on labor practices, health and safety, and diversity. Governance indicators align with GRI expectations on ethics, accountability, and transparency.

EcoGradeX acts as a translation layer, enabling SMEs to address core GRI-aligned topics without engaging in full GRI reporting.

21. Alignment with the United Nations Global Compact

The EcoGradeX Methodology aligns with the principles of the United Nations Global Compact (UNGC), which set out widely accepted expectations for responsible business conduct across human rights, labor, environment, and anti-corruption.

EcoGradeX translates these high-level principles into practical, assessable indicators suitable for SMEs.

21.1 Human Rights and Labor Principles

EcoGradeX Social indicators address fair employment, non-discrimination, health and safety, and respect for workers' rights. These elements align with UNGC Principles 1–6, covering human rights protection and core labor standards.

21.2 Environmental Principles

The Environment pillar supports UNGC Principles 7–9 by encouraging precautionary environmental management, responsible resource use, and adoption of environmentally sound practices.

21.3 Anti-Corruption Principle

The Governance pillar explicitly addresses ethical conduct and anti-corruption, aligning with UNGC Principle 10. SMEs demonstrating clear ethical expectations and controls contribute to integrity across value chains.

EcoGradeX provides SMEs with a structured way to demonstrate alignment with UNGC values without requiring formal participation in the Global Compact.

22. Alignment with CSRD, ESRS, and VSME

The EcoGradeX Methodology is aligned in concept and content with the European Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), including the Voluntary SME ESG standard (VSME).

22.1 Proportionality and SME Relevance

CSRD recognizes the need for simplified, proportionate sustainability frameworks for SMEs. EcoGradeX reflects this principle by focusing on core ESG topics and avoiding excessive disclosure requirements.

22.2 Double Materiality Logic

While EcoGradeX does not require formal double materiality assessments, its indicators address both impact and risk perspectives. Environmental, social, and governance practices are evaluated in terms of operational impact and business resilience.

22.3 Value Chain Readiness

EcoGradeX supports SMEs in responding to ESG information requests from CSRD-reporting companies. The GradeX Card provides a standardized snapshot suitable for supply-chain transparency.

23. Risk, Limitations, and Anti-Greenwashing

EcoGradeX acknowledges inherent limitations in ESG assessments, particularly for SMEs.

23.1 Key Risks

Risks include data limitations, resource constraints, and potential misinterpretation of scores.

23.2 Anti-Greenwashing Safeguards

The maturity-based model, evidence expectations, and review process reduce the risk of overstated claims. EcoGradeX encourages balanced communication, including acknowledgment of improvement areas.

EcoGradeX outputs should not be presented as certification or regulatory compliance.

24. Governance of the EcoGradeX Methodology

The EcoGradeX Methodology is governed by EcoGradeX and may be updated periodically to reflect regulatory developments, stakeholder feedback, and methodological improvements.

Version control, publication dates, and change summaries support transparency and consistency.

25. Disclaimer, Versioning, and Glossary

25.1 Disclaimer

The EcoGradeX Methodology is provided for informational purposes only. It does not constitute legal, regulatory, financial, or investment advice. Organizations remain responsible for compliance with applicable laws and the accuracy of information provided.

25.2 Versioning

This document represents EcoGradeX Methodology 0. Future versions may introduce refinements, sector-specific guidance, or methodological enhancements.

25.3 Glossary

Key ESG terms used in this Methodology are defined in line with common international usage to support clarity and consistency.

References

The following references inform the conceptual foundations, indicator design, scoring logic, and alignment principles of the EcoGradeX Methodology . These sources are widely recognized by regulators, financial institutions, corporates, and sustainability professionals and support the credibility and interoperability of ESG Methodology.

Normative References

1. **European Union.** Directive (EU) 2022/2464 on Corporate Sustainability Reporting (CSRD).
Referenced for regulatory context, proportionality principles, and value-chain transparency expectations.
2. **European Financial Reporting Advisory Group (EFRAG).** European Sustainability Reporting Standards (ESRS).
Referenced for ESG topic coverage, governance expectations, and double materiality concepts.
3. **European Financial Reporting Advisory Group (EFRAG).** Voluntary Sustainability Reporting Standard for SMEs (VSME).
Referenced for SME-specific proportionality, simplified disclosure logic, and reporting philosophy.
4. **Global Reporting Initiative (GRI).** GRI Standards – Universal and Topic Standards.
Referenced for ESG structure, environmental and social topic definitions, and reporting principles.
5. **United Nations Global Compact (UNGC).** The Ten Principles of the UN Global Compact.
Referenced for alignment with international principles on human rights, labor, environment, and anti-corruption.

Informative References

6. **Organization for Economic Co-operation and Development (OECD).** OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.
Referenced for governance, ethical conduct, and responsible value-chain behavior.
7. **International Organization for Standardization (ISO).** ISO 26000: Guidance on Social Responsibility.
Referenced for social responsibility themes and stakeholder-oriented practices.
8. **International Organization for Standardization (ISO).** ISO 14001: Environmental Management Systems.

Referenced conceptually for environmental management and continuous improvement logic.

9. **International Organization for Standardization (ISO).** ISO 45001: Occupational Health and Safety Management Systems.
Referenced conceptually for health and safety practices under the social pillar.
10. **International Organization for Standardization (ISO/IEC).** ISO/IEC 27001: Information Security Management Systems.
Referenced conceptually for data protection and information security practices under Governance.
11. **Greenhouse Gas Protocol.** Corporate Accounting and Reporting Standard (Revised Edition).
Referenced for basic energy and emissions awareness, adapted proportionally for SMEs.
12. **International Labor Organization (ILO).** Fundamental Principles and Rights at Work.
Referenced for labor standards, fair employment, and worker protection expectations.
13. **Transparency International.** Business Principles for Countering Bribery.
Referenced for ethical conduct and anti-corruption practices.
14. **Task Force on Climate-related Financial Disclosures (TCFD).** Recommendations of the TCFD.
Referenced conceptually for risk-based thinking and climate awareness, adapted to SME context.
15. **European Commission.** Guidance on Greenwashing and Environmental Claims.
Referenced for transparency, balanced communication, and avoidance of misleading ESG claims.

Comprehensive Legal Disclaimer

The EcoGradeX Methodology is provided solely for **informational, educational, and voluntary assessment purposes**. It is intended to support small and medium-sized enterprises (SMEs) and their stakeholders in understanding and discussing environmental, social, and governance (ESG) practices at a high level.

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