ESG PRESSURE AND ITS IMPACTS OVER BRAZILIAN SMALL ENTERPRISES: CAPABILITIES OF ADAPTATION AND COMPETITIVENESS CONDITIONS

AGENDA ESG, CAPACIDADE ADAPTATIVA E IMPACTO CONCORRENCIAL: DILEMAS DA REALIDADE DOS PEQUENOS NEGÓCIOS NO BRASIL

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ABSTRACT: This study aims to enhance the urgency of ESG agenda, specially under the sustainable aspect, and its impacts over competitive abilities of small Brazilian enterprises. The ESG call, as it stands, requires market agents – represented in majority by companies – to develop adaptability and decision-making speed to keep up with global movements praised by policies, regulations, and stakeholders. Competitive practice is a specific spot over which awareness has arisen. Competition under ESG pressure produces beneficial effects on market performance, but it also causes challenges with unfavorable results especially given the difficulty and lack of enterprise's preparation for adaption. The challenge mainly remains over small businesses realities to attend ESG requests and dealing with competitive effects without losing its survival conditions. This main perspective about ESG pressure and competitive effects will be analyzed under the reality of Brazilian's economic cenário which is composed mostly by small enterprises.

Keywords: Law & Economics. ESG. Sustainability. Market competition. Small enterprises.

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RESUMO: O presente trabalho tem por objetivo realçar a iminência do tema ESG, principalmente sob o enfoque sustentável, e o impacto desta pauta sobre as questões de concorrência, primordialmente a partir da realidade praticada pelas empresas brasileiras de menor porte. A convocação ESG, tal como se encontra, exige que os agentes de mercado – representados em maioria pelas empresas – desenvolvam capacidade de adaptação e celeridade decisória, a fim de acompanhar os movimentos globais enaltecidos por políticas, regulamentações e pelos próprios *stakeholders.* A prática concorrencial é um ponto específico que tem sensibilizado esta matéria, na medida em que ela produz efeitos salutares ao desempenho do mercado, mas também provoca desafios com resultados desfavorecidos, ante a dificuldade e o despreparo para adaptação. Sobretudo, o desafio das menores empresas em atender demandas ESG e lidar com práticas concorrenciais. Tal perspectiva será analisada a partir da realidade do cenário econômico no Brasil, o qual é majoritariamente composto por pequenos empreendedores e para os quais os dilemas de adaptabilidade sustentável e capacidade concorrencial são mais desafiadores e complexos.

Palavras-chave: Direito & Economia. ESG. Sustentabilidade. Competição de mercado. Pequenos negócios.

INTRODUCTION

One of the most emerging themes of current socioeconomic era is summed up in three letters: E, S and G. The environmental, social and governance (ESG) results from a movement that has been encouraged worldwide for decades, focusing on three generic and genuine perspectives. The main intention lies on calling organizations to action, facing social, environmental and governance dilemmas. The ESG agenda is fast and requires from all economic, social, private, and public sectors. That's the reason why the subject is been included as an agenda priority to boards and rule makers nowadays.

The call for action is global. There are countless movements around the world that call on companies and organizations from all kinds to present their plans to meet the ESG expectations. Although all three spheres of the acronym are equally important, in recent times there has been a greater concern with environmental issues and climate change[109]. The *net zero*[110] is a one of the great examples of global goals to deal with climate urgencies involving every state and every economy – reaching its full tee until 2025.

In lately 2022 occurred the COP27, organized by ONU and headquartered in Egypt. The event reunited many countries to debate the urgency around climate changes and sustainably plannings, including agendas as climate resilience and the constitution of an investment fund to help underdeveloped states whose local and economic situations are tragically affected by environmental catastrophes. The agreement between all participants about the necessity to look at and act about this agenda was unanimous, especially embracing the idea of enterprises as capable and responsible organizations to achieve an effectively contribution.

Thereby companies were allocated as main agents with an essential role because of their agility and catalytic potential to accelerate benefic changes to environment impacts. A company's compatibility to adapt is interconnected to good management and the maturing of internal governance, since mainly environmental issues raise not only

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[109] According to the United Nations, "climate change refers to long-term shifts in temperatures and weather patterns. These shifts may be natural, such as through variations in the solar cycle. But since the 1800s, human activities have been the main driver of climate change, primarily due to burning fossil fuels like coal, oil and gas." Available at: https://www.un.org/en/climatechange/what-is-climate-change.

[110] According to Oxford Net Zero, "Net Zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The term net zero is important because – for CO2 at least – this is the state at which global warming stops. The Paris Agreement underlines the need for net zero. It requires states to 'achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century". Available at https://netzeroclimate.org/about-us/.

physical risks for organizations but also transactional risks - technological, reputation and subsistence in the marketplace.

The urgency of the ESG agenda reaches several critical spheres, with or without political bias, collective and individual, public, and private. Thus, in the reasoning attachment between the need to adopt political measures and to promote economic positions, it sublimes the performance of companies to follow sustainable, social and governance trends. That's the reason why this matter has been as an urgency agenda in board meetings, as well as in discussions promoted by rule makers whose dilemma is to discover the best way to adjust the regulatory system in favor of ESG issues, without, however, drastically collide with the market's flow.

The *International Chamber of Commerce (ICC)*, introducing the paper *When Chilling Contributes to Warming*[111], rewarns that climate change is instigating companies around the world to set ambitious sustainability goals. It means that as ESG concerns grow, pressure is being created for economic organizations to invest, innovate, and make environmental-friendly decisions. However, it would be hypocritical to consider this subject regardless pondering the impacts it causes to companies' realities in a competitive market.

The need for urgent vision, agility in the decision-making and strategic process, added to the ability to adapt, are challenges imposed on organizations, especially for the smaller ones whose organizational and budgetary structure suffers to win so many other economic aspects. As ESG demands knock on companies' doors, the action plans of these organizations start to be readjusted, especially in the market strategic

[111] International Chamber of Commerce (ICC). When Chilling Contributes to Warming: How Competition Policy Acts as a Barrier to Climate Action. November, 2022. Disponível em: https://iccwbo.org/publication/how-competition-policy-acts-as-a-barrier-to-climate-action/. Acesso em 16.01.2023.

focus. This compliance movement generates costs of adaptation, personal qualification and process innovations, product recategorization and other costs incurred because of legal compliance.[112]

As follows, the ESG agenda brings dilemmas to organizations raising a new challenge to maintain themselves healthy and competitively. Still, the management failure and the precarious technical capacity, in many of them, helps for the sustainable agenda to be belatedly thought, presenting, consequently, competitive delays to the small enterprises. On the other hand, the ESG holistic vision is also a competitive advantage to enterprises, as it adds value to the organization.

One of the main reasons why companies are considered the main agents in the face of sustainable changes is because they have the potential for development and innovation, based on investment in new processes, technologies and resourcefulness of qualified people. In addition, companies have the ability to provoke awareness movements in the marketplace, whether for the consumer public or for the rest of the production chain.

This study aims to highlight the sublime role of companies over the ESG agenda. Considering the essential role of economic organizations for the evolution of these matters it is emphasized that there is no way to ponder or practice ESG without consigning it to the competitive market. In sequence, it is necessary to approach the impacts provoked by the adaptation to the ESG agenda over business structures. The agenda has

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[112] As an example, the ICC ponders that "industrial manufacturing is one of the key drivers of greenhouse emissions. In order to reduce these emissions, alternative production processes have to be developed. This is often associated with extra costs (at least in the short term), which industrial players cannot bear by themselves". INTERNATIONAL CHAMBER OF COMMERCE (ICC). When Chilling Contributes to Warming: How Competition Policy Acts as a Barrier to Climate Action. November, 2022. Disponível em: https://iccwbo.org/publication/how-competition-policy-acts-as-a-barrier-to-climate-action/. Acesso em 16.01.2023.

ambivalent sides, between risks and opportunities that are worth reflecting on as they face unavoidable pressures such as consumers awareness, stakeholder demands, compliance standards, and corporate social responsibility. All these factors, taken together, reflect on the competitive viability of companies.

Finally, considering the major reality of small business in Brazil it is opportune to evaluate this specific scenario over ESG expectations. As it is known large corporations are focused as an an main object to express the idea behind sustainable adaptation but they are not abruptly impacted as are those organizations whose structure is smaller. Mainly in the Brazilian economy, small enterprises are the majority and sustain complex dilemmas to meet the requirements of their markets. The demand of the ESG agenda, additionally, places these organizations as references to the challenge of adaptation, whether they are main agents or relational parties in the supply chain.

***CALL FOR ACTION*: THE ROLE OF BUSINESS ORGANIZATIONS IN THE EVOLUTION OF THE ESG AGENDA**

> *"Corporations and investors across the economy are embracing the idea that businesses must be sensitive to the environmental and social implications of their actions*".

The sentence above was introduced by Barbuza, Curtis, and Webber in ther study called *The Millennial Corporation: Strong Stakeholders, Weak Managers.*[113] It's content is not only accurate but fully meets the message left at the last United Nations Climate Change

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[113] BARZUZA, Michal. CURTIS, Quinn. WEBBER, David H., The Millennial Corporation: Strong Stakeholders, Weak Managers. September 6, 2021. Available at SSRN: https://ssrn.com/abstract=3918443 or http://dx.doi.org/10.2139/ssrn.3918443.

Conference (COP27), which was given in a loud and clear tone: *businesses continue to be a crucial piece of the puzzle (to reach the vital targets needed to save the planet).*[114]

Companies are key players to achieve ESG goals as they have an operational and strategic essential role. The main question behind it is how organizations can create their own effective action plans. As a fact, the healthy functioning of the economic machine, largely operated by companies, sustains collective agendas whether through increasing purchasing power of individuals or feeding wealth to public coffers through taxes payments or also with investments and innovations that provoke social impacts. Thus, companies have a social responsibility role which contributes to the society development itself.

In terms of sustainable responsibility, companies are fundamental sources because they can promote tech development as well as they can provide investments that enable solutions to environmental issues. Innovation over operations, products and services is a good example of companies' practices that stimulate inside qualification, competitive externalities, and conscious consumption as well. All these aspects generate repercussions on the market and can carry a good vision of green quality and green purpose.

Furthermore, the business environmental must be considered as a space where people can be developed and awareness and self-responsibility can me explored, meeting the needs of implementing an effective ESG agenda. As social responsibility agents, companies can encourage employees, stakeholders, and other relational parties on engaging with social, environmental and governance goals. It means that

[114] Public subject published in November 2022, by Elevate. Available at: https://www.elevatelimited.com/blog/cop27-key-takeaways-for-businesses/. Acesso em 04.01.2023.

companies' adaptative capacity is not limited to improving goods and services, but also in developing individuals. It is also possible to understand that companies' role in face of ESG commitments generates externalities and internalities.

By Jean Tirole's definitions (2020), an economic agent or group of economic agents exert an externality when their activity provides others with a utility or an advantage free of charge, or, on the contrary, a disutility, a loss without compensation.[115] The author brings a comparison between externality and internality using the example of doping control, considering that it is justify by an internality (preservation of the athlete's health, which otherwise is sacrificed to gain recognition, glory or money) and by an externality, as the doping athlete degrades the image of his sport and negatively affects his colleagues.[116]

Another effect can be added to this example, which is that of unfair competition, more classified as a negative externality. In the competitive case the negative externality causes a collective loss without compensation. It happens because even if the athlete succeeds in managing the self-harm effects, the results of his choices cause collective damages because it provokes an illegitimate and anti-competitive advantage over others who follow the rules.

There is a connection between the dopping example and the ESG practices, specially to the "E" aspects. It is easy to conclude that the choice to adopt sustainable practices generates collective, social, and economic, externalities. Either there is a free advantage in view of the common good or there is a collective damage – as a climate

[115] Free translation. TIROLE, Jean. Economia do bem comum. Tradução: André Telles. 1. Ed. Rio de Janeiro: Zahar, 2020. P. 46.
[116] TIROLE, Jean. Economia do bem comum. Tradução: André Telles. 1. Ed. Rio de Janeiro: Zahar, 2020. P. *48*.

catastrophe. The internality, as Jean Tirole defines, is due to benefits and/or burdens internally borne by organization to meet ESG goals.

Economic organizations are not prepared to practice ESG goals as they should be. This fact results in a common despair fetching ruler organizations as well – because they need to tighten regulatory deadlines in order to achieve the fastest results as possible. It should be noted that, except for large organizations whose organizational and budgetary structure mostly has greater margin for expenses, other companies find themselves trapped between the need to meet the sustainable moral and legal demands, and the need to survive managing so many others complex aspects of everyday operation.

Organizations' role also occurs through guidance. Considering that companies centralize countless people from the same community, this is not only a professional guidance, but it is also a social one. In this sense, a company's action to reach the ESG agenda is also essential due to the amount and depth with which it can raise awareness of its employees and stakeholders who, consequently, will contaminate the rest of their social environment. This is called corporate social responsibility.

As defined by the World Business Council for Sustainable Development, the corporate social responsibility "*is the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life*".[117] Thus, companies' role in this agenda is justified by the activity they carry out, insofar as they must adopt practical and operational measures to reduce climate impacts, but also indirectly to aware their relational parties to practice the same way.

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117 MARTINS, Fernando. Corporate Social Responsibility, Shareholder Value, and Competition. July 1, 2020. Available at SSRN: https://ssrn.com/abstract=3651240 or http://dx.doi.org/10.2139/ssrn.3651240. P. 6.

IMPACTS ON COMPETITIVENESS: ESG RISKS AND OPPORTUNITIES FROM THE COMPETITION'S VIEW

The role of companies in the commitment to the ESG agenda is clear, with great agreement on the reasons why these economic organizations bring prosperity to the main goal. In the same way these companies produce externalities, that is, positive projections of social and environmental collaboration, the adaptation to the ESG agenda also brings internalities which effects are felt within the organization itself, affecting its strategic and commercial plans.

In cense, competition is one of the major biases affected by this scenario. ESG pressure directly affects companies' competitive viability to survive in the market because they have to weigh their adaptability skills and their chances of perpetuity in business niches. ESG adequacy requires adjustment agility, resilience, and risk management, that's why it can be seen from two controversial points of view: as a financial risk or as a market opportunity.

The financial risk perspective is also linked to reputational risks, creating a group of red flags. The first one is justified by consumer's demands since consumers have become aware of its choice over products and services, stablishing a link with those who offer a purpose – specially a green one. This scenario format a bottom-up pressure, that is, the end of the market chain puts pressure on everything else, all the way to the top. When failure to meet this demand entails losses to the extent that organizations risk its sales effectiveness and devaluation of its goods and products, causing a risk to its own budgetary and competitive edge.

Another aspect is the challenge to understand consumers' behavior. At the same time, they conscientize themselves about the sustainable aspect of their purchases, they resist to pay higher prices in order to sustain a green purpose. This scenario has been pointed by some specialists, such as Nicole Kar from Linklaters LLP[118], questioning how consumers behaviors could be balanced with environmental benefits, both to the direct purchases in market and to those out of market (i.e., society as a whole).

Consumer's ambivalence, jointed with businesses' unprepared can lead to market failure. In conjunction to the ESG agenda, Nicole Kar also points out that what the world is struggling with is not a sustainable problem per se but an efficiencies problem, bringing the logic behind costs of agreement versus benefits of agreement. In that stand, the financial scenario is also affected by the increase of costs to operational adaptation, individual qualification, process innovations and strategic projects readjustment. In addition, compliance costs emerge, as national and international movements become more frequent, interfering mainly with traceability (and eventual rejection) of the supply chain. Facing the need of compliance, due dilligence becomes a process that reflects on the maintenance or change of economic agents along the economic chain.

Still, a third type of financial risk occurs from the probability of losses occurrence from climatic catastrophes which cause damage to the organization's physical structures and its inputs. With the adjustments mentioned above, however, it is thought that this financial risk line is minimized. Another consequence of eventual uncontending of this financial risk is that it probably will be consummated in real loss, interfering organizations competitiveness. Even more, there is a scenario in which

[118] Nicole Kar interview to the 2021 Virtual OECD Competition Open Day. Environmental sustainability and competition. Available at: https://youtu.be/OlsiB1DhyVs.

some companies can manage the costs of the ESG agenda better than others, causing a gap between competitors.

Some literature shows that competition is a driver for green. But as Nicole Kar points out[119], the problem is the conflict of interest between companies' measure to raise prices by doing a small amount of green. Indeed, there are those who refer the letter "E" prevails more in debate than the letters "S" and "G". In perspective of importance, all three have the same degree of value. However, environmental demands take on a specific spotlight because they are similarly applicable at the global level, so that participation in action plans in this area needs to be unanimous, among all states. Still, social and governance issues, although essential, have a greater margin of maturation over time. Environmental issues, don't.

Within the competition scope there is also the demand for qualified regulation. As the ICC points out "at a general level, businesses seeking to participate in Environmental, Social and Governance ("ESG") initiatives—and in, particular, sustainability initiatives—are frustrated that the antitrust framework internationally is not providing the certainty they require that genuine sustainability-focused initiatives will not be considered to breach antitrust rules".[120] The discussion about regulatory authorities' action regarding the matter is long-winded, requiring a level of debate that does not belong with this workspace.

A movement from the authorities to monitor companies and keep them on the green basis has been seen. Although, the way to concrete efficient sustainable rules has been a hard task which leads to the

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[119] Nicole Kar interview to the 2021 Virtual OECD Competition Open Day. Environmental sustainability and competition. Available at: https://youtu.be/OlsiB1DhyVs.

[120] International Chamber of Commerce (ICC). When Chilling Contributes to Warming: How Competition Policy Acts as a Barrier to Climate Action. November, 2022. Disponível em: https://iccwbo.org/publication/how-competition-policy-acts-as-a-barrier-to-climate-action/. Acesso em 16.01.2023.

concerns to fight the greenwashing movement, when the green flag is raised purely as a facade. Appearances are perfectly done by some organizations, often resulting in leveraged competitive advantage, but the project in practice compliance of the company is nothing more than a mere maneuver. It is no coincidence that global movements, such as Integraty Matters[121], are being repeatedly focused on by representative states, in order to avoid and remedy the farce involved in organizations' ESG intentions.

Greenwashing movements are severe alarms as they cause unfair competition (or anti-competitive conduct) to the extent that they appear to meet legal requirements, stakeholders and consumers expectations, without, however, consummating the real burden that this would cause within the organization. On the other hand, organizations that practice the ESG agenda, bearing all the burdens that arise from it, end up losing market position because they need to pass on costs – consequently increasing their value at the end point of the consumption chain.

Rule makers are putting some specific effort to reject the practice of anti-competitive conduct, considering greenwashing as just one of the aspects of legislative concerns. According to data from the International Chamber of Commerce (ICC), there are more than 140 countries with competition laws[122] applicable to all types and sizes of organizations, which provide, in addition to provisions on disapproved anticompetitive conduct, fees, administrative, civil, and criminal penalties to ban the practice of market unevenness. Non-compliance with such legislation

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[121] Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions United Nations' High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities.

[122] Available at: International Chamber of Commerce (ICC). Why complying with competition law is good for your business. ICC SME toolkit. Practical tools for smaller businesses to improve compliance. Prepared by the ICC Comission on Competition. Abril, 2015. Disponível em: https://iccwbo.org/publication/icc-sme-toolkit-complying-competition-law-good-business/. Acesso em 14.01.2023.

entails financial, reputational, and legal risks for organizations, even allowing such a demand to arise from the active legitimacy of consumers, suppliers, and stakeholders.

Adaptation to the ESG agenda can be seen and managed, on the other hand, as an opportunity. Companies that manage to meet these demands, in a practical and satisfactory way, will achieve distinction and prominence from their main competitors in the long term. In this sense, Fernando Martins points out that "prior literature has established a link between CSR and competition. This link suggests that CSR may be used as a strategic resource that allows companies to differentiate their products, thus obtaining a competitive advantage (henceforth competitive channel). [123]

It is evident that the opportunity bias in adapting the ESG agenda is integrally linked with honest and truthful practice, removing the idea of unfair practices from the market. Companies that play according to the rules will be validly distinguished and highlighted, otherwise the scenario could turn into a great competitive chaos – and, worse, intensify the scientifically proven results of environmental catastrophes.

Still, the content of the competitive advantage must take into account that there is more difficulty for some players than for others. The speed of the ESG agenda, combined with the need to implement qualified hubs, which is clearly more possible for organizations whose structure is already mature and the budget has greater margin. Large corporations, for example, usually have an organizational structure capable of promoting faster and more effective adaptation, adjusting

[123] MARTINS, Fernando. Corporate Social Responsibility, Shareholder Value, and Competition. July 1, 2020. Available at SSRN: https://ssrn.com/abstract=3651240 or http://dx.doi.org/10.2139/ssrn.3651240. P. 4.

their internal departments, such as compliance, supply chain, strategy and finance, to meet sustainable guidelines.

As Alvin Roth muses, the criterion of speed can make or break organizations, as "it helps participants in a dense market quickly evaluate and process many possible transactions. But sometimes making a market work faster makes it work worse."[124]

The speedy adaptation reality is not the same for smaller organizations. It is worth considering not only how these small organizations will be able to adapt to the ESG expectations, but also how they will be positioned – if they will continue to be positioned – in the face of third-party management promoted by the major players in the market. Small companies are also participants of the supply chain of large companies, leaving their business viability at the mercy of due diligence by the latter.

As for competitive positioning, there is serious concern due to the disadvantage that these small companies face when positioned alongside large corporations. The demand for compliance with regulatory requirements is another factor that does not facilitate the survival of these smaller organizations in the market. Data from 2022 provided by a survey by the National Confederation of Logistics Directors (Confederação Nacional de Dirigentes Lojistas – CNDL in Portuguese), and the Brazilian Credit Protection Service (Serviço de Proteção ao Crédito - SPC Brasil, in Portuguese) show that among the main reasons that hinder the growth of smaller organizations are the increase in prices and costs of raw materials, high hiring costs, high taxes and excessive bureaucracy.[125]

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124 ROTH, Alvin E. Como funcionam os mercados: a nova economia das combinações e do desenho de mercado. Tradução Isa Mara Lando e Mauro Lando – 1. Ed. São Paulo: Portfolio-Penguin, 2016. P. 95.
125 Public subject published by SEBRAE. Available at: https://cndl.org.br/varejosa/falta-de-planejamento-estrategico-prejudica-mpes/ and https://www.sebrae.com.br/sites/PortalSebrae/conteudos/posts/o-impacto-da-falta-

Additionally, one of the biggest harmful factors pointed out in the research is the management problem. The lack of planning in small and medium-sized companies, as well as the precarious technical resourcefulness of entrepreneurs to manage their businesses, reflect in serious harm to development. Thus, high competition ends up being an effect linked to management failure. These are some of the factors considered red flags, necessary alarm in the evaluation of the competitive capacity and survival of smaller enterprises in the face of current pressures.

ESG ADAPTATION DILEMMAS IN THE REALITY OF SMALL BUSINESSES IN BRAZIL

In Brazil, the ESG agenda movements also follow its flow. For example, in March 2022, the Legal Decree n. 11.141 was published stipulating a short period of twelve months for companies to officially submit their decarbonization plans. The deadline ends in March 2023, putting unprepared organizations running out of time.

The unpreparedness is general. The ESG agenda, given the ambivalence of risks and opportunities, requires a maturity of awareness, organization, and structure that companies are in delay of consummation. This factor aggravates when applied from the perspective of smaller enterprises, considering they tend to develop their adaptive capacity - when they do - later in time, since their structures and complexities rarely allow readiness investments (financial, operational and human).

Regarding governance best practices, the demand for transparency is imperative which also causes pressure to adapt management systems and operational processes. It is common for small

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enterprises to operate their business based on amateur, less bureaucratic, and more informal management systems. Such informality allows failures and non-conformities, from low to high level, whose reflections touch the credibility of the small business in the face of better structured competitors.

Small businesses are the economic reality in Brazil and the number of companies with this size has been growing for some decades. Currently, according to data provided by the Brazilian Micro and Small Business Support Service (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas – Sebrae in Portuguese), Brazil has 18.5 million active small businesses, which represent 99% (ninety-nine percent) of all Brazilian enterprises and 30% (thirty percent) of the national Gross Domestic Product (GDP or PIB – Produto Interno Bruto, in Portuguese). Although the big companies produce major budgetary and social impacts, it is necessary to praise the study from the organizations that make up the majority of the Brazilian economy: the small ones.

The niche of small companies, whether due to its size or its characteristics, has some specific dilemmas. Among them, the lack of planning and precarious management stands out as the main reasons why smaller enterprises close their doors in the first years of operation. For example, only 9% (nine percent) of Individual Microentrepreneurs (MEIs) and 10% (ten percent) of Micro and Small Companies (MSEs) carry out some type of formal planning. Still, management deficiency is another sensitive condition, affecting 79% (seventy-nine percent) of all Brazilian Micro and Small Companies.

Deficient management and lack of planning are factors that directly affect the performance of organizations, regardless of their size. The companies' competitive capacity is linked to the governance maturity practiced. Because of it, high competition is an intense factor for small businesses, which collides with complex market factors such as rising prices, rising inputs and hiring costs, excessive bureaucracy and high tax burden.

On the other hand, small enterprises have preferences in the marketplace, mainly in the regional and cultural perimeter they are located in. It is human nature to seek value in what is known – even at the time of matching market practiced until the mid-nineteenth century, when "price alone was not enough to balance the market, and participants cared to know who they were dealing with", as recalled by Alvin Roth.[126] Thus, the preference for local purchasing takes on an important position and is an advantage to the small companies scenario, counting as an aspect of corporate social responsibility.

However, the requirement to know with whom you are negotiating can be a double-edged sword. In the ESG aspect, for example, there is a growing demand of knowledge by consumers and related parties on the way companies execute their processes and operations. From the origin of the inputs used to the final commercial agreement's integrity there are issues that seek transparency by those who are related in any way with the business, causing a high obligation of attention by managers, whether they are small or large businesses.

In this sense, one of the greatest reliable examples of Brazilian reality is the agribusiness, practiced in large numbers by small and medium-sized producers. This business varies from the production of inputs, with the cultivation of the terroir, going to the industry, which makes immense the affectation of chain with the ESG agenda. To this kind of business, climate and sustainability concerns fall on possible risks to hydroelectric and energy infrastructure, the main economic vectors used

126 ROTH, Alvin. Como funcionam os mercados: a nova economia das combinações e do desenho de mercado. Tradução Isa Mara Lando e Mauro Lando – 1. Ed. São Paulo: Portfolio-Penguin, 2016. p. 28.

for the performance of activities. It is considered that any physical and financial damage arising from these events would impact in such a way as to put the very existence of the business at stake.

The ESG agenda depths does not leave any economic space unattended and reaches the simple day-to-day operations practiced in entrepreneurship. Doing what others are doing, when it comes to the ESG agenda, is a strategic decision, while being aware that "the market can force its participants to engage in risky moves", as Alvim Roth points out.[127] The biggest challenge, however, lies in discovering how to follow this market trend without such adaptation causing a disastrous disruption to the business organization.

Additionally, future generations not only will choose to purchase goods and services whose origin meets the demands of sustainability but will also choose to work for companies with green purpose. This view reinforces, both due to consumer demand and the need for labor force, the pressure on companies to meet ESG goals under penalty of bearing commercial and operational losses insofar as there will also be a shortage for hiring and retaining new talents.

Specifically on the scenario handled by small Brazilian enterprises it permeates the legitimate questioning of how it is possible to advance in ESG guidelines when their operational and competitive reality is already too complex, although they represent the strength of the Brazilian economy. For some entrepreneurs, from slightly more mature companies, the definition for exiting competitive dilemmas and adapting to ESG requirements lies in investing in innovation, reformulating processes, and

[127] ROTH, Alvim. Como funcionam os mercados: a nova economia das combinações e do desenho de mercado. Tradução Isa Mara Lando e Mauro Lando – 1. Ed. São Paulo: Portfolio-Penguin, 2016. P. 21.

synergy with the consumer public. Would the same output be possible for small businesses?

Small enterprises therefore need, within their realities, to find ways to follow the movements of the market, whether when they play the main agent role – and then rethink their entire production chain in order to find the best competitive equivalence – either when they occupy the role as participants in third parties' production chain. ESG requires above all a reflection on how management methods are because there is no longer tolerance for amateur practices.

The easy technology, innovation and access to information exacerbate the demand for business maturity and scale. Even for small enterprises, the justifications for maintaining informal and unprepared business models drop dramatically. Management development for small entrepreneurs has been even an object of study, considering that taking advantage of opportunities and technical facilities can help managers to increase the efficiency of their businesses. A big question is how such considerations come to the knowledge of these managers, considering that most of the time their businesses are located in less favored regions, economically and socially.

One of the International Chamber of Commerce (ICC)'s recommendation is about the benefit of adopting compliance practices for small businesses. From the ICC's perspective[128], any company, regardless of its size, can adopt measures capable of improving their performance, achieving compliance, and also adding value to the organization, promoting competitive advantages and innovations. Such measures do not need to be complex or costly and can be adapted from

[128] International Chamber of Commerce (ICC). Competition Policy and Environmental Sustainability. November, 2020. Disponível em; https://iccwbo.org/publication/competition-policy-and-environmental-sustainability/. Acesso em 14.01.2023.

simple practices such as commitment to the purpose of "doing it right", planning to identify risks and awareness of related parties so that they know and practice the same.

Hence, the compliance practice fits into the ESG agenda. Considering there is no way to deviate from the market pressures, it is up to small organizations to find adequate and suitable ways to adapt to those expectations. Still, regard to the "E" agenda, the decision to follow market trends can be a revitalizing attitude to promote small businesses perpetuity as it is possible to add value to products and services, as value to the organization itself. All these benefits impact consequently to corporate social responsibility contribution.

CONCLUSION

The purpose of the ESG agenda is not only current but it tends to perpetuate for generations. Adapting to its demands affects all scopes of business organizations, whether they are financial, physical, or operational. In addition, it is a global collaborative purpose with engagement between states, public and private institutions, and individual members of society. As seen, the action (or omission) to the ESG agenda generates positive and negative, individual, and collective, externalities, directly supporting the corporate social responsibility of companies.

There is no way to take distance from the call for action. Additionally, to the invite to participate in global goals, the pressure from the ESG agenda causes internal effects to each organization. There are significant changes in the consuming public's behavior, in the stakeholders' expectations and in the legal obligations created worldwide. Thus, the individual decision on adequacy to the ESG agenda provokes a special attention to the market maintenance of the company itself.

The business' competitive capacity is one of the most affected issues by ESG pressure. First because most companies are not prepared to deal with the issue and are helpless in terms of regulatory guidance. Evidently, the competitive scope is related to market demands so that in addition to regulatory matters, there is a concern to meet the expectations of their economic agents, as well as consumers and stakeholders.

Specifically, to the green purpose demand, coming from consumption, the leverage of greenwashing is worrying, as such an anticompetitive practice an unfair and irregular unevenness between competitors. The company that chose to greenwash generate illegitimate benefits to itself, to the detriment of its competitors – who bear the real costs and burdens of the agenda. Not to mention the loss of negative social externalities, consumer deception and lack of assistance in meeting global goals.

On the other hand, the adequacy of companies to ESG requirements is imperative to survive in the competitive market. Although still lacking great maturity and in a more helpless way, economic organizations have intended movements in commitment to the ESG agenda, readjusting their commercial and management strategies, as well as their production and innovation systems. The expenditure of specific budgets for ESG is also a growing aspect, which requires an effort in the revenue replanning, considering that the rest of the (costly) operational chain for the functioning of organizations remains the same, only with the addition of sustainability.

Non-adequacy, otherwise, entails financial, physical, and reputational risks. The bottom-up pressure coming from the consumer all the way to the chain's top says a lot about the business probability of success. In the same sense, the practice of due diligence is growing in order to ensure that suppliers and related parties are adapted to the ESG agenda and faithfully practice their commitment – under penalty of contaminating the entire trade and production chain.

In this line, the business organization that manages to adapt itself to the ESG agenda gains a competitive edge, with an outstanding advantage and distinction from its competitors. Furthermore, they add market value to their products and services, as well as to intangible assets, such as brands, name and corporate reputation. Indirectly, adapting to ESG practices allows the company to review its internal processes, raising the opportunity to improve management, reduce unnecessary expenses and prevent unwanted risks.

The ESG demand should be seen especially from the small companies' reality. These organizations which are almost all active companies in Brazil, have particularities arising from their structures that hinder the adaptation of the agenda. As main characteristics, smaller businesses have lean management structures, with informalities and greater difficulties in accessing and implementing measures. In addition, the malleability to bear new costs is lower, and the budget for investments and new technologies is also limited.

However, it is possible to conclude that despite the negative internalities inherent to the small companies, these categories of businesses also have advantages such as speed for adaptations because of their simpler structures, culture and appreciation from the local commerce and others such as legal incentives. Thus, although adapting to the ESG agenda is challenging, it is possible that smaller companies can adjust to this demand, as long as they do so in the assessment of their reality and respecting their particularities.

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