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Article

We're a Small Business – Do we Really Need to Report on ESG?

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Please note this content was curated for SME businesses in the UK

ESG Small Businesses

Environmental

Limit your carbon footprint, reduce waste and become the sustainable business your customers want to see.

Social

Engage with your local community and improve colleagues' wellbeing to be a valued and responsible business in your sector.

Governance

Work transparently and ensure legal compliance to improve decision-making, reduce risk, and attract customers, suppliers and investors.

As a small business owner, ESG reporting might not be high on your list of priorities. You may think that ESG is of greater concern for larger companies. You might not even be quite sure what it means. However, reporting on ESG could deliver tangible benefits for your business that go far beyond monitoring your environmental performance.

In this article, we:

- define ESG in layman's terms
- outline the business benefits of ESG reporting
- set out straightforward steps for how a business like yours could get started
- explore how to communicate your ESG reporting

What is ESG and Why do I Need to Report on it?

ESG stands for Environmental, Social and Governance. Environmental is about the measures your company takes to minimise its impact on the environment; Social concerns your business's workplace culture and how it impacts your local community and wider society; and Governance refers to the logistics of running a business, including your decision-making and reporting processes. **(1)**

Currently in the UK, there is no legal requirement for small businesses to report on ESG. However, mounting pressure from regulators, investors and customers for more information and clarity from small businesses suggests that this could soon change. **(2)**

With strong ESG performance, you can reduce your carbon footprint, improve staff retention, engage with your community and mitigate risks. Reporting on these things means much more than adhering to future regulatory requirements; it can enhance your reputation, attract investment and impress current and future employees.

Business Benefits of ESG Reporting

1. Attracting investment

Investors increasingly seek strong ESG credentials when providing grants, funds or loans. A business proposal that includes reporting on your workplace culture, local community, climate change and interaction with the wider economy and society could increase your chances of securing finance. Lending institutions are now accustomed to considering ESG compliance when approving loans, and you may be able to secure better repayment terms. **(3)**

2. Enhancing Your Reputation

Reporting on your ESG performance demonstrates your business's credibility and transparency to a range of audiences, which can help build trust. More environmentally aware customers and clients prefer brands that align with their values, and the best talent often chooses to work for companies with strong ESG credentials. Also, when tendering for business with suppliers, partners and investors, you could be more

likely to stand out if you can demonstrate your commitment to ESG. **(4)**

3. Future-proofing Your Business

ESG reporting can help mitigate the risk of legal challenges and build resilience for your small business – especially with potential regulatory requirements coming down the

track. It can also make you a more attractive partner for larger companies that need to ensure, by law, that their supply chain is ESG-compliant. For example, failing to report on your carbon footprint could jeopardise contracts with businesses that demand transparency on Scope 3 emissions (which include emissions across their supply chain). **(5)**

Getting Started with ESG Reporting

ESG reporting might feel complicated and time-consuming, but with a little planning and thinking through your specific business needs, there are several manageable steps you can take.

1. Focus on Relevant Metrics

There isn't a one-size-fits-all solution for ESG reporting. Bearing in mind your product, brand and sector, consider what the best approach could be for your business. For example, if you own a café, you might want to advertise your responsible food sourcing. Or if you're a small manufacturer, you could monitor your greenhouse gas (GHG) emissions and energy efficiency.

2. Use Existing Frameworks

Starting from scratch needn't mean reinventing the wheel. There are lots of useful frameworks out there to provide structured guidance and simple tools for tracking your ESG performance. Many include tailored support for small and medium-sized businesses, such as B Corps Certification and the Global Reporting Initiative (GRI). **(6)** Some practices are as simple as updating a spreadsheet, so you may discover that ESG reporting is more straightforward than you imagined.

3. Set Small, Achievable Goals

It's important to be realistic and give yourself actionable goals that will help provide a sense of progress. For example, you might aim to switch to more energy-efficient appliances within a year, begin surveying staff on your workplace culture, or put tools in place for better financial reporting. Setting these small goals could help build a culture of sustainability and social responsibility that motivates staff to feel included in your ESG journey.

Effectively Communicating Your ESG Reporting

To reap the full benefits of ESG reporting, you'll need to share your good work with relevant audiences – from customers to investors, staff to suppliers. Here are three tips to help with your communications.

- **Be Transparent**

As public scepticism about companies' green claims grows, telling an honest story about your ESG journey is more important than ever. For example, you may want to share relatable challenges you needed to overcome – as well as your progress and achievements. Transparency in your ESG communications can help build trust and illustrate your dedication and accountability.

- **Keep it Simple**

One of the barriers to engagement with ESG is the amount of jargon-heavy information you often have to wade through. Using plain English and simple infographics and charts can help ensure that even people unfamiliar with the area can appreciate your efforts.

- **Focus on Tangible Results**

Highlighting key milestones and measurable impacts will likely impress customers, suppliers, staff and investors alike. For example, you may want to share key data around reducing your carbon footprint or changes that have tangibly improved your workplace culture.

ESG reporting can deliver significant business benefits. So, while it isn't mandatory, it's a good idea to consider how it might improve your company's profile and performance. You don't need to do everything all at once – a few small first steps to get you into the habit could soon lead to a range of positive outcomes for your business.

1 British Business Bank: https://www.british-business-bank.co.uk/business-guidance/guidance-articles/sustainability/what-is-esg-a-guide-for-smaller-businesses
2 Outbooks: https://outbooks.co.uk/importance-of-esg-reporting-for-smes
3 MHA: https://www.mha.co.uk/insights/why-smes-should-lead-not-follow-when-it-comes-to-esg
4 Praxis42: https://praxis42.com/resources/hr/what-are-esg-reporting-requirements-uk
5 Insights: https://www.mha.co.uk/insights/why-smes-should-lead-not-follow-when-it-comes-to-esg
6 ESGpro: https://esgpro.co.uk/esg-reporting-frameworks

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