



The SME guide to ESG





When thinking about something as vast and all-encompassing as climate change, it's easy to feel small and insignificant. How can one business make a difference to something that's affecting billions on a global scale? However, every organisation and the people within it have the power to affect those around them and improve their local community and the environment they operate within.

Being considerate of others, reaching out to offer a helping hand can make a huge difference, spreading goodwill and positivity at a time when it's easy to dwell on the uncertainty and gloom that exists currently. With budgets for many being squeezed, this doesn't have to be expensive, there are so many other ways to make a positive change. Offering time, resources or equipment to those who may benefit from it in the local community are just as useful. Customers and employees want to be associated with companies that not only say the right thing but follow these up with actions.

We work with dozens of organisations who want to do the right thing. They want to work to the highest standards to ensure they are doing all they can to support and protect their employees, their supply chain, their customers, their stakeholders and the community around them. Being both a responsible and ethical business is important to them and choosing Prosure360 is a way they can demonstrate this in practice.

Creating a policy around environmental, social and governance issues further embeds these principles within an organisation. We know this can be a daunting challenge, especially for small and medium-sized businesses with limited resources and lacking specific expertise in this area.

Prosure360 is more than a verification, it is a community where trusted suppliers can be found, all committed to upholding the highest standards. That's why we created a guide for SMEs on ESG, making it more accessible and relevant for our customers and others who are interested. It explains more about ESG, why it is important and how to build a tailored strategy.

We hope you find it useful.

Rob Mead

Managing Director Prosure360



The SME guide to ESG

Every organisation, no matter their size, influences their local community and the wider environment. Of course, for multinational organisations, this impact is extensive and far-reaching, but the impact for small and medium sized businesses should not be overlooked or dismissed.

In the UK there are an estimated 5.5 million SMEs which account for 99.9% of the business population. Together, these businesses have a substantial effect on where they operate and how they operate impacts all those connected to them.

This guide looks at why SMEs should take this topic seriously and provides guidance on creating a strategy to measure their impact on the places and people they are connected to.

What is ESG?

ESG stands for environmental, social and governance. It was a phrase first used by the United Nations in the early 2000s as part of their attempt to encourage businesses to operate in a more ethical and responsible way.

The collective term is used to describe a business's impact on the people and world around them. It also covers the effectiveness and transparency of their policies and procedures in respect to the running of the organisation – are their audits and controls in place to ensure it operates in a fair and responsible way?

An ESG strategy measures how well a business integrates environmental, social and good governance practices into the company and business model. It also measures the sustainability of the operation, something that is becoming more important given the climate crisis facing the planet.



Why is ESG important

Even the smallest businesses can benefit from creating an ESG strategy. By reviewing everything from your processes and resource management to your supply chain and employment practices you can mitigate against risks more effectively and reduce costs. In the current challenging business environment, every advantage you can gain is precious.

Today's businesses are under more scrutiny than ever. Peer-review and comparison sites means the reputation of your organisation matters and potential customers, stakeholders, investors and partners want to work with those that operate to the highest standards. Having a clear and visible ESG strategy in place demonstrates your commitment to working ethically and responsibly.

While ESG reporting is not mandatory in the UK for companies with less than 500 employees, legislation was passed in 2019 targeting Net Zero greenhouse gas emissions for all organisations by 2050. Having an ESG framework in place means there is a mechanism to monitor progress against this target, demonstrating a commitment to this goal.

With the announcement at COP27 that there is "the urgent need for deep, rapid and sustained reductions in greenhouse gas emissions" to limit global warming to just 1.5 degrees centigrade, every organisation needs to play their part to protect the planet for future generations.



Why embrace an ESG strategy?

There are many reasons why SMEs should embed an ESG strategy into their business, not least that it makes sound business sense. Ethical spending has hit record highs, rising four-fold in the last 20 years¹. Here are a few others:

Customer demand

One of the first rules of business is that “the customer is always right” and today’s customers want to buy from companies they trust to behave responsibly. In fact, more than half of UK consumers would never buy from a brand again if it was accused of working with unethical suppliers².

Customer satisfaction

Delivering a product to customers that is consistent with your advertising promises and meets their expectations, means they will keep coming back for me as they trust you will deliver what you say you will.

Brand building

Consumers want to buy from brands they think are responsible and ethical. This is especially important to young people, who will increasingly make up a bigger percentage of customers. 66% of 18 to 24 say they are likely to buy from a brand that has strong ethical and sustainable credentials compared to just 46% of those aged 65 and over³.

Employee attraction and retention

Just as consumers want to buy from ethical organisations, people want to work for responsible businesses they can be proud to be associated with. Again, this is especially important for those just entering the job market. Two thirds of 18- to 24-year-olds feel it is important to work for a company committed to acting sustainably and a quarter say they would never work for a company that followed unsustainable practices⁴.

Pressure from stakeholders and your supply chain

The same pressures to act responsibly and ethically are also coming from stakeholders, particularly potential investors. 35% of investors are driven by moral or ethical reasons⁵ and this figure is climbing. To protect their reputation and maintain the highest possible standards, organisations are also increasingly looking to work with suppliers they can trust.

¹<https://www.business-live.co.uk/enterprise/can-ethical-business-really-make-19136096>

²[https://internetretailing.net/sustainability/more-than-half-of-uk-consumers-would-avoid-buying-from-brands-accused-of-working-with-unethical-suppliers-23767/#:~:text=Almost%20two%20thirds%20\(63%25\),abide%20by%20an%20ethical%20code.](https://internetretailing.net/sustainability/more-than-half-of-uk-consumers-would-avoid-buying-from-brands-accused-of-working-with-unethical-suppliers-23767/#:~:text=Almost%20two%20thirds%20(63%25),abide%20by%20an%20ethical%20code.)

³<https://www.statista.com/statistics/1296905/uk-ethical-retailer-preference/>

⁴<https://www.hrreview.co.uk/hr-news/younger-employees-prefer-to-work-for-sustainable-companies/140909>

⁵<https://collyerbristow.com/shorter-reads/esg-credentials-private-investments/>

What do the three elements of ESG cover?

ESG is designed to make sure organisations look after the environment around them, are responsible businesses and are led by management that is accountable for their actions. The three elements cover:

Environmental

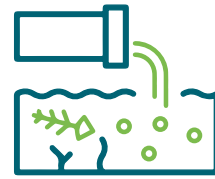
This is everything to do with the environment that any business operates in. This includes their supply chain, so would cover how any resources the company uses are produced and transported. This area encompasses the following:



CLIMATE POLICIES



ENERGY USE



POLLUTION



WASTE
MANAGEMENT



MANAGING AND
MITIGATING AGAINST
ENVIRONMENTAL RISKS



NATURAL RESOURCE
CONSERVATION

This strand would cover plans such as limiting greenhouse gas emissions or increasing recycling.



Social

This looks at the organisation's relationship with their internal and external stakeholders. Internal stakeholders are employees, so part of an ESG strategy should ensure staff have the correct support and training to keep them healthy and safe at work. It should also make sure that everyone is treated fairly and equally.

External stakeholders include the following:



**YOUR
SUPPLY CHAIN**



INVESTORS



**PARTNER
ORGANISATIONS**



**AGENCIES AND
CONTACTORS**



**THE
LOCAL COMMUNITY**

Any ESG strategy should ensure the standards you work to meet or exceed any required in your industry and these should be clearly communicated to all the interested parties listed above. You should also require any organisations you work with to meet these standards too.

This section should also include any Corporate Social Responsibility (CSR) activity that may cover things like supporting charities, contributing to local initiatives to benefit the community or giving employees time off for volunteering.

Governance

This element covers how the company is run. It requires an organisation to follow accurate and transparent processes around their finances and for their leaders to act with fairness and integrity. This would also cover fair and transparent procurement, with clear guidelines available showing how and why suppliers are chosen.

How to create a relevant ESG strategy for your business

Implementing an ESG strategy into your business is a two-step process.



Measure and document your current position to find out your starting point. Review how the business currently impacts the environment, those involved with the business and your processes for running the company.

To get this step right, you will need to:

- Decide what areas you want to focus on as a business – draw up a list of priorities that as a business you feel are most important.
- Gather information relating to your chosen areas – for example using a [carbon footprint calculator](#) to gauge your current greenhouse gas emissions.
- Interview key stakeholders such as employees, customers or suppliers to see what is important to them to make sure you capture these in your plan.
- Review what competitors and other similar sized companies are doing and see where you stand against them and where you might be performing well or need to improve.
- Once you have all this information, review the data to doing the following:
 - o Set a baseline to see where you are now
 - o Spot gaps in your knowledge or current processes that need to be addressed
 - o Identify what areas in the business should be involved in creating the strategy
- Create goals that you want to achieve. These should be SMART – specific, measurable, achievable, realistic and timed.

How to create a relevant ESG strategy for your business

Implementing an ESG strategy into your business is a two-step process.



Now you have established your goals, step two is about putting a strategy in place to achieve them. The specific programme you will create will be unique to your business, based on what is important to your business, but the following points will help get on the right track to make that happen.

- **Create an ESG team** – look for employees to be involved who have a passion for what you are trying to achieve and who have the authority and drive to bring your plan to life.
- **Invest in your plan** – make sure you provide the budget and resources needed to reach your goals. There are potential savings to be made such as reducing energy use and waste, so make sure you include these in your calculations.
- **Get your employees involved** – from the start, communicate with them about what you are doing. Encourage them to their own ideas about change and to think about what changes they could make on a personal level to help reach your targets.
- **Include your supply chain in this process** – let them know what you are doing and encourage your employees who deal with them to reinforce what you are trying to achieve. Look at how you could alter your processes or contracts to reinforce best practice.
- **Monitor your progress** – put processes in place to check how far you have come and what still needs to be done, embedding these regular reviews into your business. This can be part of the responsibilities of the ESG team.
- **Communicate your successes** – ESG strategy is all about being more open and transparent so make sure you keep all stakeholders across your progress and let them know when improvements can be made. Be proud to be a business who is trying to do the right thing.



How verification can support ESG in your business

One of the drivers for creating an ESG strategy is showing all those that you work with that you have taken steps to mitigate risks and follow best practice. Obtaining verifications, such as Safety Schemes in Procurement (SSIP) demonstrate that your processes have been independently audited and approved and that best practice is embedded in your business.

Some organisations will only work with companies or contractors that hold certain verifications; they provide the reassurance that health and safety considerations are being taken seriously. Becoming verified has the power to help maintain current relationships and open up new opportunities.

They can help you create a network made up of those who are committed to the same standards and ethics that are important to your company, indicating which organisations might be a best fit as potential partners.



Get ready for the future

Creating an ESG strategy is not a “once and done” process. It is something that needs to be continually monitored and assessed to make sure it remains for purpose.

As the world evolves, ESG plans must evolve too. For example, as temperatures rise and extreme hot weather becomes a more regular occurrence in the UK, certain businesses may want to consider what processes they should introduce to mitigate its impact.

To keep your ESG strategy live and current, make sure your ESG team meets regularly, reports on their progress and has a platform within your organisation to keep talking about the issues.

As the demand for companies to act more responsibly and sustainably grows, it is likely that further legislation may be introduced to underpin this shift. Creating an ESG policy now means you will be better prepared to meet any new regulations that are introduced.

3,000+
team members

1,500
compliance experts

30m
assets tested and
inspected each year

Prosure360
Verified

@prosure360

@prosure360

@prosure360

London Office:
20 Grosvenor Place,
London,
SW1X 7HN

E: info@prosure.com

T: 0203 404 6750

W: www.prosure360.co.uk

