



**Unlocking the Potential:**  
Why small businesses in the UK  
should embrace ESG

## **Unlocking the Potential:**

Why small businesses in the UK should embrace ESG

In an era of increasing global awareness for environmental, social, and governance (ESG) issues, small businesses in the United Kingdom find themselves at a crossroads. This whitepaper explores the reasoning for small businesses to prioritise ESG principles. It outlines the benefits, challenges, and practical steps that business owners should take when looking to introduce or refine an ESG strategy.

By embracing ESG small businesses can not only demonstrate clarity of actions with regards to sustainability, they can also unlock extra value, from both a financial and brand point of view.

## Table of Contents

1. Introduction
  - a. The ESG Landscape
  - b. Purpose and Structure of the Whitepaper
  
2. Understanding ESG
  - a. Environmental Considerations
  - b. Social Impact
  - c. Governance and Accountability
  
3. The Case for Small Businesses
  - a. The Role of Small Businesses in the UK Economy
  - b. Competitive Advantage Through ESG
  
4. Benefits of ESG for Small Businesses
  - a. Enhanced Reputation and Brand Value
  - b. Access to Capital
  - c. Improved Risk Management
  - d. Attracting and Retaining Talent
  - e. Long-Term Sustainability and Resilience
  
5. Overcoming Challenges
  - a. Resource Constraints
  - b. Lack of Awareness and Expertise
  - c. Integration into Business Strategy
  
6. Steps to Implement ESG in Small Businesses
  - a. Conducting a Materiality Assessment
  - b. Setting Clear Goals and Targets
  - c. Stakeholder Engagement
  - d. Reporting and Transparency
  
7. Conclusion
  - a. The Path Forward for Small Businesses
  - b. Call to Action

## 1. Introduction

### **The ESG Landscape**

The global business landscape is undergoing a transformation. Environmental sustainability, social responsibility, and governance practices (ESG) are no longer peripheral concerns but have become central business initiatives that ensure ethical and accountable business conduct.

Whilst economic pressures facing businesses due to inflation and the rising cost of capital have unsurprisingly led businesses to focus heavily on cost control, it is easy to forget that alongside a framework that evaluates a company's impact on the world beyond profit margins there are still significant financial benefits to be gained from ESG, and as such real value to be derived from keeping it high on the agenda.

### **Purpose and Structure of the Whitepaper**

This whitepaper aims to shed light on the critical need for small businesses in the United Kingdom to embrace ESG principles. We will delve into the reasons why ESG matters for small businesses, the tangible benefits it brings, and practical steps to implement ESG strategies effectively.

## 2. Understanding ESG

### **Environmental Considerations**

Small businesses in the UK can significantly reduce their carbon footprint by adopting sustainable practices. This includes energy efficiency, waste reduction, and responsible sourcing of materials throughout their supply chain. Commitment to environmental sustainability not only helps protect the planet but also lowers operational costs by shining a spotlight on areas for improvement and initiating discussion on actions that can be taken.

### **Social Impact**

ESG encompasses a broad range of social aspects, from fostering diversity and inclusion within the workplace to community engagement and philanthropy. Small businesses can positively impact society by supporting local initiatives, ensuring fair labour practices, promoting employee well-being and harnessing employers and employees' desire to make a positive difference.

### **Governance and Accountability**

Strong governance ensures ethical decision-making and accountability within a business. It involves transparency, robust internal controls, and responsible leadership. Small businesses that prioritise governance build trust with stakeholders, shareholders and enhance their long-term viability.

### 3. The Case for Small Businesses

#### **The Role of Small Businesses in the UK Economy**

Britain has approximately 5.7 million small and medium enterprises (SME's) which make up 99.3% of private sector businesses. They form the backbone of the UK economy, contributing significantly to employment, economic growth and, due to their collective size, emissions. As such when the groundswell of SME's embrace ESG they will amplify their collective impact on sustainability, CO<sup>2</sup> emissions and deliver improvements on a dramatic scale.

#### **Competitive Advantage Through ESG**

ESG is not just a moral obligation; it presents a strategic advantage. Small businesses that proactively integrate ESG principles into their operations can gain a competitive edge by attracting conscious consumers, investors, and partners.

A recent study by one of the top consulting companies\*<sup>1</sup> in the world found that businesses in the UK who focus on ESG have **8.5% higher annual returns** than those doing nothing.

### 4. Benefits of ESG for Small Businesses

#### **Enhanced Reputation and Brand Value**

Small businesses that demonstrate a commitment to ESG earn increased trust and loyalty from customers. A strong ESG reputation enhances brand value and can contribute to increased sales and higher customer retention.

#### **Access to Capital**

Investors are increasingly looking for businesses that align with ESG values. Small businesses with robust ESG practices have improved access to capital, including sustainable financing options and venture capital investments.

According to the CBI, **two-thirds of investors take ESG factors into account** when investing in growth businesses meaning ESG has the potential to grow your business while benefiting the environment and community

#### **Improved Risk Management**

ESG practices help small businesses identify and mitigate risks, such as regulatory compliance issues, supply chain disruptions, and reputational damage. By addressing these risks proactively, businesses can protect their bottom line.

#### **Attracting and Retaining Talent**

ESG policies play an important role in attracting and retaining talent. In a highly competitive job market, talented candidates seek not only employers who share their values and commitment to sustainability, but also jobs that allow them to make a difference and contribute to a positive impact in the world. Companies that adopt strong ESG practices become more attractive to these candidates. By demonstrating a genuine commitment to ESG policies, companies create a differentiated and solid employer brand.

## Long-Term Sustainability and Resilience

Small businesses that incorporate ESG principles into their strategies are better positioned to adapt to changing market dynamics, regulatory shifts, and consumer preferences. ESG fosters resilience and long-term sustainability.

The following table demonstrates the value of a strong vs a weak ESG approach.

	Strong ESG proposition (examples)	Weak ESG proposition (examples)
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations.	Lose customers through poor sustainability practices (e.g. human rights, supply chain) or a perception of unsustainable/unsafe products. Lose access to resources (including from operational shutdowns) because of poor community and workforce relations.
Cost reductions	Lower energy consumption Reduce water intake.	Generate unnecessary waste and pay correspondingly higher waste-disposal costs. Expend more in packaging costs.
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support.	Suffer restrictions on advertising and point of sale. Incur fines, penalties, and potential enforcement actions.
Productivity uplift	Boost employee motivation. Attract talent through greater social credibility.	Deal with “social stigma,” which restricts talent pool. Lose talent as a result of weak purpose.
Investment and asset optimisation	Enhance investment returns by better allocating capital for the long term (e.g. more sustainable plant and equipment). Avoid investments that may not pay off because of longer-term environmental issues.	Suffer stranded assets as a result of premature write-downs. Fall behind competitors that have invested to be less “energy hungry”.

## 5. Overcoming Challenges

### Resource Constraints

Small businesses may initially perceive ESG implementation as resource intensive. However, prioritising ESG can lead to cost savings over time and access to financial incentives and grants.

### Lack of Awareness and Expertise

Many small business owners may lack awareness of ESG or the expertise to integrate it effectively. Seeking guidance from ESG consultants and industry associations can help bridge this knowledge gap.

### Integration into Business Strategy

To succeed with ESG, small businesses must embed it within their core business strategies. This requires commitment from leadership, alignment with company values, and consistent execution.

## 6. Steps to Implement ESG in Small Businesses

### **Conducting a Materiality Assessment**

Identify ESG issues that are most relevant to your business and stakeholders. Prioritise those that have the most significant impact and align with your company's values and goals.

### **Setting Clear Goals and Targets**

Define measurable ESG goals and targets. Ensure they are specific, achievable, and aligned with your business strategy. Regularly track and report progress.

### **Stakeholder Engagement**

Engage with employees, customers, suppliers, and local communities to understand their ESG expectations and concerns. Incorporate their feedback into your ESG initiatives.

### **Reporting and Transparency**

Develop a transparent reporting framework to communicate your ESG performance. Regularly share updates with stakeholders, demonstrating your commitment to accountability.

## 7. Conclusion

### **The Path Forward for Small Businesses**

ESG is not a trend; it is a fundamental shift in how businesses operate and interact with the world. Small businesses in the UK have a unique opportunity to lead the way in sustainable and responsible business practices. Embracing ESG principles is not only the right thing to do—it is the path to long-term success, resilience, and positive impact.

### **Call to Action**

It is time for small businesses in the UK to recognise their role as ESG champions. By prioritising environmental, social, and governance considerations, small businesses can unlock their potential, contribute to a sustainable future, and thrive in a changing world.

This whitepaper provides a 20,000 ft view on why small businesses in the UK should focus on ESG, emphasising the benefits, challenges, and actionable steps involved. By adopting ESG principles, small businesses can not only enhance their sustainability and competitiveness but also contribute to a more responsible and ethical business landscape.

References: \*1 <https://www.kroll.com/en/insights/publications/cost-of-capital/esg-global-investor-returns-study>