Cofounder & CEO, Daniel Jeczmien and cofounder & Chief ESG Officer, Marc Lepere

Why do small businesses need to monitor their ESG? We spoke to the experts

Startups are created to fix problems, but innovation often comes at a cost. New businesses bring added pressure on the environment through their water usage or carbon emissions. Controlling these issues, while ensuring a healthy working environment and diverse workforce undoubtedly impact the reputation and success of any company.

For more and more small businesses, taking account of environmental, social governance factors (ESG) is crucial to growth. Cause-driven consumers are increasingly aware of the ethical and environmental impacts of their consumption habits, while investors and regulators are demanding proof of the care taken by their portfolio companies to account for these factors.

Founded in Spring 2021, *ESGgen* is helping companies realise that accounting for ESG factors is crucial for their long term reputation and material value, and is giving them the tools to measure this.

Founder and Chief ESG Officer, Marc Lepere was inspired to launch the company following his own academic interests.

“I’m studying crises and how companies respond to them, and whether in responding to a crisis, a company becomes more responsible. One of the ways I’m measuring responsibility is ESG.”

Drawing from his research, which he is now completing at King’s College London, Lepere soon realised the gap in the market for small and medium sized businesses (SMEs) to manage and account for their ESG. As companies, consumers and investors alike adjust to the reality that an ethical and environmentally driven company profile drives both consumers satisfaction and sales, a a number of complex tools and ratings has become available to regulate ESG. These are mainly targeted at large corporations.

“What we’ve ended up with is a complex mix of frameworks, principles and guidelines within which companies can self-report. It’s a very complicated marketplace,” explained Lepere. “All of this is designed for large, capitalised companies and institutional investors.”

> *“Once we looked at the ESG marketplace, we realised there’s hardly anything for SMEs,” he continued. One key thing about ESGgen is that our solutions are targeted solely at SMEs and their investors.”*

Tackling half the problem won’t lead to the full solution

Since SMEs, including startups, makeup over 50% of the UK economy, tackling environmental and social inequality means targeting the companies which account for more than half of this. It is this fact that drives ESGgen’s aim to help SMEs account for the wider impacts of their innovation.

> *“If you only look at half of the problem, which is*

> *large cap companies, then you're never going to get 100% of the solution. It doesn't make any sense," explained Lepere. "They (SMEs) have to be included in the effort and they shouldn't be left behind."*

Managing ESG is becoming inescapable for small businesses. It's not only investors, regulators and funding bodies who are demanding accountability, but customers, particularly young people, are also attracted to sustainable businesses. A *recent survey* from CNBC estimated that a third of millennials and a further 19% of Gen Z are only interested in investments which take ESG factors into account.

"What's in it for SMEs is that they're playing their part in the bigger challenges that the world faces. Another thing that SMEs are finding is that their customers and investors are now demanding this information and employees are expecting it. People are beginning to realise that they have to grasp this, and we need everybody playing their part," continued Lepere.

Added material boost

Accounting for ESG factors is not only important for allowing SMEs to contribute to tackling social and environmental equalities. It also boosts the material value of the company.

"From a financial point of view, they are material things," Lepere points out. "If you save CO2 emissions by switching to an alternative energy provider, you're doing good for the climate, but you're also almost certainly saving money."

> *"If you look after your employees by way of training them well and supporting them with benefits and sick pay, you're probably not going to lose employees that often. There's a big cost saving in that. Material advantage is a very underdeveloped*

part of the conversation."

The ESGgen method

Despite the pressure for companies to report their ESG, existing methods of doing so are complex and inaccessible. With a number of ESG variables to account for, and various databases and frameworks in place for doing so, ESG ratings are difficult to standardise and compare between companies. The measuring and reporting process also requires long hours and a number of resources which small companies can neither access, nor afford.

"It's a nightmare for people and it makes it less usable, which is one of the reasons why it isn't catching on more quickly," explains Lepere.

ESGgen has since developed a more consistent method to fix the problem. A scorecard for measuring ESG made up of almost 30 core variables can be used in a standardised way across companies, allowing for direct comparison.

"We're not suggesting that this is the final word on scorecards. It will evolve as understanding of this space evolves. It's not perfect for everything, but it's a core to which people can add some questions which they feel are relevant," Lepere said.

The scorecard is tailored specially to monitor ESG variables specific to SMEs and can be accessed easily via an online platform.

"Take something like CO2 emissions. Most of the big companies will report in megawatts, whereas small companies will report in kilowatts," explained Lepere. "Most small companies don't have fleets of vehicles. But we need to consider that the owners' cars double up as company cars. Big companies also talk much more easily about perhaps having diversity in the workforce. But if you've only got four employees, it's harder to be diverse. It's just making it relevant."

The antidote to greenwashing

With mounting pressure on small businesses to adopt an ethically and environmentally sound profile from the start, it is often difficult to know whether companies are truly implementing ESG standards, or whether short term solutions can lead to papering over risks and greenwashing.

With the help of chartered accountants certified in ESG, the company aims to provide the “antidote” to greenwashing, offering an independent audit to ensure company claims are true.

“The thinking is that “you’ve told us your CO2 emissions are X, but how do we know? Most ESG reporting just stops there, and companies could be greenwashing. What we’re doing is we’re looking at the actual utility bills and saying, “yes, it’s true,” so it’s a proper audit,” said Lepere. “Our thinking is, if this stuff is material for the business and has a real value, which it does, then why wouldn’t you have it audited? Why stop short of the best we can possibly do?”

As the climate crisis escalates even further, and questions about equality and diversity necessarily take up more space in the minds of consumers and investors alike, accounting for ESG variables is crucial for the success of any small businesses. Monitoring and measuring these factors is essential in any business strategy. It’s crucial companies have the correct tools to do this.

“By unlocking the value of ESG for SMEs, we help to get the most innovative 50% of the economy working on the world’s most burning problems, ” concluded Lepere. “That’s our ultimate mission.”

Marc Lepere is the Founder of and Chief Science Officer at *ESGgen*.

Article by ABBY WALLACE