

Join The Dots: SMEs daunted in face of ESG demands

Curation and Maddyness have created Join the Dots, a platform dedicated to ESG that highlights the need for businesses to look at all three in correlation. At our launch event, we invited three experts to discuss the E, the S and the G along with a moderator. The result? A masterclass in how joined up thinking can drive both a sustainable and profitable business.

Join the Dots is a series of podcasts, events and articles designed to equip your business with the knowledge to navigate and understand the complexities of ESG.

Marc Lepere is founder and chief science officer at ESGgen, an accounting-grade platform for non-financial metrics like ESG. Speaking to Maddyness UK, Marc discusses reporting on ESG and the knowledge gap impacting progression in this area.

Not so long ago, ESG was on few founders' radars – and actively embraced by even fewer. In 2022, this is no longer the case. The climate crisis becomes more pressing by the day, and inequalities in the way we work were laid bare

by the pandemic. Consumer and investor demand for transparency on companies' environmental, social and governance footprints is rising, backed up by legislation set to make this mandatory.

Undeniably, many small business owners know what ESG is, and know that they need to care about it if they want to succeed. The will is there, and the pressure is on. But how easy is it, in practice, for SMEs to follow through with action? Initial data suggests it's not as easy as it should be. Smaller businesses are daunted and unprepared in the face of new legal obligations like the SFDR and SDR, and the wider push for net-zero.

A 2022 study from Sage suggests that 33% of SMEs see cost as a barrier to greater sustainability, 27% feel they don't have the necessary time to spare, and 25% don't think they have the skills in house. Elsewhere, the British Business Bank adds that 12% feel there isn't enough information available.

There is also, more specifically, a knowledge gap in senior management when it comes to measuring and reporting on ESG. That's according to 2021 research into mid-market businesses from Grant Thornton. This suggested that 97% of respondents felt pressure from stakeholders on environmental and social issues, but that major barriers to progress remain: primarily, lack of senior management support, lack of understanding of what is required, and lack of resources.

As Grant Thornton's Head of UK Markets and Clients Dave Munton comments: "While the mid-market clearly recognises the critical nature of this agenda and are enthusiastic about their own efforts, these results show that many businesses lack direction and do not have a proper understanding of how and where to invest resources that will drive change."

"Measurement is fundamental," he continues. "To understand where to focus, change requires true understanding of a business's current impact and continual monitoring and reporting."

"It's important that business leaders are supported in developing a deeper understanding of their responsibility and the practical actions that need to be taken to embed ESG into their overall business strategy."

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The existence of the support Munton refers to – at a point accessible to smaller

businesses – is questionable. With regards to measurement, the first step towards making genuine progress on ESG, there is a real lack of clarity from governing bodies on steps to follow. The steps themselves are not hugely complicated, and the formulas to be followed are widely available, but what has been termed an 'alphabet soup' of reporting standards clouds the picture. There is insufficient centralised, user-friendly information available to match the urgent pressure on SMEs to measure and comply.

As a result, many SMEs are turning to private sector solutions. Last year, ever ahead of the curve, venture capitalists funded a raft of startups offering SaaS solutions for businesses hoping to measure their ESG. 67% of businesses across the UK, USA and Canada are, according to this report, now investing in systems and technology to measure ESG progress. While certainly making things easier for SMEs in the current climate, these startups must be wary about how much they are charging – and how it equates to the true value of the services they're offering. In the race to report on ESG, there's a thin line between setting prices in line with demand and outright profiteering.

Marc Lepere is an ESG Researcher at King's College London and Chief Science Officer at ESGgen.

Join the Dots is a collaboration between Curation and Maddyness. To get involved or collaborate with us for your own series, email hello@maddyness.com.

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