

ESG for small- and medium-sized businesses:

What you need to know



Our world is changing in profound ways. Canadian businesses have been tested in recent years by their ability to respond to urgent crises with decisive action while also maintaining the resiliency to generate returns. By all indications, businesses should expect this level of disruption to persist as technology, environmental factors, and societal expectations continue to shift and evolve.

Environmental, Social, and Governance (ESG) and sustainability continues to be a key conversation across the Canadian business and regulatory landscape—and is an increasingly important factor in building stakeholder trust and a competitive advantage. While much of the conversation focuses on large enterprises, small- and medium-sized businesses (SMBs) can derive significant value from an ESG program.

Growth strategies are often described as marathons rather than sprints—and this is especially true for ESG. As an emerging area with evolving issues, metrics and, reporting standards, developing and implementing an ESG program can be overwhelming. We outline four considerations to help demystify ESG as you prepare to include it in your business plans and communications.



- What is ESG?
- Why does an SMB need an ESG strategy?
- How can SMBs tell their ESG story?
- Where should an SMB start?

What is ESG?

ESG is a multifaceted approach that takes a holistic view of risks and opportunities for a wide range of stakeholders, including customers, employees, shareholders, investors, community members, regulatory bodies, and governments.

ESG and corporate social responsibility (CSR) are often used interchangeably, but there are subtle differences. CSR typically articulates a business' values and purpose to an internal audience, focusing on corporate volunteering and engaging with community organizations. Meanwhile, ESG demonstrates a broader view of how an organization's operations both impact—and are impacted by—the economy, society, and its environment. ESG strategies often focus on improving performance across environmental, social, and governance pillars, which can improve the valuation of the business.

While the acronym suggests that ESG considerations are discrete, there are significant areas of overlap.

Considerations under the ESG umbrella include:



- Climate change strategy
- Air and water pollution
- Resource depletion
- Carbon intensity
- Biodiversity



- Sustainable supply chains
- Diversity, equity, and inclusion
- Health and safety
- Labour rights
- Employee engagement



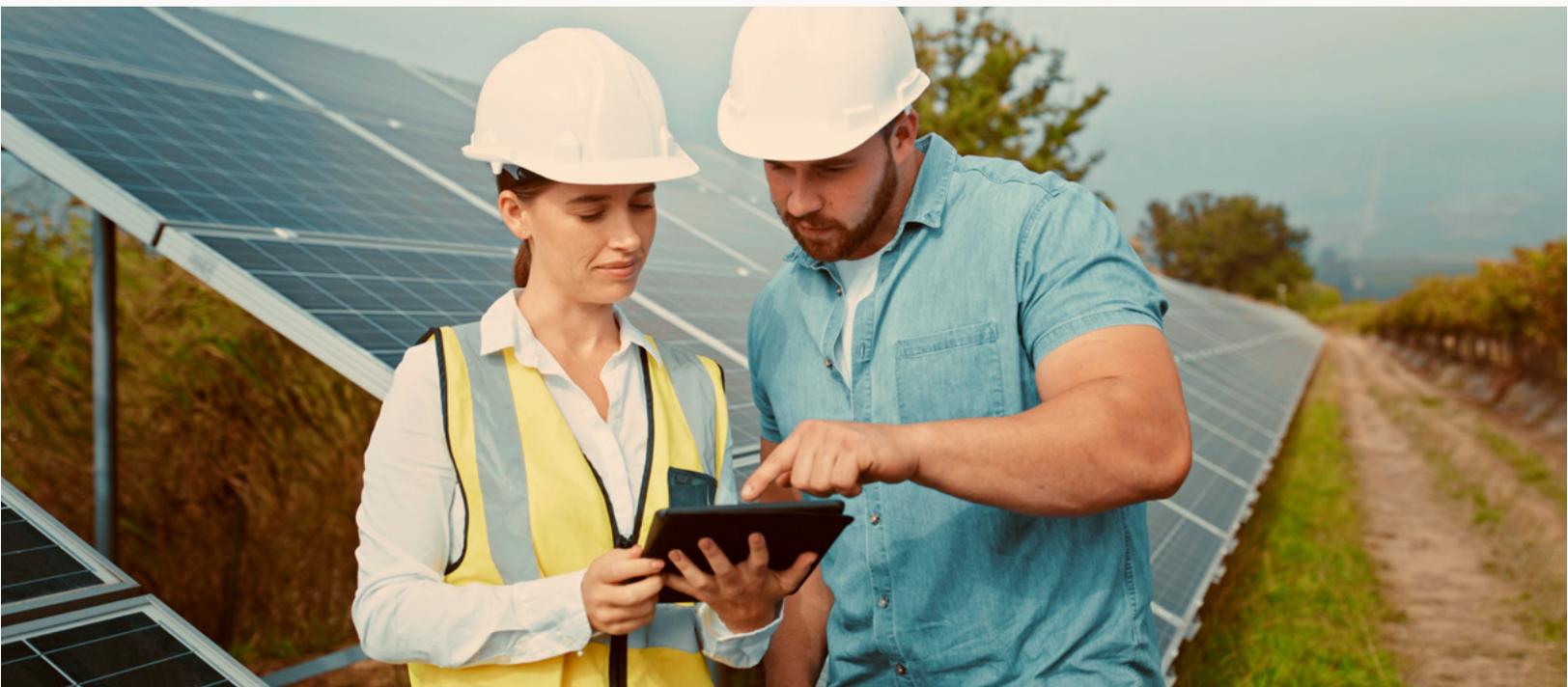
- Risk management
- Responsible governance
- Board composition
- Privacy and data protection
- Business ethics

ESG is rapidly gaining support with most of the world's economies and financial institutions. While measurement and reporting standards continue to evolve, every major developed capital market around the globe is focused on implementing some form of mandatory ESG reporting, and the International Sustainability Standards Board (ISSB) has been formed to provide a comprehensive global baseline for reporting a company's sustainability risks and opportunities.

SMBs shouldn't be left behind as the world embraces sustainability and well-resourced businesses advance their ESG programs in response to regulatory requirements. By collaborating with stakeholders and embracing innovation, SMBs can shape their future and hone a competitive advantage with ESG at the heart of their strategies.

Why does an SMB need an ESG strategy?

The global push for ESG standards has catalyzed national mandates. The Government of Canada and Canadian securities regulators have signalled that mandatory climate-related disclosures are coming—and SMBs will feel trickle-down effects from larger entities seeking to comply across their value chain. Developing a robust ESG program now can help to create long-term value for your stakeholders through more sustainable practices and will put your business ahead of the curve in terms of imminent disclosure requests.



ESG and social change

ESG is rewriting how businesses define and measure value by challenging the boundaries between purpose and profit. Research from Grant Thornton's International Business Report (IBR) survey shows that sustainability is now a major priority, with more than six in 10 mid-market businesses (62 per cent) believing sustainability to be as important or more important than financial success.



62%

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To that end, it's also important to consider the evolution of ESG within wider social contexts. The last few years have accelerated the business case for ESG, which now includes demonstrating an awareness of and desire to redress a range of environmental, social, and economic issues and crises.

An ESG program can create immediate and long-term value by addressing both purpose and profit—from savings through waste reduction and net-zero policies, to building a stronger workplace culture through substantive diversity, equity, and inclusion (DE&I) commitments.

Building customer trust and loyalty

SMBs are well-versed in the power of consumer advocacy. From expressing loyalty on social media to divesting from companies with incompatible values, businesses of all sizes are being held to a higher standard by a widening pool of stakeholders.

Strong governance can establish the “tone at the top” and build customer trust and loyalty by helping to anticipate and mitigate operational and financial risk.

Cost reduction

Any business owner will tell you that waste is expensive. SMBs can reduce costs by incorporating practices that have environmental and financial benefits, such as energy and water efficiency programs, waste-reduction initiatives, and hybrid work arrangements.

Improving recruitment and retention

In a particularly hot job market, ESG becomes a valuable recruitment and retention tool by offering further substance to culture and purpose. A third of IBR respondents who are prioritizing sustainability (33 per cent) said their actions were in response to concerns about attracting, motivating, and retaining staff.

Generational shifts are also shaping the drive toward ESG. With millennials and Generation Z— demographics that are holding employers to higher standards in terms of DEI and sustainability— expected to comprise 75 per cent of the workforce by 2025, time is of the essence for SMBs to develop an ESG strategy in order to retain and attract top talent.



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Diverse organizations are more productive, have better problem-solving abilities, and better retention rates. A measurable, action-based ESG program can also bolster your human resources function, from inclusive workplace benefits to transparent leadership pipelines.

How can SMBs tell their ESG story?

As the adage goes, SMBs starting their ESG journey should aim for progress, not perfection. A proactive approach is essential for SMBs to keep pace and remain competitive as stakeholders increasingly demand transparent, comparable, and decision-useful ESG information.

Securing contracts

An SMB that wants to secure contracts with a foreign-owned entity, a publicly-listed company, or a large Crown corporation that has strict ESG requirements may need to examine, and potentially alter, their business practices. This could include inventorying greenhouse gas emissions or having a clear understanding of its suppliers and vendors to ensure an ethical and sustainable supply chain.



Preparing for an IPO

A privately-held company that's preparing to be listed on the stock market should consider its own ESG record to appeal to a broader range of potential stakeholders and assess its ability to comply with imminent mandatory climate-related disclosures.

Anticipating financier requirements

The push for sustainability is reshaping the global investing landscape, including private equity and venture capital. Many lenders are also asking significant clients to clarify their ESG risks and the strategies they intend to pursue to maintain resilience as the world continues to change. SMBs can proactively develop and implement ESG objectives and reporting to meet financier information needs.

Where should an SMB start?

Developing and implementing an ESG strategy can help to meet your stakeholders' information needs while also creating a competitive advantage and enhancing resiliency. Working with an advisor can help to ensure that you're developing and reporting your ESG program with rigour and transparency to withstand scrutiny from a range of stakeholder while also building confidence that your investment in sustainability is providing real returns. An advisor can also keep you up to date with issues, metrics, reporting best practices, and forthcoming regulatory standards.

Have questions? Let us help.

Developing and implementing an ESG program can seem daunting—but you aren't alone. Our advisors can assist you with a range of ESG considerations, including strategy development, risk assessment, quantifying your current impact and driving performance to the next level.

[Contact us](#) today to learn more.



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