



Understanding ESG and Impact: A Guide for Small Businesses

Small Business Resources

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Introduction

In today's rapidly changing business environment, understanding and integrating ESG principles into your operations is more crucial than ever. ESG stands for Environmental, Social, and Governance, and it reflects the three central factors in measuring the sustainability and societal impact of an organisation. For small businesses, embracing ESG is not just about compliance—it's about driving growth, building trust, and staying competitive.

Why ESG and impact matters

Incorporating ESG practices into your business can offer significant benefits:

1. **Access to contracts** – From 2024, almost all large businesses (approximately 92%) will require their small business suppliers to share information about their environmental, social, and governance (ESG) efforts.
2. **Access to finance** – According to the CBI, two-thirds of investors consider ESG factors when investing in a business, meaning ESG has the potential to grow your business while benefiting the environment and society.

Why ESG and impact matters

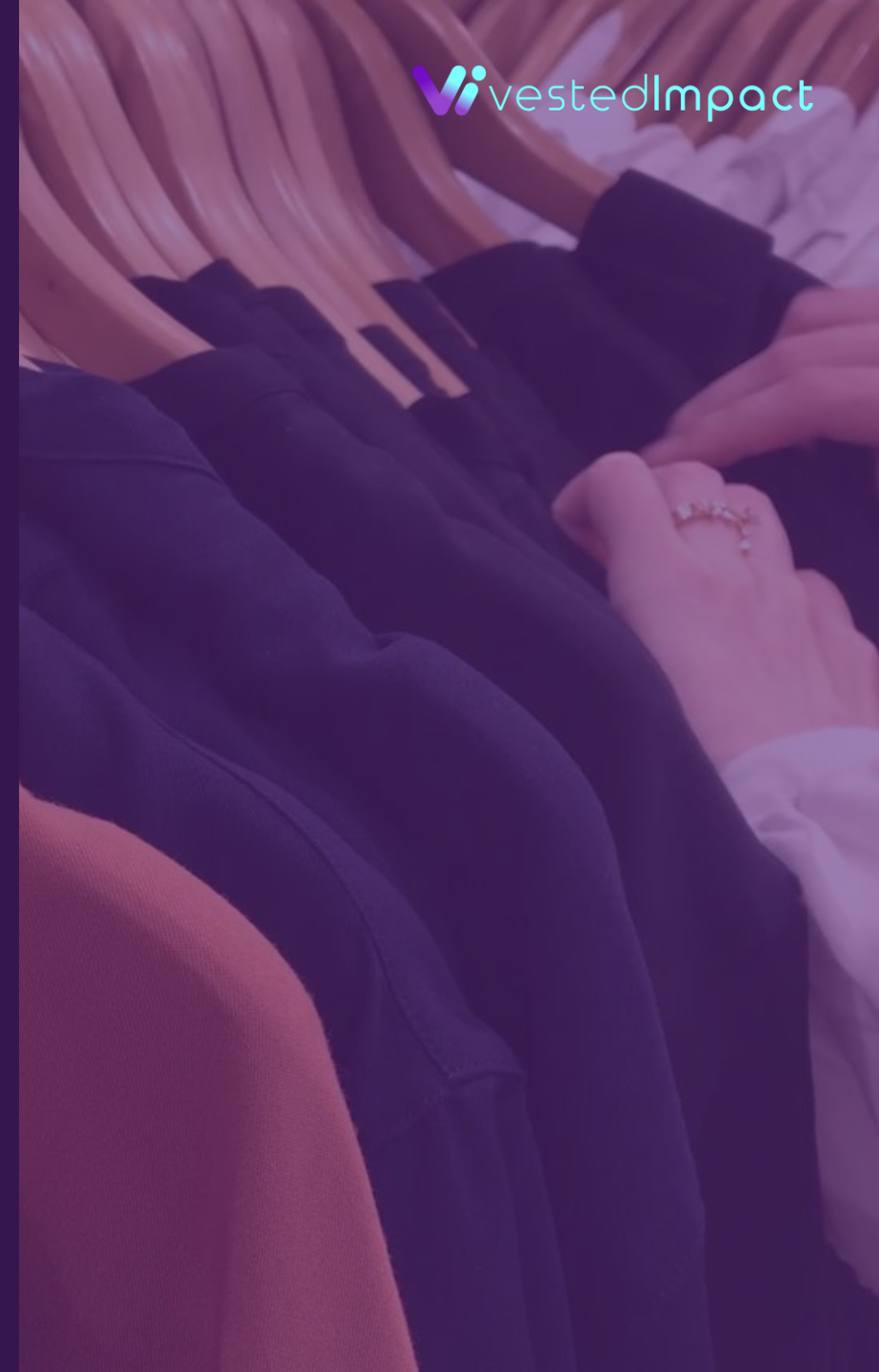
Incorporating ESG practices into your business can offer significant benefits:

- 3. Operations** – According to a study by the Business Development Bank of Canada, adopting ESG practices can create new business opportunities for half of small businesses, help 32% find and keep employees, and make it easier for 31% to access financing or investment.
- 4. Regulation & compliance** – Governments, especially in the EU, are introducing new rules like the EU Corporate Sustainability Reporting Directive (CSRD). The CSRD requires large businesses to be transparent about their impact and the impact of the small businesses they work with. Small businesses need to understand the impact of what they do to stay competitive and do business with larger corporations.

Breaking down ESG and impact

Traditional ESG criteria tend to focus on how the operations of a business are affected by the environment, society, and the governance structure for managing its operations. It's about the business's internal policies and practices. Examples include:

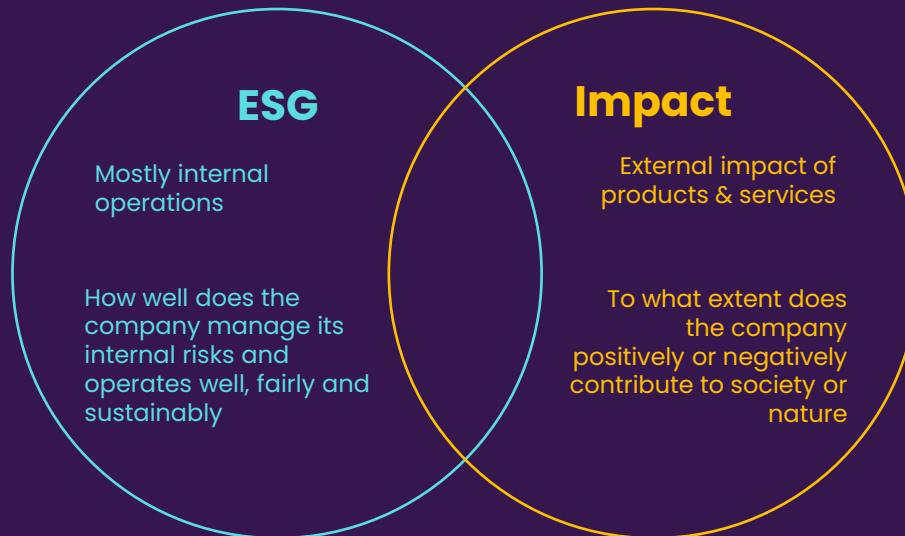
- **Environmental:** How does the business manage its operational environmental risks, such as the impact of increasing costs from climate change or fines and public backlash from waste generation?
- **Social:** How does the business manage relationships with employees, suppliers, customers, and communities?
- **Governance:** How does the business's leadership, executive pay, audits, internal controls, and shareholder rights look?



Breaking down ESG and impact

On the other hand, Impact goes beyond ESG by examining the actual outcomes of a business's actions on the world. Impact measures the positive and negative changes caused by the business's products and services on society and the environment.

Impact is about the external effects of the business's activities outwardly on society and the environment.



What is “materiality”?

Regulations in Europe use the term “materiality” to describe the most significant risks, opportunities and impacts to a business. The idea with “materiality” is to focus on what matters most to your stakeholders, society and the environment.

- **Impact Materiality:** This focuses on the significant impacts that a business has on the environment and society, regardless of their financial implications.
- **Double Materiality:** This concept recognises that the financial performance of a business is affected by non-financial factors (like climate change) and that the operations of a business impact the environment and society. It is a two-way street, considering both how ESG factors influence the business and how the business influences ESG factors.



Steps to get started

- 1. Assess Your Current Position:** Evaluate your existing impacts and risks against ESG criteria and frameworks like the UN Sustainable Development Goals. Identify areas where you are doing well and where there is room for improvement.
- 2. Engage Stakeholders:** Involve your employees, customers, and suppliers in your ESG journey. Their input and support will be crucial in achieving your goals.
- 3. Measure and Report Progress:** Use frameworks and tools (such as [Vested Impact](#)) to track your progress. Not only does regular reporting keep you on track, but also builds trust with stakeholders.
- 4. Continuously Improve:** ESG is not a one-time effort. Regularly review and update your practices to ensure they remain effective and relevant.

How Vested Impact helps assess impact

Vested Impact simplifies impact assessments, making them quick, easy, and affordable. Our platform automatically generates data-driven reports by leveraging over 300 million data points and science-based articles from sources like the World Bank and the UN, making it one of the most advanced impact assessment tools available.

Our automated system evaluates business impacts in minutes, using specific data tailored to each market and location. This helps small businesses assess their impact, comply with regulations, and communicate sustainability efforts to investors and clients—all without the hassle of manual reporting.

Find out more - www.vestedimpact.co.uk/SME

The logo for vestedImpact, featuring a stylized 'vi' in white followed by the text 'vestedImpact' in a white sans-serif font.

**Want to know
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This guide is funded by Strive Community, a global philanthropic initiative launched by the Mastercard Centre for Inclusive Growth and Caribou Digital, which aims to support 5 million small businesses globally to build resilience and grow