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Learn what's possible

What is ESG – a guide for businesses

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ESG – short for Environmental, Social and Governance – is a set of standards measuring a business's impact on society, the environment, and how transparent and accountable it is.

According to the CBI, [two-thirds of investors](#) take ESG factors into account when investing in a company meaning ESG has the potential to grow your business while benefiting the environment and community.

An ESG strategy can demonstrate that the company is reducing risks such as [adapting manufacturing processes](#) to meet future environmental legislation which could make the business a good bet for longer-term growth.

With ESG as an important component for business growth it can pay to understand what ESG is, where your business can adopt its principles and approaches, and how it can benefit your organisation.

What is ESG?



ESG is a collective term for a business's impact on the environment and society as well as how robust and transparent its governance is in terms of company leadership, executive pay, audits, internal

controls, and shareholder rights.

It measures how your business integrates environmental, social, and governance practices into operations, as well as your business model, its impact, and its sustainability.

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The environmental aspect focuses on how the business minimises its [impact on the environment](#).

It covers the business's products/services, the [supply chain](#) and operations.

ESG allows the business to target different areas of its organisation and implement more sustainable, ethical practices.

Examples of environmental business practices include:

- reducing energy and using [renewable energy sources](#) to become a net zero organisation
- developing greener products and services
- switching to zero-waste products or [sustainable packaging](#) using biodegradable materials
- reducing [carbon emissions](#) by changing to LED lighting
- encouraging recycling and reducing the amount of waste destined for landfill.

Social



The social aspect focuses on how a business impacts wider society and workplace culture.

Organisations can positively contribute to fairness in society, investing in fair and equal opportunities and conditions for employees, people working in the supply chain, and local communities.

Equality and fairness are at the heart of this aspect and examples of social and ethical business practices include:

- ensuring products are safe and customer data is secure
- preventing abuses within the supply chain, such as labour rights, including modern slavery and freedom of association
- providing training and supporting health and safety, and wellbeing
- promoting equality in the workforce with [diversity and inclusivity policies](#)

- investing in local community projects, such as funding educational initiatives.

Governance



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It also looks at the business's ethical behaviour and its transparency with stakeholders about its activities.

Governance is linked to the environmental and social aspects of ESG in that it looks at the transparency and decision-making behind them.

Examples of governance practices include:

- accurate reporting to stakeholders on financial performance, business strategy and operations
- ensuring business leaders and managers are accountable for risk and performance management
- undertaking business ethically, such as preventing bribery
- ensuring diversity in any leadership team and being open about executive pay.

Ensuring good governance in your business can appeal to investors and your supply chain and practising good governance may also help enable businesses to grow.

Why smaller companies should embrace ESG



Even if your business isn't looking for investment, adopting an ESG framework has benefits – from reducing risk and lowering costs to improving reputation and attracting new customers.

Improve company reputation



Incorporating ESG into your organisation could help your business's reputation as it indicates you have a transparent plan that focuses on helping the environment, supporting [diversity and equal opportunities](#), and ensuring ethical business decisions.

Lower costs



Initiatives that reduce waste and the amount of materials used, such as [in packaging](#), can reduce costs.

Reducing energy costs, such as switching to LED lighting, could also lower overheads through smaller

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Some employees may be looking to work in more eco-conscious companies committed to implementing favourable ESG policies.

Employees may want to associate themselves with companies that foster a diverse and inclusive workplace, with employee support programmes for [mental wellbeing](#) and improved work/life balance.

Attract customers



Some customers may be more willing to buy a similar product from a more ethical brand than another business – even if it costs more.

Research by McKinsey found that over [70% of people said they would pay an additional 5% for a green product](#) if it met the same standards as non-green alternatives.

Secure investment



Research by [Charles Stanley](#) found that up to half (48%) of investors are looking to increase their ESG investments within the next three years.

Regional Support

Enter your postcode to find business support and case studies from businesses within your region. You'll be taken to our interactive map.

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Introducing Business Finance Week

From 6-10 November the British Business Bank, along with several partners from across the UK, will host Business Finance Week 2023.

With a whole host of nationwide and regional in-person events, webinars and more, Business Finance Week helps smaller businesses learn about the different finance options available to them to support their individual needs.