

# ACTIVE PRACTICE UPDATES

APRIL 2023



## ESG: HOW GREEN ARE YOU?

Understanding environmental, social and governance factors.

**Environmental, social and governance (ESG) is a set of standards that measures how green, socially conscious and well-run a business is.**

By looking at your business through an ESG lens, you may be able to predict how sustainable it is in the long run.

In this article, we'll discuss how to assess your business's environmental footprint, social impact and governance principles, and explain why running a forward-thinking business is so important.

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### HOW SUSTAINABLE IS YOUR BUSINESS?

The three core pillars of ESG are:

- **Environmental** – how does your business minimise its impact on the environment?
- **Social** – how does your business affect your employees and society as a whole?
- **Governance** – how good are your business's governance and risk management strategies?

Together, these three factors can tell you, your customers and potential investors how prepared your business is for the future.

#### Environment

Good data collection is essential if you want to accurately measure how green your business is. That means looking at your primary operations and keeping track of factors such as energy consumption and waste.

The more in-depth your data is, the easier it will be to spot areas for improvement and make positive changes to your business.

It's also essential to benchmark against similar businesses for a more realistic picture of your environmental impact.

You should also take care not to "greenwash" your business practices. Greenwashing is when an organisation claims to be greener than it is. This could include highlighting more sustainable products or services to conceal environmentally damaging practices.

If you greenwash your business, it won't just damage the planet – it can also harm your reputation. The key is to make real, sustainable changes to your business operations – that's what will help you get ahead.

#### Social

While it can be difficult to quantify a business's societal impact, there are a few factors to keep in mind.

For employers, low staff turnover rates, fair pay and high morale are often good indicators of a positive workplace culture, along with diversity and inclusion policies.

Business owners should also examine how they keep customers' sensitive data secure and whether their products and services are safe.

## Governance

Good governance is all about integrity, openness and risk management. To measure this, you should consider your decision-making process and how you promote fairness, transparency and accountability in your business.

As a business owner, your finances will inform key decisions. Ensuring your accounting methods are up to scratch will help you produce accurate budgets and forecasts, keep you compliant and help you manage risks in your business.

Being transparent about your finances with investors and stakeholders is also essential to good governance.

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## WHY IS IT IMPORTANT TO MEET ESG STANDARDS?

### Stay compliant

Governments often introduce new legislation to help protect the environment and tackle climate change. While only large businesses need to report on their environmental impact in the UK, this could change in the future.

Furthermore, if you trade outside of the UK or have plans to, you'll need to ensure you comply with international laws.

Thinking about your impact on wider society and implementing good Governance principles can also help ensure your business meets compliance requirements in the future.

### Save money

Making your business environmentally friendly can save you money. Limiting your energy and water usage means lower utility bills, while going paperless can reduce paper and printing costs.

A higher staff retention rate can also cut down on time, money and resources put into recruitment. Meanwhile, good accounting practices will help you better understand your business, potentially leading to better financial decisions.

The Government also offers a number of schemes and tax reliefs to encourage businesses to improve their environmental impact.

For example, you could claim capital allowances on energy-efficient items or enter a climate change agreement to reduce your business taxes.

### Secure funding

According to the Confederation of British Industry, around two-

thirds of investors now take ESG standards into account when considering investment opportunities.

Thinking about your business's impact and your governance principles can reassure investors that their money is in safe hands, helping you secure the funding you need.

### Improve your brand image

Consumers are increasingly concerned about their social and environmental impact. Demonstrating your commitment to sustainable and ethical business practices can improve your brand image and attract more customers.

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## HOW TO PUT ESG AT THE HEART OF YOUR BUSINESS

### Digitalise your business

Limiting the amount of paper you use in your business can reduce your environmental footprint – as well as save you money on printing costs.

Digital systems can allow you to organise your information more clearly and back up your data. Cloud accounting technology could also make it easier to understand your finances and collaborate with your accountant.

Access to real-time data can help ensure you're always working on the most up-to-date financial information, allowing you to forecast accurately and keep shareholders in the loop.

### Listen to feedback from stakeholders

Asking for feedback from customers, employees and stakeholders can also help you future-proof your business.

Regular check-ins can help you maintain transparency and open communication with your stakeholders.

### Work with experts

Experts from outside your organisation can give you valuable insight into how to prepare your business for the future.

For example, your accountant may advise you on upcoming changes to legislation and offer guidance on how to cut costs while minimising your environmental impact.

We can also use what we learn from your financial statements to identify potential risks to your business and offer solutions for you to address them.

**[Contact us today to find out how we can help make your business more sustainable.](#)**