

How to design an ESG strategy for smaller businesses



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A clear mission, disciplined team and good materiality assessment can ensure ESG criteria are fully integrated into decision making

in small and medium-sized enterprises (SMEs).

Introducing sustainability into SME activities increases competitiveness, reduces costs and optimizes operations, according to Javier Pardo Torregrosa and IESE Prof. [Joan Fontrodona](#) in the 55th edition of the [CaixaBank Chair of Sustainability and Social Impact](#) report on [ESG criteria in SMEs](#).

A good ESG strategy helps companies improve their reputation, create greater value, increase the transparency of their activities, and troubleshoot future regulations.

For smaller businesses, the implementation of ESG criteria is often sudden, with little time and fewer resources available to develop a solid long-term strategy. However, the limited resources of small and medium-sized companies should not be used as an excuse, according to Pardo Torregrosa and Fontrodona. In their report, they propose three keys to successfully carry out an ESG strategy. SMEs should:

1. **Reflect on the purpose of the organization.** Define the mission to align with sustainable, environmental, economic and social dimensions. Be clear about the company's responsibility toward society and the environment, and how daily activities contribute to it. Intentions and commitments should be stated explicitly.
2. **Create a sustainability team to transmit sustainability throughout the company.** The team should also conduct a materiality assessment to identify which risks may affect the company's profitability and open a dialogue with relevant stakeholders, define an appropriate reporting model, set ESG objectives, and work to achieve them.
3. **Conduct a materiality assessment**, which is simply a regular evaluation of the company's sustainability risks and opportunities according to ESG criteria. To this end, the significant economic, environmental and social impacts of the organization, as well as those that have a particular influence on stakeholder decisions, must be considered. The assessment may vary according to industry; type of business; country or region; company size; among other factors that need to be carefully addressed and discussed during the development of the sustainability strategy.

In general, there are two types of materiality:

- **Financial materiality** (from the outside in). This includes external elements related to the social and environmental framework that affect the organization; for example, how global warming may impact the company's activity and results.

- **Impact materiality** (from the inside out). The impact of the company's activities on society and the environment. By analyzing the value chain or the relationship with its stakeholders, the company can see at a glance issues as diverse as the use of hazardous materials, responsible water consumption, care for biodiversity, labor rights and occupational risk prevention.

The report acknowledges the difficulty that materiality analyses can pose for SMEs, so they advise focusing the study on impact materiality, as it relates to more easily identifiable and measurable issues.

The efforts involved in integrating ESG criteria into the company should be made visible in a sustainability report. This will help position the company in the eyes of different stakeholders, especially suppliers and customers, thereby generating growth and value.

The authors call on public authorities and large companies to understand the complex reality of most SMEs and to try to support them in this process of integrating ESG criteria into their operations.

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