Demand for embedding ESG principles: no longer in short supply

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Considered the lifeblood of every economy, the potential for SMEs to harness sustainable value cannot be understated.

Certainly, one group of stakeholders increasingly aware of their sustainability impact are multinational companies. Amid growing regulatory requirements for non-financial reporting and with understanding of environmental and social risks and impacts becoming more mainstream, multinationals are under increasing scrutiny to record and monitor the ESG impact of their operations. In turn, this means cascading reporting obligations down to SME suppliers.

In short, it's an unavoidable truth that SMEs will feel these ripple effects. While, until now, business owners may have considered ESG performance monitoring of secondary concern, it does present a timely opportunity for recalibrating business models towards ESG objectives.

Whether it's to address your environmental impact, reduce waste, improve health and safety measures or create a more diverse and inclusive workplace, taking steps to measure and disclose ESG performance has material, long-term benefits. Since these metrics can be measured, they can be managed and improved – with a view to creating a more resilient and successful business.

Yet near-term advantages are emerging for SMEs, too. With ambitions to make supply chains greener, some large corporates are offering suppliers more favourable lending terms and access to finance to support their own science-based climate targets. A case in point is Tesco, which in 2021 became the first UK retailer to offer sustainability-linked supply chain finance to its supplier base. Since the supermarket chain's suppliers can gain access to better financing rates according to their disclosure of annual greenhouse gas emissions, it is hoped that the move will incentivise sustainable transformations among its supplier base.

While low rates of sustainability disclosure are common among smaller companies, by and large, market practitioners will not wait for robust disclosure across the board. This fact has created an elevated role for new technologies to help bridge the disclosure gap across supply chains. Indeed, multinationals are using both disclosed and modelled intelligence to not only respond to non-financial reporting requirements, but to inform their supply-chain decisions.

This is where ESG data providers, like Moody's ESG Solutions, have played their part in plugging the disclosure gaps. Such modelled analytics are enabling large companies to map supply-chain impacts from end to end. At Moody's, thanks to a combination of ESG Assessments and modelled scores based on verified company data, we can provide useable ESG and Climate information on ~ 300 million public and private companies globally.

Of course, the resource constraints on smaller companies to embed sustainability principles in strategies are understandable. But, when it comes to ESG, it is essential that suppliers are speaking the same language as their large customers. And, seemingly, to become more deeply entrenched in these value chains that offer so much opportunity, there remain huge incentives to become as fluent in this language as possible. In our view, the time is now for smaller companies to integrate ESG principles into their business models and operations. More than a reporting or regulatory exercise, if fully embraced, this is an opportunity for strategy modernisation and, ultimately, a more sustainable business that can make the most of new opportunities.

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