

WHITE PAPER

THE CHALLENGES OF ESG ON SME ENTITIES

ESG issues have become increasingly relevant for businesses. While large corporations generally have no problem dealing with such issues professionally, SMEs have other priorities.

This whitepaper discusses SMEs' challenges in implementing ESG frameworks, including lack of resources, regulatory fragmentation, and market pressure. We conclude with recommendations for SMEs to resolve these challenges and realise ESG objectives.

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Executive Summary

ESG considerations are now critical to business strategy. While large corporations navigate ESG with ease, SMEs struggle due to resource limitations. This whitepaper examines these challenges, explores opportunities, and offers strategic recommendations for businesses, policymakers, financial institutions, and industry groups to support SMEs in adopting ESG practices effectively.

Small and medium-sized enterprises (SMEs) face challenges in adopting ESG practices due to financial constraints, regulatory complexity, and operational limitations. Market pressures from consumers and investors further add to the difficulty, making it harder for SMEs to compete with larger, well-established businesses.

Despite these barriers, ESG adoption provides significant benefits, including cost savings, brand enhancement, and access to green financing. Prioritising sustainability helps SMEs improve operational efficiency, attract talent, and strengthen stakeholder relationships, positioning them for long-term success in an evolving business environment.

To integrate ESG effectively, SMEs should start with small, impactful initiatives, leverage technology, and collaborate with industry partners. Policymakers, financial institutions, and associations must provide regulatory clarity, financial incentives, and accessible tools to help SMEs navigate ESG challenges and maximise growth opportunities.



Role of SMEs in Sustainability

SMEs are the lifeline of the global economy. They account for 90% of businesses worldwide and employ about 50% of the world's labour force.

The ESG Imperative

1. **Evolving Regulations:** Governments worldwide are implementing mandatory ESG reporting requirements. For SMEs, these typically mean complex and resource-intensive compliance procedures.
2. **Consumer Pressure:** Customers prefer companies aligned with sustainability and social responsibility, pushing SMEs to prioritise ESG despite having limited resources.
3. **Access to Capital:** The ability of financial institutions to increasingly assess ESG performance in offering loans and investments—compliance failure can hamper SME growth opportunities.
4. **Competitive Advantage:** SMEs can differentiate themselves by adopting ESG, but achieving that differentiation would require much effort.

Challenges Faced by SMEs in Adopting ESG

SMEs must grapple with financial constraints, lack of expertise, regulatory complexity, operational constraints, and market pressures. Each of these has been explained in further detail below.

General ESG Adoption Statistics

- 90% of businesses worldwide are SMEs, contributing to 50% of global employment (World Bank).
- 70% of SMEs acknowledge ESG importance, but only 30% have an ESG strategy (PwC).
- 65% of investors consider ESG factors when making investment decisions (Morgan Stanley).
- Companies with strong ESG performance experience 14% higher revenue growth (McKinsey & Company).

Financial Constraints

At the onset, the initial investments required to adopt ESG initiatives—such as energy-efficient technologies or sustainable supply chain practices—are high.

Second, ESG reporting, auditing, and monitoring involve continuous investments in systems, know-how, and instruments.

- **Insufficient capital availability:** Compared to larger companies, SMEs have fewer sources of green finance or investors focused on ESG participation.
- **Lack of Awareness:** Most SMEs seriously lack in-house expertise to frame and address the challenges ESG frameworks pose.
- **Specialised Training Needs:** This could involve special training for employees, which is again costly and may reduce productivity.
- **Dependency on Consultants:** Reliance on external consultants burdens already tight budgets.



Role of SMEs in Sustainability

Regulatory Complexity

Fragmented Standards

There is no ESG standard, and SMEs must keep up with evolving regional and industry-specific demands.

Incoherent Policies

The policy environment continues to evolve, thus possibly confusing the SMEs and resulting in non-compliance or expensive errors.

Data Bottlenecks

ESG-related data gathering, analysis, and reporting are time-consuming without advanced systems.

Operational Limitations Resource Allocation

Unlike large companies, SMEs cannot readily redirect resources from business activities to concentrate on ESG matters.

Supply Chain Dependencies

Most SMEs depend on more prominent 'distributors' or 'suppliers, which ties their control over their sustainability practices.

Scalability Challenges

Achieving scalability of ESG solutions for SME needs remains an uphill challenge.
Market Pressures

Consumer Expectations

The greater consumer awareness, the higher the pressure on businesses to show compliance with ESG, but SMEs do not market their efforts well.

Competition

The competition for SMEs is from large firms with better-established ESG practices and bigger marketing budgets.
Standards

Challenges SMEs Face in ESG Adoption

- Financial Constraints: SMEs often face financial constraints that make it challenging to invest in ESG initiatives.
 - Mastercard - Mastercard SME sustainability June 2024 report.
- Regulatory Complexity: The absence of a universal ESG standard leads to confusion, with SMEs struggling to keep up with evolving regulations.
 - ecoactivetech.com
- Operational Limitations: SMEs often lack the resources, expertise, and infrastructure to implement sustainable practices effectively.
 - Mastercard - Mastercard SME sustainability June 2024 report.

SME Opportunities in ESG

Benefits of Sustainability for SMEs

Sustainability brings many benefits for SMEs, from cost savings to resilience. Water and energy efficiency programs cut operating expenses, while waste minimisation improves resource optimisation. Sustainability enhances brand reputation and talent attraction and can even unlock the doors for green finance.

✓ **Cost Savings**

Energy efficiency and waste reduction measures can save much money.

✓ **Brand Value**

Exemplary ESG commitment can unlock reputation and loyalty.

✓ **Access to Green Financing**

Rising ESG investment unlocks further financing options for SMEs to draw upon.

✓ **Talent Attraction**

SMEs that focus on ESG attract better talents who seek a meaningful workplace

Stages of Sustainability in SMEs

The sustainability stage in SMEs can be broadly categorised into four critical stages:

1. Profit-oriented,
2. Consideration,
3. Implementation, and
4. Transformation.

Initially, the majority of SMEs are profit-driven and view sustainability as a cost. With increased awareness, selective sustainable practices are adopted due to external pressure.

Over time, deliberate efforts at the infusion of sustainable practices in processes, products, and services are formed, followed by change, with sustainability becoming the *raison d'être* of the business.

This kind of change enables SMEs to play a role in addressing global issues and the demands of customers, thus ensuring long-term success.

Directions to achieve sustainability for SMEs

Such successful inclusions of sustainability involve creating a carbon footprint, setting reducible and measurable targets, and then going forward with tools such as the Greenhouse Gas Protocol or SME Climate Hub tools. Significant areas to achieve emissions reduction and efficiency gains involve government grants, energy-efficient solutions, and renewable energy sources. The SMEs must also focus on education and partnership and cooperate with industry associations, NGOs, and municipal governments to share resources and competencies.

For SMEs

Start Small

Begin with incremental ESG programs that deliver quick wins and build momentum:

1. Conduct energy audits to deliver immediate cost-saving potential.
2. Implement key waste reduction and recycling programs.
3. Begin tracking key environmental metrics such as energy and water usage.
4. Develop basic sustainability policies and procedures.
5. Develop initial stakeholder communication channels.

Leverage Technology

Make use of low-cost software solutions for ESG tracking and reporting:

1. Cloud-based ESG data collection platforms
2. Energy management systems
3. Supply chain tracking tools.
4. Automated reporting templates
5. Digital stakeholder engagement platforms

Collaborate

Partner to share resources and knowledge in a strategic manner, which may include:

1. Industry associations for learning.
2. Local government sustainability programs.
3. NGOs for technical support.
4. Industry clusters by developing SME-sourcing circles.
5. Business networking platforms on sustainability.

Engage Stakeholders

Integrate an engagement strategy that encompasses the following aspects:

1. ESG working group with employee representatives.
2. Regular sustainability screening and assessments of suppliers.
3. Customer feedback mechanism about ESG initiatives.
4. Regular surveys of stakeholders
5. Open and transparent communication



Recommendations

For Policy Makers

Simplifying Regulations

SME-Friendly Rulemaking

1. Tiered compliance requirements, depending on the size of the firm.
2. Standard reporting templates should be provided.
3. Implementation timelines should be spelled out.
4. Guidance documents in plain English.
5. Sectoral guidelines.

Incentivising Compliance

Provide comprehensive support programs:

1. Tax credits for investment in ESG.
2. Technology upgrade grant schemes.
3. Sustainability-linked loans.
4. Reduction of regulatory fees in case of earlier compliance.
5. Preferential treatment in public procurement.

Spreading Awareness

Education Programs

1. Sectoral training.
2. Online learning.
3. Mentorship programs.
4. Organise seminars and workshops regularly.
5. Maintain case study databases.

Financial Institutions

Support

Develop specific financial tools for green finance, including

1. Green Loans at Concessionary Rates
2. ESG Linked Credit Facilities
3. Sustainability Linked Bonds
4. Innovative Financial Structures
5. Green Credit Lines

Guide

Design comprehensive green finance support programs

1. ESG Assessment Tools
2. Implementation Roadmap
3. Technical Advisory Services
4. Online Toolkits & Resources
5. Formulate SME Support Teams

Remove Barriers

Adapt the risk assessment framework by

1. Creating Alternative Collateral Requirements
2. Designing Flexible Repayment Tenors
3. Simplifying Application Procedures
4. Reduce the documentation burden.
5. Allow for moratoriums on implementation.

Recommendations

Industry Associations

Enable Knowledge Sharing

1. Sectoral ESG guides.
2. Best practices database.
3. Peer learning networks.
4. Mentorship.
5. Success stories/case studies.

Resources

1. Shared measurement tools.
2. Standard reporting formats.
3. Training curricula.
4. Help desks.
5. Implementation toolkits.

Implementation Support

1. Establish Support Networks:
2. ESG advisory centres.
3. Online resource centres.
4. Database of Experts
5. Implementation Working Groups.
6. Knowledge-sharing platforms.

Monitor and Review

1. Progress monitoring systems
2. Feedback mechanisms.
3. Performance benchmarks.
4. Periodical review of implementation effectiveness
5. Adjustment of support programs based on feedback.

Costing the Landscape

Capital Costs-Detailed Assumptions

1. Energy Audit AUD 5,000-15,000

This is based on:

- Facility Size: 500-2000 square meters
- level of energy usage: 100,000-500,000 kWh annually
- Complexity of operation
- number of energy systems

This includes:

- Professional auditor's fees: AUD 150-200 per hour
- equipment analysis
- report preparation
- Initial recommendations

2. ESG Software Implementation AUD 10,000 to 30,000

This is based on

user licenses: 5 - 25 users

Core modules needed:

- Data collection
 - basic analytics
 - reporting tools

Given Integration & customisation needs.

- Software license fees
- Setup and initial configuration
- basic training
- data migration

3. Staff Training AUD 2,000 to 5,000 for each employee

Based on

Training duration: 2-5 days

- Group size: 5-15 employees.
- Trainer daily rate: 1,000-1,500

Materials and resources:

- Course development
- Costs of Delivery
- Assessment tools
- Follow-up support

4. Documentation Systems AUD 8,000 – 20,000

Dependent on:

- System complexity
- Number of processes
- Integration requirements

System User Access Needs:

- Design
- Implementation
- Testing
- User Guides

5. External Consultation: AUD 15,000-40,000

Dependent on:

- Rate per consultant: AU\$200-300 per hour.
- Consultation Project duration: 3-6 months
- Scope of Work

Level of expertise required.

Scope includes:

- Initial Assessment
- Strategy Development
- Implementation Support

Review and Recommendation

Indicative Ongoing Annual Costs Detailed Assumptions

Software Maintenance

AUD 3,000-8,000

Dependent on:

20-25% of the cost of the initial implementation

Number of users

- The level of maintenance.
- Update frequency

Technical Support Services

This encompasses:

- Technical support,
- Updates and patches,
- System monitoring,
- User support.

Training Updates

AUD 1,000-3,000 per staff

This depends:

- Refresh duration: 1-2 days every year,
- Group size: 5-15 staff,
- Trainer daily rate: AUD 1,000-1,500

Added content requirements.

This encompasses:

- Update materials,
- Delivery costs,
- Assessment, and
- Certification.

Audit and Certification

AUD 8,000-20,000

This is based on:

- Organisation size,
- Scope of audit, and
- Type of certification.

Compliance requirements.

This will involve:

- Auditor fees,
- Documentation review,
- Site visits, and
- Certification costs

Reporting and Compliance

AUD 5,000-15,000

This varies depending on:

- Reporting frequency,
- Complexity of requirements,
- Data collection requirements,
- Verification requirements.

This covers:

- Report preparation,
- Data analysis,
- Review process,
- Submission costs.



Costing the Landscape



External Expertise

AUD 10,000-25,000

Based on specialist rates: AUD 200-300 per hour, frequency of engagements, scope of support and level of expertise.

This will cover ongoing advice, problem-solving, performance review and strategic direction.

- Data and Metrics
- Quantitative Implementation Data
- Implementation costs by company size:
- Small enterprises (10-49 employees)
- Medium enterprises (50-249 employees)

By industry sector

- ROI Metrics
 - energy efficiency saving percentages
 - waste reduction cost benefits.
 - green financing rate benefits
 - productivity enhancement
 - improvements in market share
- Success Indicators
 - ESG implementation success rates
 - common failure points
 - timeline to compliance
 - resource requirement benchmarks
- Performance Measurement Framework
 - Key Performance Indicators (KPIs)
 - Industry Benchmarks
 - Tracking of Progress Metrics

Other Matters for Consideration

Regional Context

- Regulatory Requirements
- EU CSRD-related requirements
- UK Sustainability Reporting
- US SEC requirements
- APAC regional requirements
- Australia requirements

Market-Specific Challenges

- Developed markets vs emerging markets
- Regional resources availability
- Local enablers
- Market maturity
- Implementation Variants
- Regional variation in costs
 - availability of local talents
 - support mechanisms
 - cultural factors
- Compliance Frameworks
- Regional reporting
- Local certification standards
 - Cross-border considerations
 - International standards alignment

Industry Specific

- Sector-Based Guidelines
 - Manufacturing sector requirements
 - Service industry approaches
 - Retail sector considerations
 - Technology industry specifics
 - Construction industry needs
- Industry-Specific Challenges
 - Resource intensity variations
 - Supply chain complexity
 - Technical requirements
 - Stakeholder expectations
- Implementation Timelines
 - Industry-specific roadmaps
 - Sector prioritisation guides
 - Milestone frameworks
 - Progress tracking methods
- Cost Variations
 - Sector-specific investment needs
 - Operational cost impacts
 - Resource requirement differences
 - ROI variations by industry

Reference Enhancement

- Academic Sources
 - Peer-reviewed research
- Industry studies
 - Economic impact analyses
 - Implementation case studies
- Technical Standards
 - ISO standards
 - Industry frameworks
 - Certification requirements
 - Compliance guidelines
- Case Studies
 - Success stories by region
 - Industry-specific examples
- Implementation challenges
 - Lessons learned

Implementation Tools

- Assessment Templates
 - Readiness assessment
 - Gap analysis
 - Resource assessment
 - Impact analysis
 - Planning Frameworks
 - Implementation plan
 - Guide for resourcing
 - Development of Timeline
 - Risk Assessment
 - Monitoring Tools
 - Tracking system of Progress
 - Performance indicators
 - Checklist for Compliance
 - Frameworks of review
 - Reporting Templates
 - ESG reporting framework
 - Stakeholder communications
 - Reports on progress
 - Impact assessments

Stakeholder Engagement

- Communication Strategies
- Internal strategies for communications
- Engagement with external stakeholders
- Progress reporting
- Feedback mechanisms
- Training Programs
- Awareness training for staff
- Building technical skills
- Management capacity building
- Continuous learning

Our Executive Team



Roy Totino
FCPA FCA FGIA GAICD

Chief Executive Officer

As CEO of Trevanta, Roy Totino leads strategic financial advisory, ESG governance, and board advisory services, driving growth, operational excellence, and sustainable business solutions for clients.



Andrew Crawford
MBA FCPA FCA GAICD

Chief Value Officer

As Chief Value Officer of Trevanta, Andrew Crawford drives financial strategy, value creation, and business transformation, ensuring sustainable growth, operational excellence, and client-centric financial solutions.



Maria Lugas Totino

Director of Client Services and Operations

As Director of Client Services and Operations at Trevanta, Maria Lugas Totino ensures exceptional client experiences, operational efficiency, and seamless service delivery, driving strategic growth and long-term partnerships.



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