



SMALL BUSINESS BIG IMPACT

SME SUSTAINABILITY REPORTING
FROM VISION TO ACTION

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WHAT IS THE BUSINESS CASE FOR SUSTAINABILITY AND REPORTING?

The business case for integrating sustainability into operations has been well documented over the last 15 years. However, it is only through transparent reporting and communicating about your sustainability work, performance and progress towards your goals that you can capture the value of sustainability. Without communication, how could you build reputation and trust? And how could you attract new capital or build competitive advantage if you did not communicate with stakeholders?

INTERNAL BENEFITS

VISION & STRATEGY



SMEs can set direction by placing their purpose, vision and strategy into the context of global sustainability. The sustainability reporting process helps to make this explicit to stakeholders.

MANAGEMENT SYSTEMS



Sustainability management and reporting requires management systems, which improve data quality. Tracking data highlights opportunities for improvement, efficiency and cost saving.

STRENGTH & WEAKNESS



Early warnings of emerging issues can help management seize opportunities or evaluate potentially damaging developments early, before they emerge as unwelcome surprises.

EMPLOYEE MOTIVATION



Engaging the workforce in sustainability efforts reduces absenteeism, attracts new talent and increases productivity through a motivated workforce. It is also a great way to upscale efforts.

VALUE OF REPORTING

EXTERNAL BENEFITS

REPUTATION & TRUST



Proactive and transparent communication about your sustainability efforts builds goodwill, reducing reputation risks. It also improves product image, brand name and reputation.

ATTRACTING CAPITAL



Reducing risk through sustainability management and communication can help signal quality and good management, providing potential for new sources of capital and lower costs.

STAKEHOLDER ENGAGEMENT



Ongoing learning from the outside-in. Stay up-to-date on the regulatory environment. Sustainability reporting is a powerful tool to build or restore trust among stakeholders.

COMPETITIVE ADVANTAGE



Customers are looking for suppliers that minimize environmental and social risks. By reporting, SMEs can increase customer satisfaction and loyalty, and access the supply chain.

Reporting will help you unlock that value. Before starting the process it is important to gain a deeper understanding of sustainability management and reporting by zooming out for a big picture perspective. Think about your answers to the following questions before looking at the sustainability context.

What is your vision of the future, for your business and your community?

How can we foster well-being and meet the needs of more people in a world of limited resources?

How can we build a sustainable, equitable and responsible future?

How will you contribute to building that future?

What are the largest sustainability challenges in your country today? What will they be in 2030?

How will your organization operate in this new future?

THE GLOBAL SUSTAINABILITY CONTEXT

Our world is changing at breakneck speed. One driving force is the rapid growth of the global population. In 1950 there were fewer than 3 billion people; the United Nations (UN) expects the global population to grow to more than 9 billion in 2050, which means it will have more than tripled in just 100 years. This growing population increases demand for goods and services, which is good for business. However, the challenge for business and society is to meet this growing demand while the natural resources available to us are depleting. Today we use the equivalent of 1.6 planets to provide the resources we use globally and to absorb our waste. This means it now takes the Earth more than 18 months to regenerate what we use in a year.¹ This is at odds with the UN's definition of sustainable development: "meeting the needs of the present without compromising the ability of future generations to meet their own needs." According to moderate UN predictions, we are on track to need two planets by the 2030s, which will have big implications for business.

While demand for goods and services grows exponentially over time, the supply of natural resources

such as materials necessary to produce those goods and services decreases over time – they are being consumed faster than they can be regenerated by natural systems. What will happen in the long-term, when demand for natural resources consistently outruns their supply?

To facilitate a practical approach to the global sustainability challenge, 190 countries collaborated to design and launch the UN's Sustainable Development Goals (SDGs) in 2015.



1. www.footprintnetwork.org/en/index.php/GFN/page/world_footprint

THE UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS (SDGs)



The UN's Sustainable Development Goals (SDGs) were designed to help society and business to focus on solving global sustainability challenges. As a key stakeholder, the business sector was closely involved in the development process. The SDGs provide a vision of a sustainable future and propose actionable targets for today's major sustainability challenges:

- › climate change
- › water scarcity
- › food insecurity
- › waste and pollution
- › inequality
- › human rights
- › urbanization

As such, the SDGs attempt to address the root causes of poverty and the universal need for development that works for all people. It is clear that the SDGs will only be achieved by engaging SMEs.

In addition to global policy frameworks such as the SDGs, there is a growing trend for governments, stock exchanges and other regulators to translate global goals into laws, regulations and requirements

for sustainability and reporting on non-financial data, such as:

- › EU Directive 2014/95/EU requires disclosure of non-financial and diversity information by certain large undertakings and groups in all EU Member States.
- › The Modern Slavery Act 2015 is an Act of the Parliament of the United Kingdom. It is designed to tackle slavery in the UK and consolidates previous offences relating to trafficking and slavery.
- › The California Transparency Supply Chains Act (SB 657) addresses human trafficking and slavery in supply chains.
- › The Johannesburg Stock Exchange (JSE) Listing Requirement, 2010, requires 450 South African companies listed on the JSE to produce an annual integrated report (financial and sustainability information) or explain why they do not.
- › The Securities and Exchange Board of India (SEBI), Business Responsibility Reports, 2015, initially requires the country's top 500 companies to engage in a thorough environmental and social reporting process.

FROM GLOBAL POLICY TO LOCAL IMPLICATIONS



GLOBAL POLICY

- 2030 Agenda for Sustainable Development
- Sustainable Development Goals
- Adopted by 190 world leaders



NATIONAL POLICY

- National country priorities
- New policies and regulations
- Incentives and disincentives for business



YOUR BUSINESS

- Responsible business practices
- License to operate
- Resilient business models for the emerging context

These regulations and requirements have clear implications for the business sector, especially large multinationals that depend on globalized supply chains. The ripple effect ensures these regulations also impact SMEs all over the world that supply to multinationals, as they may be required to report environmental and social information to the multinational buyer. Overall, these developments drive increased stakeholder and societal demands for transparency and responsible business practices.

How will the SDGs impact SMEs?

Global policy drives national policy, which in turn drives local businesses to take action. (See diagram above: From global policy to local implications.)

Having an integrated approach to supporting progress across the multiple interconnected SDGs is crucial to moving towards better outcomes. SMEs can use the goals and targets to assess their current operations by identifying, assessing and measuring how they contribute to – or undermine – each goal. From there the SDGs are useful in two ways: firstly, your organization can minimize, measure and report your impacts in relation to the SDGs and implement new ideas that improve your business, reducing your footprint and minimizing overall impacts. Secondly, your organization can use the SDGs as inspiration and design criteria for new product development and business

process innovation, developing products and services that contribute to solving real global challenges while meeting human needs.

How does your organization's strategy interact with the SDGs?

If you are a food producing company, for example, it is a strategic opportunity to contribute to Goal 2: to end hunger, achieve food security, improve nutrition and promote sustainable agriculture.

2
ZERO HUNGER

End hunger, achieve food security and improved nutrition and promote sustainable agriculture



However, as your organization strives to deliver on Goal 2, there are many other SDGs that your organization contributes to, or impacts negatively. The act of measuring, managing, and reporting is critical to delivering on the SDGs.



WHY ARE SMEs CRUCIAL TO ACHIEVING A SUSTAINABLE FUTURE?

SMEs form the backbone of national economies and the global supply chains of large companies. Individually, SMEs have relatively small environmental and social impacts. However, as a group the impacts are much larger; SMEs account for about 90% of all businesses.² According to the World Bank, SMEs contribute significantly to GDP and play a crucial role in creating employment. Formal SMEs contribute up to 45% of total employment and up to 33% of GDP in emerging economies.³

SMEs have a crucial role to play in building a sustainable future through responsible business practices and there is a clear business case for SMEs to join this challenge.

What SMEs can do

To be successful, companies cannot be indifferent to the society and environment in which they operate, and this is no different for SMEs. Peaceful conditions, a healthy environment, legal certainty and good human relations within the company are key elements of business success. SMEs can start by ensuring that their vision, mission, strategy and business model embrace responsible business practices and consider these practices as critical factors in the SME's future viability.

Responsible business practices are about continuous improvement; combined with sustainability reporting they reinforce each other, helping SMEs integrate sustainability thinking into the organization and capture new value.

90%

SMEs account for about 90% of all businesses

45%

SMEs contribute up to 45% of total employment

33%

SMEs contribute up to 33% of GDP in emerging economies

2. www.ifc.org/wps/wcm/connect/277d1680486a831abec2fff995bd23db/AMI+IFC+IssueBrief_SME.pdf?MOD=AJPERES

3. www.worldbank.org/en/topic/financialsector/brief/smes-finance



WHAT IS SUSTAINABILITY REPORTING AND HOW CAN IT HELP SMEs?

GRI is a non-profit organization that has worked in the public interest towards a vision of a sustainable global economy since the late 1990s. Through our globally applicable Sustainability Reporting Standards, we help businesses, governments and other organizations understand and communicate their impacts on critical sustainability issues such as climate change, human rights, corruption and many others.

Sustainability reporting is about disclosing your organization's most significant impacts. A sustainability report should encompass your organization's values and governance model and should link your performance, progress, strategy and commitment to a sustainable global economy.

SMEs are encouraged to start reporting to show what their business is about, how they do business and how they manage their sustainability impacts. Sustainability reporting can start small scale and may grow over time to be in accordance with the GRI Standards. Reporting increases transparency towards stakeholders and exemplifies good risk management while driving business development and the optimization of business processes.

To work credibly towards integrating sustainability into your organization and developing a sustainability report about your achievements, it is important to adhere to principles that help you identify, prioritize and define sustainability issues. The GRI Standards are principle-based, so you can use them to define the content of your report as well as the quality of the information it communicates. The principles are: Sustainability Context, Stakeholder Inclusiveness, Materiality and Completeness.

Sustainability Context

The report shall present the reporting organization's performance in the wider context of sustainability.

Information on performance should be placed in context. The underlying question of sustainability reporting is how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions, developments, and trends at the local, regional or global level. Reporting only on trends in individual performance (or the efficiency of the organization) fails to respond to this underlying

question. Reports should therefore seek to present performance in relation to broader concepts of sustainability. This involves discussing the performance of the organization in the context of the limits and demands placed on environmental or social resources at the sector, local, regional, or global level.

GOOD PRACTICE – CHECKLIST

- ✓ Present your understanding of sustainable development and draw on objective and available information and measures of sustainable development for the topics covered in the report.
- ✓ Present your performance with reference to broader sustainable development conditions and goals, and attempt to communicate the magnitude of your contribution to (un)sustainability.
- ✓ Describe how sustainability topics relate to long-term organizational strategy, risks and opportunities, including supply chain topics.

Stakeholder Inclusiveness

The reporting organization shall identify stakeholders and explain how it has responded to their reasonable expectations and interests.

Stakeholders can include those who are invested in the organization as well as those who have other

relationships to the organization. The reasonable expectations and interests of stakeholders are a key reference point for many decisions in the preparation of the report.

GOOD PRACTICE – CHECKLIST

- ✓ Describe and map the stakeholders to whom you consider yourself accountable.
- ✓ The content of your sustainability report should ideally draw upon the outcomes of your stakeholder engagement processes.
- ✓ Your report should show that you have responded to stakeholder concerns, policies and relevant standards.

Materiality

The report shall cover the topics that reflect the reporting organization's significant economic, environmental and social impacts or substantively influence the assessments and decisions of stakeholders.

Organizations are faced with a wide range of topics on which they could report. Relevant topics are those that may reasonably be considered important for **reflecting the organization's economic, environmental and social impacts or influencing the decisions of stakeholders** and, therefore, potentially merit inclusion



in the report. Materiality is the threshold at which topics become sufficiently important that they should be reported.

GOOD PRACTICE – CHECKLIST

- ✓ Take into account current topics and issues that represent significant risks for your organization and area of operation.
- ✓ Take into account the main sustainability interests, topics and indicators raised by stakeholders.
- ✓ Take into account the main topics and future challenges for the sector or your region that are reported by peers, competitors or expert bodies with recognized credentials in the field.
- ✓ Consider relevant laws, regulations, international agreements or voluntary agreements with strategic significance to your organization and your stakeholders.

Completeness

The report shall include coverage of Boundaries, sufficient to reflect significant economic, environmental and social impacts and to enable stakeholders to assess the reporting organization's performance in the reporting period.

Completeness primarily encompasses the dimensions of **scope**, **boundary** and **time**. The concept of completeness may also be used to refer to practices in information collection and whether the presentation of information is reasonable and appropriate.

GOOD PRACTICE – CHECKLIST

- ✓ Take into account impacts within and outside your organization, and cover and prioritize all relevant information on the basis of the principle of materiality.
- ✓ Avoid omitting relevant information that influences or informs stakeholder assessments or decisions, or that reflects significant economic, environmental or social impacts.





GETTING STARTED

Sustainability reporting is for all types of organizations: small, medium or large. The value that your organization can get from the reporting process is directly related to the effort you put into the process. Therefore, it is important to start with an effort based on the capacity of your organization and continue to build on this to ensure progress towards sustainable development.



**Ai L.H. Nguyen, Senior Director Operations,
Social Responsibility and Sustainability, JIA
HSIN CO., LTD**

“Jia Hsin’s reporting process not only reflects our continuing commitment to sustainability but also creates value for our business. Jia Hsin recognizes the numerous benefits that the reporting process yields and we take full advantage of two significant gains: opportunities to improve operational performance and to enhance our organization’s reputation in the market.”

Here are some guiding questions to help new organizations start the reporting process:

Scope and strategy

How does your organization communicate what it is and what it does, including showing your commitment to being



REPORTING TIP!

GRI’s Disclosure Database contains many great examples of SME sustainability reports from around the world. Find out more:

→ database.globalreporting.org

environmentally, socially and economically responsible?

Provide a clear picture of how your organization creates value, and of your operations and activities. Explain how your business strategy incorporates sustainability into programs, priorities and executive-level decision making. When describing value, consider value created for the company, the employees, local communities and the wider economy.

Governance and accountability

How is your sustainability strategy led, and what policies and structures are in place to ensure organizational accountability when it comes to meeting sustainability objectives?

Show how your senior executives are involved in leading sustainability programs and key initiatives.

Stakeholder inclusiveness

How does your organization identify the stakeholder groups that will have the greatest impact on your long-term viability? How do you engage with these stakeholders? How do you use their feedback to better understand and anticipate future risks and opportunities?

Identify your key stakeholders and show how they are being engaged. Explain how you have addressed – or will address – their highest priority topics and how this is reflected in your sustainability initiatives.

Material topics

How does your organization present topics that are particularly important to you and your key stakeholders?

Indicate your material topics while explaining how these topics were identified and addressed both in your current strategy and programs and your strategic planning.

Key performance indicators, performance and impact

How does your organization measure sustainability performance? How do you know whether your sustainability performance is advancing, and how it is impacting society, the environment and your bottom line?

Use key performance indicators (KPIs) corresponding to high-priority topics to show how your performance is improving and whether you are meeting expectations/targets.

Data quality

How clearly do you communicate your sustainability priorities, plans and performance? Do you provide a well-rounded picture of your successes, challenges, risks and opportunities? Are you open about improvement points? How do you prove the accuracy of your performance data and the credibility of your claims? Is the information presented in a way that is sufficiently accurate and detailed for stakeholders to assess your performance?

Sustainability reports should be credible. This means reports should be **balanced** and the data reported should be **comparable, accurate, timely, clear** and **reliable**. Show your stakeholders how a focused and effective sustainability program will improve your overall future direction (i.e., improving bottom line, reducing risks, increasing competitiveness), so that there is a strong link between sustainability and corporate strategy. Describe how your company addresses potential concerns about the reliability of data and claims through a combination of consistently applied internal auditing practices, independent quality assurance and feedback from stakeholders on the overall structure, topics and tone of the report.





TAKE ACTION

The global sustainability challenge is increasingly driving the introduction of new regulations, laws and other requirements that encourage business to help solve these problems. SMEs have a crucial role to play in building a sustainable future and there is a proven business case to do so. Policy frameworks such as the SDGs help SMEs to understand the scale of the global sustainability challenge while providing practical footholds that help companies improve their performance. GRI Sustainability Reporting Standards allow SMEs to understand and communicate their impacts on critical issues such as climate change, human rights and labor relations. By reporting, SMEs can improve risk management, foster responsible business practices and open up new opportunities in global markets. By reading this guide, you have taken the first step towards sustainability. We look forward to seeing how you continue your journey.



GRI™ is an international independent organization that has pioneered corporate sustainability reporting since 1997.

GRI helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. With thousands of reporters in over 90 countries, GRI provides the world's most trusted and widely used standards on sustainability reporting, enabling organizations and their stakeholders to make better decisions based on information that matters.

Currently, over 40 countries and regions reference GRI in their policies. GRI is built upon a unique multi-stakeholder principle, which ensures the participation and expertise of diverse stakeholders in the development of its standards.

GRI's mission is to empower decision-makers everywhere, through its standards and multi-stakeholder network, to take action towards a more sustainable economy and world.

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International Organisation of Employers
Organisation Internationale des Employeurs
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The Global Voice of Business

The International Organisation of Employers (IOE) is the most representative global business organisation with more than 150 members in more than 140 countries. It is the only recognised body representing the interests of employers in international social and labour policy matters. Since its creation in 1920, and from its 20-strong Secretariat based in Geneva, the IOE has supported national employers' federations and the worldwide business community by providing information, capacity building, guidance and advice; and by representing their perspectives and positions in the range of international labour and social policy forums, intergovernmental processes, across the multilateral system and in particular vis-à-vis the International Labour Organization, where the IOE acts as the Secretariat to the Employers' Group. Recently the IOE became a member of the European Commission Policy Forum on Development and has been active in organizing joint meetings with the Commission on the role of the private sector in development and in particular the implementation of the 2030 Sustainable Development Goals.

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