

# Chapter 1

## What Do the E, the S and the G Stand for?

First, the acronyms.

Collectively, “ESG” is how we measure the performance of an organisation beyond its simple financial achievements. We have been measuring financial performance for centuries.<sup>2</sup> We now measure other critical aspects of business operations as well, such as environmental impact, social responsibility, and governance practices.

**E** = Environmental

**S** = Social

**G** = Governance

It’s a rather awkward acronym. The three letters stand for two adjectives and a noun. It needs another letter at the end to describe what is really meant. An “R” would be good—R for Reporting, or Responsibilities. Both those words imply action, that you must do something—either report on

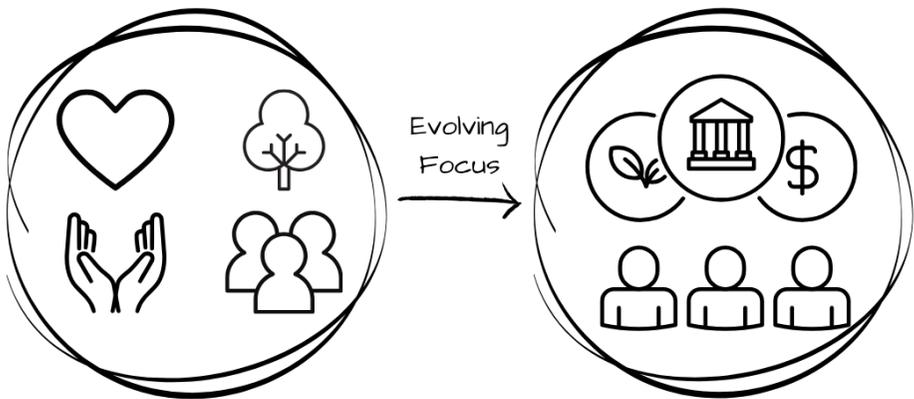
something or be responsible for something.

However, the term ESG is well entrenched now, so it's no use trying to change its use. But keep that silent "R" in mind as a reminder that ESG is something you have to *do*, not just a random concept that somebody thought up.

**And another acronym...**

To explain ESG, we must deal with yet another acronym: CSR, which stands for Corporate Social Responsibility. Oh no, says the small business owner or manager. More letters for me to learn.

## The Evolution of ESG



CSR

Corporate Social Responsibility

Broad, Voluntary,  
Not Measured

ESG(R)

Environmental, Social, Governance

Measurable, Reported,  
Embedded in Company Operations

\*Don't forget the R -  
for Responsibilities and Reporting

CSR is a broad term. (That's the problem with social science concepts. They don't have nice, neat definitions like maths, physics and chemistry.) CSR is a company's obligation and commitment to be a positive force in society. It involves voluntary initiatives that extend beyond legal obligations, such as philanthropic efforts, community engagement, and environmental conservation projects. CSR emphasises a company's moral obligation to "give back" and is typically viewed as an extension of a business's brand and public image. Unlike financial performance, CSR does not have standardised metrics for assessment.

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*CSR is a company's obligation and commitment to be a positive force in society.*

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ESG arose after, and out of, CSR. ESG is a more structured, data-driven framework used by investors, regulators, and stakeholders to measure a company's sustainability and ethical performance. It focuses on specific measurable criteria across three pillars: Environmental (e.g., carbon emissions, energy efficiency), Social (e.g., labour practices, diversity), and Governance (e.g., board structure, executive compensation, decision-making guidelines). Because they do affect long-term financial performance and risk management, ESG allows them to be brought into core business operations, investment decision-making and corporate strategies. Unlike CSR, ESG has become deeply embedded in financial markets, with standardized reporting metrics and global frameworks. It is these ESG frameworks that we hope to make accessible to SME owners and managers like you. We want you to understand:

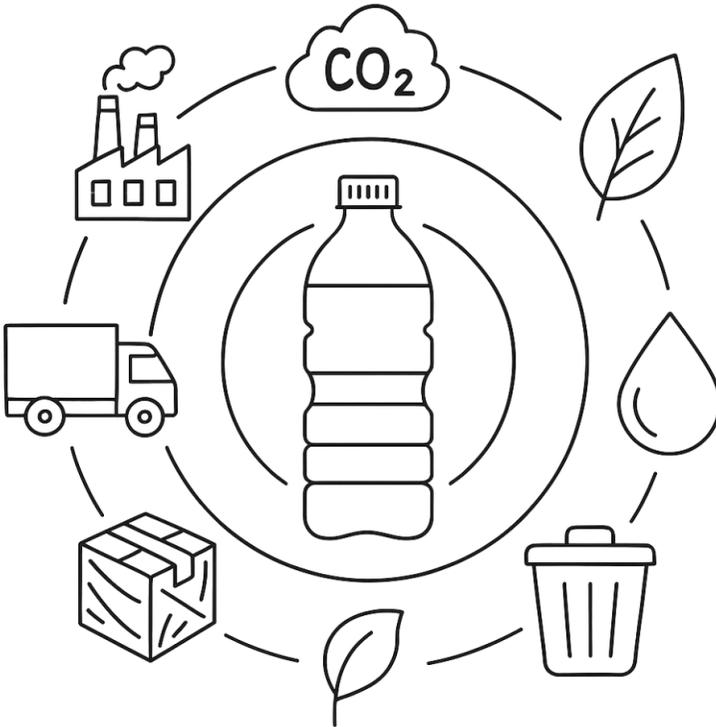
- What this is all about
- Why it's a good thing
- Why you need to do it
- How you can go about it simply.

## The E – Environmental

The E is the easiest of the three letters to deal with. To a greater or lesser degree, we all know what environmental responsibility and environmental awareness are and what we should aspire to. We know that we should not throw our rubbish in the river or drop it on the ground. We know we should recycle our bottles and cans.

But here's the thing. We don't always stop to think about the full impact of our actions. We recycle when it's easy, avoid plastic when we remember, and generally try to do the right thing. But how often do we pause to consider what happens behind the scenes? What's involved in producing, packaging, and transporting all the stuff we consume?

## The Ripple Effect of Littering



I (Bronwyn) chaired a discussion panel at a conference in Singapore for the mass participation sports industry, an industry I know little about. The panel addressed the environmental impact of mass participation sports—events such as the Boston Marathon, the London Marathon or the City2Surf Marathon in Sydney. Those events are accompanied by copious amounts of merchandise. Every participant gets something: a T-shirt, a water bottle, a souvenir pen...

Every single one of those T-shirts is wrapped in plastic, then 10 of them are wrapped in plastic, then 10 bundles of 10 are wrapped in plastic, then 100 bundles of 10 are wrapped in plastic and put on a pallet. And then the pallet is wrapped in plastic. And all this plastic goes to landfill the moment the marathon is over. But there's a lot more to the environment than just plastic and bottles on the ground. It encompasses our use of renewable energy, reducing our carbon footprint, the quantity of fossil fuels we are using. My environmental company runs a fleet of diesel vehicles. We're acutely aware of it.

It's about efficiency in our use of natural resources. I just mentioned my company's fleet of diesel vehicles. They are all kept fully serviced and fully maintained. That's our way of trying to make sure that we're being as efficient as we can in the use of those diesel vehicles.

It's about efficiency in our use of energy. If we change to using LED light bulbs and or turn off the lights, computers, and TVs at night, we will be more efficient in our energy use.

It's about efficiency in our use of water. Are the kids standing under the shower for 25 minutes every night? Do we have drought-tolerant plants in our gardens?

Our environmental awareness, and therefore our responsibilities, change over time. We all generate waste in our businesses, so let's look beyond the simple concept of not dropping our rubbish on the ground. In the end, it comes down to efficiency—being mindful about how we use what we've got, and making smarter choices wherever we can. We talk about the 5 Rs in waste management.

- **Reduce.** Just don't use as much. How much do you actually have to use?
- **Repair.** I don't know if anyone reading this is old enough to remember repairing your clothes. It's certainly a rare event now. Back then, you would take your vacuum cleaner to the electrical store and the person at the electrical store would repair it. Not now. We just throw things away and go to Harvey Norman and get a new one.
- **Repurpose.** I have a friend, Jane Milburn, who specialises in what she calls "upcycling". She takes clothes, some of which by her own admission are pretty daggy and not on the high end of fashion. Jane repurposes them into high-fashion garments.
- **Rot.** A responsible way to dispose of organic waste is to let it rot instead of just sending it to landfill, where it sits. A covered landfill is an anaerobic environment, an environment without oxygen. Organic waste stays there for a very long time. A head of lettuce will take up to 25 years to decompose in anaerobic conditions. We can imagine an archaeologist, some 3,000 years from now, digging up the landfill and wondering what it was that we were feeding ourselves!
- **Recycle.** Recycling is not an easy topic. It's a big topic and it's a big rabbit hole we could go down, but that's not for this book. I hope that we are all making some attempt to recycle.

## The S – Social

Your business does not exist in isolation, in a vacuum separated from the remainder of society. There are entry points and exit points between you, your business, and your local community, society, and the economy as a whole. Our social responsibility is how we interact with the wider world. That responsibility begins within our own four walls, with how we treat our employees, and extends outward from there.

### Fair Pay

At a bare minimum, "social" encompass things like paying people who work at our companies correctly. That sounds incredibly basic, but there

are recurring news items that tell us it is a real problem. We hear about companies being fined for failing to pay their workers correctly. And these are just the cases that make it into the public eye. Many more likely go unnoticed or unreported.<sup>3</sup>

### **Discrimination, Harassment and Bullying**

Legally, harassment, bullying, and discrimination in the workplace are not allowed— certainly in most developed nations, and in many developing nations as well. There is also an international framework that addresses this issue.

In 2019, the International Labour Organization (ILO) adopted Convention No. 190. This was the first international treaty recognizing the right to a workplace free from violence and harassment, including gender-based harassment. Countries ratifying this convention commit to implementing measures to prevent and address workplace harassment.

But practically, it still happens. Every. Single. Day.

### **Working Conditions**

The work conditions you provide for employees... Are they clean? Are they healthy? Are they damaging hearing? Are they sanitary?

Like our environmental obligations, social obligations are not static. 4T Consultants can provide some cogent examples. What we are noticing in our environmental company's work is the increasing frequency and intensity of storms. Hence, we are cognizant about the safety of our workers in the field with hazards such as lightning strikes. We also now have temperature cut-off points, where field teams are withdrawn from outdoor work. When we started the business almost 30 years ago, encountering those extremes was a relatively rare event. Now, we can experience days (or weeks) on end of extreme heat.

### **Local impact**

Supporting your local community takes many forms, both as an individual and as a business leader. On a personal level, it might mean helping the Parents and Citizens Association at the local school, volunteering as a referee for football or netball games, selling tickets for the annual school

concert, or contributing to any of the countless small acts that help our communities thrive. From a business perspective, it's about fostering a culture where your team is encouraged and supported to actively participate in community initiatives, strengthening connections and shared purpose.

## **Modern Slavery**

You might think, "This doesn't apply to me living in Australia", but that's not the case. Australia has specific legislation addressing modern slavery. Under the Modern Slavery Act 2018, all companies with an annual turnover of more than \$100 million are required to report on their efforts to identify and address modern slavery risks within their supply chains. This includes investigating whether products they source are manufactured in factories overseas where workers face conditions akin to slavery.

Modern slavery is also a significant issue within Australia itself. The agriculture sector, for instance, has faced scrutiny for exploiting backpackers and foreign visa workers during harvest seasons. In some cases, these workers have endured conditions that, effectively, amount to modern slavery.

## **The G – Governance**

Governance is how you run your business and how things get done. What are the rules in your place of work? What policies, procedures, and processes are used?

In the previous section, some pertinent social issues were discussed. Does your company have policies and procedures that cover them? I recall the first time I was asked whether our company had a Modern Slavery Policy whilst preparing a tender response. I had never even thought of such a thing. Do you have an occupational health and safety policy? Do you have a policy and a procedure for working in the heat?

Governance is also about risk management. If your business is impacted by a harmful event, many other people are impacted as well. In a family business it's you, and it's probably your spouse and your children, too. If you have a business partner, it's your partner, your partner's partner, and their children. Then there are your employees, your suppliers, and your customers. How are you organising your business to minimise those impacts? That is part of your governance responsibility.

Governance is about being ethical, transparent, and accountable. Unfortunately, we don't have to look too far to see the examples of bad governance, even in Australian companies.

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*Governance is simply about being ethical,  
transparent, and accountable.*

*– Bronwyn Reid*

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A recent and well-known case of corporate governance failure is the Australian airline Qantas. The airline was knowingly selling tickets on flights that had already been cancelled. It is disquieting that someone in a senior position, maybe even at board level, thought something like: "Here's a good idea. We will extract money from our customers by not disclosing the truth. We'll invest the money for ourselves in the meantime until eventually we may give it back."

- Did anyone ask if that was ethical?
- Do you think what Qantas did was transparent?
- Did Qantas accept accountability for those decisions and actions?  
No—not until required to do so by the courts.

Another example from corporate Australia is the supermarket duopoly, Coles and Woolworths. Out of every \$10 Australians spend on groceries, \$6.50 goes to the big two. The competition is fierce, with both continually advertising reduced prices. Except the prices allegedly went up before they went down. At the time of writing, a class action lawsuit is under way alleging that the duo engaged in deceptive pricing by raising prices by at least 15% for a short time before announcing "discounts".<sup>4</sup>

Again, is that practice ethical? Is it transparent? Are they being accountable to their customers?

## The dangers of greenwashing

Following that brief 40,000-foot flyover of the E and the S and the G, how are you feeling?

Frightened and overwhelmed? Ready to press on? A bit confident because you are “doing something”?

That brings us to the next question. Why can't a company advertise that it is being responsible and foresighted in its environmental, social, and governance actions? Surely the customers will see the advertising and promotion and buy their goods and services.

Unfortunately, it's not that easy. Many countries, Australia included, have corporate regulators to track “greenwashing”. Greenwashing is the close relative of “whitewashing”. Both involve using false information to portray a situation as better than it actually is. Greenwashing means using false information about “environmentally friendly” products, services or practices. Regulators are taking an increasingly hard line, issuing significant fines. So far, Volkswagen holds the record for the largest fine. Volkswagen's use of software to falsify data from vehicle emissions tests cost the company \$34.69 billion in fines and settlements.<sup>5</sup>

Several Australian companies have also been prosecuted and fined (but not nearly enough, in my opinion) for greenwashing. Beneath the façade of eco-friendly claims, their internal systems, policies and procedures often conceal activities that are far from environmentally sustainable.

When journalists exposed these conditions, consumers reacted with outrage. They didn't just target big tech companies; small electronics retailers and repair shops were caught in the crossfire too. Customers began demanding to know where products came from, and those businesses that couldn't answer faced a loss of trust—and sales.<sup>26</sup> This issue isn't far removed from Australia. The **Modern Slavery Act (2018)** requires large companies to report on forced labour risks in their supply chains, but small businesses aren't immune. Many SMEs supply **larger corporations that are now demanding full transparency from their partners**. Ethical sourcing is rapidly becoming a **competitive necessity**.

### What This Means for Australian SMEs:

- ✓ **Ethical supply chains** – Australian businesses can **audit their suppliers** and prioritise sourcing from accredited, ethical suppliers (e.g., **Fairtrade, FSC-certified materials**).
- ✓ **Consumer and investor expectations** – Transparency in sourcing is now a **major factor in brand reputation** and can impact contracts with large buyers.
- ✓ **Legal and compliance risks** – Failing to address forced labour risks can result in penalties and exclusion from **government contracts**.

### An Inclusive Workplace Embraces the Limits of Mind and Body

Inclusivity is a game-changer for businesses willing to embrace it. **More than just a human right, equal economic opportunity is also a business advantage**. When workplaces become accessible and inclusive, businesses benefit from increased innovation, stronger employee loyalty, and a broader talent pool.

The business ecosystem thrives when all people thrive!

Meet **Adam**, a young man with non-verbal autism. Before connecting with Hireup, traditional interviews and unaccommodating workplaces—

buffeted by high sensory demands and social expectations—made finding suitable employment nearly impossible. That changed when Hireup matched him with Trent, a support worker who understood Adam’s unique needs and interests. Through their work together, Adam thrived in his new role, gained independence, and found meaningful engagement (Autism Awareness Australia. (2017, December 7). *A Hireup story of finding common ground: Adam and Trent* [Web post]. Autism Awareness Australia).

And guess what? **It wasn’t just Adam who benefited; his employer did too.** Research shows that diverse workplaces drive **higher innovation, stronger team performance, and better financial results.**<sup>27</sup>

This isn’t just theory. The **Australian Bureau of Statistics** reports that people with disabilities aged 15–64 are **twice as likely to be unemployed** compared to those without disabilities. Companies that embrace diversity experience:

- **19% increase in revenue due to innovation**
- **30% higher employee retention rates, reducing hiring costs**
- **Greater customer loyalty, as consumers increasingly prefer brands that reflect inclusivity.**

## What This Means for Australian SMEs:

- ✓ **Inclusive hiring for competitive advantage** – By actively hiring neurodiverse employees and people with disabilities, businesses **tap into unique skill sets** (e.g., attention to detail, analytical thinking, strong pattern recognition). Programs like the **National Disability Insurance Scheme (NDIS) Business Support** help SMEs implement inclusive hiring strategies
- ✓ **Legal and regulatory compliance** – The Disability Discrimination Act (1992) requires Australian businesses to provide reasonable workplace adjustments, making accessibility a legal and ethical priority.
- ✓ **Attracting talent and customers** – A 2023 Diversity Council Australia survey found that **78% of job seekers prefer working for inclusive employers**. Customers are also more likely to support businesses that demonstrate strong ESG values.

## A Call to Action for SMEs

As Verna Myers, Vice President of Inclusion Strategy at Netflix, said: “Diversity is being invited to the party; inclusion is being asked to dance.”

For SMEs, fostering an inclusive workplace goes beyond ensuring compliance. It’s about **securing long-term success**. By embracing diverse hiring practices, creating accessible workspaces, and fostering a culture of belonging, businesses can **drive innovation, improve employee satisfaction, and enhance their reputation in a competitive market**.

## Trafficked to Inflict Financial Havoc

We often think of online scams as annoying pop-ups or phishing emails. But what if these scams were connected to something far more sinister? **Human trafficking networks are increasingly linked to cybercrime,**

where victims are forced to conduct online scams that target businesses, including small enterprises in Australia.

### **Robust financial controls stem the tide of nefarious ventures**

**Anika**, a young woman from Myanmar, thought she was securing a job at a call centre in Cambodia. But when she arrived, she realised she'd been tricked. Her passport was confiscated, and she was forced to work long hours scamming people online. Anika's "job" was to send phishing emails and set up fake websites to steal money from unsuspecting victims, many of whom were small business owners in Australia.

In 2023, investigators uncovered a disturbing connection between cyber scams and human trafficking in Southeast Asia. Criminal syndicates were coercing trafficking victims like Anika to target small businesses through phishing attacks, fraudulent invoices, and ransomware scams.<sup>28</sup>

Small businesses account for 43% of cyberattacks globally due to their limited cybersecurity defences. Cybercrime also directly affects Australian businesses. The Australian Cyber Security Centre (ACSC) reported that cybercrime cost Australian businesses \$33 billion in 2022 alone, with SMEs being the most affected.<sup>29</sup>

### **What This Means for Australian SMEs:**

- ✓ **Strengthen cyber defences** – Small businesses should implement **multi-factor authentication, staff cyber security training, and secure payment gateways** to protect against scams.
- ✓ **Monitor supply chains** – Australian SMEs should conduct **due diligence on offshore suppliers and partners** to ensure they are not unknowingly connected to human rights violations or cyber fraud networks.
- ✓ **Government support and compliance** – The Australian government provides **cybersecurity grants and tax incentives** to help small businesses improve their digital security.

## Phishing for Access and Control

Cybercrime isn't just a big business problem. Small businesses are prime targets because they typically have fewer defences in place. A single attack can destroy customer trust, disrupt operations, and lead to significant financial losses.

Securing all your digital assets is essential for agile businesses.

In April 2024, **T A Khoury & Co**, a small accounting firm in Sydney, was crippled by a ransomware attack carried out by the cybercriminal group **Hunters International**. Hackers locked the firm's systems and claimed to have stolen **over 63 GB of sensitive client and financial data**, demanding a ransom for its release. The breach forced the firm into crisis mode. Operations were halted, clients were notified, and trust was severely damaged. Some clients left, concerned about the safety of their financial records. The attack highlighted just how vulnerable small businesses are to cyber threats, especially those without robust cybersecurity measures.<sup>30</sup>

This experience is, unfortunately, not unique. The ACSC reports that ransomware attacks on Australian businesses increased by 75% in 2023, and the average cost of a data breach for SMEs is \$200,000. Many businesses never recover from a major cyberattack.

### What This Means for Australian SMEs:

- ✓ **Cyber Resilience Planning** – Every SME should have a **cybersecurity plan** that includes **regular data backups, employee training, and an incident response strategy**.
- ✓ **Protect Customer and Financial Data** – Using **encrypted networks, secure cloud storage, and antivirus software** reduces exposure to cyber risks.
- ✓ **Compliance with Australian Cybersecurity Standards** – The **Essential Eight Framework**<sup>31</sup> provides government-backed guidelines for **mitigating cyber threats**.

## The Business Case for Cybersecurity

More than a mere IT issue, cybercrime is a critical business risk. SMEs must proactively protect their financial and digital assets to maintain client trust and ensure long-term sustainability.

Stronger cybersecurity reduces financial losses from fraud, ransomware, and phishing scams.

Investing in cybersecurity boosts business reputation and prevents customer churn.

Government incentives and compliance frameworks provide financial support for cybersecurity improvements.

As Francis Dinha, CEO of OpenVPN, stated: “Smaller businesses often don’t realise just how vulnerable they are to cybercrime. It’s true that these businesses don’t have the same resources as larger corporations, but there’s still plenty they can do to protect themselves.”

For Australian SMEs, the question is no longer *if* they will face a cyber-attack, but *when*. Preparing today means securing tomorrow.

## ESG Provides a Competitive Advantage for SMEs

ESG factors are about much more than mere ethics. They’re about survival, reputation, and profitability. Whether it’s protecting against climate risk, reducing waste, ensuring ethical sourcing, or embracing inclusivity, ESG means staying competitive.

### **By integrating ESG practices, small businesses can:**

- Reduce long-term operational costs
- Gain access to grants, investment, and government incentives
- Build a resilient and future-proof business
- Enhance customer and employee loyalty

- Meet legal and regulatory expectations

Rather than seeing ESG as a burden, Australian SMEs should see it as an opportunity. We will explore this further in Chapter 7.