



How SMEs can create a more sustainable world

Insights series

Sustainability and the role of SMEs

Sustainability is an increasingly urgent focus for business. It places an organisation's environmental and societal impact on the same scale as financial viability.

The United Nations defines sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."¹ Sustainability includes addressing social equity and economic development.

Sustainable Development Goals

An inspirational guide for any small and medium-sized entity (SME) is the United Nations' 2030 Sustainable Development Goals (SDGs). The SDGs are one of the most comprehensive statements of intent ever made by the world community and provide a global lens for people, planet, prosperity, peace and partnership.

The role of SMEs and SMPs

SMEs, which include small and medium accounting practices (SMPs), play a critical role in the transition to a sustainable future. SMEs are vital to employment, food production and distribution, construction, health and wellbeing and the delivery of vital services. Collectively, they have a major economic impact and are essential to environmental and social change.

Sustainability initiatives present a compelling opportunity for accountants, as trusted advisers, to assist SMEs navigate their own path of change.

The United Nations Global Compact

This is the world's largest sustainability initiative. It contains comprehensive resources on the SDGs so that businesses of all sizes can align their strategies and operations with these goals.



1. [UN Brundtland Commission Report 1987](#)

Sustainability and the role of SMEs (continued)

Sustainability: the business case for SMEs

The momentum towards sustainable operations is gathering pace. Don't get left behind.

Resilience and innovation

SMEs which embed sustainability into their decision-making can increase their resilience, enabling them to bounce back quicker in uncertain, volatile situations.

Supply chain

SMEs with sustainability credentials can be more attractive as suppliers to larger businesses because they help them develop more sustainable supply chains through a lower carbon footprint or proactively contributing to the social good.

Cost savings

Water and energy efficiency, and recycling, reusing and reducing resources will cut costs and boost profitability while having a positive environmental impact. Failure to act may mean

a business losing market share to other more progressive businesses.

Value creation

Becoming more sustainable improves brand reputation and perceived goodwill. Increasingly, consumers seek brands, products and services that reflect their own values, that are environmentally and socially aware.

Talent

Finding talent can be a challenge for SMEs. Creating a purpose-driven practice or business makes them more attractive to employees. Sustainability initiatives boost engagement, increase retention and reduce recruitment costs.

Access to finance

Investors, funds, financial institutions and governments are now encouraging, if not requiring, businesses to disclose non-financial risks and demonstrate commitment to sustainable business practices.

How SMEs can create a more sustainable world

This is a playbook for accountants in practice and finance teams in small and medium-sized organisations. It will help you lead initiatives in your own organisations, and for those you advise, to do business sustainably.

CA ANZ Playbook, pages 5-17

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ACCA Playbook, pages 5-17

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Access the Chartered Accountants Worldwide Sustainability Hub for SMEs – global information at your fingertips

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Access the ACCA Sustainability Hub

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Developing a sustainability strategy

Get started by integrating sustainability initiatives into every aspect of your organisation to achieve a genuine transformation.

1. Gather data

- What do people know about sustainability within the business already?
- Map the business model, including sources of revenue, customers, products and financing, as well as industry metrics.
- Assess where the organisation sits in the supply chain (e.g. importer, manufacturer, producer).
- Assess progress so far with initiatives such as energy consumption, gender equity.
- Identify risks, such as the potential for environmental and social harm in the supply chain.

2. Identify material issues

Identify sustainability issues that are likely to have a material impact for the business. Use the [SASB Materiality Finder](#) which considers risks most likely to occur in particular industries. Ask customers, employees and other stakeholders what matters to them, and research what peers are doing.

3. Develop a strategy and set goals

- Assess industry benchmarks and sustainability goals and targets.
- Commit to goals and targets and embed them into strategy and priorities.
- Make sustainability part of the organisation's value proposition.
- Learn from other businesses and industries.

Explore how businesses can align their strategy to the SDGs

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The world lacks proper institutional mechanisms to adequately protect oceans, biodiversity and rainforests. SMEs can be part of initiatives to tackle these issues, by connecting within their local communities and countries – as well as internationally.

4. Integrate

- Map pathways to achieving sustainability goals.
- Define specific actions to drive the process.
- Establish performance metrics to measure progress.
- Educate and empower people throughout the business.
- Communicate clearly and regularly with stakeholders.

Tips for success

- Ensure employees of all levels and directors are committed to sustainability issues.
- Develop and document a strategy that uses SMART goals (Specific, Measurable, Achievable, Relevant, and Time-Bound).
- Delegate employees to lead change in specific areas.
- Evaluate the financial and non-financial impact on the business.

Developing a sustainability strategy (continued)

Access to green finance

Green finance is any structured financial activity that aims to achieve a better environmental (and social) outcome. It plays an important role in delivering several SDGs. Many banks and financial institutions provide advice and options for green finance, investment and loans. Accountants can help their business or their clients access these.

Other forms of funding are available to finance sustainable business transformation. Many local, state and national governments offer funding, grants and incentives to SMEs to increase energy efficiency and reduce consumption. Accountants can research the availability in their jurisdiction and help SME clients access funding.

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[Financing Green – a guide for SMEs](#)

[Better Business Finance](#)

[What is sustainable finance & how it is changing the world | World Economic Forum](#)

SMEs that invest in sustainability are more resilient and creditworthy:
see [ABN AMRO Bank](#)

Developing a sustainability strategy: what can accountants do?

- Raise awareness about sustainability.
- Analyse risks and opportunities.
- Advise on how to transform the business model.
- Assist with applications for finance.
- Assist with gathering relevant and reliable data.
- Identify and track non-financial indicators.
- Report on sustainability performance.
- Assure sustainability disclosures, see [CA ANZ Sustainability Assurance Playbook](#)



Climate and the environment

Climate change is an existential threat to humanity. SMEs can voluntarily reduce greenhouse gas emissions and participate in global initiatives that hold them to account for their commitment to do so. To take steps towards decarbonisation, understand your carbon footprint, set targets to reduce emissions, share them and take action.

Understand your carbon footprint

Before taking any steps to reduce a business' carbon footprint, measure it. Find granular details of the business' activities that create greenhouse gases. Use a carbon footprint calculator, hire an external consultant or use a digital carbon accounting platform.

Types of emissions

Analyse emissions across scopes. Scope 1 deals with direct emissions from owned or controlled sources; Scope 2 are indirect emissions from the generation of purchased energy, and Scope 3 include all indirect emissions which are not included in scope 2.

Greenhouse Gas Emissions: scopes 1, 2 and 3

Set targets

Set emissions reduction targets for the business and timeframes for achieving them. Determine the emissions gap and plan changes your organisation will take to cut emissions to meet those targets. Share your targets with your employees and other stakeholders.

Demystifying Environmental Management systems for SMPs toolkit

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Australian Institute of Company Directors Climate risk governance guide

Take action: reduce and recycle

Transport

- Encourage flexible work so employees can work remotely when possible. Promote and subsidise alternatives such as cycling or public transport for their commute.
- Switch company vehicles to electric, hybrid or hydrogen.
- Decrease business travel by using teleconferencing.

Energy efficiency

- Switch to renewable energy onsite if possible, such as solar, and/or choose a renewable energy provider.
- Adopt energy efficient technology and equipment.
- Introduce digital infrastructure in the cloud to reduce paper usage.

Recycle (See section on waste and the circular economy)

- Choose products with longevity and made with recycled materials or renewable energy.
- Assess the business' supply chain.
- Recycle all office paper, plastics and food.

Climate and the environment (continued)

Carbon neutrality and offsets

Carbon neutrality is a starting point for some businesses, who become carbon neutral by offsetting their Scope 1 and 2 emissions. For these it's important they prioritise significantly reducing actual emissions, and ensure the provider and source of carbon credits they purchase are credible.

Net Zero

Net zero means reducing emissions from business activities as much as possible, while neutralising the impact of residual emissions not feasible to eliminate. Use available technology as close to zero as possible, before offsetting the rest. Net zero covers scopes 1, 2 and 3 GHG emissions and includes the whole value chain - emissions produced in the business, its supply chain, as well as the use and disposal after sale.

How to set a target

Your minimum aim should be to halve absolute emissions (the total quantity of greenhouse gas emissions being emitted) every ten years, but preferably faster. This is a 7% year-on-year reduction. If you choose to halve in five years, it will mean 13% annual emissions reductions and halving in three years will mean a 21% reduction rate each year.² Break down your plans into yearly targets and milestones.

For more detail see: the Exponential Roadmap Initiative – an accredited partner of United Nations' [Race To Zero](#), [TED Countdown](#) and a founding partner of the [1.5°C Supply Chain Leaders](#) and the [SME Climate Hub](#).

This approach underpins the [Science Based Targets initiative \(SBTi\) Net Zero Standard](#). It requires businesses to focus on deep emissions cuts. Most will have to cut 90% to 95% of their emissions to call themselves 'net zero',

SBTi has a specific route for SMEs. Other business initiatives include [SME Climate Commitment](#) and [Climate Active](#).

To work out annual emissions, small businesses can use tools including:

- [Greenly's free carbon footprint calculator](#)
- [Climagap](#)
- [CoGo](#)
- [Bonneville Foundation's calculator](#)
- [Climate Action Toolbox | Business.govt.nz Tools](#)
- [Ampha Platform](#)

Mitigation versus adaptation

Mitigation is proactive: activities to minimise and prevent the risk of higher global temperatures by reducing greenhouse gas emissions.

Adaptation is reactive: activities that respond to the changing climate and modifying a business to new circumstances. SMEs will need to consider both mitigation and adaptation activities.

Waste and the circular economy

A circular economy involves creating products with extended lifecycles, using intelligent design that builds in reuse, recycling and remanufacturing – practices that lead to a more resilient and sustainable economy and a healthier Earth.

What is a Circular Economy?

Significant opportunity

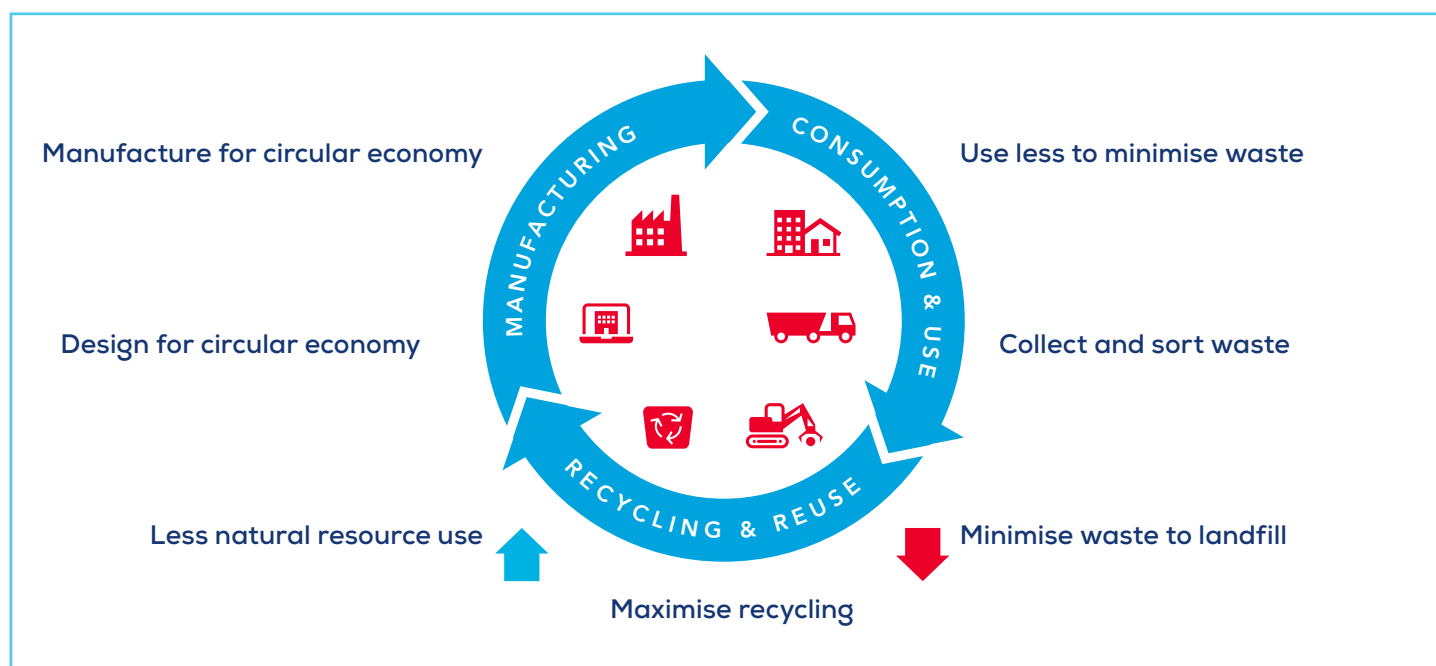
SMEs have a significant opportunity to be part of the circular economy. They can engage with customers in new ways, create new business models and processes and connect with different parts of the supply chain. As part of the circular economy, businesses become more innovative with their products and services.³

A shift to a circular economy could generate \$4.5 trillion of additional global economic output by 2030, according to new research that identifies circular business models that separate economic growth from natural

resource consumption while driving greater competitiveness.⁴

To develop a circular economy related strategy:

- Map out the business' life cycle of waste (see the waste hierarchy on the next page).
- Redesign services or products to make them more sustainable and circular, such as sharing and trading existing resources.
- Take actions that regenerate nature and extend the lifecycle of everything.
- Choose products and suppliers that have more features suited to the circular economy model.



3. [Circularity in Australian Business 2020](#) - Planet Ark

4. [The Circular Economy Could Unlock \\$4.5 trillion of Economic Growth](#), | Accenture

Waste and the circular economy (continued)

By reducing, reusing and recycling, SMEs can decrease emissions and stop waste going into landfill, oceans and waterways.

Recycle and buy sustainably

By implementing a collection and recycling program, you ensure that your business' waste doesn't end up in landfill, the ocean, creeks or river systems:

- Get designated bins to separate waste.
- Educate employees about the purpose and benefits of recycling.
- Investigate the supply chain.
- Task an employee to ensure that people recycle properly.

- Switch to suppliers that have sustainably certified products.
- Use refurbished/ recycled products .
- Go paperless, digitise your business to reduce waste and costs associated with paper, printers, copiers, ink cartridges and filing cabinets.

Reduce plastic use

As an SME, the first steps are to:

- Use less plastic, for example, in product packaging. Carefully consider alternative materials and/or how the packaging can be returned for reuse.
- Work with suppliers to help them cut their plastic use and recommend alternatives.

The waste hierarchy

PREVENTION

Reduce waste generation and hazardous components in products

REUSE

Reuse/re-manufacture end-of-life products and prepare waste for reuse

NON WASTE
WASTE

RECYCLING

Reprocess waste for use as a secondary raw material or a new product

ENERGY RECOVERY

Use waste as fuel in energy and heat production

DISPOSAL

Landfill and incinerate waste without energy recovery

Source: OECD based on various other sources

Social sustainability

Social sustainability encompasses human rights, inequality and ethical work practices in an organisation and/or its supply chain.

For a small business or accounting practice, people are the core of the business and determine its future purpose and prosperity. Ensuring equality, diversity and inclusion is essential in dealing with employees, suppliers and customers.

[Employment New Zealand](#) has some tips on how to be a more sustainable employer.

Diversity and inclusion

Most of the 38-member countries of the OECD require businesses to pay men and women equally for equal work. Iceland was the first country in the world to mandate companies with more than 25 employees to detail measures they're taking to tackle the gender wage gap. Large companies in Australia and the UK are now required to report the same.

These are some actions SMEs and SMPs can take:

- Establish a diversity and inclusion policy and integrate this into recruitment, reward processes, performance management, leadership assessment and training.
- Analyse the gender pay gap in the organisation. See CA ANZ's [Gender pay gap playbook](#).
- Consider and measure all forms of diversity.
- Review all the business' policies to ensure they support diversity.
- Support flexibility in the workplace so employees have more of a work/life balance.
- Create a culture of belonging, equity and fairness in the workplace.

ACCA's insights on leading diversity and inclusion initiatives

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Recruitment and exit

- Examine recruitment and selection process.
- Address gender, age, sexual orientation, ethnic and various types of bias, in interviews and selection panels to ensure appropriate representation. See p16 of [ACCA's Leading inclusion report](#).
- Provide decent and productive jobs for vulnerable people such as asylum seekers, people with disabilities and others. For example, Companies such as Starbucks and IKEA have particular programs that employ refugees, while in Sydney, Australia, the Social Outfit, a fashion label and the Bread & Butter Project, a commercial bakery, are two SMEs completely run by refugees and new migrants. In Ireland, John W. Comber accountants are involved in a program to take on long term unemployed people into their business and train them on the job.
- Hold exit interviews to listen and understand the reasons why an employee is leaving.

CA ANZ has a partnership with LinkedIn learning where all members have unlimited access. The platform includes information sessions on how to set up a mentoring program. CA ANZ also uses [Mentorloop](#), a software platform to connect mentors and mentees and has a program called [Mentor exchange](#).

ACCA also has a [mentoring program](#) providing online training programs and on-demand webinars for both mentors and mentee about what to expect and how to fulfil expectations in the mentoring process.

Social sustainability (continued)

Investigate supply chain impacts

Globalisation has made many supply chains remote and opaque, and SMEs often don't know how or where their products are made or by whom. As large businesses are required to investigate and report on human rights abuses within their supply chains, SMEs can expect increasing scrutiny from the procurement offices of the large businesses they supply.

SMEs can investigate their supply chain's social impact as well. To do this they can:

- Use a risk-based approach, considering the product/service and location. Request information about labour practices, human rights, anti-corruption policies.
- Only buy [Fairtrade](#) or other certified products.
- Understand where products originate from.
- Know how they are made and by whom.
- Find out what raw materials are used in their manufacture.
- Ensure labour conditions meet international standards.

ACCAs Supply Chain Code of Conduct for SMEs

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SMEs can also intentionally purchase to create positive impact through implementing a social procurement policy that supports Indigenous/Maori businesses or smallholder farmers, agricultural producers of products such as chocolate, coffee, tea, cotton, paper and other cash crops, to supply their office staff room and more particularly, if they're a food retailer, restaurant, cafe, caterer or events organiser. They can partner with not-for-profits and donate excess food to food banks, food charities, refugees, domestic violence refuges and homeless shelters.

Reporting on slavery

To find out more about how to report on modern slavery go to the [Global Slavery Index](#). SMEs can access this to determine if they have supply chain risk and prioritise risk depending on their country, sector or industry.

100-150 MILLION

The number of people who would have enough food if women farmers had more resources.

(Source: Oxfam)

Communication and reporting

Good communication is key to transforming a business.

- Use social media, meetings, newsletters and the business' website to reach employees, managers, executives, customers and clients.
- Engage and create awareness of the environmental, social and governance issues and the UN Sustainable Development Goals.
- Consider quick surveys that separately target customers, employees or others to gauge their awareness and attitudes and determine the success of communications.
- Get buy-in from employees, management and board (if the SME or SMP has one) to act on key issues and ensure they understand the business case.
- Identify sustainability champions who can help drive change from within.

Avoid greenwashing

With momentum growing rapidly for sustainable business products and services, "greenwashing" is when a business makes misleading claims about its environmental or social impacts or lacks the evidence to back its claim of action. Don't let it be you.

Resources from Australian Securities and Investments Commission (ASIC)



Customise your sustainability message

Develop sustainability messaging that describes the business' distinct sustainability strategy over the short, medium and long term.

Show how this integrates into the business strategy and KPIs.

Explain why and how the business will reach these goals.

Ensure that the sustainability message is in line and relevant to the brand, product or service and report on issues that have material importance.

The UN Global Compact provides [free short e-learning courses](#) that SMEs could use to raise employees' awareness and skills about integrating SDGs into the business.

Communication and reporting (continued)

Towards a global standard

While many reporting requirements don't apply to SMEs, they need to be aware of them because of the cascading effect down the supply chain. These are the top global reporting standards:

- [International Sustainability Standards Board](#) (ISSB)
- [GRI](#) (Global Reporting Initiative)
- [Task Force on Climate-Related Financial Disclosures](#) (TCFD)
- [Taskforce on Nature-related Financial Disclosures](#) (TNFD)
- [Natural Capital Accounting and Valuation of Ecosystem Services Project](#) (NCAVES)



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