Embedding sustainability in SMEs

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT THE ACCA GLOBAL FORUM FOR SMES

The ACCA Global Forum for SMEs provides a unique platform for promoting the role of SMEs in the global economy. Representing over 15 countries and a wide range of professional backgrounds – from finance institutions, a cademics and professional advisers to entrepreneurs themselves – the Forum represents the sector's needs at a global level and facilitates the sharing of best practice.

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This paper presents the ACCA Global Forum for SMEs' recommendations for the development of a series of SME-specific measures and approaches that will need to be adopted by governments, the business support community and the accountancy profession, if current efforts to engage SMEs in sustainable business practices are to gain significant momentum.

The paper also draws on ACCA's 2012 research report *Environmental Aspects of Sustainability: SMEs and the Role of the Accountant.*

Introduction

Policymakers' commitment to responsible and sustainable business practices is increasingly backed by ambitious and specific commitments on carbon emissions and the use of energy. The COP 17 Conference in Durban in late 2011 took climate change negotiations between governments to a new level, setting the whole world on a course for a low-carbon economy by 2020 (Adams 2012). In practice, it is difficult to see how such commitments can be monitored, or met, unless smaller businesses as well as large ones can make savings and report on progress.

While no definitive estimates exist regarding SMEs' environmental impact, it is thought to be broadly in line with their economic contribution – SMEs represent more than 90% of global businesses and account, on average, for about 50% of Gross Domestic Product of all countries and for 63% of their employment (ACCA 2010). Specific estimates of SMEs' environmental impact range from 60% to 70% (Calogirou et al. 2010; Hilary 2004) of all industrial pollution, demonstrating that while each SME's individual impact may be limited, collectively, the sector has considerable potential for making cuts to meet government commitments on carbon emissions and the use of energy.

Although there are clearly some important business and competitive advantages to be gained, the literature on environmental management and green innovation shows that most SMEs have been slow to adopt environment-related improvements. For instance in the EU, only 29% of SMEs have introduced measures to save energy or raw materials (compared with 46% of large enterprises) and only 4% have a comprehensive energy efficiency system such as EMAS or ISO14001 in place (compared with 19% of large enterprises) (Calogirou et al. 2010).

Given the importance of SMEs for the world economy and the sector's impact on social and environmental issues, it might seem surprising that SMEs have been relatively marginalised in the debate on sustainability and corporate social responsibility, and relatively ignored in academic research on CSR and high-level policy initiatives. There are signs, however, that this is now changing, and that SMEs' role and the potential benefits from sustainable business are being actively acknowledged and promoted. A series of SME-specific measures and approaches will need to be adopted, if these efforts are to gain any significant momentum.

An SME approach

Developing an SME approach to sustainability in business practice, business support or public policy will rely on understanding the dynamics of such a diverse sector. Firstly, SMEs are not scaled-down versions of large organisations and in fact their needs are extremely varied even within the sector itself. Medium-sized enterprises will, for example, clearly possess more developed managerial and organisational structures than do most small enterprises. In fact, research has found that the number of employees is one of the most influential structural factors affecting the implementation of environmental practices by a firm (Gonzalez-Bonito and Gonzalez-Bonito 2006) and the profound differences in employment (ranging from 0 to 250) in the SME sector demonstrates its complex and varied needs. Therefore, any initiatives that focus on engaging the SME sector should not only take into account the differences between large companies and SMEs, but also the differences between micro, small and medium-sized enterprises in this respect.

A crucial factor in engaging SMEs in sustainability debate and practice will be the role of the owner-manager, bearing in mind that most small businesses are both owned and managed by the same individual. Compared with the bigger listed companies that are increasingly under pressure by various stakeholders to report on their sustainability practices, the owner-manager does not have to answer to shareholders and a board and thereby has more freedom and power to implement sustainability practices – or to ignore them. Research has demonstrated that for SMEs, the owner-manager's personal motivations for taking socially responsible initiatives are more important than for example, marketing, strategic, or public relations approaches (Jenkins 2004), in visible contrast to sustainability motivations for larger firms. Hence, initiatives that aim to increase the interest and uptake of sustainability in SMEs need to be able to engage owner-managers directly with a thorough understanding of their motivations. Fortunately, ACCA's research among the world's most promising high-growth SMEs shows that many high-impact entrepreneurs (47%) are motivated by the need to make a difference in the world, and that this motivation correlates with good environmental practice further down the line. On the other hand, those motivated mostly by money end up developing their businesses more slowly (ACCA 2012b).

WHAT MAKES AN SME DIFFERENT?

An SME is:

- managed in part or in whole by its owner(s)
- independent, rather than a subsidiary or franchise
- informal, without bureaucratic procedures and structures
- dealing with day-to-day cash flow challenges and responding to short-term problems
- characterised by multi-tasking and flexibility
- characterised by the importance of personal relationships

Source: Network for Business Sustainability (2012).

A business case

Both government and business-support professionals realise that efficiency savings are the most common trigger for deliberate sustainable business practices among small and micro enterprises. Because SMEs' use of inputs, especially energy, is rarely optimal, accountants can leverage their positions as advisers on financial management to engage the sector by pointing out quick gains through increased efficiency. For this first contact with sustainable business practices and reporting to be successful, returns will usually need to be demonstrable within fairly short intervals – a maximum of three years – in order to fit with the planning cycle of owner-managers, and truly reflect small businesses' cost of capital. SMEs that are engaged in environmental initiatives (eg recycling, waste reduction, pollution prevention, water conservation) can also obtain grants and financial assistance in addition to the cost savings resulting from waste minimisation and energy efficiency. Many national governments are now committed to reducing their levels of greenhouse gas emissions, and the SME sector can benefit from the incentives offered to businesses with the aim of meeting these targets. The businesses' need to be profitable must therefore be fully exploited with real, demonstrable and certain outcomes for the small businesses that both the government and the business support community are able to communicate effectively.

SMEs with sustainability integrated in their business models now have access to new markets and increased business opportunities. This has resulted in new business models – social enterprises – and entirely new markets such as the ones related to the green economy. As large corporations are coming under added pressure by their stakeholders to ensure sustainability and ethical practises within their entire supply chain, additional demand is being created for sourcing and servicing through SMEs that have a demonstrable focus on sustainability. Moreover, public sector procurement criteria is also moving towards evaluating organisations on the basis of sustainability and ethical practises in addition to the per-unit contracting cost. One such example is the 2012 Public Services (Social Value) Act in the UK. SMEs with sustainability embedded in their business model will in these situations have a definite strategic edge.

RAISING AWARENESS OF STRATEGIC ADVANTAGES

While the potential for savings can help to rouse an owner-manager's interest, such savings will not always be large enough to make the case for long-term investment or innovation – in fact, savings may accrue entirely to the business's more powerful customers. The simplest types of efficiency savings may convey no advantage at all if they are easy to replicate. Rather, the potential of sustainable practices to overcome barriers to entry into large supply chains, including those of government itself, to trigger innovation and to help further engage the workforce will matter more to forward-looking owner-managers. In order to obtain such advantages, however, businesses need not only to achieve savings but also to demonstrate improvements year on year.

SMEs' more informal way of practising sustainability demonstrates that they are simply not realising the strategic advantages of their current or potential sustainability activities. Indeed, research confirms that SMEs' sustainability strategies are generally informal, while large firms' sustainability strategies have a higher degree of integration within corporate strategy (Russo and Tencati 2009). There is an argument that CSR and sustainability need to be further integrated as part of an SME's business strategy, adopting a long-term vision and an approach that moves away from philanthropy and consumer trends and is more closely tied to the strategic benefits. These may include building networks, capturing resources and talent within the organisation, developing a more innovative workforce, generating a better flow of knowledge and information and generally, making improvements in the whole business environment – these, and numerous other advantages ought to be more actively promoted, in addition to cost savings.

'It is no longer a question of whether SMEs should invest in sustainability, but how to ensure it is embedded within their strategy to spur competitiveness. Sustainability can be a cost-advantage to SMEs if it focuses on the organizational capabilities and emulates the core competencies of the firm. SMEs are inherently more flexible and adaptive than their larger counterparts, and their size enables to operationalize sustainability with no radical or costly transformation. This can include new operating models, available technology and new managerial practices that creates difficult-to-trade assets that increases the productivity and performance of the firm.'

TATJANA DE KERROS, ADVISOR, SME & ENTREPRENEURSHIP POLICY

The role of accountants

Recent research on sustainability uptake in SMEs also points to the necessity of working with and through organisations that are already known and trusted by SME owner-managers (DEFRA 2006). In this context, accountants are often cited as intermediaries who could serve as credible channels for communication with SMEs on sustainability-related issues, since they are (often) the only business adviser with whom a small firm is naturally in contact. SMEs generally exhibit lower levels of awareness of the advice and support that is available, and reluctance to access it, which makes it very important for policymakers to direct their resources to the right choice of facilitator, ie the actor or organisation with whom SMEs would prefer to and/or naturally interact about sustainability.

Within SMEs, the finance function becomes involved in standardisation of information and monitoring of operations at relatively low turnover and headcount levels (£100k-–£1m, <50 employees) and could in theory make the case for, and establish, rudimentary sustainability-reporting practices. Among SMEs larger than this, however, the finance function's efforts will need to be refocused towards embedding sustainability measurements into the case for new products and services and monitoring the SME's own supply chain (ACCA 2012a).

The European Expert Group on CSR and SMEs (2007) identified accountants in practice as one type of 'intermediate' that could play an important role in this respect.

To the extent that these [SMEs] organisations are or can be convinced of the benefits of supporting CSR amongst SMEs, they have the necessary legitimacy and contact networks to play a very positive role.

The potential for accountants to offer sustainability advice is not only linked to their close affinity with the sector and the access and trust this tends to generate, but it is also very much linked to their core competence.

Indeed, in the same way that a range of management and financial accounting techniques have been regarded as powerful tools used in managing, planning, enhancing and communicating the economic performance of businesses, broader systems of environmental accounting and accountability have the potential to be powerful tools in the managing, planning, enhancing and communicating the environmental impact of organisations. Environmental accounting can therefore be considered as covering all areas of accounting that may be affected by the business response to environmental concerns, or pressures. Against this backdrop, small and medium-sized accounting practitioners (SMPs) can play an important role in fostering environmental accounting and accountability practices' (Spence et al. 2012).

There is limited evidence that accountants in industry or practice are currently moving in this direction: in a large international survey, Forbes Insights (2011) found that only about 12% of all SMEs using accountants for financial management advice also used them for advice on their operations. Nonetheless, the changing landscape of business support and, equally, the ever-increasing focus on business sustainability, on the part of both governments and customers, means that it is in many ways inevitable that SMEs' demand for sustainability-related skills and advice will increase.

'Good environmental governance is increasingly important to the SME sector as a means to strengthen customer loyalty and enhance company image. In fact, it would lead to competitive advantage and sustainability for the SMEs themselves. Professional advisors would play an important role in such areas of: adoption of an environmental management system; supply chain management; accreditation with regard to environmental performance; engagement with stakeholders and sustainability reporting.'

ROSANNA CHOI, PARTNER, CWCC, CERTIFIED PUBLIC ACCOUNTANTS (HK)

Seeking recognised training and education is necessary for those wishing to offer chargeable environmental sustainability advice in the future.

The opportunities for SMPs and accountants in business to develop their skills in response to this are manifold. First, as mentioned above, accountants may provide assistance in linking SMEs' performance on environmental sustainability to traditional business metrics, and improve the usefulness of their communication and reporting, by familiarising their clients and their businesses with the relevant reporting models (Gould 2011; IFAC 2011a; IIRC 2011). Secondly, accountants can help businesses to measure their sustainability performance in terms of their positive and negative environmental impact (Stubblefield Loucks et al. 2010). Thirdly, accountants working both in SMEs or advising the owner-managers can play a leading role in communicating the business case. For any of this potential to be realised, however, they will need to take some vital steps towards developing their businesses and their skills in this direction.

STEPS FOR ACCOUNTANTS

Partnership
SMPs should establish collaboration with local environmental-sustainability experts in order to gain local access to credible knowledge.

Gaining experience
This begins in the SMP's own business. Practitioners should review the environmental sustainability of their own business, then use that valuable experience to have rounded, relevant conversations, based on genuine experience, with their clients. This also has the advantage of introducing the topic to colleagues within the SMP who do not already have a personal interest.

Seeking information
Practitioners should familiarise themselves with information sources that they could recommend to others or use to broaden their own knowledge.

Formalising commitment
Where appropriate, practitioners should formalise their commitment to offering environmental sustainability advice through marketing and profile raising in newsletters, their documentation and website.

Source: ACCA research report no 128 (Spence et al. 2012).

Reporting standards need to 'think small first' and account for change

Regulators are rightly cautious about lumbering SMEs with disproportionate regulatory requirements in the name of sustainability; in practice, as mandatory reporting by larger businesses and the public sector relies on input from their suppliers, sooner or later reporting requirements are likely to trickle down to even the smallest of businesses. The challenge for all stakeholders is to manage the administrative burden of such reporting throughout the supply chain in order to avoid wasteful duplication, heavy-handed regulation, or barriers to entry.

Policymakers and practitioners alike have long approached sustainability from the point of view of the more proactive large corporates (Plugge and Wiemer 2008). Standards developed by or for these will not necessarily work for smaller businesses. SMEs will rely particularly on common standards, clearly mapped to customer and regulatory requirements, because as standards-takers they can incur substantial costs in complying with multiple frameworks (Forstater et al. 2006).

The smallest of businesses require simple methodologies, making use of financial data that they already produce for management purposes and of conversion factors developed by government (DEFRA and DECC 2009). Combined, these can inform simple footprinting exercises, using input/output financial analysis to demonstrate businesses' commitment to footprinting, and to inform tenders and direct the owner-managers towards priority areas for improvement.

This initial approach is not, however, sufficient for the purposes of monitoring and documenting improvements because, for the sake of simplicity, it relies on static assumptions about resource efficiency (Kilpinen and Clarkson 2009). It is also insufficient for the purposes of customers, whose main interest in sustainability reporting, as discussed, will be to flag up potential savings in their supply chains and monitor whether these are being achieved. Ideally, monitoring improvements would require the use of physical consumption data that are costly to prepare (IFAC 2011b), but SMEs can use financial and (some) physical data in order to build 'benchmark' footprints, establish assumptions on the relationship between financial flows and physical consumption and then forecast, monitor and report on these.

'SMEs represent 99% of EU companies and provide 67% of jobs. Therefore, they are key players in the transition towards a green economy. The main EU sustainability programmes should acknowledge this central role of SMEs and provide a favourable framework to support them. It should enable SMEs to become greener without being pushed out of the market, thus ensuring the high level of employment and growth which has always been their fundamental contribution to the EU economy.'

GUIDO LENA, DIRECTOR FOR SUSTAINABLE DEVELOPMENT, UEAPME (The European Association of Craft, Small and Medium-sized Enterprises)

STEPS TO SUSTAINABILITY REPORTING

The five steps to sustainability reporting are:

- committing the business publicly to taking action
- assessing the business' impact (footprint)
- setting targets for reducing impact
- acting to reduce impact
- publishing the business' policies and actions.

The role of the accountancy profession

Footprinting and sustainability reporting are still relatively new disciplines for SMEs and their advisers. The priority now is to ensure a move towards common standards, built from the bottom up. Eventually, as more emphasis is placed on aligning standards and ensuring comparability, footprinting and reporting methodologies ought to be integrated into the accounting, IT and financial reporting systems of SMEs and become interoperable with those of their larger customers. While this process is already underway, it is not realistic for the accountancy profession, entrepreneurs or policymakers to expect immediate results – these could take a decade or more to materialise. Even with widely accepted standards in place, the comparability of reports between businesses, especially businesses of different sizes or in different sectors, would not be guaranteed, as indeed it is not in the case for financial statements (Cole et al. 2009). Professional judgement would still be of the utmost importance.

This could present the accountancy profession with a challenge, since generally neither business owners nor accountants are skilled in translating costs into sustainability data. Larger businesses are responding to this challenge through the use of external assurance services (KPMG 2008) but this is unlikely to be an option for the majority of small businesses. Alternatively, accountants may need to extend their professional networks in order to incorporate trusted sustainability professionals to whom they can direct clients (Jarvis and Blackburn 2009), while the largest practices may try to identify and employ suitably qualified specialists as part of a well-defined service offering.

In addition to this, accountancy bodies need to become more proactive in the SME sustainability debate, providing members with the right tools and resources to help them develop in this direction. The accountancy profession has increasingly adopted broader business-support focus alongside its more 'traditional' compliance assistance, encouraging accountants to identify new business opportunities and to enlarge their portfolio of services. It is now necessary to give active attention to SME sustainability. Whether driven by regulators, larger businesses or customers – SMEs will need to become more proactive in this area and accountants are well placed to help them get there.

STEPS FOR PROFESSIONAL BODIES

Professional bodies can promote the adoption of sustainable practices by providing members, either directly or through partnerships, with:

- sources for information about sustainability and relevant regulation
- education on specific sustainability issues for business, such as the implications of resource depletion and energy scarcity
- information about the SME aspects of the ISO14001 and Global Reporting Initiative standards and industry-specific regulations
- training in specific environmental-accountancy techniques (including environmental auditing, carbon costing, etc).

Source: ACCA research report no 128 (Spence et al. 2012).

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ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com