

## **The Role of SMPs in Greening Small Business**

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*This article examines the relevance of integrated reporting to small business and highlights how small- and medium-sized practices (SMPs) can help small businesses improve their environmental performance.*

### **Introduction**

While the significant challenges posed by sustainable development and sustainability have been well recognized for some time, management of these challenges has yet to become a core competency of most organizations—big and small. Why? First, while awareness among business leaders is growing, many are not eco-literate. They do not recognize the environmental benefits of making environmentally sustainable business choices, including reducing their carbon footprint, and contributing to cleaner water and better air quality. Second, many business leaders do not believe that the environment is a legitimate business concern. Many do not realize that with minimal investment in more efficient technology and simple changes in human behavior, their organizations can reap significant cost savings.

Fortunately, there are signs that things are changing. According to a recent [research study](#), conducted by the American Institute of Certified Public Accountants, the Chartered Institute of Management Accountants, and the Canadian Institute of Chartered Accountants, small- and medium-sized entities (SMEs) are placing greater emphasis on developing a sustainability strategy as it becomes increasingly linked to business performance.

However, most SMEs that are moving toward sustainability seem to be doing so in response to market pressures in the supply chain—large corporate customers are imposing requirements on their SME suppliers as a condition of their purchase order to reduce their own carbon footprint and/or fulfill their environmental reporting obligations. But there are other reasons to embrace the green agenda.

### **Why should SMEs embrace the green agenda?**

There is mounting scientific evidence that business needs to embrace the green agenda by adopting more sustainable business practices, including the development and implementation of more eco-efficient products and services. And, small business should not be exempt.

Why? Small business is the cornerstone of most—if not all—national economies. According to [data](#) from the Organisation for Economic Cooperation and Development (OECD), the SME sector accounts for the majority share of private sector GDP, economic growth, and employment in OECD economies and beyond, and, consequently, has a carbon footprint comparable with that of the listed-company sector.

Some claim the SME sector is often ignored or given low priority when solutions or tools to address business issues are designed. It is argued that the tools makers and policy shapers are typically the large corporate players and governments, and “small” is not typically part of their repertoire. Yet, given their cumulative environmental impact, small businesses need to be a part

of the solution. To do so, they may need the help of their most trusted business advisor, the professional accountant.

### **How can professional accountants help SMEs green their businesses?**

SMPs are well positioned to take advantage of SMEs' increasing demand for value-added business advisory services, including sustainable business advice (see [The Role of SMPs in Providing Business Support to SMEs](#)). As small businesses themselves, SMPs understand and appreciate the needs of their SME clients, including the need for tools that are affordable and practical.

SMPs also appreciate the need for their small business clients to formalize their operations to instill better management control, which can help SMEs become more eco-efficient, do more with less and, hence, increase and green their bottom line. For example, accountants can advise on the benefits of reducing energy costs, from simple behavioral changes aimed at eliminating waste, to investment in new equipment and alternate sources of energy.

SMPs can also advise SMEs on developing an Environmental Management System (EMS), which enables an organization of any size or type to identify and control the environmental impact of its activities, products, or services; set and achieve environmental targets; and demonstrate that these targets have been achieved. Implementing an EMS should lead to cost savings and a reduction in the organization's carbon footprint. Business advisory in this area can include: 1) informing clients about the value of an EMS, and connecting them to tools to help them get started; and 2) helping them prepare, for example, an [EnviroReady Report](#), to demonstrate the presence of a robust and credible EMS and help position them as good corporate citizens; and 3) help SMEs meet the reporting needs of their large, listed suppliers who often have to meet certain requirements, such as compliance with the International Organization for Standardization's [ISO 14001](#) dealing with EMS.

In addition, in the next few years, increasing numbers of SME owner-managers will be retiring and seeking to sell their businesses. Buyers are likely becoming more discerning when it comes to the green credentials of potential purchase targets.

All this opens opportunities for SMPs to build on their existing relationships and offer sustainable business advice, helping clients to comply with sustainable reporting and any attendant assurance requirements, green their business, improve their bottom line, and attract new clients or buyers.

### **What tools can SMPs use to help SMEs green their business?**

IFAC's [Sustainability Framework](#) (Section 2.1) includes a number of relatively simple steps that SMEs can take to lower costs through minimizing waste. SMPs can help their SME clients implement these measures. For SMEs seeking to implement a business excellence framework, a universally applicable tool is the International Organization for Standardization's standard, [ISO 14001](#) (see above).

SMPs interested in supporting SMEs on the path to sustainability should download the IFAC SMP Committee's free [Guide to Practice Management for Use by Small- and Medium-Sized Practices](#), which offers guidance and tools spanning a range of topics.

## How can SMPs and SMEs influence policy makers?

The International Integrated Reporting Committee (IIRC) recently released its Discussion Paper, [\*Towards Integrated Reporting - Communicating Value in the 21<sup>st</sup> Century\*](#). The paper presents the rationale for integrated reporting, offers initial proposals for the development of an international integrated reporting framework, and outlines next steps toward its creation and adoption. Why should SMEs and SMPs respond to this paper? Integrated reporting will allow organizations to release more inclusive and useful reports on all aspects of performance, including environmental, social, and governance, as well as economic, in a concise and user friendly format. This information will allow organizations to provide an assessment of the long-term viability of an organization, as well as meet the needs of investors and other stakeholders.

Comments are encouraged from various stakeholders,<sup>1</sup> including reporting organizations, investors, employees, and assurance providers. Of most relevance to SMEs and SMPs is question 4 on the applicability of integrated reporting (IR) to SMEs and the initial focus of integrated reporting on larger companies. Tell the SMP Committee what you think by responding to this question on its [Discussion Board](#).

### IFAC RESOURCES

The following resources (all free of charge) are accessible via IFAC's SMP Committee website at [www.ifac.org/SMP](http://www.ifac.org/SMP).

- Publications—[\*Guide to Practice Management for Small- and Medium-Sized Practices\*](#) (PM Guide) and accompanying User Guide, [\*The Role of SMPs in Providing Business Support to SMEs\*](#), and [\*Sustainability Framework\*](#)
- Quarterly [eNews](#) and [Relevant Links: Business Advisory](#)

For translations of the PM Guide (both completed and in progress), filter by language in the Publications and Resources area of the IFAC site: [www.ifac.org/publications-resources](http://www.ifac.org/publications-resources).

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<sup>1</sup> Comments can be submitted to [dpresponses@theiirc.org](mailto:dpresponses@theiirc.org) or through [www.theiirc.org](http://www.theiirc.org) by December 14, 2011.