ACCURATE AND RELIABLE

INSIGHT PAPER · ESG & SMALL BUSINESS

Sustainability in SMEs

Why people, planet and profit now sit on the same balance sheet — and what small and medium-sized enterprises can do about it.

IN THIS PAPER

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SUBJECT

ESG, sustainable growth and reporting

PREPARED FOR

Owners, directors and finance leads of SMEs

ENQUIRIES

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01 — THE SHIFT ALREADY UNDER WAY

A quiet rewriting of how small businesses do business

Many small and medium-sized enterprises (SMEs) are changing how they do business.

They have found that by adopting sustainability initiatives, they can reduce costs and create new opportunities for growth and profitability. They also recognise this better prepares them for the future. Some have adopted a truly transformational strategy, placing sustainability at the heart of their purpose to make a difference by solving some of the world's biggest challenges.

But there's evidence that suggests that many more SMEs, struggling from the impact of the Covid-19 pandemic, have neither time to rethink and reshape their supply chains and business models, nor financial resources to do so. Real action on sustainability isn't yet on their agenda.

Small and medium-sized enterprises: where sustainability meets the day-to-day realities of trading.

> **Sustainability places an organisation's environmental and societal impact on the same scale as financial viability.**

Sustainability is an increasingly urgent focus for businesses, large and small. It places an organisation's environmental and societal impact on the same scale as financial viability. This concept of **'triple bottom line' accounting** was first coined in 1994, and aimed to integrate social, environmental and financial outcomes — people, planet and profit — to evaluate sustainability.

People

Employees, suppliers, customers and the communities a business serves.

Planet

Emissions, energy, water, waste and the wider draw on natural resources.

Profit

Financial viability — measured alongside, not above, the other two.

It has evolved over time encompassing approaches such as **CSR** (Corporate Social Responsibility), **ESG** (Environment, Social and Governance), integrated reporting, shared value and impact investing. Now, some enterprises are called **'for purpose'** or **'regenerative'** businesses. At a minimum, these concepts help organisations become accountable for their impact; at best, they serve to transform businesses to build prosperity that is truly sustainable.

02 — THE RISK PICTURE

Climate action failure is now a top-tier business risk

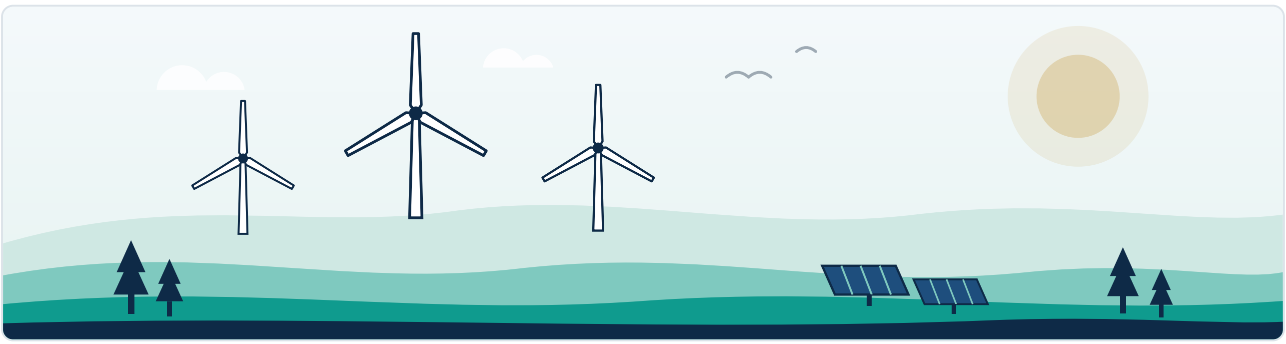
The World Economic Forum, based on risk perception surveys of more than **650 members** of its leadership communities, identifies the failure of effective climate action as the biggest risk facing businesses.

TOP 5 Risks by likelihood	
1	Extreme weather
2	**Climate action failure**
3	Human environmental damage
4	Infectious diseases
5	Biodiversity loss

TOP 5 Risks by impact	
1	Infectious diseases
2	**Climate action failure**
3	Weapons of mass destruction
4	Biodiversity loss
5	Natural resource crises

Highlighted: **climate action failure** is the only risk to rank in the top two on both measures — most likely to happen, and among the most damaging when it does.

Source: The World Economic Forum Global Risks Report 2021



Extreme weather and climate action failure top both WEF risk registers — and both land first on physical operations and supply chains.

03 — THE FRAMEWORK

The ESG framework

Businesses' approach to sustainable practices is typically framed using ESG criteria:

E

Environmental

The environmental impact of a company. Includes energy use and other resource consumption that impacts the natural world, including greenhouse gas emissions, water, waste and recycling.

S

Social

The social impact and interactions a company has with employees, suppliers and customers and how its operations affect communities where it does business. It includes respect for human rights, such as the eradication of modern slavery in the supply chain, work practices, health and safety, and diversity and inclusion.

G

Governance

Governance refers to how an organisation, through its policies, practices and processes, makes decisions, complies with the law and interacts with external parties.

04 — MATERIALITY

The universe of sustainability issues

The Sustainability Accounting Standards Board (SASB) has developed standards to **"guide the disclosure of financially material sustainability information by companies to their investors."** The standards identify which of 26 issues are most relevant to each of 77 industries. SASB Standards are now maintained under the auspices of the Value Reporting Foundation.

26
sustainability issues identified by the SASB standards

77
industries mapped against those issues for materiality

1994
the year 'triple bottom line' accounting was first coined

Start with purpose, not with KPIs

In order to create value, focus on sustainability topics that align with your business' purpose and strategy. Rather than identifying and measuring KPIs straight away, reflect on what is truly important for your business, and why. Then develop a strategy defining actions and targets and produce meaningful KPIs.

05 — SCALE AND DEFINITION

The role of SMEs

Small businesses typically have 5–19 employees, and medium-sized 20–199 employees. Definitions vary by jurisdiction:

JURISDICTION	SMALL	SME THRESHOLD
General definition	5–19 employees	20–199 (medium)
European Union	—	Fewer than 200
Australia	—	Fewer than 200
United Kingdom	—	Fewer than 250
New Zealand	Fewer than 20	Fewer than 50 (medium)

The EU and Australia define SMEs as independent businesses which employ fewer than 200 people (250 people in the UK). In New Zealand, small businesses have fewer than 20 employees and medium-sized fewer than 50.

SMEs, which include small and medium-sized accounting practices (SMPs), play a central role in every aspect of achieving the **Sustainable Development Goals (SDGs)** of the United Nations. Small businesses make markets work. Their operations are critical to employment, food production and distribution, construction, health and wellbeing and the delivery of critical services. Collectively, they have a major economic impact.

Collectively, small businesses make markets work — in employment, food, construction, health and critical services.

06 — THE READINESS GAP

Willing, but not yet equipped

Many SMEs are preoccupied with survival and growth challenges such as navigating globalisation, digitalisation and the changing nature of work. However, they may find it challenging to see how sustainability could be a force for growth.

A new survey by ACCA found that only **8% of SMEs** had set net-zero targets for 2050. One in four of the 3,500 respondents said they felt they lacked the professional skills required to become sustainable.

One in four SMEs say the barrier is skills, not willingness.

Source: ACCA

8%
of SMEs have set a net-zero target for 2050

1 in 4
say they lack the professional skills needed to become sustainable

3,500
SME respondents surveyed by ACCA

Stages of sustainability in SMEs

Sustainability is not a single decision but a progression — from first compliance, through operational efficiency, to strategy and finally to a business whose purpose and impact are inseparable. Knowing which stage you are at determines what to do next.

Where does your business sit today?

To learn more about the 26 issues identified by the Sustainability Accounting Standards Board, or to know the stages of sustainability in the SMEs, please contact us.

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