

Small Business Sustainability: What is the CPA's Role?

Sustainability reporting is a rapidly growing business trend among not only large, multinational businesses but also among small and medium size businesses. Sustainable development has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.ⁱ In considering sustainability, business enterprises take into account not only the economic bottom line, but also the impact of the business upon the wider environment both currently and in the future. Sustainability reporting involves reporting this impact to a broader base of business stakeholders including customers, suppliers, local communities, employees, and society at large. The Global Reporting Initiative (GRI), an international organization whose mission is to promote global standards for sustainability reporting, defines sustainability reporting as,

“The practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization, including both positive and negative contributions.”ⁱⁱ

Small and medium size businesses can accrue many benefits as a result of incorporating sustainability practices and reporting. Last year a joint survey of small businesses was conducted by the American Institute of CPAs (AICPA), the Chartered Institute of Management Accountants (CIMA), and the Canadian Institute of Chartered Accountants (CICA). Small business participants identified several benefits of sustainability reporting including appealing to more environmentally conscious customers, strengthening relationships with suppliers, positioning their brand as a good corporate citizen, generating greater loyalty and commitment from employees, and reducing operating costs resulting in improved profitability.ⁱⁱⁱ

Small businesses are not, and should not be expected to prepare sustainability reports under the GRI G3 guidelines. Indeed, currently much of the global sustainability reporting is conducted on a voluntary basis. In addition, a majority of U.S. small businesses do not include sustainability as part of their business strategy. One purpose of the AICPA, CIMA, and CICA joint survey of small businesses was to determine the level of sustainability practiced by the small businesses included in the survey. While only one third of the companies surveyed had a sustainability strategy, 23 percent of the businesses surveyed that did not have a sustainability business strategy have plans to develop one in the next two years.^{iv} This certainly indicates a growing awareness concerning the impact of sustainability strategies on small businesses.

Should small businesses owners consider implementing a sustainability strategy? Businesses must comply with government environmental regulations, or face significant fines and penalties. In contrast, the driving force behind sustainability is very different. Indeed, sustainability is market driven and more and more customers will make purchase decisions based on small businesses demonstrating a serious commitment to sustainability. Bob Bunting, president of the International Federation of Accountants, and a partner in Moss Adams LLP, CPAs stated,

“Moss Adams, for instance has one major client with 10,000 suppliers, each of which will require a sustainability audit. Don’t be mistaken: Sustainability reporting is not a diabolical regulator’s scheme. *It is market driven. It’s customer-driven capitalism.*”^v

Walmart has over 100,000 suppliers and they now require each of those suppliers to complete a 15 question sustainability questionnaire. If your small business is currently not considering a sustainability strategy, more and more of your customers will expect or require one.

Going green can provide financial benefits for small businesses as well. A significant number of tax credits are available for solar energy, green buildings and certain Energy Star rated equipment. A number of states have passed legislation to provide state tax credits as part of energy incentive

programs for businesses. In fact, Oregon recently passed an energy incentive program that provides a tax credit based on 50% of project costs to install certain high efficiency equipment and renewable energy related projects.^{vi} In addition to the tax incentives, many business owners are discovering that going green can pay for itself and often increase profitability. Reducing waste, reusing and recycling has produced significant savings for some small businesses. A competitive advantage can be gained when your company demonstrates a commitment to sustainability. Your small business practices sustainability and your competitor doesn't, that amounts to a competitive advantage. The lesson is that you don't have to sacrifice profitability when your small business adopts a sustainability strategy.

CPAs can and should play a vital role in helping their small business clients discover how a viable sustainability strategy makes good business sense. Sue Coffey, AICPA senior vice president of public practice and global alliance stated,

“One of the lessons from the case studies is that finance professionals often play a key role in defining and guiding sustainability strategies, in part because they are used to navigating different parts of a business and keeping an eye on the big picture. It's one more example of the value the finance function can bring to an organization.”^{vii}

Bunting recommends that CPAs develop the skills base beyond those normally associated with small and medium-sized CPA firms. Since part of the sustainability movement involves renewable energy tax credits and grants, CPAs feel very comfortable providing these services. However, in the future business consulting will become the high growth area for these firms. To take advantage of these growth opportunities, CPAs must gain the expertise to help small business clients design and implement sustainability strategies.^{viii} State CPAs societies can certainly take the lead in helping CPAs develop this expertise. Indeed, state CPA societies are very competent at developing and presenting continuing professional education. A number of state CPA societies have provided sustainability articles on their web sites, and the New Hampshire Society is considering the development of online continuing professional education materials on sustainability. CPAs have always been trusted business advisors to

their clients, and advising small businesses on how best to develop and implement a sustainability strategy will be a continuation of this tradition.

ⁱ World Commission on Environmental Development (WCED). *Our Common Future*. Oxford: Oxford University Press, 1987 p. 43.

ⁱⁱ Global Reporting Initiative. Retrieved October 9, 2011, from <http://www.globalreporting.org/ReportingFramework/G3Guidelines/G3GlossaryOfTerms.htm/>

ⁱⁱⁱ CICA, AICPA, CIMA publication (2011, September). *SMEs Set Their Sights on Sustainability*, Retrieved October 9, 2011, from AICPA: http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/Sustainability/DownloadableDocuments/Sustainability_Case_Studies_Final%20pdf.pdf/

^{iv} Coffey, Sue (2011, September). *Accountants See Sustainability Practices Growing*, Retrieved September 30, 2011, from WebCPA: <http://www.accountingtoday.com/news/Accountants-See-Sustainability-Practices-Growing>

^v Bunting, Bob (2010, December) *Going Global: Six Strategies for Local CPAs*. Retrieved September 3, 2011, from CPA Trendlines: <http://cpatrendlines.com/2010/12/13/going-global-six-strategies-for-local-cpas/>

^{vi} *Business Energy Tax Credits*. (Effective date: 2011, September 29). Retrieved October 9, 2011, from Oregon Department of Energy. <http://www.oregon.gov/ENERGY/CONS/BUS/BETC.shtml>

^{vii} *ibid* Coffey, Sue

^{viii} *ibid* Bunting, Bob