

SMALL BUSINESS SUSTAINABILITY CHECKLIST



International
Federation
of Accountants





INTRODUCTION

The level of attention and pace of developments related to sustainability matters and reporting are unprecedented. Stakeholders are now expecting all organizations, regardless of their size or industry, to recognize their environmental responsibility and manage the risks and embrace the opportunities relating to sustainability.

Most organizations worldwide are small by size and the importance of small and medium-sized entities (SMEs) to both developed and developing economies, and to all societies, is indisputable. Incorporating sustainability into your strategy and day-to-day business operations is important because SMEs have an environmental impact, are a critical source of employment, and are embedded in local communities.

Embracing sustainability also makes good business sense as you can find significant advantages from establishing (or enhancing) processes, systems, and controls for identifying risks and opportunities and measuring and analyzing sustainability information to enable better-informed business decisions.

You cannot afford to ignore the issue of sustainability for many important reasons, including the need to:

- Future-proof your business by identifying sustainability related risks and opportunities and adapting where necessary so that the business is sufficiently resilient to expected sustainability related impacts.
- Meet the expected growth in reporting requirements¹ - both where required by law or for the purpose of providing information to external stakeholders (e.g., through the supply chain requests or from finance providers).
- Identify areas for improving efficiencies and performance, maximizing consumer demand, attracting talent, obtaining new business opportunities, as well as differentiating yourself from competitors.
- Tailor your business activities to maximize positive social impact and minimize impact on the environment, including any contribution to climate change. The driver for this may be reputational, “doing the right thing,” or compliance with emerging legal or regulatory requirements.

SMEs have an important part in achieving the [UN Sustainable Development Goals](#). Some SMEs’ activity is directly related to one or more SDG, such as health and well-being, education, food production, etc. — and SMEs have significant indirect roles in achieving other Goals. In particular:



Goal 8:

“Promote inclusive and sustainable economic growth, employment and decent work for all”



Goal 9:

“Build resilient infrastructure, promote sustainable industrialization and foster innovation”



Goal 13:

“Take urgent action to combat climate change and its impacts”

¹ SMEs may be required to provide sustainability information as part of value chain reporting for entities preparing corporate reports under the [International Sustainability Standards Board](#) (ISSB) two new standards - IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

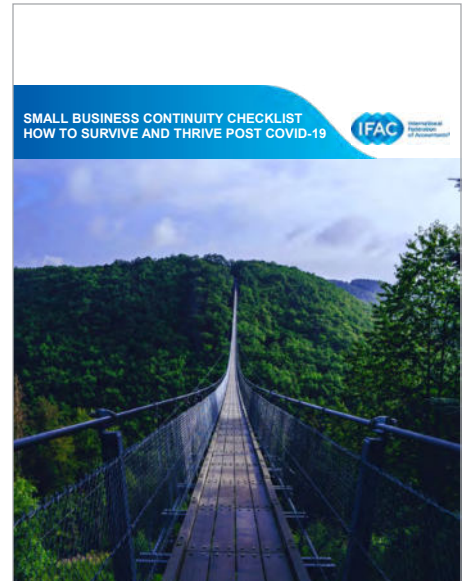


ROLE OF PRACTITIONERS

The close relationship you will have with the professional accountants that support your business makes them ideally positioned to provide guidance and recommendations on sustainability matters you need to be aware of, including establishing systems to capture the required information and relevant best practices. As trusted advisers, they have a deep knowledge of your business, as well as the industry and environment in which it operates.

This Small Business Sustainability Checklist is a diagnostic tool to help you identify sustainability areas, risks, and opportunities. **Not all initiatives will be applicable to all businesses, so the actions will need to be tailored accordingly** and it is recommended this is done in discussion with your professional accountant. The key is identifying some initial steps and recognizing this will be a journey that will evolve over time.

Before starting on this journey, you may also benefit from a review of the financial and strategic management tasks included in the [Small Business Continuity Checklist](#).





CREATING A FRAMEWORK FOR ESG TO THRIVE

Sustainability is a broad concept, so to make practical improvements your business will need to break it down into particular areas of focus. Sustainability is often looked at through the lens of Environmental, Social and Governance (ESG) factors.² By using these three factors as areas of focus, you can think about specific actions your organization can take.

Setting initiatives to improve performance and compliance on ESG factors is therefore undeniably important but ultimately progress will only be made if your business puts in place structures that will facilitate such improvements. Culture is central to effective change, and a mindset of embracing the opportunities and challenges posed by ESG factors is essential. To be in a position to do this requires an understanding of the impact these areas could have on your business.

A recommended starting point is to establish a Strengths, Weaknesses, Opportunities, and Threats (SWOT) matrix which considers how ESG factors may impact your business. This should take into account the products and services you offer and consider whether there are any ESG implications arising from these. A series of initial steps can then be developed based on what has been identified, setting out priorities in relation to ESG and any targets.



As part of this approach your business could set KPIs and other internal targets in relation to ESG factors. You will then need to:

- Measure progress and achievements against these KPIs in order to assess the impact
- Identify the concerns of interested parties (customers, your community, etc.) who are affected by your ESG performance
- Determine what information you will share and how you will communicate it
- Publish results and achievements
- Have results verified by a third party
- Introduce changes in your organization and in your Information Reporting Systems to monitor the evolution of the KPI related to your goals

As previously indicated, not all of these steps need to be taken and it may take a number of years for your organization to progress in its sustainability journey.

² For this publication, sustainability is a catch-all phrase for information relating to environmental, social (including employees, suppliers, customers, the community, human rights) and governance (ESG) matters.



ENVIRONMENTAL INITIATIVES

Climate change is unequivocally linked to greenhouse gas (GHG) emissions, which all businesses need to take steps to manage and reduce. There are also many other areas of concern that would be relevant to small businesses, including pollution, waste, water conservation, energy, and biodiversity. These may become increasingly important to understand with the development of new standards and best practices.

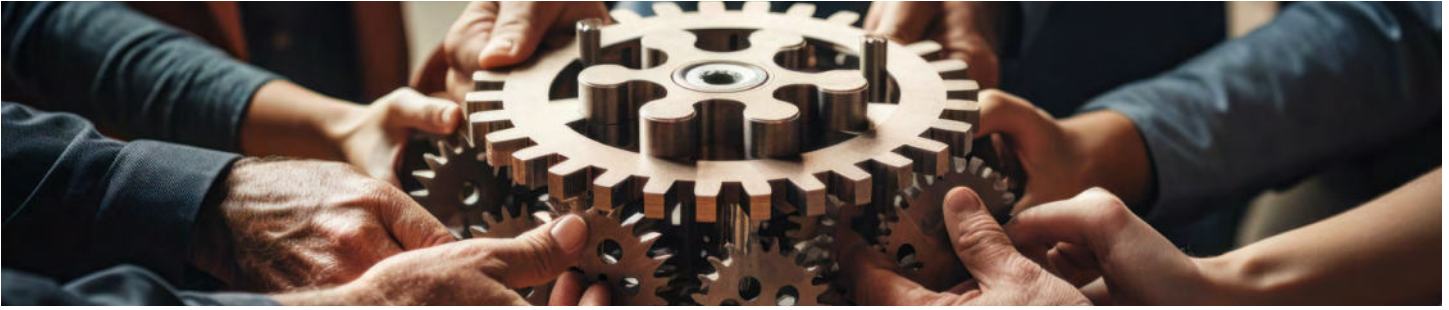
It is important for you to understand which factors are most relevant from a business risk and opportunities perspective. You should also be aware that broader considerations might be needed for reporting purposes: for example, the ability to respond to information requests from your present or potential supply chain partners or from finance providers.

The following environmental initiatives could be considered to understand how your business is being impacted and identify action items.

Initiatives	Actions to Consider	Comments
Assess the business risk of environmental factors that may affect the business	Supported by the SWOT analysis recommended above, consider environmental factors such as climate change, waste, extreme weather, biodiversity, energy, and carbon taxes/prices; to identify priority areas, understand what specific risks may arise for your business from these factors and quantify the impact and likelihood of such risks occurring	
Develop an environmental policy and incorporate an environmental commitment into the business goals and strategy (ensure it reflects the culture and nature of your business)	- Set environmental objectives and targets that support the policy, including reducing waste and consumption of resources - Establish a budget and allocate resources to meet the objectives and targets - Ensure the policy considers the business risks and opportunities of environmental factors (see above). For example, funding should be reserved to adapt products or services where environmental impact is a problem, or even to discontinue products or services - Consider your impact on consumption and pollution of air, water, and soil if relevant - Ensure your procurement policy is in line with environmental objectives. For instance, include an assessment of suppliers' environmental impacts and plans, such as how suppliers mitigate their environmental impact from manufacturing, how they source input material, and how they deal with waste - Conduct resource and energy consumption assessments on a regular basis - Conduct a needs analysis to determine what training is needed to educate employees - Determine the competencies and technical expertise required to ensure personnel can deliver on the policy and reduce the company's ecological footprint	

Initiatives	Actions to Consider	Comments						
Develop an environmental policy and incorporate an environmental commitment into the business goals and strategy (ensure it reflects the culture and nature of your business) [continued]	• Designate an employee to lead and periodically report progress to management • Ask employees to provide input on ways to reduce waste and eliminate unproductive processes. • Develop procedures to prevent and respond to emergencies, including employee roles and responsibilities and periodic tests of emergency plans • Consider adopting UN SDG 13 - Climate Action and develop related initiatives and action plans, with consideration for local-level government targets • Document key elements of environmental policy, objectives, and targets • Collaborate with environmental organizations or related NGOs in joint events							
Understand the quantity of the business GHG emissions and carbon footprint, how to measure it, and how to reduce it (also see 8 Steps to Enhance GHG Reporting)	• Break down and obtain data on GHG emissions and define the scope that will be included. For example, Scope 1, 2, 3: – Scope 1 – Direct (e.g., company vehicles and onsite manufacturing) – Scope 2 – Indirect (e.g., electricity, heating/cooling systems, and computers) – Scope 3 – Indirect (e.g., employee and customer travel, transportation, and distribution) CARBON EMISSIONS <table border="1"> <thead> <tr> <th>SCOPE 1</th> <th>SCOPE 2</th> <th>SCOPE 3</th> </tr> </thead> <tbody> <tr> <td> Direct Emissions Owned Assets • Facilities • Equipment • Vehicles • Onsite landfills </td> <td> Indirect Emissions Energy Purchased • Purchased electricity • Purchased heating • Purchased cooling </td> <td> All Other Indirect Emissions 3rd Party • Transportation • Distribution • Waste • Energy and fuel • Leased assets • Travel </td> </tr> </tbody> </table> LINK • Set emission targets to reduce total quantity of GHG emissions • Consider costs involved in meeting targets and ensure budgets are allocated for this • Explore companies in the marketplace that can assist with measuring carbon emissions • Understand what information requests could be received from supply chain partners and how to action them • Engage with supply chain stakeholders to promote GHG emissions reduction • Undertake scenario analysis to understand exposure to the impact of climate change on operating margins • Undertake employee training and introduce incentives for meeting targets to encourage greater awareness • Consider joining local climate action initiatives or groups	SCOPE 1	SCOPE 2	SCOPE 3	Direct Emissions Owned Assets • Facilities • Equipment • Vehicles • Onsite landfills	Indirect Emissions Energy Purchased • Purchased electricity • Purchased heating • Purchased cooling	All Other Indirect Emissions 3rd Party • Transportation • Distribution • Waste • Energy and fuel • Leased assets • Travel	
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Initiatives	Actions to Consider	Comments
Utilize a systems framework to achieve better environmental management and performance	• Explore the use of environmental management system standards (e.g., ISO 14001:2015) as a framework for managing and addressing environmental issues	
Seek ways of reducing resources, energy use, and waste	• Establish and control a recycling program with designated bins • Change light bulbs to LEDs • Insulate all pipes, walls, and roofs • Explore renewable power options • Review and decrease water usage • Go paperless or change default printer settings to double-sided • Consider purchasing refurbished technology • Minimize plastic use in packaging and/or explore alternatives to plastic bags • Review equipment and explore more energy efficient replacements • Use local suppliers where possible • Reduce the need for business travel and encourage public transport use • Consider remote or hybrid work	
Review and comply with environmental regulation/legislation	• Familiarize yourself with, and understand, local regulations on specific industry/sector • Ensure requirements are communicated to employees and encourage practice of environmental protection measures • Consider appointing an employee as responsible for monitoring and compliance • Consult with a lawyer or environmental regulation specialist • Closely monitor litigation of environmental issues in the industry • Raise awareness of rules and regulations in relation to greenwashing and avoidance of such risk	
Determine whether the business activities are eligible for a sustainability government grant or subsidy	• Explore what grants/subsidies/loans are available and review the eligibility requirements • Identify green project opportunities and the benefits of leveraging green finance (e.g., https://www.icmagroup.org/sustainable-finance/)	



SOCIAL RESPONSIBILITY INITIATIVES

Employee well-being is a critical component in all organizations, but to thrive, a business also needs to look after its customers and suppliers and the communities in which it operates.

The following social responsibility initiatives could be considered to identify action items.

Initiatives	Actions to Consider	Comments
Ensure the health, safety, human rights, and welfare of employees and to consider whether labor practices are appropriate	• Review that your labor conditions fulfill all aspects of current relevant legislation in areas such as salaries, safety at work, working time, anti-discrimination, etc. • Review and update employee handbook covering flexible working, vacation, sick leave, pay and performance, maternity and paternity benefits, health insurance, and training policies • Establish an anti-harassment policy with reporting mechanisms and disciplinary procedures • Research industry wages and determine whether the business is competitive • Document job descriptions with clear responsibilities • Establish tracking of workplace safety incidents, accidents, complaints, and compensation claims • Consider labor practices and relevant regulation • Review human rights legislation to ensure compliance and provide training on human rights issues and policies • Conduct regular employee engagement surveys and incorporate findings into improvement plans • Measure employee turnover and organize exit interviews; incorporate findings into improvement plans • Allocate budget for employee professional development • Conduct regular employee performance and career development reviews • Obtain occupational health and safety related certification such as ISO 45001	

Initiatives	Actions to Consider	Comments
Embrace diversity, equity, and inclusion (D, E & I) for all	• Research the gender pay gap and seek to close any gap that exists • Review policies that prevent discrimination • Examine the recruitment and hiring processes • Examine and review compensation packages • Review D, E & I diversity at senior levels • Undertake training for employees on gender and ethnic bias • Commit to equity by making declaration of principles on equality • Review your communication to ensure this is inclusive, gender neutral, and free of bias • Review accessibility of the premises/offices to differently abled employees • Monitor proportion of employees by gender, ethnicity, and other diversity and inclusion categories to identify and address and underrepresentation	
Identify who your stakeholders are and analyze the impact and influence of each to prioritize the most important ones	• Relevant stakeholders would include finance providers, clients/ customers, employees, competitors, suppliers, and government agencies • Review mechanism to receive and respond to complaints and feedback	
Take steps to ensure your organization, customers, and suppliers are mindful of the need to support eradicating modern slavery and child labor	• Determine if there is a supply chain risk by reviewing the Global Slavery Index • Request information from suppliers • Prepare data that may be required for suppliers or customers (e.g., employee salary ranges for different positions)	
Support the local community and give back to charities	• Offer additional days off for employees who volunteer to support local charities • Consider donations to charitable causes that are related to the business or of interest to employees • Review expenses relating to independent local suppliers	
Consider product or service responsibilities	• Create policies for consumer data protection and privacy and identify how these will be implemented and monitored • Be sure that information about your products or services is accurate, complete, and not misleading • Comply with payment term requirements and set up a process to resolve any disputes with customers and suppliers • Set up mechanisms for customer feedback • Track product or service complaints and how they are resolved	



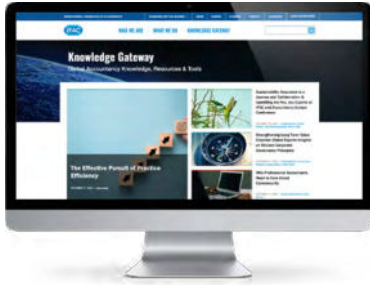
GOVERNANCE INITIATIVES

Small business governance matters are important, especially with family-owned businesses. Creating the right underlying governance environment is among the most crucial first steps to develop a greater focus on sustainability matters.

The following governance initiatives could be considered to identify action items.

Initiatives	Actions to Consider	Comments
Review modern business governance practices	• Review the composition of the board of directors including a mix of internal and external directors and the number of regular meetings • Identify what the needs are to cultivate a more diverse Board and identify actions to achieve it • Prepare an organization chart with the management and reporting lines • Implement robust internal controls and clear procedures and policies • Separate approval powers and ensure that two directors' approval is required for high-value transactions • Establish a code of conduct to prevent conflicts of interest • Establish a whistleblower policy • Train employees on anti-corruption, bribery, and fraud measures, including identifying and reporting suspicious activities • Draft, update, communicate, and train employees on important sustainability policies that are relevant to the organization • Review procurement processes and try to incorporate sustainability considerations into decision making • Enhance measures to protect data privacy and comply with relevant rules and regulations • Link senior management remuneration package with sustainability-related performance metrics and achievements	
Assess the internal sustainability culture	• Engage management, and all employees, in the sustainability culture (for example, in training, workshops, human resources materials, and meetings) • Plan what the business is willing to achieve for sustainability, including why, how, who, and when • Create a team to lead respective initiatives and actions	
Assess the business value chain and identify the natural resource impact	• Consider the natural resource impact of the business if it continues operating the same way	

Initiatives	Actions to Consider	Comments
Plan the sustainability objectives internally and with suppliers and clients	• Identify what your business needs to do to have the right data to monitor its progress on sustainability and its KPIs • Establish what the factors are in choosing a supplier aligned with the company's sustainability approach • Identify whether the product can be reutilized when its useful life ends and that customers know how to reuse or dispose of it (for example, certain non-recyclable waste should be disposed at the business's locations/stores)	
Establish a risk management system/framework	• Establish mechanism to identify, assess, and evaluate risks (e.g., climate, financial, technological, reputational, and compliance) – Analyze and evaluate risks – Treat and manage risks – Record, monitor, and review • Analyze what opportunities could arise from improving your impact on environmental, social, or governance factors • Ensure business is protected by insurance policies • Incorporate sustainability risks and opportunities into an enterprise risk management framework	
Review and update IT systems to minimize data privacy issues	• Invest in cyber security, data protection, and management • Arrange employee training • Review disaster recovery plan documentation	
Develop a succession plan	• Understand the internal and external options and different valuation methodologies • Consider the taxation implications	
Update business strategy to position sustainability at the forefront	• Develop a mission statement with commitments to specific environmental and social impacts	
Champion an integrated mindset to improve the quality of sustainability information and its relevance for decision making	• Explore how to break down team siloes connecting sustainability and financial reporting processes to improve the quality of sustainability information for decision making and reporting • Consolidate and prioritize relevant issues and information from various teams and external sources about sustainability impacts and related risks and opportunities, and ensure integration of this information in planning, financial analyses, and scorecards. • Apply financial reporting principles and controls to material sustainability disclosure so that sustainability information is reliable, relevant, decision-useful, and timely, and build confidence through internal and external assurance	



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