


# Clients & Climate Change – Threat and Opportunity?

AGN Global Business Voice: Business Alert



March 2022

## ► Business Alert: Clients & Climate Change – Threat and Opportunity?

### Introduction and key findings

The dust has long settled on COP 26, but for the month of November 2021 the world was focused on the Glasgow climate conference, temperature change targets, and carbon and methane emissions. Many states signed up to new targets, global business was scrutinized and there were commitments to change consumer behaviour – all designed to drive down global warming. But astonishingly little was said about engaging small to medium sized enterprises (SMEs) in these grand plans. In February this year the United Nations Intergovernmental Panel on Climate Change (IPCC) released its 2022 update on the state of the planet, and the news is not good, with more data that shows the planet warming, biodiversity decreasing, sea levels rising, and extreme weather growing more common. AGN Global Business Voice (GBV) explores the issues facing the typical AGN SME client.

The AGN GBV is a barometer of opinion and sentiment taken from our international panel of accounting and business advisory professionals – all serving the owner managed business sector. In this latest edition of AGN global business voice we probe our panel of some 50 accounting and advisory firms around the world on their perceptions of how SMEs are responding to the climate change agenda. Some key observations are:

- Only 30% of the panel's clients are actively engaged in ESG (Environment, Social and Governance) policies to counter their environmental impact.
- There is a large body of clients (38%) who perceive 'no' or only a 'low risk' of commercial damage if they do nothing in response to the current and emerging trends in climate change.
- More encouraging is that those currently taking action have done so largely on the basis of a commercial imperative. The survey suggests that 80% of those that are engaged in taking action are mainly driving forward changes to their products or value propositions or are trying to "green" their commercial operations.

#### **More information, guidance and support needed for smaller business**


While the panel observe only 30% of clients are engaged in ESG, they estimate that 70% of the total are at least interested in doing so. Large public companies have been in the spotlight, but governments and other institutions need to do more to explain what SMEs can do, and importantly help these businesses realise the commercial opportunities that might arise.

## Climate Change and Sustainability Services (CCSS)

“There are many ways in which AGN members can support clients in this space. This needn't be the territory of the Big 4. AGN members are starting to become involved in a range of support services such as carbon audits, and environmental risk assessments discussed later in this report. Some clients voluntarily prepare sustainability reports and AGN members can support clients who wish to do this via their domestic national sustainability standards or if they operate internationally, they might use the Global Reporting Initiative (GRI) standards.”

Malcolm Ward, AGN Global CEO.

(see Appendix B for more information).



## A deeper dive into the findings

### A lack of awareness and understanding

Only 50% of the panel's clients “genuinely understand the social and environmental impact of their business”. It sounds rather alarming, but is it surprising? After all, the launch of this survey was sparked by the perceived lack of statements, guidance and research emerging from the November 2021 COP26 that was aimed at the typical SME rather than say consumers or the energy industry.

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### Most are lacking a strategy

Just over a third of the panel's clients have formal ‘Environmental, Social and Governance’ (ESG) policies in place. There are some outliers, with a fifth of the panel suggesting that at least half of their clients had introduced relevant policies. But again, it's a disappointing result – suggesting that typically two thirds of SMEs around the world haven't addressed the issues around their impact on climate change.

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### Commercial motivation for change

We probed a little deeper asking our panel about the motivation of those that had taken action and developed appropriate policies and strategies – what was driving this? The panel estimate that up to 80% of their clients that have developed a position have done so on the basis of a cost benefit analysis.

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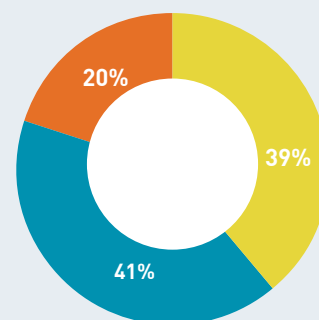
### Innovation and operations driving practical actions

We asked the panel to consider how their ‘greener’ clients were actually focusing policy and strategy (right now). The winner, but only marginally, was ‘product and service development and innovation’ (41%). These sorts of developments rarely occur without being driven by competitive pressure, cost pressure, or consumer and market demand. “This is an encouragingly commercial response. It is clear that the biggest catalyst for change and innovation is market demand”. Malcolm Ward, AGN Global CEO.

Next biggest application of clients environmental strategy is around ‘company operations’ (39%). Anything from hybrid or electric company car fleets to switching to a renewable energy supplier. The ‘green option’ is increasingly becoming mainstream and where it’s possible to switch to a sustainable option, a significant body of clients are beginning to do so.

Less straightforward is the greening of supply chains (only 20%). This lower figure is connected to the relative power of a company within its supply chain environment, the lack of alternative component providers, materials, transport or energy sources.

Allocating 100 percent between the three options what are the main areas where these entrepreneurial and family business clients are focused at the moment?



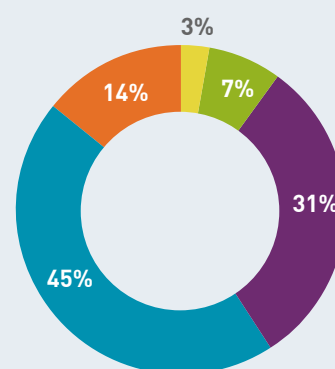
39% - Company operations: car schemes, energy suppliers, equipment etc  
 41% - Product and service developments and innovations  
 20% - Greening of supply chains

### Some are content to do nothing

While some of the earlier data might have been disappointing in terms of client’s levels of awareness and environmental strategy, the panel believe there is a keen understanding amongst clients of moderate, high or even existential risk of commercial damage for failing to develop appropriate environmental and social policy. (62%)

Malcolm Ward: *“But the corollary of this is that 38% of clients see no (or only a low) risk of commercial damage in doing nothing. That’s literally millions of businesses worldwide that can’t or don’t connect the phenomenon of climate change with changes in their markets, consumer sentiment, or even direct physical changes to their operating environment. Many business-to-business operators are to some extent shielded from consumer sentiment, or it could be that businesses in less developed countries where growth and survival are connected with more immediate problems as witnessed by some of the comments from our panel”.* (Panel observations below)

Thinking about the present market opportunity, how do clients perceive the risk of commercial damage if environmental and social policies are not developed?



7% - No real risk of commercial damage  
 31% - Low risk of commercial damage  
 45% - Moderate risk of commercial damage  
 14% - High risk of commercial damage  
 3% - Existential risk of commercial damage

Perhaps our panel are once again highlighting a lack of knowledge and understanding amongst groups of SME clients. We’ve seen how strategy in this space can be driven by commercial imperative – whether created by market forces or by increased regulation. But many businesses are not feeling or experiencing these pressures, and so perhaps one has to question the extent to which regulation is being introduced and enforced on a ubiquitous basis around the world.

## Commercial response?

As to client's attitude towards any near-term commercial opportunity in adopting a leading edge sustainability strategy – it varies... a lot. From 7% having no interest at all to nearly 70% likely to have a *“moderate and increasing interest”*. Malcolm Ward: *“Environmental lobbyists might be alarmed at these results and on the surface they do appear to show complacency. Only 20% having strategies in place, and only 5% are known as leaders on the issue or their policies already give them a competitive edge. If you asked this question of the top 100 major PLC's they'd be only too keen to give your chapter and verse about their sustainability strategies”*

### Panel observations

“It depends really on the activity. It is highly sensitive when your products are sold to customers.- fruit, bicycles, clothes” FRANCE

“Behaviour is more driven by tax breaks than social benefit” UK

“Tener más conciencia entre las empresas del siglo xxi”. (There is more awareness of the issues amongst 21st C companies) ECUADOR

“Although we are all aware of global warming, fewer are aware of the consequences of not practicing certain policies in this regard, and even fewer are willing to generate costs or make personal efforts to face this problem. Just for reference, today in Argentina we will have a temperature of 41 degrees, and we are in the south of the continent”. ARGENTINA

In Panama, there are no environmental policies with standards for all companies requiring implementing company measures. For this reason, there is no progress. Everything depends on the will and social responsibility. Specific industries like mining have environmental policies. PANAMA

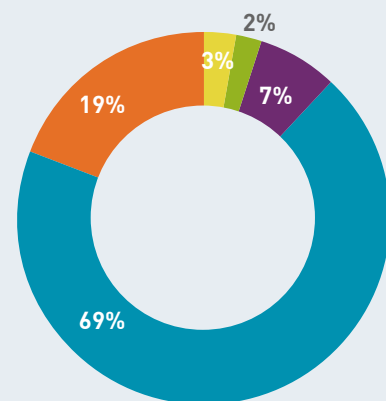
## Conclusions and opportunities

Where is the support, infrastructure and policy – from government and industry bodies - to help SMEs (specifically) step up and raise their collective game in developing appropriate environmental and social strategies?

And where are the advisers in this sector? A report, Climate Action and the Accountancy Profession: building a sustainable future, produced by the ACCA ahead of the COP26 meeting pointed out that accountancy and finance professionals can bring an integrated approach to measuring clients adherence to regulations, environmental disclosure, carbon tax reporting and a plethora of other areas where many firms have developed advanced services – applicable to the private company space.

Malcolm Ward *“To engage owner managed businesses more effectively there needs to be more filtering down of information and policy guides from government departments and larger businesses. There needs to be more open debate around topics such as ‘what are the near-term effects of climate change why does it matter to my family business?’, ‘how does an owner manager measure their carbon footprint?’ and ‘why is it important for my small business to reduce environmental impact?’”*

What would you say the prevailing attitude of clients to near-term commercial opportunity of adopting leading edge approaches to environmental and social issues?



7% - They have no interest  
 69% - They have moderate and increasing interest  
 19% - They have strategies in place but it's early days  
 3% - Their environmental policies already give them a competitive edge  
 2% - They are known as leaders on the issue



## **Opportunities for AGN Members to help**

There is a bigger role for accountancy firms. Climate Change and Sustainability Services (CCSS) have become embedded in the Big 4 firms in recent years – mainly aimed at their huge global clients, but it must be possible for smaller firms to offer relevant CCSS to their SME clients. Emerging services in the space include;

- Environmental and sustainability risk management: incorporating climate change and sustainability into business risk assessments and identifying and quantifying opportunities and threats.
- ESG (Environmental, Sustainability and Governance) Benchmarking performance against peers or competitors.
- Supply chain review and reporting: assessments of exposure to poor environmental performance further down or up the supply chain.
- Environmental assurance: Assure against ‘greenwashing’, exaggerated or bogus claims.
- Implement prevailing ESG regulations: Help clients adhere to changing environmental regulation.
- Accounting for Carbon: Audits of companies carbon usage and impact.
- National Sustainability Reporting Standards or Global Reporting Initiative (GRI) Standard.

**David Coomer** – *Director of Assurance Services, Clark Schaeffer Hackett, US*

“Currently demand for CCSS or ESG related services appears to be focused in the large public company space and driven primarily by institutional investors that are beginning to weigh factors beyond traditional financial metrics when making investment decisions. We have not seen a significant demand for ESG reporting services for privately held middle market businesses, but some level of ESG reporting will trickle down into this space based on relationships with customers and other stakeholders. Business owners should carefully consider their outside relationships with customers and evaluate whether there are ESG measures that influence customer purchasing decisions. And they need to be prepared to identify the relevant information needed for reporting purposes and build systems to capture the data accurately. This is where we as accountants can help clients create a competitive advantage”.

## **Linking investment funds with SME green innovation**

Owner managers often complain that they lack the capital resources to invest properly in sustainability programmes and innovation. Schemes such as the EU’s Horizon programme (€95bn), the ‘Life’ programme (€5.4bn) and the Innovation Fund (€10bn) exist. And in the US a segment of the sustainable investing market that focuses on positive outcomes, regardless of returns, is now estimated to be worth about US\$715bn.

*“It’s true that sustainable investing is becoming more popular, but there’s still some journey before SME investment needs are systematically linked with the available cash. There is an important role here for AGN members and the accountancy community more generally”.*

**Malcolm Ward** – *AGN Global CEO.*

*(See Appendix A for a list of information sources).*

## **Practical actions for AGN Members to consider**

- Talk to clients about their business position on sustainability and climate change - are there any emerging risk areas in the business? What are the competitive opportunities?
- Are clients interested in voluntarily reporting their approach to stakeholders? Would a sustainability report against national standards or international standards (GRI) be appropriate?  
(See AGN AAEC Helpline Newsletter February 22 - link in Appendix B)
- What is your Corporate Finance function doing in this space? Could they be brokering introducing sustainable finance opportunities or even innovation grants and funding to clients?
- Establish a small internal working group to consider how increasing demand in the area might be supported with new or adapted services.

## Appendix A

### FURTHER INFORMATION SOURCES/ARTICLES FOR OWNER MANAGED CLIENTS

Prioritizing the planet: 11 ways small businesses can become more eco-friendly. Green Biz.com

<https://www.greenbiz.com/article/prioritizing-planet-11-ways-small-businesses-can-become-more-eco-friendly>

Small businesses going green – United Nations Environment Programme

<https://www.unep.org/news-and-stories/story/small-businesses-going-green>

UN Environment Programme – Resources, toolkits and guides

<https://www.unep.org/resources?f%5B0%5D=category%3A451&f%5B1%5D=category%3A452&f%5B2%5D=type%3A57&keywords=>

What is COP26 & How Does It Impact My Small Business? – Goethical.com

<https://goethical.com/what-is-cop26-how-does-it-impact-my-small-business/>

Private equity is witnessing a sustainability revolution – Environmental Finance.com

<https://www.environmental-finance.com/content/analysis/private-equity-is-witnessing-a-sustainability-revolution.html>

Horizon (EU) - Research and innovation funding programme until 2027. How to get funding, programme structure, missions, European partnerships, news and events

[https://ec.europa.eu/info/research-and-innovation/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe\\_en#:~:text=%20Horizon%20Europe%20%20%20%20Apply%20for%20funding.,and%20innovation%20missions%20to%20increase%20the...%20More%20](https://ec.europa.eu/info/research-and-innovation/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe_en#:~:text=%20Horizon%20Europe%20%20%20%20Apply%20for%20funding.,and%20innovation%20missions%20to%20increase%20the...%20More%20)

## Appendix B

### ENVIRONMENTAL SERVICE DEVELOPMENTS

AGN AAEC February Newsletter 2022

[https://my.agn.org/nowrap/AGN/INTL/Resources/Publications\\_contents/IFRS\\_Helpline\\_Newsletter/AECHelplineNewsletter\\_January2022.aspx](https://my.agn.org/nowrap/AGN/INTL/Resources/Publications_contents/IFRS_Helpline_Newsletter/AECHelplineNewsletter_January2022.aspx)

Private equity's ESG journey: From compliance to value creation – PWC Global Private Equity Responsible Investment Survey 2021

<https://www.pwc.com/gx/en/services/sustainability/publications/private-equity-and-the-responsible-investment-survey.html>

ESG: A new era for accountancy

Forthcoming reporting guidelines will be a landmark development for non-financial reporting

<https://www.accountancyage.com/2022/01/04/esg-a-new-era-for-accountancy/>

IFRS announce new ESG reporting standard

Seismic change in ESG reporting landscape through creation of the IFRS International Sustainability Standards Board

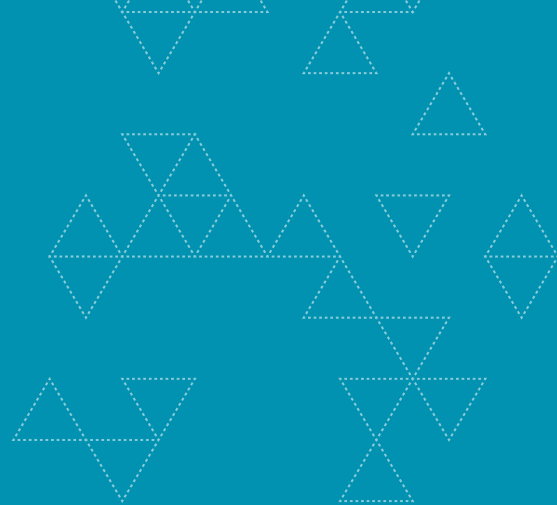
<https://home.kpmg/dp/en/home/insights/2021/10/ifrs-announce-new-esg-reporting-standard.html>

Accounting firms accelerate ESG services as climate risks increase

<https://www.accountingtoday.com/news/accounting-firms-accelerate-esg-services-as-climate-risks-increase>



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