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Harnessing the entrepreneurial power of small business: New strategies for reducing greenhouse gas emissions

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Issue

Small and medium-sized enterprises (SMEs), which have been defined by Industry Canada as businesses with fewer than 500 employees, employ 65% of Canadians and make up 98% of registered businessesⁱ. In the United Kingdom (UK), it has been estimated that SMEs contribute up to 60% of industry's greenhouse gas (GHG) emissionsⁱⁱ. On average GHG emissions from each business are very small however, and thus are unlikely to be directly regulated. This 'silent majority' of emitters are often agile, entrepreneurial, and, in some cases, demonstrate that they are capable of implementing innovative GHG reduction strategies much more rapidly than their larger counterparts. Even so, many SMEs lack the financial and human resources to learn about GHG management and to uncover incentive programs in support of energy efficiency technologiesⁱⁱⁱ.

No direct measurement of SME emissions has been made for British Columbia (BC), but assuming proportions are comparable to the UK at 60%, then emissions from SMEs in BC are similarly significant. New initiatives are emerging both in the UK and BC, which have the potential to build capacity amongst SMEs and harness their potential to accelerate GHG reductions. Such initiatives, however, must be scaled up and deepened in order to have a significant effect.

Background

BC provincial legislation encourages municipalities to take steps toward carbon neutrality in their own operations by 2012, using a rebate on the carbon tax as an incentive. If participating municipalities fail to perform, the province will withhold the carbon tax rebate, only returning it once municipalities have honoured their commitments under the Climate Action Charter. Under the charter, municipalities will soon be required to incorporate their

supply chains into their municipal GHG inventories. This means including those emissions from companies that have been contracted to provide 'traditional services.'^{iv}

As such, provincial legislation, in tandem with the increasing application of a 'sustainability lens' to processes of contract-letting by municipalities themselves, is already beginning to draw in municipalities' supply chains.^v Trends in this direction send signals to the private sector that GHG mitigation may be a condition of future contracts with municipalities. Furthermore, municipalities are required to deliver inventories on community GHG emissions, as well as action plans for addressing these, with the ultimate provincial goal of reducing GHG emissions by 33% from 2006 levels by 2020.

While large industrial emitters (with greater than 10,000 tonnes of CO_{2eq} emissions per year) will soon be required to report on their GHG emissions under the Western Climate Initiative^{vi}, the majority of commercial emitters are SMEs for which legislated GHG reductions are very unlikely (a legislated cap is required for emitters with greater than 25,000 tonnes of CO_{2eq} emissions per year). SMEs in British Columbia do, however, face a modest penalty associated with energy use as a result of the provincial revenue-neutral carbon tax, implemented in 2008.

The most common strategy for engaging small business on emissions reductions has traditionally been incentive-based or awareness-raising programs. Natural Resources Canada, for instance, offers rebates for energy efficiency retrofits undertaken by SMEs as part of the EcoENERGY retrofit incentive^{vii}. Similarly, BC Hydro offers a Product Incentive Program for businesses, as part of the larger Power Smart program, which partially offsets the cost of purchasing and installing energy efficient technologies in businesses that spend less than \$200,000 per year on their electricity bill^{viii}.

Outside of Canada, particularly notable climate change mitigation initiatives that target small businesses are currently taking place, for instance in London, UK. Through the 2004 Energy Strategy for London^{ix}, Greater London was one of the first major urban centers to place climate change centre stage. Echoing the main tenets of national policy, it argued that London should reduce its carbon dioxide emissions by 20% from 1990 levels by 2010 as the crucial first step on a long-term path to a 60% reduction by 2050^x.

Prior to the current development of the draft Climate Change Mitigation and Energy Strategy, the Greater London Authority had orchestrated energy efficiency support for small businesses through the Business Link in London service, the London boroughs, and supporting organizations^{xi}. The draft plan, however, considers extending this support to more closely match that offered to large businesses through the London Development Agency's Green500 initiative^{xii}, and thus may include thorough energy audits, carbon reduction workshops, and behaviour-change advice. The Agency also already funds or co-funds, through the European Regional Development Fund, SME-targeted programs such as Ecovate, which gives businesses up to five days of support on energy efficiency and brokerage of service suppliers. In addition, the program, URBAN, will provide 81 SMEs with personalized climate change action plans^{xiii}. Taken together, these programs represent an unprecedented effort to engage SMEs on climate change and energy efficiency. In the process of building this momentum, London aims to reduce financial and technical barriers for SME's in the uptake of low-carbon technologies.

In BC, Metro Vancouver launched a unique partnership on March 2010 with seven member municipalities, engaging Climate Smart, a Vancouver-based social enterprise, to provide GHG management training, tools, and technical assistance. This pilot program represents a new combination of emissions-reducing strategies that target SMEs. It includes business-to-business strategies for overcoming emissions reduction barriers, capacity-building and training on GHG inventory development (administered to over 110 SMEs to date), ongoing technical assistance, the provision of a web-based GHG inventory tool, and the design of a variety of 'best practice' reduction strategies that can be translated to similar sizes and types of businesses. Different from other SME engagement initiatives, Climate Smart uses a cohort-based training model. While it is still early in the evaluation process, the benefits of this type of cohort-based program are expected to include peer-to-peer network building and learning, in addition to tailored support for each participating business.

The City of Vancouver has subsequently built out this initiative to become part of the Corporate Climate Leaders Program,^{xiv} which aims to support emissions reductions amongst large businesses as well as the smaller enterprises targeted through the Metro Vancouver pilot program.^{xv} These types of strategies help to support SMEs and thus overall community-based GHG reductions.

The London and Metro Vancouver examples represent leading efforts among jurisdictions to interweave the large, yet unregulated pool of SME's in energy efficiency and GHG reduction efforts. Initial research suggests that such efforts among the private sector can contribute to building economic resiliency and an overall greener economy^{xvi}.

Recommendations

Provincial climate change policy has encouraged the development of new strategies for municipal reporting of community GHG inventories, of which SMEs are a significant part. Given this state of climate change policy in British Columbia, municipalities and regions need to be encouraged to engage in new and innovative arrangements that will stimulate effective greenhouse gas reduction, and raise awareness of GHG reduction strategies amongst a larger portion of the community, such as residents and business owners. In the end, new public-private partnerships should not only occur because municipalities will be selecting lower emissions suppliers, but also in order to reduce overall community emissions.

Lessons can be learned from experiences elsewhere, such as from programs targeting SMEs in the Greater London Area. While more comparative research is required to evaluate the most appropriate outreach and training strategies, and refinements need to be made to the current program (for instance to enhance the likelihood of year-on-year inventories), the initial stages provide insights into ways for the province and municipalities to deepen and expand engagement with this portion of the economy. Recommendations that emerge include:

- Developing strategies to facilitate recruitment of SMEs for GHG reduction programs, including targeted sector-based training and partnerships between municipalities and local business associations;
- Expanding the reach of programs to target SMEs in rural and remote communities, while engaging additional businesses in metropolitan areas;

- Using data gathered through SME greenhouse gas inventories to better understand the challenges and opportunities for emissions reduction presented by SMEs in BC; and
- Developing programs that support chosen emissions reduction measures by coordinating incentive and rebate programs and effectively communicating these to SMEs.

Conclusion

Small and medium-sized businesses are critically important to British Columbia's economy and are likely a significant source of emissions. Because of their diversity and abundance, however, until recently, little effort has been made to engage this sector in local action on climate change. The new pilot program offered by Metro Vancouver, in partnership with seven municipalities in the region, is facilitating this participation by offering GHG management training to approximately 110 local SMEs. While awareness-raising and rebate incentive programs have targeted SMEs in other jurisdictions, a capacity-building model that forges partnerships between municipalities and the business community may more effectively drive action in this diverse and entrepreneurial sector.

Expanding access to GHG management training and relevant rebate programs to include additional businesses in the Metro Vancouver region and across the province would help to capitalize and build on this program. Similarly, ongoing programs could be refined to offer targeted sector-based training and to more effectively recruit businesses that do not typically engage on sustainability issues. By targeting SME's, both municipalities and the province can leverage their influence to trigger a more pervasive shift in province-wide emissions reductions, while simultaneously supporting efforts to shift toward a low carbon economy.

Send relevant comments and queries to picsbp@uvic.ca.

Sources

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ⁱⁱ Revell, A, Stokes, D and Chen, H. 2010. Small business and the environment: Turning over a new leaf? *Business Strategy and the Environment* **19**: 273-88.

ⁱⁱⁱ Southeast Business Monitor, 2009. Green opportunities for SMEs to cut costs and win business. Accessed on Sept 12, 2010 from http://www.businesslink.gov.uk/SouthEast_files/Green_opps_AW.pdf.

^{iv} Province of British Columbia. 2010. BC Climate Action Toolkit: Carbon Neutral Local Government. Accessed on December 9, 2010, from <http://www.toolkit.bc.ca/carbon-neutral-government>.

^v Interviews with SMEs in the Greater Vancouver area indicate that some, who are suppliers to the City of Vancouver, are increasingly concerned about their capacity to win and maintain contracts in the absence of efforts to reduce GHGs.

^{vi} Western Climate Initiative. 2009. Final Essential Requirements of Mandatory Reporting. Accessed online at <http://www.westernclimateinitiative.org/component/remository/Reporting-Committee-Documents/Final-Essential-Requirements-for-Mandatory-Reporting/>.

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^{xv} Climate Smart 2010. Cutting Costs by Cutting Carbon. Presentation of MetroVancouver Partnership Program. Retrieved January 19, 2011 from <http://www.metrovancouver.org/region/breakfasts/Presentations/ElizabethSheehanPresentation.pdf>

^{xvi} Esty, D. and Winston, A.S., 2006. *Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage*, New Haven, USA, Yale University Press.