



CIMA

Chartered Institute of
Management Accountants

Sustainability and the role of the management accountant

Research executive summary series

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Key findings:

- Our research has shown that companies need to have management accountants in strategy-setting roles in order to achieve the best sustainability outcomes.
- There is a worldwide move toward 'integrative' reporting incorporating non-financial as well as financial data. Management accountants are ideally placed to provide the alignment mechanisms and collaborate with senior management in producing fully integrated reports, reflecting sustainable strategies adopted by organisations which fulfil the needs of stakeholder groups.
- Our results found that many management accountants are fulfilling their traditional role of financial specialist but not yet acting as collaborators in driving toward sustainability as a goal.
- The survey showed that CIMA members had a higher rate of accountants participating in sustainability strategies than non-member companies but it was still a minority (12%) compared to the role of the managing director, environmental, human resources and marketing managers.
- Like any other aspect of business, collection and analysis of good, issue-specific data is crucial to sustainability decisions. Sustainability requires accountants to monitor and manage non-traditional data to guide strategic decisions. Management accountants are ideally placed to fulfil this role.
- Sustainability does not appear to be a good fit with annual reporting. Interviewees expressed a desire for a new way to report and some organisations had come up with innovative solutions, including electronic media.
- We uncovered a sustainability divide between those taking economic advantage of this global trend and those who are falling behind.
- Overall, we saw potential for management accountants to be collaborators in the achievement of sustainability goals but the potential has yet to be fully grasped.

Foreword

The demands placed on management accountants have grown in recognition of significant social and environmental challenges that simultaneously present opportunities. These demands require a rich supply of information, capable of informing people of the impacts of their decisions and enabling them to act. One response to the challenge of supplying such information is the development of new accounting tools and research.

This research report contributes to our understanding about the role of the management accountant in preparing sustainability reports and capturing non-financial information. A key finding of the report identifies an opportunity for management accountants to perform a more active role in collating non-financial information and guiding the strategic direction of organisations. In particular, the report describes a distinct divide between organisations that are integrating sustainability accounting concepts and those that are not.

These findings from the University of Waikato researchers clearly signal that CIMA and NZICA have a role to perform in building the capability of our membership to meet these demands. In understanding the challenges and opportunities that exist within an organisational setting, accountants will be better equipped to meet the expectations of their clients. CIMA's tradition of commissioning world-class research and partnering with other accounting bodies continues with this report and contributes to increasing the capability of management accountants. Furthermore, the recent establishment of the NZICA Corporate Sector Advisory Group with a clear sustainability mandate and support of this research report provide a strong basis for future initiatives.

Ongoing initiatives and further research will ensure that management accountants realise the strong leadership position they could hold with respect to sustainability accounting and the collation of non-financial information. NZICA, CIMA and the University of Waikato hope that you find this research report stimulating and we look forward to sharing more insights from our collaboration with you.

Overview

The objective of this research was to explore the role of the management accountant as the provider of information to support business strategy related to sustainability. The research interviews build on a longitudinal study of sustainable business practices, conducted through surveys in 2003, 2006 and 2010. Little is known about how information relating to mid to long term strategy is gathered, analysed and internally reported. The paradigm shift from provider of financial information to provider of information relating to social and environmental concerns

is a missing link in the knowledge of sustainable practices and strategy development.

To fill in the missing link, we asked who was responsible within the organisation for developing sustainability strategies and what role the management accountant played. It needs to be pointed out that in the context of New Zealand, a country of very small enterprises¹ – 97% of businesses are small or medium sized enterprises – there is often a lack of differentiation between financial and management accountants. We use the phrase, 'management accountant,' acknowledging that members of the New Zealand Institute of Chartered Accountants (NZICA) are often acting in both roles. We did identify those mainly larger organisations, which employed a member of the Chartered Institute of Management Accountants (CIMA) to see if CIMA membership affected the participation of the 'accountant' in the setting and implementation of measurable 'sustainability' practices. These results are included in this report.

In addition to ambiguity around the conflation of the terms accountant and management accountant, sustainability is another term imbued with ambiguity. Sustainable development, sustainability and sustainability strategies are a sample of phrases used. The Sustainable Business Network, a network of organisations with an interest in sustainability, provides a broad definition of a sustainable business, '[A] business [that] offers products and services that fulfil society's needs while placing an equal emphasis on people, planet and profits².'

Since the term 'sustainability' can have so many meanings, we kept it simple and practical. We listed activities related to social and environmental factors and asked if respondents did or did not engage in these practices. For example:

- Do you have a recycling programme?
- Do you have measurable targets for energy/water usage?
- Do you have an internal environmental policy document?
- Do you take into account environmental impacts of activities?
- Do you contribute to community projects?
- Do you measure the impact of your social initiatives?

Our findings were that many organisations do try to integrate social and environmental practices into their strategic and operational plans. The management accountant can be an important facilitator and collaborator in those integrated activities.

Although integration is beginning to occur at the strategic and operational level, reporting is still not integrated. Some companies produce an annual report including detailed financial information and as an add-on, social and environmental

impacts. Criticism of such reporting has been that companies only report the good news and the add-on reports are attempts to legitimise activities if they are environmentally damaging. If reports were truly reflective of attempts to integrate sustainability practices into a firm's operations, that criticism would dissipate.

The champion of a truly integrated approach is Mervyn King. The recently released, King III report from the South African Institute of Directors on corporate governance, promotes the total integration of social and environmental considerations into the core of the firm's response mechanisms.

'Sustainability is now the primary moral and economic imperative and it is one of the most important sources of both opportunities and risks for businesses. Nature, society and business are interconnected in complex ways that need to be understood by decision makers. Incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.'^{3'}

In the second case study, we provide an example of one organisation Otago Polytechnic, which turned its annual report into a fully integrated (DNA) report. The report shows the well-being of the organisation, as well as the communities or stakeholders with whom it interacts.

In other organisations, the progress is less obvious but a beginning has been made. There is a demand for management accountants who understand that organisational well-being means financial sustainability plus the service provided to a broad range of stakeholders and to the community other than shareholders.

The report begins with an explanation of our method, followed by an analysis of the impact of the recession on sustainable business. This is followed by a discussion about how sustainability strategy is developed within firms, with a special focus on the role of the management accountant. The challenges of data collection and reporting are then highlighted, followed by a conclusion explaining the implications of the study. Four case studies are included at the end of the report, showing the range of involvement by accountants from unfilled potential, to leading sustainable change.

Method

National surveys, followed by interviews were conducted on the uptake of social and environmental practices in 2003 and 2006. In 2010, CIMA funded the third national survey and follow-up interviews. Non-financial partners in the research included the Sustainable Business Network (SBN) and the New Zealand Business Council for Sustainable Development (NZBCSD).

In 2010, there was a 30% response rate to the national survey.

Out of the 736 respondents, 15% had responded to a similar survey conducted in 2003 and again in 2006.⁴ This allowed a tracking of individual companies over seven years and allowed us to evaluate what happened to the uptake of social and environmental practices during one of the worst global financial recessions in recent memory. Before the global recession, there had been a national trend toward an increase in the uptake of environmental and social practices by businesses in New Zealand⁵. By the time we did our research in 2010, that trend had slowed and a noticeable sustainability divide was developing.

In 2011, follow-up interviews were conducted with approximately 5% of the survey respondents. Particularly, we wanted to examine the banking industry's growing interest in sustainability practices. To add depth to the research, we interviewed banks that had not responded to the survey.

The sustainability divide – sustainability and the recession

A key finding from our 2010 national survey was the discovery of a sustainability divide.

Responses to the survey suggest that respondents who have sustainability more deeply embedded in their overall corporate strategy increased sustainability initiatives during the recession. On the other hand, companies that treated sustainability as an add-on, decreased sustainability practices during the recession.

Our analysis of responses showed statistically different results between one group of participants, those that were members of the Sustainable Business Network (SBN) and another group, who were non-members⁶. The former have sustainability as an integral aspect of their business operations.

The business case for sustainability suggests there are economic gains from reducing costs as well as from gaining a competitive edge.

'We are a business and like any business we have to look at the whole business case for doing something... In fact we did some analysis ...we reduced our CO2 emissions ...the reductions that we achieved from reducing air travel, fuel, paper and electricity use, amounted to around about \$2 million savings. We are very aware of the financial business case for sustainability...not just the green stuff.'

Sustainability manager, service industry

Some companies have figured out how to benefit from the trend and some companies have not⁷. Sustainability scholars argue that sustainability issues will force a fundamental change for business – as did globalisation and information technology. Those companies that are not able to adapt, will not survive⁸.

The 2011 interviews were an opportunity to hear from companies and how the economic recession impacted strategic sustainability choices. The strain of the last couple of years is apparent in many of our interviews,

'Well, I appreciate the difficulties, ultimately it gets down to a point where you are either trying to find food to put on the table, figuratively, or you are trying to find the cash to make payroll on Friday. And things just become your focus and nothing else actually matters.'

NZ manager, software company

Some interviewees reported that pressure for cost savings also, inadvertently, led to better sustainability practices.

'One thing is the flights, we really restricted the amount of air travel throughout the year to restrict costs. So we were looking at other ways of actually still providing the service we need to provide for our clients, but without doing that sort of travel. That was a sort of cost containment. That also had obviously impacted on our sustainability.'

Accounting manager, consulting company

In addition to examining the sustainability choices of business during the recession, we wanted to gain a better understanding of how sustainable strategy was developed.

Sustainable strategy

A common approach we found in organisations wanting to develop a sustainability strategy was creating a sustainability team that included a range of representatives across the organisation.

'I would like to think that it is all in-built in the organisation but if I am being truthful about it, I think the ownership needs to rest with a particular group to drive it, that is how things get done.'

Finance manager, banking industry

'We have had a steering group, as we call it, which has been running for some years now and it has members from HR, business, a whole lot of different people, throughout [the organisation].'

Sustainability manager, banking industry

Some organisations we interviewed struggled with the tension of whether to have separate programmes, or separate groups focused on sustainability strategy, or whether to integrate sustainability. Related to that tension, one interviewee described the risk of the team approach – sustainability projects of the team were perceived as separate from the core business and had to be managed, compared to the alternative of embedding sustainability into everyone's responsibilities.

A key message we heard from interviewees was that sustainability needed to be embedded into the organisation and that meant sustainability had to relate to the core business.

As a sustainability manager from the banking industry said, *'...anything we do needs to sit within the business because if it doesn't, it is not aligned with the business anyway.'*

'...we see business success as being driven by having that balanced approach across customer, community, environment, and people parts of our business.'

Sustainability manager, service industry

Management accountants are best placed to provide this balanced approach. The emphasis of the management accountant should be on serving the broad interests of management rather than purely being an accountant. Many organisations we interviewed lacked an integrating mechanism between management aspirations in the area of sustainability and its implementation. Could the management accountant be that integrating mechanism?

Sustainability strategy and the management accountant

Not a lot is known about who within an organisation is responsible for developing sustainability strategies and whether the management accountant plays a significant role.

Our results showed that as of 2011 in New Zealand, the management accountant does not play a prominent role in developing environmental or social strategy.

CIMA member companies had accountants that were more involved but it was still at a low-level, as the results below explain.

Not surprisingly, the dominant person in charge of strategy was the managing director (64%), with accountants participating in only 4% of the responding companies. Because this result might be due to firm size, the data was analysed for just the larger companies. For firms with more than 99 employees, the managing director's role in environmental strategy dropped from 64% to 48%. 32% of respondents indicated the organisation had an environmental manager, with operations managers the next most actively involved at 24%. Only 5% of respondents from larger firms indicated the management accountant played a role, 14% reported that no one in the company is responsible for environmental strategies.

The data was also analysed using only the 9% of survey respondents who are CIMA members. In this case, 12% of firms had a management accountant involved in environmental strategy, with the managing director (57%) and environmental manager (32%) still having dominant roles.

The results are similar for social sustainability. The management accountant was active in social strategies in only 3% of the responding firms going up to 14% in CIMA member companies. In the large firms, besides the managing director (47%), the human resource manager (38%) is most commonly involved and 21% include the marketing manager. Policies regarding employees are a logical fit with human resources and a marketing department can help ensure that companies get the most brand value from its charitable giving.

One of the challenges is that sustainability requires accountants to look beyond their usual data sources.

Measure, monitor, manage performance

'I think they [accountants] are both the problem and the solution. My view is that accountants focus on one set of data and that is the economic data and there is more to it, if we are exploring the notion of sustainability.'

Sustainability manager, education sector

Historically, accountants have had a key role in monitoring and managing data. Many of our interviewees expressed a need for accountants to go beyond the limited view of relevant data.

In the second case study, Otago Polytechnic instituted a completely new approach to external reporting based on the integrated approach. An approach in which the financials are one set of data among an expanded set including social and environmental outcomes. Otago Polytechnic argues that it has integrated sustainability into the full range of its educational and operational activities.

'Sustainability is not a bolt-on something ...but it is something that is interwoven into the DNA of the business – directions, needs and actions.' Barry Law, consultant, referring to the latest (2010) annual report whose structure reflects the DNA approach.

Small and medium-sized enterprises (SMEs) often do not have their own accountant – they contract out that function. Possibly as a result of this, the collection of data to benchmark and set strategic direction is seen as more of a cost than a benefit. Similarly, the frameworks that are available are often not seen as a good fit for small business.

'...for the most part we use staff that we are developing ourselves just because I think a lot of the global reporting initiatives (GRI) is basically from big corporates. I just don't think it is a good approach that works. Every single business is going to have different ways of going about doing it.'

Managing director, manufacturing company

The third case study provides more details related to SMEs and explains how many of their business practices are driven by the personal values of their founder or CEO, not accounting

data. However like every other business, SMEs need a reliable way to assess the value of their management actions. The SME case study shows the crucial role of the assessor – someone to judge what works and what doesn't, what's good and what's bad – always exists. This is the case even if it is done by someone other than an accountant and even if the measurement process is an intuitive rather than a quantitative one.

What requires further work is the intriguing question of whether one system is more effective than the other. Certainly, the intuition-based process that may suit small businesses makes it harder to assess sustainability performance across the entire sector. This is the challenge and opportunity for management accountants.

Finding a common currency

The GRI seeks to provide frameworks and guidance to standardise sustainability reporting.⁹ There are many IT tools that have been developed to help companies figure out how to track their environmental and social impact. Despite these types of local and global efforts, companies are still struggling with how to measure sustainability data.

'I think where the accounting profession is missing the boat, is that they don't quite understand how to measure sustainability. The accounting profession typically is one that likes to have standards and policies and procedures and things, and there really doesn't seem to be much in the way of that sort of policy and procedure and stuff.'

CFO, technology company

Our survey results showed that overall, most companies have not modified accounting systems to integrate environmental costs and savings. Only 11% had modified or revised their accounting systems, increasing slightly for large companies at 12% and 14% for CIMA members.

One reason for that might be because it is unclear what they would modify to. That kind of change is complicated and involves a learning curve with constant adjustments.

'We just modified how we are reporting. We are getting better at it all the time... What we are doing is trying to bring other companies along for the ride, saying look if you want to do business with us, this is what we are asking. ... when we put our freighting out for tender ... one of the criteria to the freight agents was we want you to be able to capture our CO₂ footprint for getting our goods around the country. Just about everybody ran away from that, but [company name] said, well actually we will have a crack at that, because we always want to export. ... we had to modify our accounting practices and our systems to talk to their systems so that it is more integrated. ... we had to keep modifying and changing, because we don't know of anything out there that

is already up and running that allows the individual distribution companies like ours to record all this stuff from an accounting point of view.'

Managing director, manufacturing company

In short, sustainability requires accountants to monitor and manage non-traditional data to guide strategic decisions. At the same time, interviewees called for a different kind of reporting system. This all adds up to a serious professional challenge for accountants.

Reporting

Globally, as reported by KPMG¹⁰, there is a growing trend for companies to issue sustainability reports, sometimes as part of traditional financial reports. The problem with this type of 'add-on' to the annual financial report is that it is very selective and some critics have labelled it as 'green-washing'. This means telling the reader only good news and ignoring or obscuring the bad. A new approach is being recommended called integrated reporting in 'one report'. Management plans, regarding all stakeholders, are revealed, outcomes measured, and reported. It is clearly explained in the 2010 text by Robert Eccles and Michael Kruz entitled 'One Report'. Instead of having environmental and social issues reported in a separate section of the annual report, or a stand-alone 'sustainability' report, the idea is that the one report should capture the strategic and operational actions of management in its holistic approach to business and stakeholder 'well-being'.

However there is an issue about the timing of releasing information.

One consensus that emerged from the interviews is that annual reporting is too static to fit the dynamic nature of sustainability.

'I think the way that annual sustainability reporting is done is flawed. I think the way it is done on an annual basis it loses its impact because most of the things that happen during that year, no one cares about anymore. We are going to be moving toward live online reports where we don't go through the process of doing an annual report because there is no point. But there is a point in communicating with your stakeholders when information is valid and interesting.'

Sustainability manager, banking industry

The fourth and final case study presented at the end of this report is an example of an accountant as a leader promoting a different type of reporting, including 'real-time' reporting.

Through our interviews, we saw the potential for management accountants to drive the achievement of sustainability goals. We were inspired by our interview with Denice Bennett-Rae of Energy Options, a community-owned not-for-profit organisation

providing insulation and energy efficiency solutions. Denice is an accountant and Energy Options' Chief Financial Officer, which in her case is a high-level strategy role, responsible for setting financial and non-financial targets.

Our research has shown that companies need to have accountants in strategy-setting roles in order to achieve the best sustainability outcomes.

Denice's job involves analysing the company's success based on economic, environmental, social and cultural criteria. She feels strongly that accountants should be business partners and understand the wider role of business.

Conclusion

The business landscape is changing to include a greater emphasis on the broad definition of sustainability, including social and environmental considerations, rather than just economic sustainability. Our survey showed that CIMA members had more accountants participating in sustainability strategy than non-member companies, but were still a minority. Companies presenting compelling sustainability data in an accessible format are also in the minority. Our interviewees expressed a clear desire for a new way to report their business achievements.

This all suggests that there are two sustainability divides. One between companies taking economic advantage of this global trend and those who are falling behind, and one between accountants who are keeping up with their clients' demands and those who are not.

Our hope is that the next generation of management accountants will be able to collaborate with top management in the integration of financial well-being with community and stakeholder well-being. There is clearly a need for the profession to accept the challenge of being the mechanism for a new type of transparency and accountability; one that incorporates social and environmental impacts as well as economic ones. The role of the management accountant in sustainability is as yet not well established. However it is the way to a productive and rewarding future, not only for management accountants but for the society as a whole.

The King Report referred to sustainability as one of the most important sources of both opportunities and risks for businesses. So may it be for management accountants.

Case studies

In addition to the quantitative results, we collected qualitative evidence on the role of the management accountant. The first case we present relates to the perceived role of the management accountant in sustainability issues in the banking sector, a sector

that has come under great scrutiny recently. The case study highlights the unrealised potential of including the accountant in achieving sustainability goals. The case study also highlights the powerful role of business in influencing society's sustainability choices when sustainability is tied to the core business.

Case study – the banking industry in New Zealand

An examination of the New Zealand banking industry uncovered two key findings:

- Banks are more prepared to support sustainability in other segments of society than to have sustainability influence their lending decisions.
- Management accountants largely see their role in sustainability as a traditional numerical tracking exercise, rather than demonstrating leadership in driving toward a goal.

Promoting change on the margins

Given the worldwide criticism of banks for seemingly socially irresponsible behaviour in pursuit of profits, we felt justified opening our research with a deliberately confrontational question – aren't banks, as financial intermediaries, dependent on the intrinsically unsustainable model of continuous debt-financed growth?

The frankness of their responses varied but all generally acknowledged their approach to sustainability has been to change how they operate their business, not what they do for their business.

'... what you are saying is absolutely right. A bank's job is to take money and make more money out of that money. Effectively we are a money breeding programme.'

Sustainability manager, banking industry

Banks see themselves – and correctly so – as very powerful and influential. They have the power to shape whole economies. For example, they could direct investment to particular types of economic activity, such as construction of affordable housing. Or they could tip the economic scales in favour of certain industries,

'We could decide we are going to be the supporter of clean technology and create an industry if we wanted to, we certainly have the economic power to do so.'

Sustainability manager, banking industry

However they don't. Our research found no evidence that banks turn away profitable – but less sustainable – business in favour of sustainable – but potentially less profitable – business.

Financing decisions are based on anticipated economic return rather than any consideration of social or environmental good.

'We are funding organisations that are doing things that are socially unacceptable.'

Sustainability manager, banking industry

Some banks have begun the process of trying to integrate their sustainability strategy with their lending.

'... so we have started down that track of considering the environmental impact of the client's business, but we don't measure that yet.'

Sustainability manager, banking industry

Of course, banks will support sustainable businesses, micro-financing, clean technologies etc. but only if a risk assessment puts them on par with traditional industries and business practices. What banks do instead, is change some of the ways they do business to promote sustainability in other segments of society.

For example, they give staff free days when the branches are closed and the staff are paid to go out and engage in community assistance programmes. Most banks run some kind of managing your money programme in which staff assists families with financial planning and sensible budgeting practices. Other activities include support programmes for hospitals, the Red Cross and schools. Through these efforts banks aim to demonstrate their commitment to social responsibility.

We make no value judgement of this approach. We simply note that by banks' own admission, it lessens the influence they might otherwise have on the evolution of a sustainable society.

We note that some within the banking industry wish to broaden their approach.

'...if we are looking at how do we influence positive lending decisions for example, so how do we support new innovative businesses, micro-finance, supporting clean tech, under "normal" circumstances that would be something the sustainability team do as something different to the core business principles. Our job is to change the way the business does it, so that the front line people, the people who are normally sitting down with these businesses have a risk assessment matrix that reflects those things and allows them to make those decisions. So fundamentally that is how we go through that process.'

Sustainability manager, banking industry

The role of management accountants

Accountants are viewed as largely limited to responding to information requests from a bank's sustainability team to allow sustainability to be tracked and measured just like profitability.

Our research also reinforced that, not surprisingly accountants prefer to report on hard facts. Unlike profitability, there is no single measure of sustainability and assessing social impacts is even harder than measuring environmental impacts. Fortunately, some sustainability issues do lend themselves to more traditional accounting.

Some in the banking industry did recognise that accountants could play a key leadership role in sustainability but that role has yet to be well established.

'...the final comment I would say is that this is all very new, social responsibility and sort of learning as we go what is needed and it ...starts with reporting... trying to get some standardisation, reporting the same information.'

Sustainability manager, banking industry

'Trying to pick up some trends and analysis and key focus areas and then tracking [them] ...part of our role is to look for the whole bank spend every year and provide some analysis on how much we are doing for the social good.'

Sustainability manager, banking industry

How much are we doing for the social good? Providing answers to that question will make accountants the final arbiters of sustainability just as they are for profitability. That is a powerful place to be.

Case study two: Otago Polytechnic – founding a reputation on sustainability accounting

Otago Polytechnic is a leader of sustainability practices and reporting in New Zealand's tertiary education sector. An important aspect to note is the collaboration with accountants has been an integral part of that achievement.

Like most businesses, Otago Polytechnic had a traditional business model and a traditional annual report – many pages dominated by fine-print financials. 2010 was a watershed year for the Dunedin-based institution. Their annual report from that year was a much more balanced effort. The culmination of several years of gathering the data needed to rebalance the books to show that sustainability equals profitability.

'... the most important thing with a business, and what we do when we first get involved, is to put in place the collation of data ... I think three year's worth of data needs to be collected before we start to make major changes because you need to actually view all that data across a whole range of different aspects of the business to allow yourself to make valid decisions that allow you to demonstrate that sustainability equals profitability.'

Barry Law, Consultant to Otago Polytechnic

According to Law, the key is for accountants to work collaboratively across a range of areas to measure the wellness of the institution, which is not just based on financial data. Without the collection of appropriate data, progress against strategic targets cannot be measured. So a simple target such as water conservation could not be reported because meter readings were not in place in parts of the campus, and the council bill for water was a flat fee with no indication of water usage. That's the sort of weakness that accountants are well-placed to identify and hopefully lead the charge to overcome.

'If you want to achieve something, you need to have some concrete goals to work toward, you need something that is measurable.'

Jo McGilchrist, Financial Analysis, Otago Polytechnic

Law believes the institution has made huge progress but acknowledges it wasn't always easy to shift the traditional focus from just the financial data.

'I have worked with one accountant, who has got it and I have worked with others who don't. They are the single biggest limitation in terms of the business achieving its sustainability goals.'

The Otago Polytechnic sustainability vision is, 'That our graduates, our practitioners and our academics understand the concepts of social, environmental and economic sustainability in order for them to evaluate, question and discuss their role in the world and to enable them to make changes where and when appropriate.'

It is a grand vision that relies on the collection and analysis of good data to measure its reality.

Jo McGilchrist understands the vision needs a solid foundation.

'I think ... the economists and policy analysts come up with these [high-level] policy settings but I think on an operational level the accountants, end up seeing the results of the policies and they see where the costs are hitting them and can be more involved and make recommendations to management to change behaviour.'

Call it sustainability accounting.

www.otagopolytechnic.ac.nz/about/sustainable-practice

Case study – SMEs in New Zealand

In line with their diverse characteristics, three SME managers we spoke to each had very different views on how sustainability would be driven and measured in their companies.

David Hickman from Second Image Printers, started 18 years ago re-manufacturing laser printer toner cartridges or ink cartridges. He doesn't even call it recycling because in those days there were not many ink cartridges about. 'We were actually re-riveting rivets.'

Hickman does not have a full-time accountant on staff, nor does his business have targets for waste, energy or water use. Yet their website claims that 99% of waste doesn't go to a landfill¹¹. Nor have they done an energy audit, but they are very 'energy conscious.'

Hickman said that despite the lack of formal 'sustainability accounting,' he can back up the claims because theirs is a small, tightly knit operation.

'... we are only a small business, we are only three people. So we have got the light switch and power for the computers and the heaters and two cars. I think we have a culture of no waste. You know, what is that doing in the waste bin rather than in the plastics recycling bin?'

In the end, Hickman is confident his company's commitment to sustainability makes an economic difference, even if he cannot document it precisely.

'One of our best customers is a baker who is a fantastic [environmentalist] and I am sure part of our relationship is based on the fact that we do what we do. I haven't spoken to him directly about that, but I am sure it is.'

An instinctive approach to sustainability

Antanas Procuta Architects Ltd is an architectural firm with six employees that is committed to a wise environmental approach and resource use in the work they undertake. Antanas Procuta observes their clients have become more conscious of sustainability issues in the last 18 months compared with over the previous five years.

However, even in the face of this growing awareness and the desire to maintain an edge over competitors, Antanas Procuta does not set its own internal sustainability targets.

'In no way do we set ourselves any particular goals to do with money or tick boxes, anything like that. We are a small practice and it is probably not cost-effective to work out what is an appropriate target for each project. It can be a waste of the time available and potential benefits for small-scale projects.'

Antanas Procuta measures progress based on what makes sense to them.

'The big companies, have targets and responsibilities that they report to the public, or report to their shareholders, that is important to their company requirements, but when we are just responsible to ourselves within a small private business, it more about the nature of the benefits to our clients.'

They take a similar approach to social sustainability, basing decisions on giving time and money to local community projects on an instinctive approach. For example, Antanas Procuta said the company helped a local school with their eco-classroom because they could see it would make a huge difference over generations.

A more corporate approach

3R is a design, management and sometimes service delivery firm, helping companies take a whole of life approach to product stewardship. 'I guess we carved out a niche in New Zealand, which means that if someone wants to do something about product stewardship they are likely to call us,' said Graeme Norton, Director.

Norton is a passionate believer in the power of measurement and an advocate for the role of accountants.

'If you look at the work that was done by the World Business Council for Sustainable Development, we are going to have to figure out a very different way of managing, measuring what equals performance and given that accountants have a significant role to play in measuring performance, that broader construct of what equals sustainable performance ... well we are going to have to think differently about that.'

Norton promotes an evidence-based approach to sustainability. In one of their product stewardship programmes for the agricultural industry,

'... we have quite sophisticated processes to evidence good practices through basically farm to fork, or pasture to plate. Therefore I think accountants whether they like it or not are going to have to be involved in thinking about how we measure sustainability.'

3R has a more 'corporate' structure than many small businesses and Norton is not shy about expecting more from the accountants he works with.

'We still report traditionally, you know it is a relatively small company. But we had a meeting with our accountant last week and we said 'you are going to have to have a better understanding of our business so that you are able to contribute to it, otherwise why do we need a bean counter?' That is not a satisfactory relationship to have with an accountant, well we don't think so anyway.'

Conclusion

Like every other business, SMEs need a reliable way to assess the value of their management actions. They need to translate data into accessible measurements – a common currency – that will tell them if what they are doing is working. That is the role we normally attribute to the management accountant.

Case study – the management accountant and sustainability. The future is now

Denice is an accountant and Energy Options' Chief Financial Officer, which in her case is a high-level strategy role, responsible for setting financial and non-financial targets. Denice was clear about how she saw the role of the accountant:

'I strongly feel that ... accountants should be business partners and understand the wider role of the business ... accountants have moved in the last 20 or 30 years from a kind of back room function to being partners.'

A key theme from our interviews is that the traditional annual reporting cycle is not timely enough to be a good fit with sustainability. Instead, stakeholders want real time information on targets and goals. Sustainability reporting also demands a focus that is broader than financial profit or loss. Denice explains,

'We have various initiatives and we measure each one of those in terms of what kind of profit margin there might be but also what difference are we making? The funders want to know how much of their money is being spent, so we'll tell them the average house value and so forth but we'll accompany it with pictures, stories, videos of the difference it has made to these people.'

Her belief is that even in tough economic times, the new breed of accountant will rise to the challenge.

'I believe that the role of the accountant has changed and continues to change. What we have seen is sustainability and energy efficiency hasn't been put on a back burner, which often happens during a recession.'

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