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for small and medium sized enterprises:
environmental sustainability advice**

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Beyond the limits of accountants as ‘trusted advisors’ for small and medium sized enterprises: environmental sustainability advice

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Summary

We present emerging research on the potential of small accounting practices as advisors on environmental sustainability for their small and medium sized clients (SMEs). Enabling this resource could have substantial implications to improve sustainability because SMEs are notoriously difficult to reach and influence, but their most ‘trusted advisor’ is consistently their accountant. Using Habermas’ notion of steering, we present research data primarily from interviews with accountants which shows that the personal trust (relational steering mechanism) currently enjoyed is inadequate to facilitate the provision of sustainability advice by accountants beyond reflection on their own experiences. There is a lack of institutional trust in the profession as credible providers of sustainability advice, and individuals lack the skills and knowledge to offer environmental accounting. Without these, transactional steering and formalized environmental sustainability advice by small accountants to SMEs is unlikely to emerge. We conclude with research recommendations and implications for the accounting profession.

NB: This paper was presented at the International Society for Business, Economics and Ethics Congress, July 2012, Warsaw, Poland.

Keyword List: accountants, sustainability advice, trust, small and medium sized enterprises.

Beyond the limits of accountants as 'trusted advisors' for small and medium sized enterprises: environmental sustainability advice

Accountants have long been a source of support and advice beyond strictly financial matters for businesses, being the most commonly used source of advice by small and medium sized enterprises (SMEs) (Bennett and Robson, 1999). Rather than large accountancy firms, it is usual for SMEs to form a relationship with (local) small and medium sized accounting practitioners (SMPs), with whom there is the crucial opportunity to develop a trusted relationship over the long-term (Blackburn and Jarvis, 2010; Hasle *et al*, 2010). This is perceived by the accountancy profession as an opportunity to diversify into new lucrative markets beyond the production of annual financial accounts and, importantly, promote sustainable business practice to their clients, which tend to be SMEsⁱ. Small and medium sized enterprises are by far the most common organizational form, comprising 99% of European businessesⁱⁱ. While individually their effect may be small, collectively they are critically important in terms of their economic, environmental and social impact (CEC, 2008).

Small and medium sized accounting practices advising their small and medium sized clients face a complex challenge, mediated by issues relating to communication, culture and different learning styles. The nature of the relationship also changes as it matures, and is dependent on the stage of development of the SME, from start-up to exit as well as the capacity of the advising accountant (Dyer and Ross, 2007).

Indeed, research has shown that to build their professional role as business advisors, accountants would need to ensure that they have the dynamic capabilities to fulfill this task with long term credibility and the ability to offer the opportunity for diversification and business development (Doving & Gooderham, 2008).

Familiar advisory topics which accountants offer include taxation, type of company entity, financial management/budgeting, succession, debt administration,

administrative routines, organizational issues and human resource management, salary administration and training, marketing and strategic planning and health and safety (Doving and Gooderham, 2008; Hasle *et al*, 2010). In the context of rapidly increasing legal and social constraints related to the use of natural resources - in addition to the economic and moral challenges attached to their depletion-, a potential new area for advice is that of the environmental aspects of sustainability. Sustainability in this context is a contested concept (see Johnson, 2008; Gray, 2010), but we understand it from an environmental perspective simply as challenges especially pertaining to resource depletion and the production of green-house gases. Previous research provides a useful foundation for understanding the issues around sustainability from an accounting perspective (e.g. Unerman, Bebbington and O'Dwyer, 2007), but special attention is paid here to the distinctive issues for small and medium sized enterprises, which rarely have the capacity to attend to related environmental challenges (Spence *et al*, 2000).

This paper will report on part of a wider research project on SMPs as advisors on environmental sustainability to SMEsⁱⁱⁱ. We focus particularly on the nature of the SMP/SME relationship as a forum for environmental sustainability advice. The research questions addressed here are accordingly *What is the nature of trust in the 'trusted advisor' relationship between small and medium accounting practitioners and their small and medium sized enterprise clients? What are the implications if any for the potential of SMPs as environmental sustainability advisors for SMEs?*

Taking a broadly inductive approach to the research, qualitative research interviews were completed with 9 practicing accountants working in SMPs, 3 representatives of small and medium sized enterprises and 2 environmental advisors. In response to the funders' request for an international perspective, respondents were based in Canada, Hong Kong, the Netherlands and the UK. Nevertheless, the dominant

group of respondents is UK based and this is the main context for the study. Interviews were transcribed in full and coded according to the emerging themes relating to the research questions. Additional supporting documentation and web-based material was gathered where possible but this is very limited due to the lack of need for small businesses to report externally and the confidential nature of the material handled by accountants. The data were treated as socially constructed account of the SMP/SME relationship and analyzed accordingly. We were unable to seek alternative data for triangulation of any specific claims made by talking to partnering SMP/SMEs because of the unwillingness of either party to disclose their business partners. Access was supported in part by the funding organization, but was considerably more challenging than anticipated, in part apparently due to the enhanced economic challenges at the time of the study (2011/12) and the limited time availability and interest in the topic of the potential sample. The research team included individuals with specialist knowledge in accounting, sustainability accounting, sustainability and small and medium sized enterprises, ensuring the necessary interdisciplinary approach to the topic was achieved.

At the time of writing we are in the preliminary stages of analyzing the data. The data is being analyzed through the Habermasian framework of steering (Habermas, 1984;1987). This has been previously used to good effect and developed in the accounting context (e.g. Power & Laughlin 1996; Broadbent *et al*, 2010) and has considerable potential to illuminate our findings. Steering is understood to be referring broadly to the societal processes which effect change. In particular we propose to draw on a distinction between transactional and relational mechanisms for steering.

Our data shows a lack of evidence for a transactional mechanism to promote sustainability among SMEs by their accountants, that is, there is no current

precedence for the offering of concrete advice on sustainability which accountants can present in an invoice and make chargeable. However, we do find evidence of relational mechanisms, embedded in the social conversations which take place around the core financial business of the SME/SMP exchange. Accountants in our sample drew on their own personal experiences and interest in sustainability, and sometimes relayed the experiences of other clients, in order to engage in conversation with their clients. According to this perspective steering is towards broad (rather than tightly defined) intentions to improve sustainability and “are the result of existing shared assumptions and values or from the process of deriving these through a relational discourse between stakeholders” (Broadbent *et al*, 2010: 508). Building on this work we are able to identify that the trusted advisor role of the SMP enables the introduction of sustainability issues into informal discussion with SME clients based only on personal (rather than professional accounting) experience and personal knowledge. There are barriers to shifting to transactional steering (i.e. formalized advice) due to a range of reasons including a lack of institutional trust by SMEs in the profession of accounting as environmental sustainability experts, as well as a personal lack of confidence and knowledge by SMPs themselves to transfer accounting skills to environmental accounting processes and developing this to the offering of environmental sustainability advice through formal transaction mechanisms.

We conclude with recommendations for future research in this field and some comprehensive recommendations to the accounting professional bodies on how to develop the capabilities and trust needed for SMPs to offer SMEs environmental sustainability advice. These revolve around the need for partnership at the institutional and individual level with environmental experts, the need for training in environmental accounting techniques and the development of institutional and individual expertise and profile in the environmental sustainability arena.

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ⁱ The important role of the accountancy profession in supporting SMEs and SMPs was underlined in the International Federation of Accountants' Global Leadership survey 2010, wherein 95% of respondents rated addressing SME and SMP needs as crucial. The survey also identified corporate social responsibility including sustainability as an emergent key issue, with 91% of respondents noting its importance compared to 82% in the previous year (IFAC, 2010).

ⁱⁱ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm Accessed 23 February 2011.

ⁱⁱⁱ With thanks to the Association of Certified and Chartered Accountants for funding this research.