



CENTRE FOR  
BUSINESS  
PERFORMANCE

**CORPORATE SOCIAL RESPONSIBILITY AND  
THE PROFESSIONAL ACCOUNTING FIRM:  
THE DEVELOPMENT OF SUSTAINABILITY SERVICE LINES**  
BRIEFING

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# EXECUTIVE SUMMARY

This study: (i) explores the scope of sustainability services provided by accounting firms; (ii) identifies accounting firms' motivations for developing sustainability service lines; (iii) assesses the future of sustainability assurance and advisory work; and (iv) discusses the challenge sustainability offers to the accounting profession and accounting firms. Semi-structured interviews were conducted with 17 key individuals in four leading accounting firms. The main findings are:

1. Climate change/carbon services (ie, advising how clients can adapt to a low carbon economy) are most important to firms at present. The ability to develop and integrate broader sustainability issues into core offerings in the future will be important to ensuring firms remain credible and successful as providers of professional services in the carbon arena.
2. A clear view exists among accounting firms that the accounting profession has a public interest role in promoting the debate and supporting the development of sustainability reporting and assurance standards.
3. Sustainability service lines are motivated by: (i) economic opportunity; (ii) securing the best talent, where graduates and experienced hires expect to work for responsible employers who lead in the sustainability arena; and (iii) a desire to capitalise on a changing and consolidating market place.
4. There are significant links between the accounting firms' internal sustainability policies and the sustainability services they provide for clients.
5. There is an increasing need for accountants to acquire sustainability knowledge and skills to be capable of advising on both financial and non-financial matters.

# 1. RESEARCH BACKGROUND

‘The concept of sustainability involves operating in a way that takes full account of an organisation’s impacts on the planet, its people, and the future.’

(ICAEW, 2004, p4)

Accounting for sustainability has become an urgent priority for a wide range of parties in the past decade, both in service provision and shaping future services. Many commentators believe sustainability offers significant opportunities and challenges for accounting-related professional services firms. This briefing forms part of a wider investigation into the corporate social responsibility (CSR) of accounting firms.

A recent *AccountancyAge* (2008) survey suggests that only six respondents of the top 50 accounting firms declared they operate sustainability service lines. Yet, environmental and sustainability-related issues remain high on the agenda for accounting professionals (see Duff and Guo, 2010). For example, ICAEW has recently issued sustainability assurance guidelines and the International Accounting Standards Board and UK’S Accounting Standards Board are discussing how to incorporate environmental information within financial reporting. Sustainability is frequently discussed at meetings of at the European Federation of Accountants, the Global Accounting Alliance, and International Federation of Accountants. *Sustainable Business* is a thought leadership initiative of the ICAEW, in response to its Royal Charter pledge to act in the public interest. The Prince’s Accounting for Sustainability Forum (2008, p1) was established by the Prince of Wales to assemble a wide range of relevant stakeholder groups ‘to consider and develop the decision-making and reporting systems needed to tackle the sustainability revolution’.

The drive for standards and advice reflects a paucity of knowledge within the profession in environmental reporting and assurance (O’Dwyer and Owen, 2005; Park and Brorson, 2005; Jones and Solomon, 2010; O’Dwyer, Owen, and Unerman, 2011). As a response to the problems raised by having a wide range of standard-setters and regulatory bodies being responsible for individual elements of reporting, the International Integrated Reporting Committee (IIRC) was established, seeking:

‘to bring together the different elements that are essential to the presentation of an integrated picture of an organization and the impact of environmental and social factors on its performance.’

(IIRC, 2011)

In sum, sustainability provides both a significant challenge and attendant opportunity for firms.

## **Aims and objectives**

This study aims to provide an insight into the development of sustainability service lines within accounting firms. Specifically it:

- explores the scope of sustainability services provided by accounting firms;
- identifies accounting firms' motivations for developing sustainability service lines;
- attempts to predict the future of assurance and advisory work for sustainability; and
- discusses the challenges sustainability offers to the accounting profession and accounting firms.

## **Research method**

Interviews were conducted with 17 partners or managers in charge of sustainability service lines in four leading (Big Four) accounting firms. The partners/managers were chosen as they were highly knowledgeable about those sustainability services provided. Although sustainability service lines are evident in a few middle-tier firms, the Big Four have made the largest investment in this area to date. The briefing then, represents a snapshot of how major firms see their sustainability businesses and related challenges facing the profession.

Job titles, roles, and organisation details of interviewees are provided in Table 1. Each interviewee was provided with an interview schedule detailing research background, research objectives, and a list of possible discussion questions. Time and venue were arranged for the interviewee's convenience.

Typically interviews lasted between forty minutes to one hour and were all conducted face to face. With the permission of the interviewee, each interview was recorded using a dictation machine and subsequently transcribed. Written notes were taken to remind the interviewees that their words were important in provoking considered response. Finally, the interviews were conducted on a strictly confidential and anonymous basis.

**Table 1: Interviewees, job positions, working areas, and companies**

<b>Interviewee (Case)</b>	<b>Job position</b>	<b>Working area</b>	<b>Company</b>
A	Manager	Energy and environment	Firm 1
B	Partner	Power and utilities	Firm 1
C	Manager	Climate change/carbon	Firm 1
D	Manager	Climate change/carbon	Firm 2
E	Partner	Climate change/carbon	Firm 2
F	Manager	Climate change/carbon	Firm 2
G	Manager	Climate change/carbon	Firm 2
H	Manager	Climate change/carbon	Firm 2
I	Partner	Climate change/carbon	Firm 1
J	Partner	Energy and environment	Firm 1
K	Partner	Sustainability assurance	Firm 3
L	Partner	Energy and environment	Firm 1
M	Manager	Sustainability	Firm 4
N	Partner	Sustainability	Firm 4
O	Manager	Energy and utilities	Firm 3
P	Partner	Corporate responsibility	Firm 4
Q	Manager	Environment	Firm 4

## 2. KEY FINDINGS

### 2.1 Role of the accounting profession in promoting sustainability work

Sustainability affects all businesses and communities and challenges organisation to think differently and act responsibly. In particular many interviewees believed sustainability has created significant opportunities for accounting firms to provide assurance and advisory services to new and existing clients.

Sustainability is an evolving topic of enquiry. Even the Big Four<sup>1</sup> are 'still finding their way with their clients to figure out exactly where there is the real value for the service in the eyes of the clients' (Case K).

There appear to be four distinct roles for the accounting profession in promoting and developing sustainability work.

1. There is a natural role for the accounting profession in providing assurance to clients that their sustainability activities are measurable and verifiable. However, prior academic research indicates sustainability assurance provided by accountants is characterised by 'a cautious, limited approach aimed at providing low assurance levels' (O'Dwyer and Owen, 2005, p203), while consultant assurers adopt 'a more evaluative approach, and appear to provide higher level assurance' (O'Dwyer and Owen, 2005, p203) at the cost of impaired independence.
2. There is a role for the accounting profession to help the business community better understand sustainability issues, pursue sustainability agendas, and communicate to internal and external stakeholders to demonstrate the business value of their sustainability strategies and activities.
3. Interviewees believed the accounting industry should play a major role in bringing audit rigour to this subject area 'which has traditionally been characterised by the lack of rigour' (Case I). In particular, accounting firms have a responsibility for promoting and moving the debate around convergence of standards forward and helping develop sustainability reporting regulation.
4. The accounting profession, with its public interest role, should be responsible for promoting a sustainability agenda, irrespective of what services they provide.

<sup>1</sup> The Big Four are international accountancy and professional services firms of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.

## 2.2 Sustainability service lines within accounting firms

### What kinds of sustainability services are on offer?

A broad range of sustainability services are on offer from accounting firms and ‘boutique’ consulting firms. An example of sustainability services offerings from a Big Four accounting firm, PwC, is exemplified in Table 2. Although different firms use different language and terms to describe their sustainability proposition, many are offering common services, which they carefully attempt to differentiate from competitors.

**Table 2: Synopsis of sustainability services provided by PwC**

#### Climate change and carbon markets:

- Adaptation (minimising organisation risk from climate change (eg, rising sea levels, temperature).
- Carbon markets (advice on managing carbon assets and liabilities).
- Ecosystems (how to factor ecosystems into investment appraisal and capital budgeting).
- Renewables (advisory services on renewable energy technology).

#### Financing solutions and M&A support:

- Transition to a low carbon economy (the assessment of climate change risk).
- Improved decision making (environmental and social due diligence; software products to support sustainable decision making).
- Private equity (the impact of sustainability issues to investors and their portfolios).

#### Measuring, managing, reporting, and assurance:

- Carbon reporting (carbon measurement and reporting; strategic relevance of carbon).
- Assurance (emissions assurance: public or private to board of directors).

#### Strategy support and engaging employees:

- Strategy support (combining strategy support with sustainable development issues).
- People (processes to embed sustainability issues into HR strategy).

#### Sustainable supply chain:

- Life-cycle assessment (quantification of environmental impacts of products and services).
- Lean and green (balance carbon reduction measures with cost).

Source: Adapted from PwC (2011)

The services then on offer are broad, wide-ranging, and subject to constant change and evolution. These reflect perceived client needs, demand, and political and regulatory pressure. The sustainability market itself is discussed as part of the findings in section 2.4.

### **Sustainability services**

Two broad categories of sustainability service lines exist: (i) audit and assurance services; and (ii) advisory and consulting services ie, all those other services identified in Table 2.

Providing independent audit and assurance about clients' sustainability reports and annual reports fits well with their traditional audit capabilities. Typically, sustainability assurance sits alongside mainstream financial audit work within the firm, with advisory work residing elsewhere. Sometimes sustainability work would touch on all major service lines offered by the firm (eg, advisory, audit, tax). However, firms are keen to promote a platform of service provision with high levels of service quality provided to clients, with internal divisions unidentified. However, recently there has been a shift from the sustainability audit and assurance services to sustainability advisory and consulting services. This change is in response to client demand to incorporate sustainability initiatives into their strategic planning. In revenue terms, it is likely that advisory and consulting services will soon be more important than audit and assurance services.

This study shows that only three partners/managers disclosed that there had been 'serious revenue' (Case A) created by these new service lines to date. At the other extreme, seven interviewees identified that sustainability was 'not a particularly big service offering' and 'marginally profitable' under current economic circumstances (Case K). At the margin, firms offer sustainability services because of the prospect they hold for firms. For example, an inability to offer sustainability assurance may impair a firm's ability to offer comprehensive assurance services in the future as sustainability reporting becomes increasingly integrated with financial reporting.

Climate change (or 'carbon') is considered the most important component of sustainability services provided by accounting firms. As our societies aspire to make the transition from a fossil fuel-based growth economy to a low carbon one, a big challenge for many business organisations is 'how they manage real risk in the business as a consequence of climate change' and 'how they position themselves to react to carbon-related debates' (Case G).

At present, climate change (carbon) work is comparable to the millennium bug exercise in the late 1990s. During that period, much assurance and advisory work concentrated on computer and information technology (IT) systems. Today, sustainability is seen as 'much more broad reaching than IT, as the single biggest

business issue that has ever arisen' (Case J). It is likely that assurance and advisory services concerning the low carbon transformation agenda will constitute a significant part of accounting firms' revenue.

### **Types of sustainability clients**

Sustainability clients are varied. They range from large multi-national corporations, through to central and local governments, down to small- and medium-sized enterprises.

Considering the carbon and climate change area, clients' abilities to measure their carbon footprint vary radically. Large companies may have an in-house team dedicated to carbon data collection. Small and medium companies may need the work completed by external consultants.

Clients' capabilities also depend on the nature of their business. For example, manufacturing companies often employ a head of health, safety, and environment with responsibility for the carbon emission work.

Interviewees identified that sustainability clients are believed to value the independent and technical rigour brought by accounting firms. More importantly, they recognise the added value and the confidence an association with a multinational accounting firm brings. This is significant as the buying point for sustainability assurance appears to be changing. The finance function often has some say in the appointment of the sustainability assurer, perhaps reflecting the requirement to report sustainability matters (including the business' impact on the environment) within the business review of the Companies Act 2006. Although interestingly, the requirements of the Companies Act were not independently identified by interviewees as a factor driving sustainability advisory or assurance.

### **Staff backgrounds**

In sustainability service lines, staff backgrounds are varied and can be divided into two categories: (i) accounting expertise; and (ii) non-accounting expertise. Most professional accountants employed in sustainability services are recruited internally or seconded through the firm's rotation programme. Non-accounting expertise is recruited from people with practical experience in working on the carbon emission work in the industry, individuals who have worked in boutique environmental consultancies, staff with corporate finance and mergers and acquisitions (M&A) backgrounds, and employment and human rights lawyers.

In the climate change and carbon area, accounting firms recruit people with special skills from a wide range of technology backgrounds eg, environmentalists, geologists, biologists, climatologists, geochemists, civil engineers, chemical engineers, IT engineers, and statisticians. Most have environmental- or corporate responsibility-

related degrees, usually at Masters or PhD level in particular areas of focus. In sum, accounting firms employ a completely different range of skills and expertise in their sustainability service lines, relative to their traditional activities, as different clients need different skills.

Professional accounting firms normally have core sustainability teams specialising in sustainability assurance and sustainability advisory services. In the Big Four, the size of these teams varies from 20 to over 100 staff and partners. Additionally, there are people within different service lines across the firm who have elements of sustainability expertise (eg, environmental tax, energy pricing) but who are located outside the sustainability team. It is anticipated that in the future sustainability work will be integrated into other core service lines within accounting firms. Consequently, accounting firms will recruit more people with sustainability knowledge and expertise as part of their overall skills mix.

### **Sustainability policy and sustainability services**

There are significant links between the accounting firms' internal sustainability policies and the sustainability services they provide for clients. For example, some accounting firms (eg, Firm 4) have partners, who are in charge of sustainability service lines, formulate the firms' internal sustainability policies and help them to embed the principles of sustainability into their service offerings.

In the selection process for a new business relationship, prospective clients are interested in understanding the accounting firm's own policy concerning sustainability and establishing the firm's own sustainability policies and performance. Without a robust internal sustainability policy, the accounting firm would lack credibility in the market and acceptability to clients and, as a consequence, reduce their ability to sell services in this arena. More recently, sustainability policies and initiatives are required to be part of public service contracts and tender documents and, increasingly, corporate contracts. For example, Case P pointed out:

'Most of our RFP [request for proposal] responses these days have a CR [corporate responsibility] or a sustainability section in them and definitely everything that we do in terms of sustainability. In the government procurement process, they now claim that 5% of the scores you're awarded in the contract go to your CR initiatives and 6% to price, so they are putting it at equal rating to price basically.' (Case P)

### **Sustainability services and other services**

Accounting firms have a relative advantage of being able to promote sustainability assurance services, within the constraint of extant governance frameworks, to existing clients. The market is developing with the buying point for assurance moving towards the board of directors and/or the finance function. With the demand for rigour in

the delivery of sustainability services, accounting firms are increasingly well placed to provide assurance in the future.

Sustainability experts can help consulting clients better understand climate change regulation and challenge their existing sustainability programmes and strategies. They can assist financial auditors to better understand technical issues concerning sustainability to enhance the quality of their service provision. Other consulting clients could also benefit from sustainability services. For example, one manager described:

‘There is about 30% that are likely to grow service solutions that involve sustainability but may be delivered through a different part of the firm. So for instance, if our consulting team are looking at supply chain, they may be looking at reducing costs of the supply chain, but the client also wants to look at carbon in the supply chain, so we will provide people into that team to work in consulting, to address the carbon issues in a broader supply chain project.’  
(Case D)

## **2.3 The development of sustainability service lines**

### **Economic value**

The economic value of sustainability work was seen as significant for all the accounting firms interviewed. Each stated they would find it difficult to provide comprehensive service levels without sustainability expertise. For example:

‘While it’s not necessarily going to be a game changer in terms of driving top line growth, although that will happen to an extent, what it does do is it will keep the firm competitive. It will keep any single firm competitive because it is undoubtedly becoming a core part of what every firm has to offer. The economic value is huge because there’s an economic cost to not being credible in it.’ (Case K)

Eight interviewees saw sustainability as a significant growth opportunity for accounting firms in the near future. It is anticipated that accounting firms will increasingly invest in and develop sustainability service lines to build up resources and capabilities, promote sustainability work to the business community, and engage in major debates on sustainability in the UK and internationally.

### **Recruitment**

Securing the best talent is an important motivation for accounting firms to develop sustainability service lines. The reasons are threefold.

1. There are certain sustainability areas which appeal to university graduates such as low carbon and renewable energy.
2. New recruits wish to work for responsible employers who care about the environment and have their own sustainability credentials.

3. Graduates seek to join major accounting firms that invest in sustainability and offer tangible opportunities for them to work on interesting and credible sustainability projects.

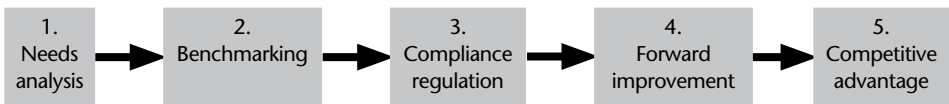
**‘Push’ by accounting firms**

Sustainability service lines were initially created and marketed by the firms, rather than as a response to client demand. Sustainability clients were not necessarily aware of the sustainability issues and challenges that they confronted. Historically they have been reticent to buy sustainability services. As discussed in section 2.1, there is a significant role for accounting firms to play in helping clients ‘bring the sustainability issues to their attention in a timely fashion, rather than waiting for them to find out the hard way’ (Case L).

The firms interviewed describe a five-stage business model (see Figure 1):

1. Initially, the firm works closely with the client to understand their needs.
2. Then, the client is benchmarked to identify where (if at all) they are behind the market.
3. The client is notified of any compliance-related issues and forthcoming regulation. Adequate support is provided when necessary.
4. Forward improvement plans and solutions are proposed.
5. Where requested, the firm provides the client with specialist advisory support to use sustainability as a source of strategic competitive advantage.

**Figure 1: A sustainability services business model**



The evolution of sustainability services lines has, to an extent, been driven by individual visionary partners within accounting firms who recognised a market opportunity exists to create new service lines and structures to meet perceived demand. These sustainability services lines have been expanded by recruiting people from other disciplines or acquiring small boutique consultancies.

### **'Pull' by client demands**

Despite the historical 'push' of sustainability accounting services, clients are increasingly recognising the importance of sustainability and 'pull is starting to come through much more to the fore' (Case L). Sustainability service lines are becoming more demand led. Most clients, at present, use advisory services because they lack the necessary skills in-house. Accounting firms aim to proactively respond to client demands and ensure that they have the most competitive expertise and credibility in hand. A partner depicted their strategy to market sustainability to clients as follows:

'The way in which we tend to go to market is by looking at our big clients of the firm and looking at them through two lenses on axis. One is the impact of the sustainability agenda upon their business model and the other is their capability to respond to the agenda. We leverage the relationships we already have, but we prioritise them through the lenses of impact to climate change and capability to respond.' (Case G)

## **2.4 Future of sustainability services**

### **Integrated reporting**

There is a trend to incorporate social, economic, and environmental information reporting into financial reporting. This approach should help stakeholders to view the sustainability report as a strategic business issue, rather than a separate add-on report. In addition, the integrated reporting approach should transform the way in which accounting firms conduct audit work. It is likely there will be few auditors that do not assure non-financial information in the future.

Interviewees identified three main concerns about this integrated reporting approach exist:

1. The requirement to report sustainability in the UK is limited to the business review stipulated in the Companies Act 2006 (see Macve and Chen, 2010, p913) and significant variation occurs in the methodologies that companies use in reporting sustainability.
2. It is complicated and costly to assign a financial value to social and environmental externalities and sustainability efforts.
3. The inclusion of excessive sustainability information into, already voluminous, annual reports obscures the primary purpose of financial reporting.

## **Sustainability work**

The sustainability services market is expected to grow rapidly as sustainability is embedded into every corner of the business activity. Many interviewees were highly optimistic about the future of sustainability services, as one partner of a major accounting firm announced that he intended to create a carbon team with 300 staff/partners within next three years.

Future assurance work, provided by the firms, for sustainability will be undertaken by those auditors who audit client companies' financial statements. Professional accountants, who have come via the traditional accountancy route, will be required to broaden their knowledge and skills to be capable of advising on both financial and non-financial matters.

Participants anticipated that sustainability work will be eventually integrated into other service lines in accounting firms. The ultimate objective is to have a broad network of experts, across different service lines within the firm, who have a good grasp of the sustainability issues and use it to add value and win business from clients.

## **Stakeholders' demands**

Stakeholder demand for sustainability reporting varies. For example, non-governmental organisations are particularly interested in studying sustainability reports to form views and opinions on an organisation. Employees, and potential employees, are said to seek to work for responsible employers who care about the environment and have their own sustainability credentials. Boards of directors have started to realise the importance of social, economic, and environmental information in their sustainability reports and public domain. In addition, suppliers and consumers in most industries are demonstrating an interest in sustainability reporting.

A key stakeholder group is for profit enterprise. Interviewees identified that institutional investors are now requesting information from portfolio companies about sustainability policy and performance (see also Sullivan, 2011). Interestingly, how the carbon emission information is evaluated and used in the decision-making process remains hazy. For example, one manager explained:

'I'm not sure how it [the investment community] uses that information to make decisions as to whether carbon emission going up is a good or bad thing because quite often carbon emissions going up means that your business is more successful and growing. So what are they doing with this information? I don't know.' (Case I)

Change in the environmental arena has historically been driven by regulatory action. However, at present, regulators require little environmental disclosure. In the future, the industry expects regulators to become more active and directive, as companies are generally believed not to respond without regulatory compulsion.

### **Competition**

The sustainability market is both highly competitive and fragmented. A plethora of professional services firms offer sustainability-related services. No one firm has yet established a dominant market position.

The market consists of two camps of capability: (i) the accounting profession; and (ii) the engineering/technical profession. Considering the accounting profession, beyond the Big Four and Grant Thornton, other smaller accounting firms have not entered the sustainability arena. Consequently, sustainability offers prospects and challenges in the short term for medium-sized firms.

A large number of boutique consulting firms, usually with Eco-Management and Audit Scheme (EMAS) verification, represent the engineering/technical branch of sustainability. Examples include: Atkins, DNV, ERM, URS, Environ, Halcrow Mott MacDonald, and WSP and Lloyd's Register. Relative to accounting firms, boutique consultancies offer: (i) relatively low fee rates; (ii) concentrated expertise in providing technical solutions to sustainability problems; and (iii) potentially higher levels of assurance.

Major accounting firms derive competitive advantage from: (i) strong brand image; (ii) promoting sustainability to existing clients; (iii) global capability; (iv) bringing audit rigour into sustainability work; and (v) an ability to provide a holistic service. However, this advantage is achieved at the cost of a relatively high overhead base with consequent implications for pricing.

Fierce competition in the sustainability market has been a source of innovation, but has created a major challenge for accounting firms to stay ahead. One sustainability partner indicated that 'I don't think in the eyes of clients they see a lot of difference in the type of assurance provided from the Big Four versus a boutique assurance provider' (Case P).

As it enlarges, the sustainability market is expected to witness more consolidation with small consulting firms being progressively amalgamated into the larger firms. One of the firms interviewed, for example, has acquired a leading carbon and sustainability consultancy in 2010 as it expands and evolves its environmental and sustainability consulting practice.

## **External engagement**

Partners and managers engaged in sustainability services within accounting firms (especially the Big Four) are actively involved in a variety of sustainability consulting groups and committees organised by government and non-governmental organisations. They provide support for central and local government in formulating sustainability policy. For example, Case B pointed out that their team had advised the Treasury on the development of the renewables obligation (RO) mechanism. Major accounting firms also actively participate and sponsor a variety of government-organised forums and conferences nationally and internationally.

Case F identified the reasons for accounting firms actively engaging in such external activities:

‘We are involved in a huge number of these [activities] because it helps us understand what the leading edge of all this thinking is, and it enables us then to transfer that knowledge onto our clients and provide them with value. But also it enables us to use the expertise that we have to help make sure that these things go in the direction that we believe is the best way to go on.’ (Case F)

## **Potential of carbon credits**

Our interviewees believed that carbon credits may induce some companies to risk being fraudulent, disclaiming, and abusing the supply chain. Consequently, there is an important role for auditors to play by bringing audit rigour to carbon trading. Interviewees identified that carbon credits projects are often shrouded in mystery and there are concerns about their efficacy.

# 3. CHALLENGES FOR THE ACCOUNTING PROFESSION

The study identifies six key challenges for the profession.

## **Challenge 1: Develop a clear and forward-looking policy framework for sustainability reporting.**

There is no universally accepted language of sustainability reporting or assurance despite the existence of a range of international codes such as the AccountAbility's AA1000, Global Reporting Initiative, and The Equator Principles, although criticism of the efficacy of these voluntary codes is evident (eg, Moneva et al., 2006; Dingwerth and Eichinger, 2010; Macve and Chen, 2010). Sustainability work is often undertaken in response to local (national) legislation which is inconsistent from country to country. Demand from clients for sustainability services varies, as do client capabilities, to undertake sustainability reporting. A clear, long-term policy framework which encourages consistent sustainability reporting is desirable. In particular the accounting profession has a responsibility for promoting and moving forward the debate around convergence of standards forward and helping develop regulations on sustainability reporting.

## **Challenge 2: Accounting firms have a clear role to play in educating the business (and non-business) community about sustainability.**

Willingness among clients to recognise sustainability issues as important and deserving serious response remains a challenge for accounting firms. There is an important role for accounting firms to play in helping the business community better understand sustainability issues and pursue sustainability agendas.

## **Challenge 3: To maintain a leadership position accounting firm's sustainability services need to continue to: (i) differentiate service offerings; (ii) continue innovation; and (iii) market clear value propositions.**

Interviewees expressed a serious concern that sustainability work will become commoditised in due course. This investigation indicates sustainability work is driven by a relatively small number of dynamic individuals within professional firms. Their efforts, supported by pump priming investment by the firm, have created a suite of relatively differentiated service offerings. Commoditisation would reduce the differentiation in service offerings to clients, making work less profitable. As accounting firms attempt to reduce costs to clients to remain competitive, this may also decrease innovation and the development of protocols: limiting the value of the proposition on offer. A technical challenge is to articulate the value in sustainability services and design services in such a way they remain profitable for accounting firms to continue research and development activities.

#### **Challenge 4: Recognise the challenge that comes from lower-cost boutique consultancies.**

The coming years will see accounting firms compete against boutique consulting firms which have concentrated expertise in providing technical solutions to sustainability problems. These boutiques, with lower overheads, can offer their services at lower fee rates relative to the Big Four. Participants identified that hiring high-quality recruits with sufficient sustainability knowledge, skills, and experience is essential if accounting firms are to increase their capabilities and market share. There is also a need to educate and develop current employees'/partners' sustainability knowledge and skills within existing service lines.

#### **Challenge 5: The public interest role of the profession should ensure clients continue to enjoy significant choice in the sustainability services market.**

Boutique firms may provide a competitive threat to (higher cost) accounting firms, with a consequent risk that research and innovation may decrease. An equal threat is that consolidation (particularly among boutique assurers/consultants) limits client choice, as in the traditional audit and assurance market. If, as prior research suggests, consultant sustainability assurers are perceived to offer more comprehensive levels of assurance, accountants need to consider how levels of assurance can be improved in the context of their stringent risk management frameworks, alongside the high levels of independence they traditionally offer. The public interest remit of the profession needs to ensure that the sustainability services market continues to offer options for clients. Within the accounting industry, the Big Four appear to have 'first mover' competitive advantages, reflecting the investment required in this area. Where then are the traditional client groups of the middle tier (eg, small and medium-sized enterprises, charities) sourcing sustainability assurance and advice? Perhaps the biggest competitor, at present, to the sustainability advisory and assurance industry is an absence of demand.

#### **Challenge 6: The need for continued professional development of accountants and the challenge to accounting professional training.**

The profession will hope that future sustainability assurance work will be undertaken by auditors who audit client companies' financial statements. This will only be the case if professional accountants are required to broaden their knowledge and skills to be capable of advising on both financial and non-financial matters. Similarly, sustainability and CSR need to be embedded within the syllabi of professional accounting bodies to 'future proof' newly-qualified chartered accountants. As it stands, sustainability reporting and assurance are covered in relatively little detail by the three UK bodies training chartered accountants. This perhaps reflects a lag in how professional bodies develop their curricula, largely in response to employer demand, rather than being particularly forward looking. With ethics enjoying significant coverage in response to the corporate reporting failures of the early part of this century, other CSR elements appear to lag at this moment in time.

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This research was undertaken by researchers in the Accounting and Finance Group at the University of the West of Scotland, with funding from the ICAEW's charitable trusts. Angus Duff is a Professor of Accounting and Finance and Xin Guo a Lecturer in Accounting and Finance.

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