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How Management Accounting Can Help Environmental Firms

Michael T. Lee
Boise State University

Spencer Cobia
Boise State University

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How management accounting can help environmental firms

This summer, we were invited to present our case-study research on accounting systems for startups at a regional meeting of the world's largest society for scientists, the American Association for the Advancement of Science. We were surprised to find that we were among a group of presentations about environmental trauma (e.g., the arsenic crisis in Bangladesh, the flooding in Pakistan) and scientific solutions (e.g., chemical neutralization, social and physical infrastructure development).

Why were we invited? How can accounting systems possibly be related with environmental trauma and scientific solutions?

Remarkably, the scientific solutions for cleaning up environmental traumas were somewhat logical, methodical and calculated. The difficulty lies in making sure that there is a business structure to support the cleanup and the follow-up improvements beyond cleanup — a structure that can operate with goals similar to those of an environmental-protection-type authority. This business must use funds responsibly, provide initial cleanup support and subsequent improvement, and deliver required returns to its investors.

It would seem that while scientists and engineers have innovative solutions for cleaning up our environmental issues, they have difficulty converting their initiatives into lasting, viable businesses. According to Shikhar Ghosh, senior lecturer at the Harvard Business School, 30 to 40 percent of such businesses fail completely, and 70 to 80 percent do not see the planned



MICHAEL T. LEE

Assistant professor of accountancy



SPENCER COBIA

Alumnus of the department of accountancy

Our recent study of management accounting systems for startups demonstrated that properly designed and implemented tools are linked with greater chances of business success. These systems can help environmental startups overcome failure.

return on investment.

Studies conducted by the University of Tennessee show that businesses fail mostly because of lack of business experience and the lack of use of suitable tools to support business management.

In our presentation, we explained how these businesses could incorporate and use appropriate management accounting tools with our plant analogy. The cleanup business is a seed that has the potential to grow into a plant with roots that provide the foundation for cleanup and ongoing environmental improvements. Not all seeds or new cleanup businesses will grow into plants or environmental protection businesses. Seeds need certain ingredients, including the combination of sun, rain, warmth and fertilizer, working with the forces of gravity to burst into the "green shoots" that form the future foundation for a strong and healthy plant.

Accountants and accounting systems are often seen as cost consumers in a new business. That's like thinking that gravity would impede plant growth. But gravity actually helps rather than hinders the development of a seed by pulling together the essential elements of sunlight, moisture, warmth and nutrients. Management accounting systems' design is to business

as gravity is to plants. Instead of weighing down a business, it pulls together and facilitates profitable business operations, efficient people, and the effective use of technology and resources.

michaellee2@boisestate.edu
spencercobia@gmail.com