ACCOUNTANTS AND STRATEGIC LEADERSHIP

INTRODUCTION

Finance professionals hold a wide array of roles across the organisations they work for, typically in conjunction with the central remit that the finance function takes as a core driver of performance and management. This role has strengthened in recent years as organisations have had to manage their resources carefully to realise value in volatile economic conditions.

Two strategic drivers, however, could have an impact on finance roles:

1. The finance function being invested with a broader remit to contribute, through a more holistic approach, to strategic management decisions

   and

2. A wider concept of organisational success, broadening out from financial (profit, return on investments etc.), linked to wider social and environmental concerns.

While the finance function will remain important in companies responding to these pressures, it could lose its primacy if it fails to respond to developing trends.

These trends are also having an impact on corporate reporting as well as highlighting a pressing need for reports to be relevant to a wider group of stakeholders.

A particular framework under corporate reporting is the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> framework which, published on 9 December 2013, is well positioned to be the future of corporate reporting in the years to come.

<IR> is one example of a shift in business towards a more comprehensive approach to managing the complexity of today's organisations and a richer way of communicating it to shareholders and wider stakeholders. It has been driven in part by concerns surrounding the narrow (profit-based) focus of reporting. <IR> has gathered momentum following criticism of the complexity and length of financial statements, which are perceived as increasingly hard to interpret and remote from the wider role of corporations in society.

<IR> calls for leadership and a closer co-ordination of reporting teams across the company. While financial reporting remains fundamental under <IR>, financial capital is only one of the six capitals[1] under the IIRC's <IR> framework– with potential for a corresponding decrease in the centrality of financial capital in corporate reporting.

This paper aims to explore possible scenarios for the future of the financial professional in light of the forthcoming changes in <IR> requirements. The basis for discussion is the potential risk of the finance function losing influence as a consequence of an increased role of other actors in the production of financial statements compliant with <IR> guidelines.

[1] 'Capitals' refers broadly to any store of value that an organisation can use in the production of goods or services. IIRC, Capitals Background Paper, http://www.theiirc.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf.

<IR> requires wider data inputs across a wider range of capitals, covering areas not normally measured by the finance function. As a new approach to transparent disclosure more generally, <IR> will require the ability to co-ordinate efforts across many functions and to influence the way in which multiple non-financial measures are generated and validated.

We have already identified an opportunity for accountants to be more central in their organisations. In our '*100 drivers of change for the global accountancy profession*' report (ACCA and IMA, September 2012), we termed accountants making the most of current opportunities as changemakers with corporate reporting identified as a key issue for the profession in the short and medium term.

The risk for the profession is that while many can make the change, and embrace a wider role which goes beyond financial reporting and into broader notions of corporate stewardship and success, others may not. We will certainly need to adopt <IR> in the accounting curriculum as a starting point. But there is likely to be a broader cultural change required – an openness to a wider reference point of stakeholder views and total economic and social return.

A further aspect of these developments is how the role of assurance might develop – and what value it will be seen to bring. Will the statutory auditing of financial statements be sufficient in the new integrated model? A less central role for audit – often seen as the crown jewel of the profession – may undermine the profession's influential role in a number of areas of the overall financial value chain. This presents an opportunity for external auditors to go beyond their current role by providing assurance in new areas of reporting under <IR>, though they need to embrace this change.

Some statistics

As part of on-going work on corporate reporting, we recently surveyed ACCA members on the extent of their contribution to the narrative content (first half) of their companies' financial reports including the narrative/ nonfinancial reporting elements and what they expected their role to be if <IR> was to be adopted by their organisations.

The survey was carried out between 23 May and 12 July 2013 with a total of 1,199 responses being received.

Current state of play

Survey results indicate that only 27% of finance professionals contribute to more than 75% of their organisations non-financial reporting. Instead, respondents have cited that non-financial reporting is mostly done by their senior management (44%), strategy (14%), corporate social responsibility (11%) and investor relation (10%) teams.

How much do you and your team contribute to the non-financial reporting sections of your business' annual reports? Please estimate to the nearest proportion, using the following scale

		Role				
Scale	**Total**	Accountant	Auditor	Manager/ Senior Manager	Director/ Executive/ Partner	CFO
100%	11%	6%	8%	9%	24%	19%
75%	16%	16%	8%	10%	15%	23%
50%	21%	27%	8%	22%	19%	19%
25%	32%	33%	31%	32%	31%	32%
None	20%	18%	45%	27%	11%	7%

How much do you and your team contribute to the non-financial reporting sections of your business' annual reports? Please estimate to the nearest proportion, using the following scale

		Sector			
Scale	**Total**	Corporate sector	Financial services	Practice	Public sector/ Not-for-profit
100%	12%	12%	8%	14%	11%
75%	16%	14%	24%	15%	16%
50%	21%	19%	19%	27%	24%
25%	31%	34%	28%	20%	33%
None	20%	20%	21%	24%	16%

Future plans

While 60% of the CFOs who have responded indicated that they intended to lead on their business' <IR> plans, a significant majority of all other respondents felt that their roles would be more limited.

SCENARIOS

There is no doubt that <IR> is gaining momentum internationally and this has the potential to bring about transformational changes in the role of the finance professional and in the standing of the profession.

We cannot simply assume that finance professionals will be leading this change as there are many other agents that are vying for this important role: from strategy, CSR and legal to investor relation teams. Depending on how the profession responds to <IR>, there may be significant differences in how its role could evolve.

To help explore the range of possible outcomes, two grids with four generic scenarios for the future of the profession have been developed.

The analysis of the IIRC's International <IR> framework, suggests that the two most important influencing factors will be the role of the finance professionals in <IR> and, the scope of the accountant's role in their organisations. For each of these factors, a spectrum of possible outcomes exist, built along a two-way matrix.

<IR> and the role of the profession

ENTREPRENEURS OR GATEKEEPERS?

At one of end of the vertical continuum, finance professionals are seen as 'gatekeepers' and are focused on mere compliance with regulatory requirements without being involved, let alone driving, a larger sphere of activity. At the other extreme, finance professionals could take on a broader role not only in strategy but more importantly in driving business growth by adding value with their expertise or defining new business models without sacrificing ethical stewardship.

LEADER OR CONTRIBUTOR?

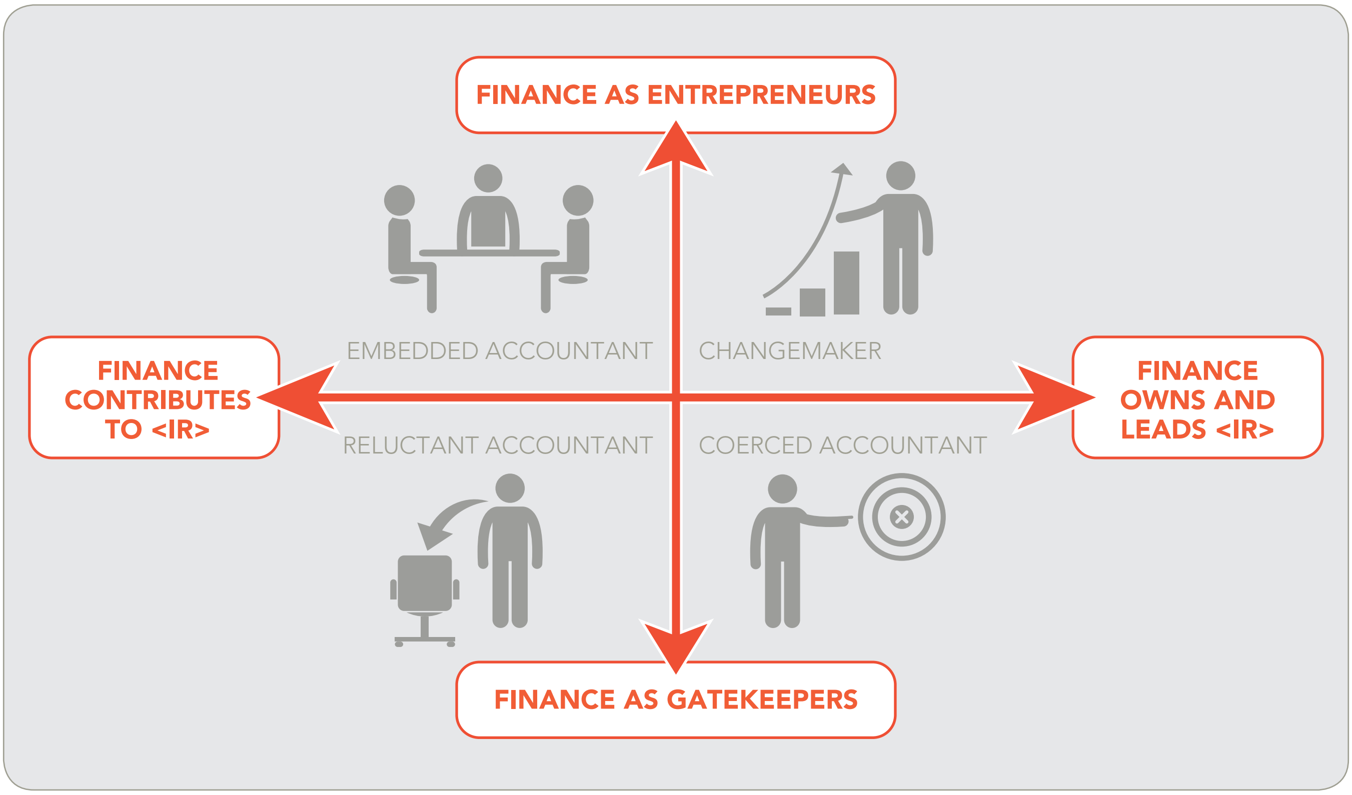
Looking at the other dimension, at one end of the spectrum, accountants focus solely on compliance and core accounting matters. This approach would see the role of finance as a simple contributor to <IR> with little more than a support function in providing financial data input for the drafting of reports that go well beyond that. At the other end of the spectrum, finance professionals take on a more central remit and become the driving force behind credible, meaningful and compliant integrated reporting statements.

If your business adopted integrated reporting, what do you think your role would be?

		Role				
	Total	Accountant	Auditor	Manager/ Senior Manager	Director/ Executive/ Partner	CFO
I would be **leading** on this initiative	34%	18%	16%	21%	59%	60%
I would be a **contributor** to this initiative	66%	82%	84%	79%	41%	40%

		Sector			
	Total	Corporate sector	Financial services	Practice	Public sector/ Not-for-profit
I would be **leading** on this initiative	34%	35%	33%	34%	31%
I would be a **contributor** to this initiative	66%	65%	67%	66%	69%

Figure A



CHANGEMAKER

In this scenario, many in the profession have succeeded in balancing the ownership and lead of their business's <IR> and taking a more entrepreneurial stance within the firm. The need to ensure sound and ethical practice has been maintained in the gradual assumption of a wider remit by the CFO and accountancy function. There is widespread acknowledgement among stakeholders that the profession has succeeded in providing rigorous integrated reports while enabling the entrepreneurial spirit to flourish. Finance professionals are able, therefore, to build on their reputation as a trusted pair of hands to develop greater influence across their organisations and external stakeholders.

EMBEDDED ACCOUNTANT

Here finance is seen as a business partner and spends a lot of time 'in the business'. A close alignment exists with the business's strategy function to ensure that financial resources are optimally aligned with strategic priorities. Accountants are keen to own corporate reporting while acquiring new skills that enhance their report-writing capability to 'tell a story'. Accountants build key relationships and partnerships in their business to ensure appropriate content can be identified for corporate reporting. At the same time, accountants are leading the debate at executive-level on the developments in corporate reporting.

COERCED ACCOUNTANT

Here many accountants deliberately maintain a focus on the largely technical elements of the role while seeking to ensure compliance with regulatory requirements of the law, but are 'coerced' to play a more central role. In this scenario, accountants are the 'fallback' option when there is no one in the organisation to take the lead and they are obliged to take this role.

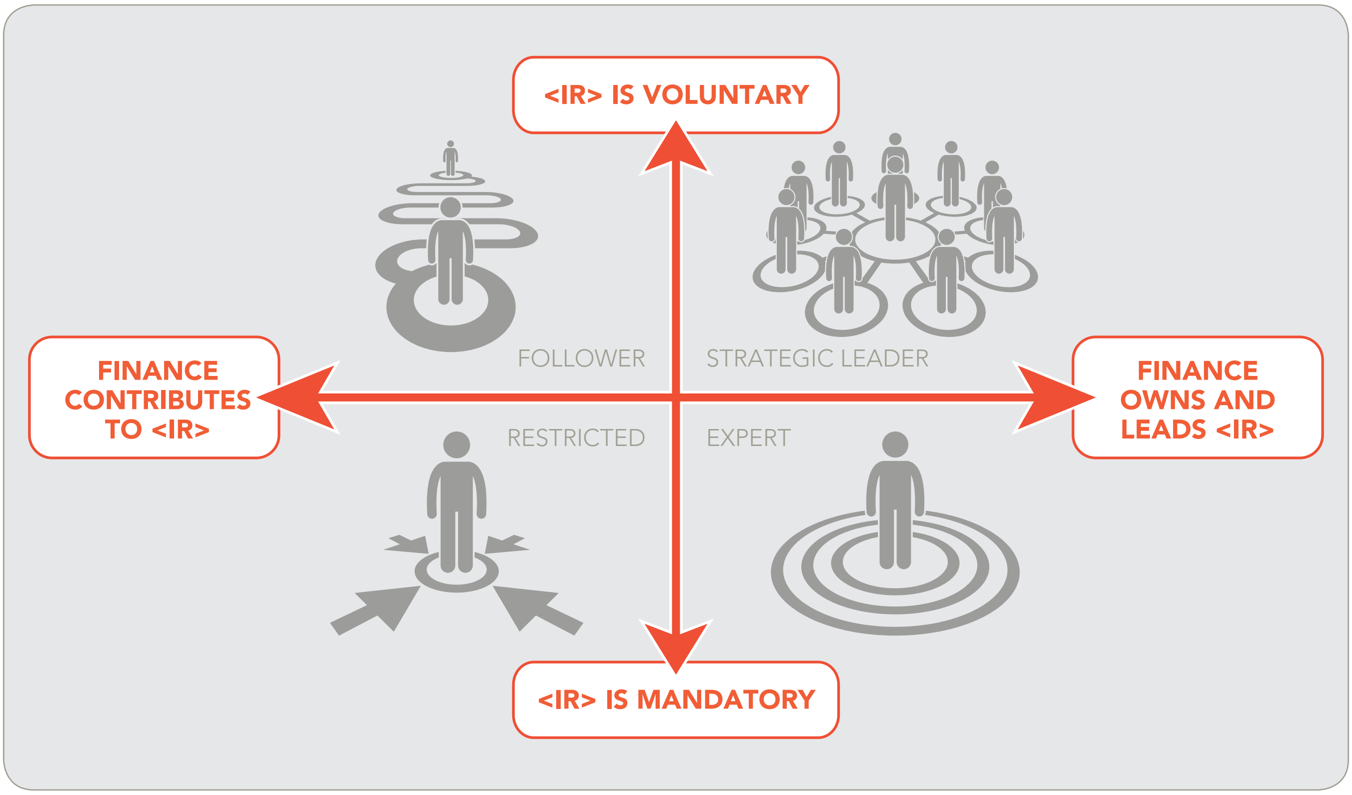
RELUCTANT ACCOUNTANT

In this scenario accountants are 'followers'. Change is not embraced and the accountant is devoted to provide outputs according to prescriptive guidelines/requirements. In this approach, accountants make the minimum change necessary to meet the new requirements. Accountants have no qualms for <IR> to be owned outside of finance and only want to contribute 'their bit' to the report. Accountants in this situation are only making the necessary adjustments to meet the financial capital aspects of <IR> and they take a passive role while other parts of their business take the lead in their organisation's <IR> efforts.

<IR> takes hold and its impact on accountants

Another potential variable is the degree to which economic operators adopt <IR>. For many businesses, the most important driver to implement <IR> may be the pressures (whether voluntarily or mandatory) to adopt, while others may see it as an opportunity and react accordingly. In this scenario (figure B), the role of the profession (in figure A on the y-axis) remains constant while the vertical dimension explores the degree of adoption of <IR>.

Figure B



STRATEGIC LEADER

In this scenario, accountants spear-head their organisations' <IR> efforts at their own initiative, working cooperatively with other teams within the organisation to successfully meet the standards outlined in the <IR> framework. At the end, through the accountants' leadership, the organisation gains support from stakeholders, regulators and providers of financial capital.

FOLLOWER

Accountants in the scenario have no desire to lead and are seen as unwilling to take the responsibility of their organisations' voluntary <IR> efforts. Accountants only become involved when asked and do so unwillingly.

EXPERT

Here <IR> becomes mandated and accountants have achieved complete authority over their business's <IR> efforts. Accountants in this scenario are taking the lead and successfully delivering integrated reports to stakeholders that illustrate their organisations' governance, strategy, performance and prospects over the short, medium and long term. Accountants are seen as the intellectual or technical experts who will own the process.

RESTRICTED

<IR> becomes mandatory by business and accountants are only providing the financial capital element of the organisation's <IR>. Accountants are negatively disposed towards <IR> and do not see its value with their contribution remaining negligible and are doing the bare minimum to comply.

Will the assurance function be altered?

Setting aside for the moment the question of whether <IR> should actually achieve comparable status with traditional financial reports, if <IR> does become the 'norm', this will have an impact on the role of audit and assurance too. Many audit committees today are struggling to embrace <IR> and are making challenges to its introduction.

While internal auditors do not 'own' <IR>, they are aware of key corporate risks and have an interest to ensure that <IR> is aligned to corporate priorities and that it is a balanced representation of performance . The work of internal auditors can be aligned to promote the 'reliability' and 'credibility' that external assurance offers to investors.

The extension of the internal auditor role to <IR> is perhaps indicative that governance structures could be reconsidered and it may no longer make sense, for example, a move from 'audit committee' to an '<IR> oversight committee' or 'Integrity Committee', which could be a better reflection of its responsibilities.

The adoption of <IR> could potentially require new skills of the internal audit function as they step up to their new responsibilities either through recruitment or training and become more akin to an '<IR> oversight committee'.

LEARNING

Initial professional qualification

ACCA was the first leading global professional accountancy body to examine the Global Reporting Initiative, the forerunner of <IR> within its curriculum in the year 2000. Integrated Reporting evolved from this and other initiatives.

The existing ACCA Professional Level comprehensively covers the <IR> Framework, both in terms of content elements and in terms of the guiding principles of the framework. A detailed report has identified in broad terms which aspects of the elements/principles are covered in which papers – although it should be noted that <IR> is not explicitly referred to by name currently.

Now that companies are starting to use <IR>, ACCA has once again taken the lead by placing <IR> firmly within its curriculum, examinable from 2014. The whole concept of integrated reporting as a more lucid way to present the performance, position, impact and contribution of an entity to stakeholders and society is being introduced most broadly in P1, *Governance Risk and Ethics* and in P2, *Corporate Reporting*, which are the first two compulsory papers at the Professional level.

P1 addresses integrated reporting as a vehicle through which to describe the engagement, through governance structures of the company with its responsibilities to a wider stakeholder constituency within a broader agency concept, including the impacts that the company has on its environment and how the company is responsible for a wider definition of capital than merely financial capital.

'Corporate reporting' in P2, the main and final level syllabus of the ACCA Qualification, will cover the whole concept of the 'integrated report' as a broader-based approach to corporate reporting and will give an overview of the concept in a holistic sense. The P2 examination will consider how such reports will be prepared, what they will cover and how they will increase the usefulness of the reporting function to potential users.

Relevant syllabus areas in other Professional Level exams are being made more specific to include <IR> references. The detailed aspects of coverage within other exams will be highlighted to students through articles and from the P1 preliminary learning so they understand the parts that will make the whole. As such, comprehensive coverage is achieved visibly throughout the Professional Level of the ACCA Qualification.

Thereafter, existing and new members will also be able to learn more about implementation of <IR> through their continuing professional development (CPD).

There is not currently a huge amount of structured CPD material on <IR> for members. However, ACCA has developed resources to inform members on the implementation and adoption of <IR> – including webinars and research reports (see references at the end).

In the 2013 ACCA training needs analysis survey, 20% of respondents selected corporate reporting as one of their five most important technical subjects for professional development.

CONCLUSION

Whether or not the relationship between society and corporations is changing, <IR> has potentially wide ranging implications for the way the latter communicate with their investors and the public at large.

We believe that the profession needs to realign itself and that accountants should aspire to be changemakers. Corporate reporting, in particular <IR>, is an area in which the profession can show its leadership.

Even though one might see, as Milton Friedman did, the role of corporations as limited to the maximisation of profits for shareholders, new insight can be gained by stakeholders from <IR>, through the disclosure of a more coherent and complete picture of a company, including its strategic priorities, risks and forward-looking statements.

<IR> is an area where fast change could occur. The profession will need to consider the following immediate questions:

- How can we continue to lead the initiative and show strategic leadership in corporate reporting?
- Are there broader implications, such as the impact on the relationship between strategy and finance teams and, more widely, the role of the audit committee?

REFERENCE

On 28 May 2012, *Accounting and Business* magazine hosted a webinar with representatives from IBM and IIRC titled *Discover Integrated Reporting*, which attracted 1,394 delegate registrations. The session looked at how <IR> delivers the link between strategy, governance, performance and prospects that reflects the commercial, social and environmental context organisations operate within.

There was a session on *IIRC and Integrated Reporting* at ACCA's *Accounting for the Future* conference in 2012. The session was presented by Jonathan Labrey, communications director at IIRC, and consisted of an overview of the International Integrated Reporting Council (IIRC), an update of lessons learnt from the pilot programme and the development of an integrated reporting framework. The material from the session is currently available on My Development, ACCA's CPD hub.

ACCA has published three research reports:

- *Integrated reporting: the influence of King III on social, ethical and environmental reporting*: written by Jill Solomon and Warren Maroun in August 2012. This study analyses the annual reports of 10 major South African companies listed on the Johannesburg Stock Exchange (JSE) to assess the impact of the required introduction of integrated reporting on social, environmental and ethical reporting.

- *Adoption of integrated reporting by the ASX 50*: produced by ACCA Australia and New Zealand with Net Balance Foundation Limited, December 2011. This report investigates the state of integrated reporting among Australia's 50 largest listed companies. It examines, on the basis of publicly available information, the extent to which companies have integrated non-financial matters into core business. This report provides an overview of integrated reporting and emerging reporting frameworks, guidelines and requirements; analyses public reporting on financial and non-financial matters among ASX 50 companies; identifies the aspects of business that companies within the ASX 50 need to evolve to adopt integrated reporting; sets out a roadmap for Australia's listed companies to achieve integrated reporting; and identifies the challenges companies may face when moving towards a more integrated approach to business.

- *Making a difference at Rio+20*: produced by ACCA in May 2012. This paper provides some background to Rio+20 and the 'zero draft' of the summit agreement, explains the importance of paragraph 24 - concerning the integration of sustainability information into corporate reports - of the zero draft, the possible changes to paragraph 24 from zero draft to final agreement, and ACCA and others' opinions.