Accounting, Governance and Stakeholder Reporting, and Economic Value Creation

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As the global business environment continues to become both more interconnected and more complicated, organizations must adopt a more comprehensive view of financial performance. Corporate governance, in essence, is how the managerial team of an organization managers the affairs of the entity; how the organization creates economic value. Stakeholder engagement and reporting, in addition to traditional financial reporting, seeks to produce and deliver relevant information to all participants in the value creation process. Linking these mega trends together, those of governance and stakeholder engagement, is the finance and accounting function. By leveraging quantitative and analytic capabilities embedded within these functions, organizations are able to produce the flexible, relevant, and reliable information so necessary for transparency and value creation in a continuously evolving business environment.

INTRODUCTION

Economics dictate that capital, and personnel, move to the area, industries, and opportunities that provide with the most hospitable environment. With increasing global competition, an ever-growing number of external stakeholders, and the relentless march of technology, this linkage extends from the marketplace to the managerial decision making at the highest levels. Corporate governance, which represents in essence, how business managers manage business operations, is a critical linkage in stakeholder value creation. Organizations exist to create wealth and to produce products and services for the betterment of all stakeholders, and there is an integral partner necessary for this process to continue successfully. Accounting and finance, and the accounting industry in particular, is posed to play an increasingly important role in business decision making forward. Market forces, which generate economic effects and results, are driving a fundamental shift in both how organizations and the financial services industry is evaluated by the marketplace. Linking governance to changing market conditions, and quantifying this shift in economic terms, are both areas that accounting and finance can leverage and capitalize on moving forward.

GOVERNANCE AND ECONOMIC VALUE

Economic decisions underpin financial reporting and every aspect of business decision making, and it is imperative to take into account that individuals undertake business decisions. Linking governance and governance decisions to creating value for stakeholders is an important step of developing businesses that are competitive in an increasingly competitive global environment. Integrating the needs and requirements of external stakeholders, specifically value chain partners, is essential to generating economic value for all parties involved (Garriga, 2014). Concepts of economic value throughout the value chain, and incorporating external partners, suppliers, and other businesses, is an mandate that organizations must recognize as global competition, and supply chains, intensifies. Logically, and in order to produce the quantitative and standardized information necessary for business decision making, reliable and consistent internal accounting functions must be in place. Conceptual and academic debate is not where this current thread of research ends, and, as with any other economic model or forecast it must be tested in the marketplace to gauge reliability.

STAKEHOLDER THEORY AND GOVERNANCE

Stakeholder theory states, in essence, that an organization should be managed for the benefit of all stakeholders, and not merely for the benefit of financials shareholders. The linkage to corporate governance is clear; decisions that are made must take into both financial and non-financial stakeholders to ensure a clear and consistent message to the market. A core tenant of s stakeholder theory is the incorporation of the needs and requirements of non-financial stakeholders while simultaneously delivering the quantitative information that financial analysts and decision makers require. Communicating such non-traditional information to the marketplace, particularly to financial stakeholders accustomed to a unique format and specific content (Monteiro, 2014). As regulation continues to increase on a range of front, environmental and financial being two of the most frequently cited, it is imperative that organizations adapt to this business landscape. American Electric Power (AEP), a U.S. based electricity provider, is an example of an organization that integrated these concepts into results. Integrating the needs and requests from non-financial stakeholders, especially regulators and environmental groups (important to the regulated utility business in the United States) the company addresses the needs and concerns of these groups in a timely manner (Parrot & Tierney, 2012). Corporate governance is linked to stakeholder theory in that both concepts highlight the importance of factoring in a wide range of variables for business decision making. Specifically pertaining to regulators and environmental issues, such as the management at AEP has, reduces the probability of non-compliance as well as costly fines; a clear instance of economic value added. The example of AEP is merely one such instance where an organization, by integrating stakeholder theory into a comprehensive presentation of financial performance, met the needs of all stakeholders.

BOEING

Boeing, an aerospace multinational, has operations and supply chains that span the globe and the management team must contend with a wide variety of country specific, as well as international regulations. Integrating a more comprehensive view of financial performance, the organization implemented a concept known as shareholder valuing (SV), in which the organization attempted to quantify the value added to the corporation via non-financial stakeholders. Boeing is a marketplace example of an organization fully integrating stakeholder accounting processes into financial statements and incorporating the results into financial statements (Carlon & Downs, 2014). Impact to total assets of the corporation was an increase of 0.6%, or an increase to the total assets of Boeing of approximately $500 million USD. The integration of stakeholder metrics, and the implementation of a governance based, stakeholder framed quantification method such as SV point to the growing importance of such measures in a definitive manner.

EBAY AND ALIBABA

Two of the most highly publicized illustrations of the importance of corporate governance and marketplace performance are eBay and Alibaba. Carl Icahn, a well-known activist investor, recently launched a public assault on the Board of eBay and, amongst other issues, criticize the governance structure of the organization. Especially harsh with regards the deals involving Skype and Papal, Mr. Icahn alleged that certain Board members had exerted undue influence over the transactions, and benefitted unfairly from said transactions. Arguably even more important is the effect corporate governance has had, and continues to have, on the IPO process of Alibaba; the Chinese e-commerce giant will be debuting on the New York Stock Exchange instead of Hong Kong. Good governance has been proven to be particularly influential regarding market capitalization with corporations relatively new to the marketplace. In a study of 198 organization, the organizations associated with good governance controls and procedures generated price premiums during the IPO process compared to firms without good governance policies during the 10-year period ending in 2006 (Bell, Filatotchev, & Aguilera, 2014). Although these returns are also influenced by the nation origin and other external factors the fact remains that there is a quantifiable link between governance and financial performance. This linkage, and marketplace verification of the connection between good governance and financial performance, is a critical step toward integrating governance into the economic and business decision making process.

ACCOUNTING AND GOVERNANCE IN THE MARKET

Accounting standards also play a key role in the IPO and marketplace process, especially at it pertains to these two organizations. eBay, it was alleged, inappropriately handled the accounting and valuation for assets and personnel acquired and divested in several deals. In essence, Carl Icahn challenged these corporations on the following; by having weak governance controls over the economic decision-making process shareholders lost value. Additionally, as Alibaba acquires an increasing number of companies to help it expand into new markets, accounting irregularities have arisen that have come to the attention of the Securities and Exchange Commission (SEC). Accountants, with detail-oriented training, quantitative analytic capabilities, and relationships with large areas of existing businesses, are well positioned to take advantage of this market demanded role (Smith, 2014). It appears that in an increasingly complex business and regulatory environment, management teams must be aware of the internal valuation, accounting, and economic processes that are occurring within the firm. While scholarly research on this precise linkage, that between good governance and financial performance, is still relatively nascent, the potential for future research is proven day after day by marketplace realities. Business decision makers must weight all economic variables when deciding the course of action an organization will take, and in order to undertake the correct decision, the management team must have reliable and consistent quantitative information. The accounting profession, traditionally gate keepers of this type of information, is well-positioned to service this need and quantify the effect of governance on financial performance.

ACCOUNTING AND GOVERNANCE

Business decisions presuppose that management teams have necessary information to make quality choices to sustain the economic viability of the organization. It is also critical to analyze the importance of corporate governance in the implementation of an integrated reporting framework, as well as impact that doing so has on an organizations financial performance (Ioana & Adriana, 2013). The internal accounting function of an organization is intrinsically linked to the production, development and distribution of quantitative information that is then utilized by the management team to make strategic decisions related to the economic activities of the organization. Corporate governance is an essential portion of the strategic planning process and stakeholder engagement related to the strategic actions of the organization, talent management, and future directions. In addition to playing an integral role in the production and clarification of traditional financial and quantitative information, linking accounting and corporate provide organizations additional areas with which to generate value.

GOVERNANCE, CSR, AND ACCOUNTING

Corporate social responsibility (CSR) and other sustainability initiatives have attracted increasing attention in both practitioner and scholarly literature. Mason and Simmons (2014) argued that by linking corporate social responsibility (CSR) programs with a corporate governance framework, the initiatives have a higher probability of success. As businesses, via stand alone efforts in both developed and emerging markets, expands into broader and broader areas of responsibility, governance and an effective governance framework becomes imperative (Scherer, Palazzo, & Matten, 2009). As organizations expand both the reach and scope of operations and business activities, the importance of productively engaging with external stakeholders cannot be understated. One of the most profound ways that the accounting functions can add value to these expanded roles and obligations is to develop standards for both reporting and assurance. Without effective comparative tools with which to evaluate new or expanded scopes or business activities, the viability of said initiatives decreases. Economic value is a common denominator that allows both management teams and external analysts to compare the results of one organization to another. Leveraging traditional sources of expertise present an opportunity for accounting professionals to add value to both professional work and the organization as a whole.

EVOLVING STANDARDS

Business organizations and decision makers require metrics and standards with which to compare economic activity and the effect that economic activities, and the current lack of consistent standards presents a trend that is evolving into an opportunity. Standardized metrics related to nontraditional reporting such as sustainability (Wildowicz-Giegiel, 2014) and governance- reporting and strategic decisions (Alimehmeti & Paletta, 2014) are clear indications of this transition from concept to marketplace reality. Assurance standards linked to sustainability initiatives and corporate governance might, at first, appear to be the manifestation of the most current fad. That is an inaccurate assessment; organizations such as Governance Metrics International (GMI), which focus exclusively on how governance is linked to business performance, are definitive examples of the real-world applications of these concepts. These developments, as well as the growing discussion and debate surrounding governance and the effect governance has on organizational performance and economic value creation result in a field with abundant potential for both academic researchers and practitioners.

THE FUTURE OF CORPORATE GOVERNANCE

Corporate governance traditionally has been relegated to discussions amongst the most senior management, or Board of Directors, of organization but this historical association is changing. In an increasingly complex and multifaceted business environment it is imperative that management teams seek out new ways to add economic value for stakeholders. Building on, and reinforcing, this drive for increased economic value creation is the concept of stakeholder theory. Incorporating the needs and value-additive potential of all external stakeholders is a critical piece of the value creation process for every organization moving forward, and the accounting function is well positioned to assist. Leveraging pre-existing strengths related to quantitative analysis and other analytic capabilities the accounting profession, and the individuals working in it, have a clear way to deliver added value (Smith, 2014). The future of corporate governance, it would appear, mirrors the future of business and economic creation overall. In an increasing complicated and competitive business environment managerial teams must assess every opportunity for the economic effect it has on the organization, and must do so using objective metrics and standards.

CONCLUSION

Organizations exist for many reasons, but the economic mission of organizations is a relatively straightforward concept. The mission of an organization, whether it is publicly traded or privately owned, is to create value for internal and external stakeholders. Corporate governance has recently become a critical step in the value creation process for organizations of all sizes. Public disputes regarding the governance structure of eBay, and the listing of Alibaba (a Chinese e-commerce giant) on the NYSE are two of the most prominent examples of corporate governance effecting organizational value. The issue spans a much broader range of ideas and topics, however, and fundamentally effects how the managerial teams of organizations implement strategic decision and planning initiatives. Accounting and financial professionals, leveraging pre-existing quantitative strengths, are well positioned to take advantage of this market opportunity. Integrated reporting, corporate governance, and the growing trends toward quantification of such measures, present significant economic opportunities for both organizations and individuals willing to take advantage of them.

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