Accounting, Integrated Financial Reporting, and the Future of Finance

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As the global business environment continues to evolve and become increasingly complicated, businesses must adapt and evolve in order to remain competitive. Disruptive technologies and innovations have caused dramatic changes throughout numerous industries. Compounding these changes, non-traditional stakeholders such as NGOs, institutional shareholders, and supply chain partners, have begun to exercise greater influence over managerial decision making. In order to produce and report the information required by increasingly important non-traditional stakeholders, a new form of financial reporting is necessary. As integrated reporting, with embedded components of corporate governance and sustainability, increases in usage it provides finance an opportunity to evolve from gatekeeper to strategic partner.

INTRODUCTION

Corporate governance, sustainability, and CSR are phrases and buzz words that have attracted significant coverage from both practitioner and academic media recently. eBay, the U.S. based e-commerce firm, and Alibaba, the Chinese e-commerce giant launching an IPO, have both been subjected to debate and criticism regarding governance and how governance influences business decision making. Accounting and finance, and financial professionals overall, are involved in generating and communicating the quantitative information necessary for managerial decision making. The business environment has become increasingly complicated recently, with increasing pressure placed on businesses by non-financial stakeholders, and financial professionals must adapt and evolve to keep pace with the dynamic environment in which businesses must operate. Outgrowths of this increasingly complicated business environment include increasing scrutiny of corporate governance initiatives and integrated financial reporting. These initiatives, and trends, are poised to revolutionize the financial field, and financial professionals (accounting, finance, and treasury) are well positioned to leverage these changes in financial reporting to expand the scope of duties sand responsibilities assigned to the internal finance function. While competitive pressures exist from virtually every angle, and various stakeholder groups continue to exert pressures on managerial decision makers, there are several critical areas driving innovation and differentiation. Management teams willing and able to embrace changes to the business environment will reap the benefits from being at the forefront of change, innovation, and will be better able to provide the information business partners needs.

ACCOUNTING AND FINANCE: THE PATH FORWARD

Accounting and finance professionals long have occupied the role of gatekeepers of quantitative information and data. Recently, particularly since the financial crisis of 2007-2008, the roles, demands, and requests placed on the accounting and finance function have evolved along with the marketplace as a whole. Analytic capabilities, interacting with different business segments, serving as a resource center for other divisions to leverage, and moving up the value chain to the level of business partner are all outgrowths of this expanding scope of responsibility. Opportunities exist for financial professionals willing to embrace and build upon these opportunities, but as with any other changing field, there are challenges that must be accounted for and managed successfully. The lack of standardization and assurance/attestation standards regarding non-traditional reporting are two primary examples, and financial professionals have the ability to standardize this field, but must also navigate challenges and obstacles inherent to any new field. Several of the most critical components to non-traditional reporting, and areas that generate large areas of opportunity, are sustainability, corporate social responsibility, corporate governance, and integrated reporting.

SUSTAINABILITY AND CSR

Sustainability is a phrase debated often in the practitioner and academic press, and has far-reaching implications for organizations as well as the finance and accounting function. Corporate social responsibility (CSR) and sustainability are quickly evolving into themes and initiatives capable of influencing managerial decision making at the highest levels, as well as stakeholder engagement. Whether focused exclusively on a more traditional view of sustainability centered on environmental initiatives, or a more holistic view of sustainable buildings, operations, and supply chains, sustainability is a key driver of both performance and marketplace differentiation. Sustainability and eco-friendly activities are playing an increasingly important role in both managerial decision making and stakeholder engagement decisions, and must be accounted for. Sustainability, as well as the triple bottom line (people, profits, and planet) must be managed, evaluated, and quantified in ways that satisfy both financial and non-financial stakeholders (James, 2013). It is imperative, for accounting and financial professionals, to ensure that managerial decisions do not merely reflect greenways' decision making and operations to give the appearance of sustainability (Orlitzky, 2013). Finance and accounting are the sources of the quantitative information used by numerous departments to implement strategic decisions, and it is critical that the accounting and financial information produced internally is conducive to managerial decision making in the current environment. Trillions of dollars have already been allocated to investments in sustainability oriented funds, and over 45% of all shareholder initiatives include sustainability oriented initiatives (James, 2013). The magnitude of financial resources dedicated to sustainability and sustainability-oriented initiatives is a clear indication of organizational focus toward sustainability initiatives and goals. Increasing stakeholder pressure, however, also brings the risk or miscommunication and a lack of clear guidance capable of undermining sustainability and CSR initiatives. Without a clear and consistent message delivered to both internal and external stakeholders, the potential exists for misinterpretation and a negative effect on organizational value. Accounting and finance play an integral role in both producing and communicating this non-traditional information to stakeholders, as well as in evaluating the effect that such information will have on organizational performance.

CORPORATE FINANCE AND GOVERNANCE

Governance is, in essence, how the managerial team of the organization manages the operations of the organization. Following the financial crisis of 2007-2008, the importance of effective governance, as well as the effect that governance can have on business decisions, have been of increasing importance. Effective governance generates premium level returns for corporations entering into the public marketplace, which conclusively links good governance with superior shareholder returns (Bell, Filatotchev, and Aguilera, 2014). Traditionally, accounting and finance have been classified as the guardians of quantitative information, and have been relegated to preparing financial reports and information for financial shareholders. In light of incidents such as the BP oil spill, and the factory collapse in Bangladesh, however, it is essential that organizations take into account the influence that non-financial stakeholders have on managerial decision making. With the growing importance of organizations tasked specifically to rank firms according to their governance abilities, such as Governance Metrics International (GMI), it is clear that governance is providing increased insight to decision making at the highest levels. Business decision managers, financial stakeholders, and non-financial stakeholders all must take into account not only business results, but how business operations are received by marketplace participants.

Intangible assets are particularly effected by actions taken by governance initiatives, and as intangible assets increase in the overall percentage of overall market value, this importance will only increase (Mustata, Matis, & Bonaci, 2012). 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 organization's financial performance (Ioana & Adriana, 2013). Integrating non-traditional metrics of financial performance within the integrated reporting format assists the development of effective leadership in the form of quality corporate governance that is integral to the successful adaptation of this new reporting model. Spurred on by the increasingly visible role of activist investors, and the growing importance of large, institutional shareholders and shareholder services firms such as ISS, the fact that external stakeholder can have a definitive influence on business decisions is reinforced. Corporate governance is an essential portion of the strategic planning process, and stakeholder engagement and governance play a role in virtually every decision that an organization makes regarding strategic planning, talent management, and future directions. As global competition continues to increase and become more competitive, positive and productive relationships with external stakeholders (driven by governance) can very well be a deciding factor between competing organizations. It is clear that corporate governance, as well as other intangible assets, are themes and ideas that play an increasing role in business performance.

INTEGRATED REPORTING

Corporate governance and sustainability are two dominant trends redefining relationships between business organizations and the external stakeholders served by these organizations. Actions undertaken by a business organization, and the methods by which the managerial team interacts with stakeholders, explain actions and initiatives and justify changes in corporate direction, and are more critical than during prior business cycles. Non-financial stakeholders, and even financial stakeholders, are increasingly interested in obtaining a comprehensive view of organizational performance. Regulators, partners, and other externally-oriented advocacy groups are also interested in not only how much profit an organization generates, but are increasingly interested in how these profits are generated. Traditional financial reporting is developed and distributed virtually exclusively for financial stakeholders. Highly quantitative reports that focus on past performance do not provide a wider range of stakeholders with the information necessary for evaluating and interacting with organizations in the post-financial crisis business environment.

Created by the International Integrated Reporting Council (IIRC), and supported by both industry groups, corporations, and professional societies, integrated financial reporting appears to fulfill this marketplace requirement. Opportunities abound for financial professionals willing to capitalize on the still-developing nature of the integrated reporting field, including CPAs positioned internally within organizations (Roth, 2014). Leveraging internal financial resources, such as CPAs, creates opportunities for both organizations and individuals (Hughen, Lulseged, and Upton 2014). Integrated reporting requires that the organization produce and distribute reliable information to be disseminated to external users of this information that include both financial and non-financial stakeholders. Elements of strategy, business planning, governance, and how the managerial team approaches and evaluates risk are critical components of an integrated financial report. Market decisions require reliable quantitative information and qualitative data that can be framed and leveraged to enhance the quality of quantitative information, and financial professionals are a crucial link in the integrated reporting value chain. This linkage, connecting the finance function to business decision making, is a critical linkage that is established in organizations implementing integrated reporting initiatives. Establishing the linkage is also a critical step to the accounting and finance functions transitioning from gate-keepers of information to strategic partners.

ACCOUNTING, FINANCE & STRATEGY

Strategy, strategic planning, scenario mapping, and iterations of business model innovation populate decades of research and form the cornerstone of the scholarly research taught in classrooms across the country. Strategy and strategic thinking and planning are of increasing importance in the competitive environment following the global financial crisis. Businesses, and the managerial decision makers who define, create, and implement strategy, require reliable, relevant, and consistent information. Moving forward, the strategic environment will continue to evolve and remain complicated for the foreseeable future. Increasing integration of technology provides organizations with new capabilities to produce and leverage information, and the rise of NGOs and non-traditional stakeholders, development of international markets, and increasing competition both domestically and abroad, create an environment where information and the ability to act strategically are both critically important

Accounting and finance functions, and the financial services field as a whole, are well-positioned to seize advantage of these developing fields and evolving market conditions. Accounting and financial professionals are detailoriented, and these qualities are well suited for the demands placed on both organizations and individual practitioners (Smith, 2014). Issues such as corporate governance, sustainability, and stakeholder engagement are integral to the continued success of organizations in an increasingly global environment. Business conditions and organizations continue to evolve and adapt, and the financial profession must also evolve in order to stay relevant. Disruptive innovation, and disruptive technology have revolutionized many industries since the phrase was first introduced by Clayton Christensen of the Harvard Business School. Although surrounded and influenced by innovation and disruptive trends, the finance and accounting functions have yet to innovate and differentiate themselves to reflect these external pressures. If organizations, as well as the financial professionals employed within, wish to remain competitive and on the cutting edge of business practices, integrating these new concepts is critical.

CONCLUSION

It is readily apparent that the fields of finance, accounting, and the financial field in general, are undergoing a disruptive transformation. Non-financial stakeholders are requesting a more comprehensive view of financial information, performance, and organizational orientation. In order to respond effectively to these trends, organizations must develop or enhance internal resources capable of producing, delivering, and interpreting quantitative information that is of value to all stakeholders. Stakeholder engagement, corporate governance, and a more holistic view of financial performance are necessary for organizational success in the modern competitive environment. Accounting and finance are the producers and distributors of the quantitative information that drives managerial decision making. Increasing pressure from non-financial stakeholders, institutional shareholders, NGOs, and environmental groups creates an environment where innovation is necessary, and the key to future organizational success. All stakeholders require quantitative information, and the accounting and finance profession are well positioned to leverage this marketplace need into opportunities moving forward. Incorporating governance, stakeholder reporting, and a more strategic view of business operations is essential to integrating new standards and ideas into financial reporting, and the profession is ready for the opportunity.

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