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Accounting: An emerging business partner

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Abstract: The financial services professions, and accounting in particular, are undergoing a radical transformation from a historical role of financial gatekeeper to one of strategic business partner. An industry-wide disruption is ongoing, spearheaded by a variety of factors, some of which are industry specific, while others are more broadly based. Technology, specifically real time analytics and the proliferation of what is colloquially known as Big Data, places a tremendous demand on organizations to interpret and synthesize quantitative information into the business decision making process more rapidly than in the past. In addition to these advances in technology and consumer expectations, there are several mega-trends that are creating new opportunities for finance and accounting professionals to move upward along the organizational value chain. Corporate governance, stakeholder engagement and theory, as well as the over-arching trends of sustainability and eco-friendly business models have created an increasingly dynamic and complex environment. In such an environment, managerial decision makers must be able to understand, interpret, and effectively address the requirements and concerns of a wide variety of external partners. Accounting professionals appear to be well positioned to seize on these trends and business opportunities. This research reviews the existing literature on these separate fields and links them together to create an academically valid argument for a more integrated accounting function. In essence, accounting, and the information and analytic capabilities created by the accounting function, seems to be shifting to the role of strategic business decision maker. With relationships pertaining to virtually every business function, as well as existing expertise in quantifying qualitative information, designing metrics and KPIs, and reporting information to management, accountants link market forces to business decisions that move organizations forward.

Keywords: Strategic Accounting, Finance, Corporate Governance, Strategy, CPAs, Sustainability, Stakeholder Theory

1. Introduction

As the global business environment becomes increasingly complex and interconnected, organizations must adapt and evolve to changing market conditions. Disruptive trends are clear in the form of disruptive technologies, business models, and mindsets, and Tesla and the growing importance of non-financial stakeholders are clear manifestations of these trends. Corporate governance and stakeholder theory, in essence, summarize and define how the organization interacts with the greater business environment, business partners, regulators, customers, and other nongovernmental organizations (NGOs). In order to successfully compete and evolve in an interconnected and fluid business environment, organizations must be able to integrate large quantities of information and inputs from this wide, and increasing, field of stakeholders. Analytics, business planning, and incorporating demands from both financial and non-financial stakeholders are critical themes that management decision makers must be able to address moving forward. Integrating these market forces, and breaking them down into discrete areas to study and review, is essential for successful implementation of new ideas and strategies. The remainder of this research consists of a review of relevant literature, a discussion and analysis synthesizing both existing literature, and possible future directions. This research study consists of a review of current literature to construct a framework that can be of benefit to both academics and practitioners. Linking together several trends that are posed to reshape the accounting profession, as well as the business community overall, this analytic piece clearly identifies areas of opportunity for accounting professionals. Drawing from both purely academic sources as well as practitioner literature provides a wide variety of views and insights critical to the higher level thinking so essential to business decision making in an increasingly globalized business environment. Additionally, this research study attempts to glean insights from literature, link together a wide variety of trends, and propose a framework for a strategic accounting function to capitalize on these changes in the business environment.

2. Primary Drivers

Both the academic literature and practitioner publications have examples and research demonstrating the growing importune and integration of the accounting field. Organizations, as well as entire industries, have evolved as market forces and competitive pressures have changed;, and the accounting profession appears well situated to experience an innovative transformation. Several areas and themes appear to spearhead the transformation of the profession and position both the profession and practitioners for a transformation from guardian of financial information to that of strategic business partner.

2.1. Corporate Governance

Corporate governance is, in essence, how the managerial professionals of the organization manage the operations and interactions of the organization. With the dramatic rise of activist investors in the marketplace, impacting firms from Apple to eBay, as well as the importance of corporate governance to international business, the importance of effective corporate governance is difficult to understate, and the topic deserves serious and critical thought [1]. Analysis of corporate governance is not restricted to qualitative research, and academic research exists on the effect of governance of financial performance. As business operations expand overseas, the way in which both partner corporations as well as competitors interpret corporate governance appears to be of increasing importance. Examining organizations that were headquartered internationally that experienced IPOs both overseas and in the United States resulted in a definitive linkage between positive perceptions of corporate (as well as national governance) and the financial performance of the initial public offering (IPO) [2]. Other factors, such as the legal frameworks and perceptions in host countries, affect financial performance, but the underlying effect of governance is reinforced via an analysis of price premiums paid for publicly traded companies Establishing such a clear and unequivocal linkage between a historically qualitative concept and financial performance reinforces the critical nature of accounting to this process. Governance can be viewed as both a defensive tactic as well as a strategic initiative; linking back to the rise of activist investors clearly demonstrates both the possibility and importance of this scenario. Developing a clear, cohesive, and consistent strategy is essential to the continued success of the organization regardless of the specific industry in question. Governance is a concept that, usually, appears to be led from the Board of Directors down through the rest of the organization, but that only provides a partial point of view. Integrating governance into the business decision making process is a logical extension of the development of corporate governance. Evaluating, working with, and engaging with both internal and external stakeholders are tenets of corporate governance as well as strategic planning. Both concepts, essential to organizational success, require consistent and reliable information developed internally while still being useful to external partners and business planning.

A recurring issue, however, is that corporate governance is a qualitative metric that can be difficult to translate into actionable business information. Accounting professionals, with experience and training related directly to quantifying and ranking information obtained from a wide variety of sources, are well positioned to seize on this demand [3]. Leveraging existing skills, specifically the development and testing of metrics, key performance indicators (KPIs) and other methods to evaluate business options, reveals a clear area in which accounting and governance converge. Establishing clear and consistent indexes to measure governance and governance effects, much like other assurance and attestation items, is a clear step forward for accounting professionals to quantify governance [4]. In addition to explicitly ranking and establishing methods to evaluate governance issues, governance also offers a framework to address other issues. Corporate governance, and any quantification and monitoring of governance, requires support and buy-in from senior management and the Board of Directors, and this also provides support and an institutional framework for other important trends. Linking and reinforcing the importance of governance to both organizational performance and a more integrated accounting function is the support and framework this lends to issues such as sustainability [5]. Against this backdrop, it is clear that organizations require a more comprehensive view of financial performance. Accounting professionals, well versed in the preparation, review, and analysis of traditional financial reporting, are well positioned to translate these academically supported market demands into business ideas. A more holistic view of business performance incorporates both the impact of governance and provides opportunities for both organizations and accounting professionals to innovate and create additional value.

2.2. Stakeholder Theory

External stakeholders represent both financial and non-financial organizations and business partners that managerial decision makers must interact and do business with. Engaging with these different stakeholders as part of the strategic planning process is imperative to successful long-term planning and initiatives. It can difficult, however, to effectively quantify and translate relationships with stakeholders into actionable business information. Weighing the costs and benefits of enhanced stakeholder reporting and engagement, as well as creating and monitoring specific methodologies with which to engage these stakeholders are both clear areas in which accountants and posed to lead.

Stakeholder theory underpins the entire alternative financial reporting trend that is set to disrupt and revolutionize how businesses operate and interact with the external business environment. In order to effectively implement a stakeholder-oriented approach organizations must be able to think, plan, and act strategically in an interconnected business environment. This academic theory clearly bridges the gap between academia and practitioner research; an integrated and strategic accounting function is essential for the development of a stakeholder model. In order to effectively address the needs and requirements, accounting professionals must adopt and evolve to meet marketplace changes. Stakeholder theory not only represents a shift in the business and accounting profession, but a paradigm shift in how business is conducted at large. Bringing together the theories and concepts of governance, sustainability, and the information necessary for these initiatives to fully mature - namely a more strategic accounting function -- stakeholder theory clearly represents the proverbial glue binding accounting to the business decision making process.

Stakeholder engagement and theory are not concepts that exist in a silo, or independent of other factors. Reporting for wider variety of users of financial information, which utilizes existing skills of CPAs to convey additional information and value to the marketplace is a key tenet of integrated reporting [6]. Such academic research and analysis demonstrates theoretical support, but there is also a quantitative link between stakeholder theory and marketplace performance. Measuring marketplace performance by comparing financial performance over a 5-year, 10-year, and 15-year period for publicly traded corporations resulted in quantitatively establishing improved financial performance. Findings indicate that firms classified as embracing conscious capitalism did achieve superior financial results, using compound annual growth rate as the evaluative tool, to firms that did not. Calculating the returns of 18 firms as identified by the authors as leaders in the field, the return of these firms was 83.4% over a 15-year period ending in 2013, significantly higher than the S&P 500 return of 47% [7]. Linking governance, of which conscious capitalism is a subset, and sustainability together provides sustainability initiatives with institutional support as well as the organizational capabilities to make financially significant contributions to the organization [5]. From the research cited, which draws on marketplace realities in an attempt to construct a comprehensive framework for an integrated accounting function, it is clear that this shift represents a convergence of several business trends.

Non-traditional reporting, specifically with the integration of stakeholder theory for theoretical support, is an innovative way to report organizational performance and engage a broad range of stakeholders. Drilling down reveals specific opportunities for accounting professionals to take advantage of this shift by leveraging existing skills to move upward on the value chain. Identifying which exact reporting measures to deploy, what aspects of financial analysis to integrate and update, and preparing a cost/benefit analysis for managerial decision makers, are a few of the ways accounting professional can benefit from, and add value to, this process. Expanding and drilling into this literature, there appear to be four primary areas in which accounting professionals can both deliver value to the organizations they are involved with, as well as promote the evolution of the accounting profession [8]. Some of, arguably, the most important areas in which this is possible include assisting the management team in developing a stakeholder-oriented, and sustainable strategy and increasing the comfort level that management has with investing in these areas. Lastly, with the improved information available to them, management should have improved confidence communicating and disseminating non-traditional information to the marketplace [8]. This research and analysis combined both academic rigor and practitioner applications to demonstrate a powerful relationship between the growing use of integrated reporting, the accounting profession, and the opportunities that this growth creates for accounting research and application. Specifically, by analyzing and outlining the six types of capital, the reporting requirements for nontraditional reporting requirements, and the internal reorganization that must take place in order to fully integrate these changes, this literature links together existing skill sets with the convergence of trends currently occurring in the market.

2.3. Sustainability

Sustainability, similar to corporate governance, is evolving from a concept implemented to adhere to regulatory requirements to a concept that can, and arguably should be, leveraged into a strategic tool. Global supply chains, business partner located around the world, and regulators increasingly interested in sustainability efforts create an environment where sustainability initiatives, when effectively integrated to business decision making, can create benefits for both the accounting profession and the organizations that thee accounting professionals work for. Organizations that are able to clearly and consistently communicate not only sustainability initiatives undertaken, but the bottom-line benefit of doing so, appear to be well positioned to lead respective industries. Market examples of this trend include initiatives undertaken at Puma, Nike, General Electric, Coca-Cola, Proctor & Gamble, just to name a few.

Sustainability, sustainable business operations, and eco-friendly business models represent ideas, strategies, and concepts that are re-defining how businesses operate and interact with consumer. As the debate and conversation around sustainability continue, however, it is important to note that the conversation is shifting from a purely theoretical debate to one that is firmly grounded in business evidence. A clear market manifestation of this growth in sustainability as a business model is Ecomagination, a standalone business division at General Electric (GE), the U.S. multinational that focuses explicitly on sustainable business ideas for industrial and commercial customers. Financial professionals, specifically accounting professionals, must be able to identify and put in action the trends that are defining this movement.

Sustainability initiatives, in and of themselves, provide opportunities for organizations to reduce costs, improve energy efficiency, and improve relationships with environmental stakeholders. As a growing percentage of U.S. companies issue some sort of sustainability report, it is becoming increasingly clear that there is a definitive financial benefit to doing so, but the question remains as how best to recognize and communicate these benefits [9]. Again drawing on existing expertise and experience, accounting professionals are well situated to use these developments to move up the organizational value chain. Standardization and comparability of reporting information are critical to the business decision making process, and it is the underlying data that executives and business leaders utilize to chart the future direction of organizations. Focusing on creating such standards, especially for industries with higher environmental impact such as utilities and real estate operations, is a clear opportunity and reason for accountants to become more involved in this decision making process [10]. Developing and communicating such metrics and standards bring the ideas and concepts related to sustainability into the business decision making conversation. Using the same rigorous quantitative analysis applied to analyzing business options, whether via Monte Carlo simulations or cash flow projections and applying them to sustainability initiatives connect existing accounting capabilities to a new area of growing importance.

As management decision makers contend with a much broader and varied range of environmental issues and concerns, the business effect of these issues is clear. Fines, other compliance costs, as well as the potential cost savings possible efficiencies and savings via improved sustainability initiatives represent a clear link between sustainability and organizational performance. Accounting professionals, already inextricably linked with evaluation and quantification of external forces of business performance posses the skills necessary to assume a leadership role on this issue.

3. Discussion and Future Directions

The business environment has changed and evolved at an increasing rate, and organizations as well as entire industries have experienced radical changes and upheaval. In order to compete successfully and navigate the increasingly complex business marketplace, organizations must be able to accurately interpret and analyze large amounts of information. Corporate governance, most explicitly illustrated by activist investors, appears to be playing an increasingly larger role in business operations and decision making. Stakeholder theory and engagement, building on and extending the importance of corporate governance, is essential for organizations that interact with a broad spectrum of interested parties. Sustainability, pushed forward by both environmental groups as well as bottom line concerns, is redefining entire industries such as utilities, real estate, and virtually every industry that interacts with the environment -- in short, almost every business in the world. Managerial decision makers require quantitative information that can be leveraged into actionable business ideas; information and data that originates quantitatively, as well as qualitative information from the marketplace. Accounting professionals, leveraging existing skill sets and seizing upon the clear demand for additional information and data on emerging areas of interest, are uniquely positioned to move up in the organizational value chain. In essence, organizations and business decision makers need the information and capabilities that accountants bring to the table. As the need for analytics and data continues to increase in both the marketplace as well as in the academic literature, it appears that the accounting field is poised to undergo a disruption itself. Integrated accounting functions and a more engaged and strategic accounting are a solution to an increasingly complex and interconnected business environment.

Linking together disparate trends and ideas, and developing them into actionable business ideas, are traditional strengths of the accounting profession. Assurance standards, metrics by which managerial decision makers can base decisions, and KPI's that business leaders can use to continuously monitor and adopt business strategies are areas in which accounting professionals excel. In addition to these traditional strengths related to external financial reporting, accounting professionals play a prominent role in the budgeting, capital planning, and forecasting processes. Quantitative information, created and disseminated in a timely and consistent manner, is absolutely essential to business planning and execution. Financial professionals, specifically those employed in the accounting field, are uniquely situated to seize on opportunities created from external forces and internal pressures. Building models, forecasts, budgets, and analytic tools to better evaluate business decision making represents two ways in which accountants can benefit while also adding value to organizations. First, organizations can reduce the amounts spent on external consultants and other temporary services if the internal accounting function operates in a more strategic and integrated manner. Second, and this point is essential to understand when designing an integrated and strategic accounting function; accountants are well-regarded and trusted as preparers and disseminators of financial information. Leveraging traditional expertise and skill sets to new areas provides accounting professionals with a wide variety of opportunities to grow and continuously add value to the organization.

4. Conclusion

Financial professionals, and the organizations that employ them, must be able to adapt and evolve in the face of an increasingly dynamic and competitive marketplace. Managerial decision makers, in order to operate successfully in this environment, must be able to effectively and accurately interpret information and requirements from a wide variety of stakeholders. Several key themes and concepts form the underpinning support for the creation and development of a more integrated accounting function. The convergence of the increased importance of corporate governance, rising issues related to stakeholder theory and reporting, sustainability, and the increased integration of analytics into business decision making clearly link academic concepts to marketplace realities. Accounting professionals demonstrably possess the necessary skill sets and professional training to take advantage of these emerging trends. Successfully doing so, and effectively communicating both the opportunities and realities of the future of the accounting profession, demonstrates the necessity for the creation of an integrated and strategic accounting function. It is apparent, from both academic and practitioner literature, that changes and disruption are set to disrupt both the accounting profession and business at large. In an increasingly interconnected global economy it is imperative that business decision makers be able to effectively leverage large amounts of consumer and business information. Strategy, business planning, as well as innovative concepts such as corporate governance and sustainability, require comparable information that can be disseminated both internally and externally. Financial professionals, and accounting personnel in particular, are well positioned to deliver this critical information to the managerial team.

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