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TITLE SLIDE

Good afternoon, everyone. I am truly delighted to be in New Delhi, and indebted to the Institute of Cost Accountants of India for the honour of addressing this eminent gathering. I commend ICAI not only for organizing this conference, but for many years of developing and qualifying cost and management accountants, whose professional skills contribute both to successful personal careers and to the success of their organizations.

The then ICWAI was a founding member of The International Federation of Accountants as the global body for the accounting profession. You support IFAC both financially and through your nominees to our boards and committees. On the PAIB Committee you are extremely well represented by Mr A N Raman.

My aim today is to put the broad issues of sustainability, nowhere more significant than here in India, into the context of the Professional Accountant in Business, or PAIB – which includes all you cost and management accountants, of course. But for that I need first to define my terms.

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It is an objective of our Committee to promote the role of the PAIB in securing sustainable organizational success, which I define here. It's primarily about success for an organization **in its own terms**. It's about doing things today that build, and do not compromise, its future. It recognizes that it relies on factors in the physical and social environments in which it works. It manages a **business model** that will serve it into the future, and identifies changes in the world that might challenge its survival.

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And a Professional Accountant in Business is qualified, ethical, continually developing professionally, and working in or in support of a commercial, not for profit or public sector organization.



#### SLIDE 4

I understand that the Indian government may soon be writing the need for companies to undertake and report on social responsibility issues into law. So it matters for PAIBs here. But the sustainability agenda would be important anyway. At the environmental level contemplating the possibility that depleting natural resources and changing climate patterns harbour threats to the current order of social and economic existence, is firmly on the global agenda of politicians, business leaders and other professionals. This is compounded by tensions inherent in the unequal distribution of world consumption and altering patterns of economic growth. Concern is widespread about social deprivation and the exploitation of labour among the poorest communities, a key challenge in India.

This gives rise to worries about sustainable development at the level both of countries and communities and of business organizations. Sustainability may already worry politicians, but increasingly consumers will vote with their feet if they find, say, some aspect of a business's procurement or employment practices out of line with their values.

#### SLIDE 5

There are real threats to organizations. They may come directly from the environment through climatic disaster or the drying up of resources. Poverty and corruption can undermine fitness of the infrastructure and labour market. Tougher regulation may be an indirect threat. A prudent management will want to understand such threats and how to minimize them or even turn them to advantage.

So there is a business case for engaging with environmental, ethical and social issues seriously. It might create new opportunities, while failure to do so could leave the organization's reputation seriously damaged.

Savings can be won from controlling energy, water and waste costs. Understanding the environment better may point to new products and markets. Where local society and infrastructure is impoverished, a philanthropic response may be in a business's enlightened self interest.

Staying close to regulatory developments makes it easier to see new rules coming, and lobby for sensible ones.

Ultimately it's about understanding a whole raft of influences that surround an organization and its stakeholders with potential to threaten – or sustain - its continuity and survival. The business case is about taking issues into account because they matter to you rather than because a regulator has demanded you should.

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PAIBs should be capable of articulating and promoting this case.



## SLIDE 7

At this point I would commend to your attention the PAIB Committee's recent publication "*Competent & Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success*" Within the context of major world trends affecting organizations, it identifies a set of factors widely understood to drive sustainable organizational success; and then draws out the strengths of professional accountants and the potential contribution they should be able to make – by acquiring the right competence and skills and applying them to the challenges. The full document and an employer focused brochure can be obtained from the IFAC website.

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The document identified eight success drivers as a basis for understanding what support the global accountancy profession needs to give to professional accountants, so that they can help their organizations achieve sustainable organizational success. As these drivers reflect what is critical to organizations' success it is appropriate to recall them now: they are of equal importance.

- A pervasive customer/stakeholder focus
- Effective leadership and strategy with a longer term focus
- Better governance, risk and control systems and mechanisms to support sustainable performance
- Innovation in terms of products and processes, and the ability to adapt
- Strong financial management and accounting; (disciplines that can also be applied to non-financial data;)
- Having the best people to make the organization perform
- Operational excellence and effective resource utilization
- Communication and accountability, both within the organization and to external stakeholders

## SLIDE 9

To make a sound case for embracing sustainability issues effectively the PAIB needs to be aware of these drivers and influence their adoption. PAIBs who have experience in working in different parts of an organization will typically have greater awareness of these various drivers, and ultimately be better positioned to be relevant to their organization.

## SLIDE 10

Critical to success is taking a broad and well-informed view of the organization's stakeholders. It is no longer enough to focus only on the owner or provider of finance. The organization has to see itself in the context of the world and society, still guided by financial motivation of course, but not exclusively. The challenge is to see how the organization interacts with its environment, its community and society and what they mean to each other. If critical relationships are identified they can be nurtured.



Knowing who has any kind of stake in the organization's performance, and how important that is to both parties, is crucial to deciding where effort should be put in engaging with stakeholders. Engagement fosters understanding.

As well as considering the wider interests of communities, pressure groups, regulators and so on, a broad stakeholder focus will of course also identify and influence key business relationships such as customers, suppliers and employees.

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The volume of data in the non-financial information flows covering environmental, social and governance factors within the 'sustainability' space, can easily overwhelm. Reducing monitoring and reporting to manageable levels obviously requires focusing on what's important. Unfortunately that means putting effort into understanding the cause and effect relationships between the non-financial and financial streams: something unexpected may emerge. The more thoroughly this is done, the more useful the chosen indicators will be to the business and its stakeholders. One information stream may be very important to some stakeholders but not to others. That knowledge enables relevant reporting, with the further prospect of being tailored to the recipient.

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This area plays to the strengths of the accountant. We should expect PAIBs to be skilled in the interpretation of data to synthesize usable, pertinent information. But they need to become comfortable with handling non-financial information and merging it with the more familiar financial analyses to build a strategic picture. Identifying relationships between different drivers of performance and value in this way should be second nature to cost and management accountants.

To achieve full understanding, this needs to cover processes, systems, and data across organizational functions and along the extended supply chain.

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I justify my emphasis on non-financial indicators on this chart from the report '*Rebooting Business: Valuing the Human Dimension*' which marked the launch of the AICPA/CIMA Chartered Global Management Accountant initiative.

They researched the views of 280 CEOs of leading companies in 21 countries about the drivers of business value and direction. Responses showed non-financial factors dominating financial ones by over two to one.

In replies to separate questions, three-quarters agreed both that measuring the non-financial value of their business needed more emphasis and that their current reporting system promoted excessive focus on financials.



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This calls for a broader perspective more widely informed by stakeholders. Of itself that should improve the ability to shape, anticipate and respond effectively to events – a critical capability for sustainable success. Environmental scanning for changes and trends, accompanied by excellence in identifying and managing operational and strategic risk also helps to identify the rocks and icebergs ahead. A deep understanding of what an organization needs to succeed informs the decision on how to navigate to avoid them. Some environmental factors are more or less inevitable but are not always prepared for, and need accountants to work outside our traditional comfort zones.

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The PAIB needs to be both strategic and analytical. In the CGMA report's words: "people who can combine depth in their specific area of expertise with a multidisciplinary, broad view of the business."

They should bring ability to spot cause-and-effect relationships across organizational disciplines and boundaries, or, as the report puts it, "join the dots."

Risk management is already an important domain of the PAIB. Understanding the big picture better without losing the detail equips them still better to spot where risk can be turned into opportunity.

#### SLIDE 16

It is becoming increasingly obvious to the PAIB Committee that the idea of the 'business model' is critical to this direction. Definitions differ, but I take it to mean a description of the way an organization sees itself delivering long term success – or 'value' - to its financial backers, its customers and other stakeholders. That implies at least understanding how revenues, costs, customer satisfaction, employee competence, and reputation are generated and how they interact.

The purpose of articulating and understanding the model is to make better decisions (even to the point of changing it). But it also has potential to inform business reporting content.

If investors are clear about what matters to an organization's sustainable success they will want to know what the organization is doing about it, and how well. Our recent publication on the investor perspective on ESG reporting identified an increasing need for this. My Committee colleague Vittorio Lusvardi will be speaking on this topic later.

In sustainability terms a key test of the business model is whether (and how far) all the conditions it relies on to succeed will last into the future.

This isn't just about external factors either. Organizations take decisions that will place burdens on successor managements. Government organizations are probably the worst offenders, for example relying on pay-as-you-go for future pension obligations. In government the temptations come from the need. of politicians to be re-elected, and in



the corporate world by market pressure for short term results. Such inter-temporal transfers of obligation reduce any organization's resilience to future events and diminish its sustainability. An organization with such issues would be well advised to examine the implications for its business model.

#### SLIDE 17

Understanding the business model is a key challenge for the managerial accountant. Fortunately the tools of our trade contain well-tried financial and strategic analytical processes: we just need to ensure the non-financials are embraced within them.

In our Committee, for example, we are looking at the incorporating sustainability issues into DCF investment appraisal.

#### SLIDE 18

Our success drivers identified leadership and talent management among them. So it's not a surprise that we see an important place for PAIBs as strategic team leaders. Their professionalism reinforces their attitude and mindset of analytical scepticism with commitment to ethics and the exercise of professional judgement.

I hope it's clear from what I've spoken about today that awareness of the wider organization and environment and a focus on a broad array of stakeholder expectations will be crucial.

It will be necessary to be ever more comfortable dealing with change and uncertainty. But if PAIBs do the right analysis and correctly articulate their business model they will be well equipped for the challenge.

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So we shall need politically astute PAIBs, who are alert to changes in relationships and events, ensure they're always armed with the facts and courageous in support of ethics and values.

#### SLIDE 20

I have concentrated today on the background understanding an organization needs to have of itself if it is not to leave that elusive sustainable success to chance. Tomorrow, Stathis Gould of IFAC will speak about some features widely acknowledged to be necessary if sustainable practices are to be embedded in an organization. First and foremost, this involves top level championship, a clear business case, good governance processes and fit for purpose goals and targets will all make things go smoothly. They are the conditions for a good start, because it will take time to



determine the critical interrelationships and drivers that need to be understood, and some insights may only arise later.

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So where in all this should the accountancy profession, as opposed to its individual members, stand? Its first responsibility must be to absorb and internalize these messages about what organizations will need from their PAIBs and their auditors, and make sure that accountancy organizations gear up to give their members the new and emerging competences.

Many PAIBs work in medium-sizes and larger organizations, so the profession's assistance to them tends to be in this context. But most economies, like yours, are dominated by legions of small businesses. Somehow we need to spread the key messages to them too.

The profession should also champion convergence of codes and regulations, and represent accountancy in developing an integrated model of reporting and governance.

In my view that would be best served if integrated reporting is led not by external pressure, which carries the danger that it will be seen purely as a compliance exercise, and an onerous one at that; but by the spur it gives to organizations to understand themselves better, to make better decisions as a result, and thus to increase their chances of long term sustainable success.

And as the profession influences regulators to require sound governance, oversight and assurance, it ought to promote the value of the accountants who work within organizations as well as those who audit.

For good, relevant, audited **reporting** reassures investors and markets. But it is the **substance** of the underlying business **performance** that sustains organizations and economies. And that, ladies and gentlemen is where we Professional Accountants in Business make our contribution.

Thank you.