

**Good Governance and Sustainability  
Fundamental for Improved Business  
Reporting**



## Good Governance and Sustainability Fundamental for Improved Business Reporting

“In times like this, the basic elements of managing a company, such as governance, accounting, and auditing, should stand out like a rock in the storm,” says Joe Kaeser, chief financial officer of [Siemens](#), the Germany-based global company engaged in electronics and electrical engineering, in an interview with the International Federation of Accountants (IFAC). In light of the corporate challenges it has faced in recent years, Siemens has implemented a company-wide transformation program that brought about two significant mindset changes: seeing integrity and performance as not mutually exclusive (“clean business always and everywhere”), and defining corporate governance in a way that provides space for entrepreneurial behavior, focused on long-term sustainable value creation for all stakeholders. The result is greater transparency and high-quality business and financial reporting.

The interview with Mr. Kaeser, alongside interviews with Guy Jubb, investment director and head of corporate governance at the Edinburgh, UK-based leading global investment company [Standard Life Investments](#); professor Mervyn King, author of the [King Code on Corporate Governance for South Africa](#) (King III); and Masayasu Uno, member of the board of corporate auditors of [Daito Construction and Trust](#) in Japan, forms the first part of an interview series on improving business reporting conducted by IFAC with 25 key leaders from around the globe (see also “IFAC project on business reporting”).

### IFAC project on business reporting

In response to the report, [Financial Reporting Supply Chain: Current Perspectives and Directions](#) (March 2008), IFAC established a project group\* to study progress in the areas of governance, financial reporting, and auditing. [Developments in the Financial Reporting Supply Chain—Results from a Global Study among IFAC Member Bodies](#) was issued in February 2009. This study indicated that, although progress had been made, several unresolved issues remain. In the final phase of this project, the project group has interviewed 25 key leaders from around the globe on what should be done to improve these areas.

In upcoming months, the interviews, including overviews of the recommendations, will be available on the [IFAC website](#), grouped in the following themes:

- Good governance and sustainability fundamental to improved business reporting
- Business reporting: beyond the crisis
- Business reporting through the lens of the investor
- A global language for business reporting
- Towards a broader view of business reporting

Subsequently, the project group will develop an action plan, based on the recommendations of the interviewees and taking into account the reader response.

*\*The project group consists of Charles Tilley (Chief Executive Officer of CIMA and Project Chair), Graham Ward (Senior Partner at PricewaterhouseCoopers and past IFAC President), Norman Lyle (retired Group Finance Director of Jardine Matheson Holdings Limited and Chair of IFAC's previous Financial Reporting Supply Chain Project), and Al Anderson (Managing Principal—Accounting and Assurance Services of Larson Allen and Chair of the Assurance Services Executive Committee of the AICPA). The steering group is assisted by Stathis Gould and Vincent Tophoff (both IFAC), and Amy Pawlicki (AICPA).*

From different perspectives in the business reporting supply chain (see also “The business reporting supply chain”), the four interviewees provide their insights into how good governance and increased sustainability are fundamental for achieving long-term social, environmental, and economic performance, and for enhancing investor and other stakeholder confidence. The key findings from these interviews were:

### **The business reporting supply chain**

The business reporting supply chain refers to the people and processes involved in the preparation, approval, audit, analysis, and use of business reports. All links in the chain need to be of high quality and closely connected to supply high-quality business reporting.

### **Governance should focus on longer-term sustainable value creation**

“Corporate governance defines the mandatory boundaries,” explains Mr. Kaeser. However, he highlights the idea that corporate governance also needs to focus on longer-term, sustainable value creation. Focusing on longer-term sustainable value creation requires governance and sustainability to be better integrated into the strategy, operations, and stakeholder communications of an organization, according to South African governance expert Professor King: “Directors have to realize that their ultimate responsibility is social, environmental, and economic performance. That requires a mindset change at the top and then the top has to make sure that the message is carried further down the organization. You all have heard of ‘the tone at the top.’ I talk about ‘the tone at the top, the tune in the middle, and the beat of the feet at the bottom.’ If you get your strategy right and you get buy-in, you get ordinary people to achieve the most extraordinary things!”

### **Business reporting should be integrated as well**

Mr. Jubb extends the theme of integration by pointing out that business reporting at the moment is very compartmentalized, with governance, social responsibility, and sustainability reports often churned out independently. “As these aspects are integral to the longer-term wealth and health of the company and to its reputation,” he advises companies to “bring them more together in one integrated business report.” Mr. Uno adds to this by recommending that “increased consciousness about corporate social responsibility should lead to the development of more comprehensive corporate reports.”

With the benefit of hindsight on the financial and economic crisis, however, Mr. Jubb points at the scars we all bear from not holding boards accountable for their stewardship of the assets under their control. In the interview, he therefore also recommends putting the governance concept of stewardship at the heart of the business reporting system, “focusing on what the board has been doing and how it has been doing.”

### **Cultural background and history should not be ignored**

The governance arrangements that can lead to improved business reporting do not necessarily have to be completely uniform around the globe, argues Mr. Uno. He points out how the Japanese corporate governance system differs from the western model, since it has evolved while preserving Japanese

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culture and history. He therefore suggests that one not ignore cultural background and history when developing and implementing global standards, regulations, and oversight: “In further improving the business reporting supply chain, we must keep our eye on the unique situations in various countries.”

The complete interviews with Guy Jubb, Joe Kaeser, professor Mervyn King, and Masayasu Uno can be downloaded, free of charge, from the [IFAC website](http://www.ifac.org/frsc) at [www.ifac.org/frsc](http://www.ifac.org/frsc). Readers are encouraged to respond to the recommendations of the interviewees, which are also available on the website.

For information about IFAC’s business reporting project, please contact Vincent Tophoff via [VincentTophoff@IFAC.org](mailto:VincentTophoff@IFAC.org).