

# UNDERSTANDING AND COMMUNICATING VALUE CREATION

PRIORITIES FOR ACCOUNTANTS IN BUSINESS

## Message from Charles Tilley, IFAC Professional Accountants in Business Committee Chair

After some six years as chair of the IFAC Professional Accountants in Business (PAIB) Committee, this is my last report. I hope you will condone my reflecting on the changes over that time, as well as looking forward to the opportunities and challenges the accountancy profession faces.

The overriding business trends continue to be the shift in the value of organizations from the balance sheet to value attributed to people and intangibles, as well as the impact of technology and data. This provides accountants with the huge opportunity of moving from accounting for the balance sheet to accounting for the business. This concept is familiar to finance teams involved in decision making and the provision of comprehensive management information and scorecards.

However, many organizations are struggling to keep up, and the challenge of managing and reporting on value creation through the business model is an issue for most. This includes addressing the critical risks of business disruption and long-term value creation where lack of data, metrics and standards are making integrated thinking and reporting particularly difficult.

Many traditional tasks of accountants in business are being automated, and it is the value adding roles in decision making, risk management and business partnering that will be relevant in the future. The principal challenge for professional accountancy organizations (PAOs) is to support their members in maintaining relevant skills. PAOs need to do this through effective and comprehensive competency frameworks that apply in a fast-changing world, and across different business sectors and organizational sizes.



These issues are all matters the Committee has wrestled with. We have addressed them with the support of the PAOs, IFAC, and the many stakeholders who have joined our meetings and supported our work. We have input into IFAC's strategy and advocacy, and to international standard-setting. We have produced a range of reports, articles and submitted responses to consultations, all of which can be found on the [IFAC Gateway](#), an excellent resource for the accountancy profession.

To address the changing role of accountants in business, in September 2019 we issued three publications - [A Vision for the CFO & Finance Function](#), [Future-Fit Accountants: CFO & Finance Function Roles for the Next Decade](#), and a toolkit for the benefit of both boards and CFOs, [Evaluating the Finance Function](#).

I recommend them all to you.

At our September meeting, we focused on integrated value creation. This will be a significant topic for my successor, Sanjay Rughani who is currently deputy chair of the PAIB Committee.

The meeting also considered leveraging and assessing the value of data, issues specific to accountants in SMEs, our role in the achievement of the Sustainable Development Goals, and professional ethics.

In conclusion, I would like to thank the PAOs for their support including the provision of a wonderful and diverse group of committee members and their advisors, IFAC, and the brilliant staff team led by Stathis Gould. Most of all I would like to thank all those who have been members of the PAIB Committee over the past six years, and in particular Sanjay Rughani who is already focused on the committee's agenda for 2020 and beyond.

There are opportunities indeed. I urge the wonderful accountancy profession to comprehensively embrace them.

A handwritten signature in black ink, appearing to read 'Charles Tilley', with a stylized flourish at the end.

Charles Tilley

Chair

IFAC Professional Accountants in Business Committee

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# Integrated Value Creation

The main theme of the meeting was to better understand value creation and how the CFO and finance function can contribute more proactively to integrated management thinking and reporting. Together with the IIRC and AICPA/CIMA, IFAC has been developing an integrated value creation framework for CFOs and finance functions, to be released in early 2020.

The initiative is an opportunity to establish a holistic value creation approach covering four specific areas:

- Defining value
- Creating value
- Delivering value
- Sustaining value.

The framework will help ensure that CFOs and the finance function focus on the information and decisions that matter to the organization and its long-term success.

## ➤ **ARTICLE: [Accounting for Value Creation and Encouraging the Rise of the Chief Value Officer](#)**

To play a central role in managing value, it is important for CFOs and their teams, with their view across an organization, to set the value creation management direction and agenda. [READ MORE](#)

## *Metrics for Long-Term Investor Decision-Making*

As many aspects of value creation are not reflected in financial statements and are not included in quantitatively-driven investment processes, identifying metrics to track value creation and impacts has become an important activity for CFOs and investors.

Sarah Williamson and Bhakti Mirchandani from Focusing Capital on the Long Term ([FCLT](#)) Global, shared an overview of their initiative to create a universal set of 'pre-financial' metrics for use by investors to measure factors tied to long-term value creation that will affect an investor at some point.

FCLT considered how an investor looks at data to make decisions, reviewed existing metrics and data, and ran 20 million data points to come up with a draft set of 16 metrics grouped into 6 categories; talent, governance, innovation, capital allocation, environmental footprint, and government payments. See [here](#) for the list of metrics.

These metrics are designed to be compatible with other frameworks, material to investors, assurable by auditors, uniformly defined and consistently calculated, and universally applicable across countries, sectors, and contexts.

Given the complexity of the corporate reporting landscape, the development of and convergence towards a standard set of relevant, reliable, consistent, and comparable metrics could be a near-term step forward.

The committee provided feedback on the metrics including potential gaps and challenges with the approach.



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## ➤ Case Study: Royal Schiphol Group

Simon Theeuwes, Senior Manager Corporate Treasury, explained how the Royal Schiphol Group, enabled by the sponsorship and support of the CEO and CFO, has applied integrated thinking and reporting in a holistic manner across the organization, by:

- Articulating a new Vision 2050 that centers around creating long-term value with clear objectives for quality of life, quality of network, and quality of service;
- Implementing a new set of targets and KPIs focusing on eight top performance indicators; and
- Developing a new strategy to deliver the performance on these KPIs, to create long-term value and to meet stakeholder expectations.

Royal Schiphol's value creation model captures the organization's mission and purpose, what the company is doing to create value, how the organization is delivering value, and who is contributing to, and affected by, the value creation process. The approach, outlined in their [2018 Annual Report](#), also connects outcomes and impacts to the Sustainable Development Goals (SDGs).



## The Value of Data

Data is one of the biggest assets a company has, worth up to 30% of market capitalization. Yet many companies are failing to manage their data properly, often ignoring it as an asset.

➤ **ARTICLE: [The CFO and Finance Function Need to Enable the Value of Data](#)**

Leveraging the value of data requires investment in data before investment in technology. An organization first needs to identify what drives value creation, then consider the datasets that support these value drivers. With direct access to the board and executive management team, and with their view across the organization, CFOs and finance teams are uniquely positioned to play a pivotal role in leveraging and managing data as an asset. [READ MORE](#)



**Herman Heyns**, CEO, Anmut

Data valuation expert Herman Heyns, CEO of [Anmut](#), shared his insights on why understanding and properly managing data is crucial for companies and their CFOs to create better outcomes for customers, employees, investors, society and other stakeholders.

The purpose of valuing data in monetary terms is to shift perspectives within an organization to think about data as an asset, and increase visibility of its importance at the executive level. As with any other significant asset in a business, data requires appropriate stewardship, and needs to be owned and managed with enough authority at the board level.

**EXAMPLE:** Understanding data as an asset provides the basis for better capital allocation and investment targeting where data can be used to improve decisions and enhance value creation to key stakeholders. Working from a stakeholder perspective, Herman gave an example of a highways agency looking to increase the capacity of its road network. Data provided the platform to increase capacity by optimizing traffic flow rather than building more transport infrastructure.



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The PAIB Committee identified the following **actions** for the CFO and finance function to **enhance their role in leveraging the value of data as an asset**:

- 1 Advocate internally & externally on the value of data**
- Recognize the importance of data (prioritizing and funding)
  - Secure senior management buy-in
  - Raise awareness of the role of finance as an enabler across all business functions
  - Develop pilot programs to demonstrate value of data, e.g. product development from data

- 3 Educate and train**
- Invest in building talent and skills within the finance team focused on data, problem solving, and analytical skills
  - Educate the wider organization on data management

- 2 Build data governance, including ownership and accountability**
- Ensure effective management of data assets, including storage, access, and security
  - Establish business processes for data asset management
  - Drive data cleansing, ensuring quality and integrity of data
  - Establish KPIs for data use/investment

- 4 Look beyond the organization for data valuation best practices**
- Identify benchmarks
  - Establish peer networks to share and exchange ideas



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## Action on the SDGs

IFAC's vision for the accountancy profession is a profession essential to strong, sustainable organizations, financial markets, and economies. Consequently, the accountancy profession inherently has a crucial role in the 2030 agenda for sustainable development represented by the SDGs aimed at sustaining people, planet and prosperity.

In this session, the PAIB Committee heard about the World Benchmarking Alliance (WBA) and One Young World, two different initiatives supporting progress against the SDGs.

### World Benchmarking Alliance

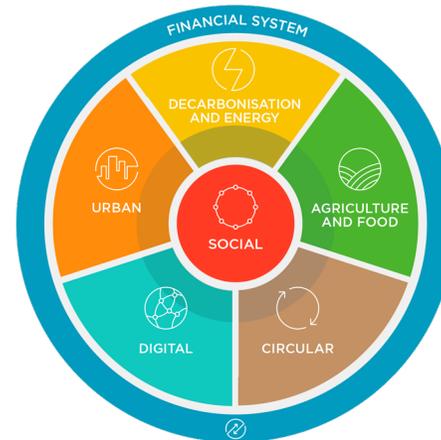
The WBA seeks to generate a movement around increasing the private sector's impact towards a sustainable future for all. WBA is developing transformative benchmarks that will compare companies' performance on the SDGs.

To deliver on the 2030 Sustainable Development Goals, business as usual is not an option. ”

**Paul Druckman**, Chair, [World Benchmarking Alliance](#)

Key messages from Paul Druckman:

- Profit isn't a proxy for value creation.
- Profit with purpose means that companies need to drive positive impacts on society.
- The accountancy profession can help business walk the talk on corporate responsibility.
- Accountants need to be the guardians of value – understanding, measuring, communicating and assuring value.



### The 7 Systems Diagram

WBA identified 7 systems transformations that would enable companies to achieve the SDGs. These transformations provide the basis of benchmarks that will measure and compare corporate performance on the SDGs. The first benchmarks will be available in 2020.

Source: World Benchmarking Alliance



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## One Young World



**Safoora Biglari**, Community Manager, One Young World

[One Young World](#) is a global forum to identify, promote and connect the world's young leaders and talent. Their activities include:

- The One Young World Summit, held annually, convenes young talent from 197 countries. Companies and others, including the ICAEW and Chartered Accountants Worldwide, who are partners of One Young World, send delegates to the summit. The summit aims to empower young leaders to change their companies from within to be more socially impactful by establishing or accelerating initiatives in their organizations.
  - ❖ One success story, for example, lies with [Luke Davies of Barclays Bank](#). After the 2015 Summit, Davies was instrumental in creating the Barclays Green Deposit to help Barclays transition to a low-carbon economy. The Green Deposit is an innovative market development driven by client demand, allowing clients to deposit their excess liquidity into a financing channel aligned to the green agenda.
- Finance & Business 2030, launched in April 2019, is a joint initiative between One Young World, Chartered Accountants Worldwide, and the City of London, to unite the finance and business community to achieve the SDGs and act as a force for change. The initiative kicked off with an event attended by over 120 young professionals representing more than 70 businesses, focused on identifying the core issues affecting their industries and opportunities to achieve long-term goals. To leverage the enthusiasm and commitment demonstrated at the event, a [Finance & Business 2030 Task Force](#) was formed to help mobilize finance and accounting communities to build awareness of the SDGs and drive action.

**ACTION:** IFAC will continue discussions with One Young World and Chartered Accountants Worldwide to identify ways of mobilizing young leadership within the profession to enable the SDGs. Engaging young leadership also helps to enable a more inclusive profession and ultimately increase the attractiveness of the profession to young talent who want to make a difference

### ➤ [ARTICLE: 5 key actions for Professional Accountancy Organizations \(PAOs\) to Advance the SDGs](#)

At the heart of accountancy are integrity and transparency of all the factors that matter to value creation and impact. The SDGs provide a frame of reference for the world's to-do list on sustainable development. PAOs need to think about how the profession can contribute to the achievement of the SDGs, and how in their roles in business and the public sector, accountants can support the global sustainable development agenda. [READ MORE](#)



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# Opportunities and Challenges for Accountants in SMEs

SMEs are varied and diverse; there isn't a typical company with typical needs. Their needs will depend on whether the company is in start-up mode, growth mode, or more mature. Accountants working in SMEs provide valuable support and advice to their organizations, particularly those seeking to grow, but can often face a challenging environment. There is a need for PAOs to support SME finance teams, particularly as they can have limited access to technical expertise and resources.

To better understand the needs of accountants in SMEs, and the opportunities and challenges they face, the PAIB Committee heard presentations from three perspectives:

- ❖ Jonathan Shaw, Deltex Medical CFO, shared his experience as a senior finance professional in an SME.
- ❖ Mark Farrar, CEO of the Association of Accounting Technicians (AAT), gave an overview of how AAT supports its members working in SMEs, who represent over half of its membership.
- ❖ Iftikhar Taj of the Institute of Chartered Accountants in Pakistan spoke on the opportunities and challenges for accountants working in Pakistan's five million family-owned micro, small and medium-sized entities.

The PAIB Committee considered the opportunities and challenges specific to accountants working in SMEs:

## Challenges:

- Often have cash flow and other resource constraints
- Less access to technical expertise and resources
- Smaller finance teams with fewer qualified accountants
- No sounding board for the CFO
- Time & resources consumed with financial reporting and other compliance requirements

## Opportunities:

- Greater exposure to the whole business
- Wider breadth of competencies
- Greater influence and involvement in business decision making
- Less formalities
- Can be more agile and innovative

### ➤ Case Study: Deltex

Jonathan Shaw, CFO of Deltex Medical

#### About Deltex Medical

- Listed on NASDAQ in 1998 and AIM in 2000
- Proprietary medical technology sold in over 40 countries
- Revenues of £5m (2018)
- Finance team of 3 with one qualified (CFO)

#### Key opportunities

- Helping the business make sensible decisions about new markets, competitive pricing, changing product mix and implications
- Telling the story of the business
- Engaging key stakeholders including investors

#### Current priorities

- Keeping cash under control
- Raising funding
- Increasing revenues and reducing operating expenditure
- Ensuring compliance with new regulatory requirements
- Timely management reporting
- Elimination of unnecessary spreadsheets
- Adopting a cloud-based accounting
- Protecting intellectual property



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## Family-owned businesses in Pakistan

Iftikhar Taj, *Institute of Chartered Accountants in Pakistan*

Approximately five million micro, small or medium-sized entities – and more than 50% of listed companies – are family-owned.

### Challenges

- Related party transactions
- Sibling and family rivalry
- Grey area between business and family cash flows
- Multiple bosses (with conflicting priorities)
- Managing trade-offs between short and long-term business objectives

### Opportunities

- Directly working with owners
- Quick decision making
- Supporting corporate and operational governance
- Rapid growth
- 360-degree business exposure

To support accountants working in family owned business, the Institute of Chartered Accountants of Pakistan is providing education and CPD activities on managing interpersonal relationships (including dealing with multiple generations), communication skills, understanding emotional intelligence, understanding business and business strategy, and technology driven approaches.

## AAT support for SMEs

Mark Farrar, *CEO of AAT*

Through engagement with its members working in SMEs, AAT gains insights into their needs and how the AAT can provide support. These needs include:

- Physical branch meetings that allow networking with peers to share and exchange ideas, and discuss technical matters.
- Technical support on topics including management accounting, pensions, anti-money laundering, ethics, and tax
- General skills, moving away from accounting and technical skills to wider skills such as communication skills and negotiation skills (e.g. for interaction with suppliers, or within the organization)
- Understanding how the low carbon agenda could be applied to their own organizations
- Guidance on technology, such as cloud-based accounting packages

To support small startups and growth businesses, the AAT established [Informi](#), an online portal of resources. Topics covered include finance, business administration, marketing and sales, technology, managing people, managing yourself, and legal.

### ➤ **ARTICLE: [Supporting Accountants in SMEs](#)**

In the context of the challenges and opportunities facing accountants working in SMEs, the PAIB Committee considered what the profession is currently doing, and what more it could do, to usefully support accountants working in SMEs. [READ MORE](#)



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The Committee supports the International Ethics Standards Board for Accountants (IESBA) on its continued efforts to ensure a relevant international Code of Ethics that underpins the professional behavior and mindset expected of accountants. During the Committee meeting, the recent IESBA exposure draft on [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#) was discussed.

The discussion focused on proposed new concepts' determination to act appropriately' and 'inquiring mind', as well as proposed new content on bias.

Professional accountants working in business and the public sector play a key role in safeguarding the reputation of an organization, as well as providing the insights necessary for effective decision making. For accountants to be trusted professionals, they must challenge the organization, and themselves, when needed with professional objectivity and integrity. At a time when the accountancy profession is under enormous pressure and scrutiny,

the professionalism of accountants working in organizations is critical to provide legitimacy, trust and accountability within both corporations and government. With this in mind, the Committee felt that it was important for the Code to include strong terms to describe the required behavioral characteristics and mindset of professional accountants, and would welcome the addition of:

- The word "**courage**" - an accountant may know something is wrong, but actually having the courage to speak up is vital. Determination to act appropriately does not replace courage.
- The term "**professional challenge**" for professional accountants in business. A constructive challenge mindset is valued by boards, management, and external stakeholders. Accountants working in organizations can have an inquiring mind, but they cannot take information at face value without appropriate challenge.

Read the full [PAIB Committee response to the IESBA here](#).

### ➤ **ARTICLE: [Leading with Ethics](#)**

PAIB Committee member and experienced board leader, Datuk Zaiton Mohd Hassan, recently participated in a thought leadership lecture, organized by the Malaysian Institute of Accountants, where she shared her perspective on ethical dos-and-don'ts to improve tone at the top. [READ MORE](#)

### ➤ **ARTICLE: [Dealing with Ethical Dilemmas with Confidence](#)**

Accountants working in business and the public sector face a range of ethical dilemmas on a frequent basis. Recognizing and tackling dilemmas in real time is a significant part of being a professional. To support accountants facing ethical challenges and moral questions in their everyday work practices, The Royal Netherlands Institute of Chartered Accountants (NBA) uses a "moral intervention model", which is a practical and simple framework that helps people navigate situations where they are required to make a moral assessment. [READ MORE](#)



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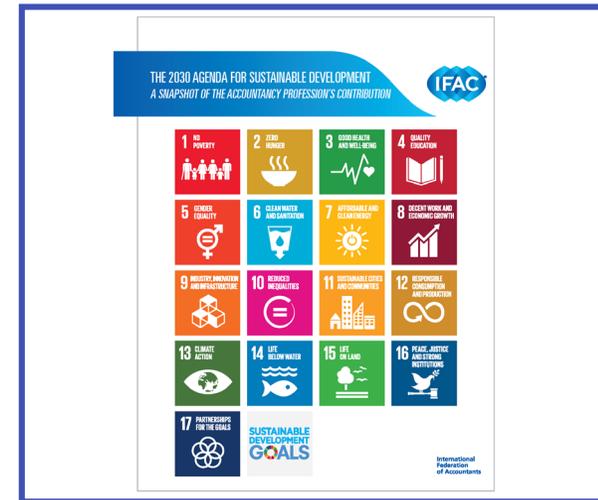
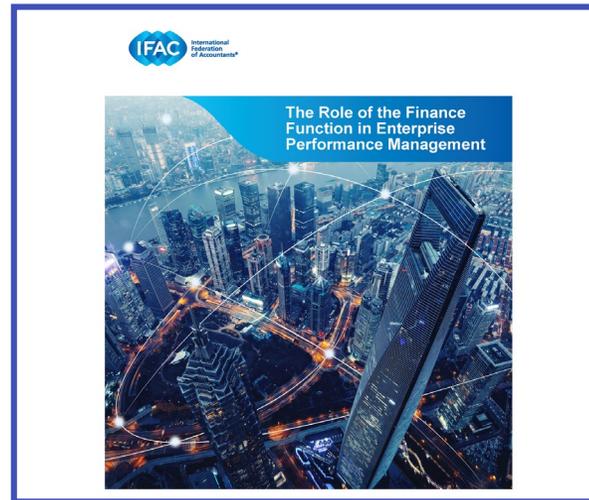
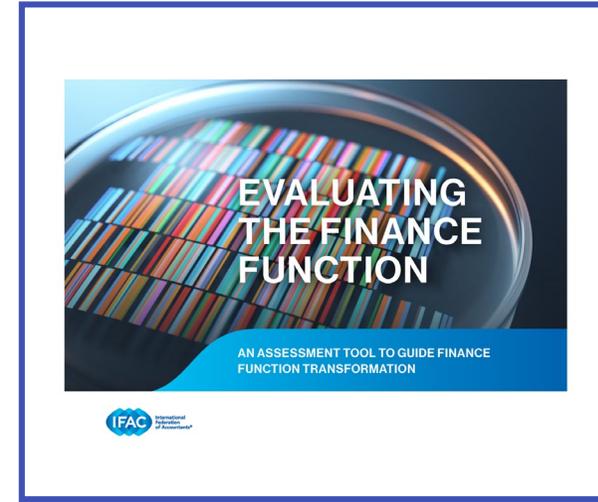
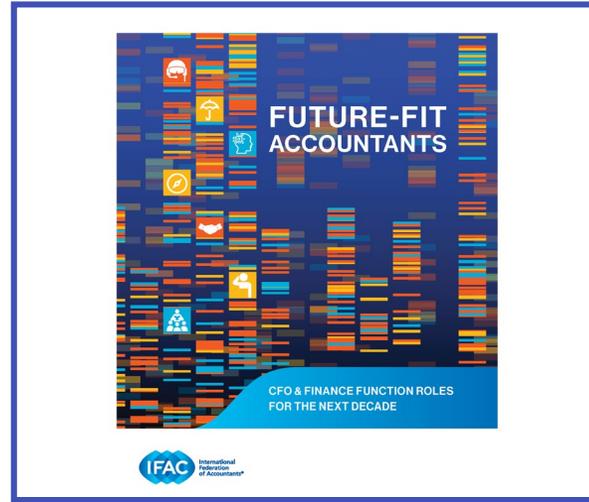
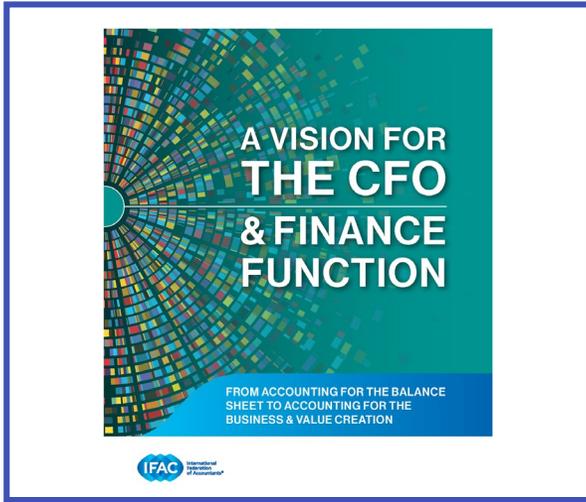
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# Resources for Accountants in Business



**Next Meeting:**

The next Professional Accountants in Business (PAIB) Committee meeting will be held on March 24-25, 2020, in Amsterdam. To attend as an observer guest, please contact [lauraleka@ifac.org](mailto:lauraleka@ifac.org)

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