# ACCOUNTANTS SUPPORTING SUSTAINABLE RECOVERY

## INSIGHTS FROM IFAC'S PAIB ADVISORY GROUP

International Federation of Accountants®

## Message from Sanjay Rughani, IFAC Professional Accountants in Business Advisory Group Chair

Back in March, when travel restrictions and lockdown measures were imposed around the world, the IFAC Professional Accountants in Business (PAIB) Advisory Group pivoted its meeting to a virtual format. Six months on, virtual meetings have become the norm and we continue to meet and engage virtually with thought leaders and PAIBs leading their organizations and finance teams.

The aim of this report is to share the insights from the meeting across the global accountancy profession. A key theme from our meeting is the enormous potential for accountants to make a difference to their organizations and the societies in which they operate. The leaders who presented at the meeting all showed how they are creating better and more innovative practices in their organizations to improve performance in relation to people, planet, and profit.

The COVID-19 crisis has quickly brought forward years of change in the way companies in all sectors and regions do business. According to a new McKinsey Global Survey of executives, companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years. And the share of digital or digitally enabled products in their portfolios has accelerated by seven years.

At the same time, the pandemic is a setback to sustainable development. The achievement of many of the Sustainable Development Goals (SDGs) is under significant threat because of increasing poverty, lower employment and prosperity, and climate risk among other challenges. The result is heightened expectations on businesses to act with purpose, deliver social impact, and facilitate a sustainable recovery.

These seismic shifts are impacting finance and finance function priorities, as well as the information and insights needed to help organizations create and protect value and deliver positive societal impacts.

The focus during our two-day meeting was to rethink what future-ready means for professional accountants in business and the public sector in the COVID-19 era of prolonged and extreme uncertainty. Integrated thinking and the need for effective risk management were central themes running throughout the meeting.

Robust risk management enables value creation, helps to avoid value destruction, and is a foundation for effective corporate governance and management decision making. But effective risk management is often the exception rather than the norm in corporate boardrooms. We heard from experienced company chairman, finance and non-executive director (NED), Simon Laffin that risk management approaches often fail due to unsophisticated approaches that do not assess risk rigorously enough. To help limit corporate failure, robust risk management practices and education for executive and non-executive directors would be a better starting point than additional regulations on directors and auditors.

Datuk Zaiton Mohd Hassan, PAIB Advisory Group member (and new deputy chair starting in 2021) and Chair of the Malaysian development bank, BPMB, shared the bank's integrated thinking and reporting journey, emphasizing the importance of the right tone at the top with support from the board, a change in CFO mindset, and forward-looking and holistic information and analysis. Integrated thinking and reporting are leading to a paradigm shift for finance teams and their involvement in non-financial risks and information.

Ian Kramer, interim CFO of AngloGold Ashanti, shared with us how his finance team helps to translate value creation priorities into tangible metrics and actions that enhance planning, forecasting, business analysis and performance management. The finance team's role extends to providing useful information and insights on environmental, social and governance matters as well as financial strength and performance.

Rex Gu, CFO of Maersk Far East Operations, and Khalilullah Shaikh, PAIB Advisory Group member and CFO of Pakistan International Airlines, provided insights into their respective finance function transformations. Common to both was a focus on talent development to support enhanced business partnering based on data-driven decision making, and the encouragement of experimentation and innovation.

Finally, Larry White, PAIB Advisory Group Member, Dr. Paul Rouse, Dr. Julie Harrison, and Dr Fred Ng of the University of Auckland Business School, highlighted how PAIBs can play a more active role in revenue management. To support this, the business school changed their teaching of management accounting toward a revenue management perspective to provide students with a better understanding of cost, process, and capacity management. It also focuses on communication across all components of a business.

While much has changed in the last six months, what has not is the opportunity and imperative for CFOs and their finance teams to enhance their contribution to the organizations in which they operate. I believe the topics discussed at our meeting, and summarized in this report, will remain highly relevant as IFAC and its members continue to rethink priorities in the aftermath of COVID-19.

A crisis offers us a unique chance for transformative change. As we hit refresh, the accountancy profession must be responsive to opportunities emerging from this current crisis to create positive impact and help support stronger organizations and a stronger profession.

Stay well and blessed.

Sanjay Rughani
Chair
IFAC Professional Accountants in Business Advisory Group

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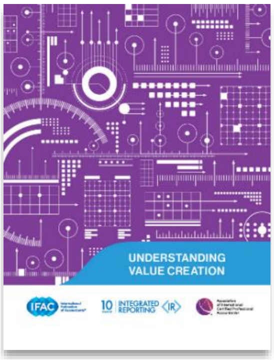
# VALUE CREATION AND INTEGRATED REPORTING

In 2020, IFAC launched its Rethinking Value Creation initiative, including the publications The *CFO and Finance Function Role in Value Creation* and *Understanding Value Creation* to help the profession enable future-ready accountants that contribute to long-term value creation and multi-capitals integrated thinking and reporting. Rethinking value creation is a key enabler for CFOs and finance functions in becoming effective business partners.


To keep up the momentum on the accountant role in value creation and sustainable business, we continue to use case studies to highlight key learnings from organizations on the adoption of integrated thinking and reporting.

## CASE STUDY

**Ian Kramer, Interim CFO, AngloGold Ashanti**


Mining has specific sustainability-related challenges due to the fact that regeneration of natural resources is not physically possible, and that it is dependent on a social license to operate. In this unique operating environment, community relations are important sustainability considerations. Consequently, there is a need for transparency on total running cash costs and all-in sustaining costs related to mining activities.

The finance team plays a key role in the company's integrated thinking and reporting, in particular by ensuring robust data collection and analysis, and ongoing monitoring of financial and non-financial metrics and performance. The key criteria for recruiting finance talent is skills in communication, technology, and analytical and problem-solving areas. **READ MORE**

## CASE STUDY

**Datuk Zaiton Mohd Hassan, Chair, Bank Pembangunan Malaysia Berhad (BPMB)**

As new chair of the board, Datuk Zaiton introduced integrated thinking as the foundation to move the development bank forward and focus its objectives and activities on creating value. Under BPMB's new value creation framework, all projects to be funded by the bank are measured along two dimensions – impact to national development and the sustainable development goals.

Datuk Zaiton also shared how integrated thinking has benefited the bank and culminated in publishing its first integrated report in 2020 for the 2019 financial year. **READ MORE**

Based on these presentations, the PAIB Advisory Group discussed the opportunities for integrated thinking and reporting in the COVID-19 era, and the finance function role.

## OPPORTUNITIES

- COVID-19 has focused the attention of many politicians, regulators and investors on sustainable finance, particularly as part of their nation building and recovery. This has elevated the importance of sustainable development as well as integrated reporting.
- COVID-19 is leading many organizations to reflect on their purpose, impact on stakeholders and society, and focus on people first (employees, customers, suppliers and communities). Despite revenue and profitability pressures during the current difficult operating environment, many companies are delivering non-financial value and outcomes in relation to retaining jobs and supporting communities. These need to be captured and communicated.
- In response to the pandemic, organizations have also accelerated innovation and quickly pivoted to digital business models.
- Boards are spending more time discussing non-financial risks and the relationship between risks.
- Unprecedented uncertainty means that many risks are either unknown or not fully understood. Therefore, a greater focus on risk management is helping to ensure that business continuity and viability are key considerations in the future in terms of both value creation and protection

## FINANCE FUNCTION ROLE

### *Collaboration across the business*

Integrated thinking and connectivity of non-financial capitals requires collaboration across teams and functions, and although remote working may have made connectivity more difficult in some circumstances, it is important that finance is a part of a wider culture change to enable greater collaboration and multi-disciplinary working. This involves the finance function:

- Having a vision and a seat at the table, where its involvement in integrated thinking and reporting is a natural evolution of its business partnership role.
- Dedicating time to understanding the business and value creation as a distinct project and process across functions. In smaller organizations, finance may be involved naturally, rather than be seen working within a formal framework such as integrated thinking and reporting.
- Connecting the non-financials into financial terms and showing the benefits of integrated thinking.
- Speaking in the language of the business. Integrated reporting language may not resonate across an organization. A focus on value creation and protection typically resonates more widely.
- Demonstrating leadership that provides the vision and outward looking mindset. Reinforcing team incentives, and training and development opportunities help foster greater involvement and collaboration of the finance team.

### *Enabling the value of data*

The CFO and their finance team, with their unique view across an organization, can play a pivotal role in harnessing and managing data, including by:

- Utilizing technology to help integration and the delivery of data-driven insights that are needed for integrated thinking and reporting.
- Proactively identifying ways to get involved and using data and analysis to help enhance business outcomes. Investments in data and tools has helped finance teams in some organizations to transform or expand their role.

### *Talent development*

Talent development is crucial to ensure that the finance function has the competencies and skills needed to support integrated thinking and reporting. Approaches include:

- Identifying talent in more junior roles who have potential and desire to get involved in cross-functional initiatives.
- Developing and raising awareness of training opportunities, particularly in relation to expertise in measuring non-financial capitals and technology and tools. The remote working environment can be used as an opportunity to allow finance staff to increase their training and development.
- Changing accountancy education and skills development, for example with the Green Finance Education Charter in the UK, which has commitment from PAOs.
- Using learning opportunities and case studies on integrated thinking and reporting that are emerging for inspiration and support.

Milton Segal, Senior Executive, Corporate Reporting, The South African Institute of Chartered Accountants (SAICA) showcased SAICA's work in corporate reporting.

SAICA provides a wide range of support services to more than 50,000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting technicians (ATs[SA]), who play a significant role in the nation's highly dynamic business sector and economic development.

The Corporate Reporting division at SAICA is focused on advocating for and promoting the highest levels of both financial and non-financial reporting. Their priorities include providing leadership in IFRS reporting and audit, as well as integrated thinking and reporting.

IFRS only tells one side of the story – primarily what happened in the past. A balanced set of financial information requires both retrospective and prospective reflection.

SAICA is also focused on promoting the integrated mindset needed to consider the future impact of current decisions. This integrated and prospective analysis is paramount to the traditional going concern assumption. Yet the integrated mindset should cater not only to going concern, but also to growing concern.

The growing concern relates to the ability to look forward and analyze an entity's sustainability, its impact on current employees, the environment, government and other stakeholders. This is crucial for both the survival and growth of the entity. The entity is required to consider its position within the greater finance ecosystem and the contributions it makes and will make to it.

The finance team, led by the CFO, is increasingly empowered with both this opportunity and obligation to consider all its stakeholders and the impact of the entity's operations for the foreseeable future. By doing so, the CFO and his/her team adds value to the entity and to the broader society.

The CFO needs to continue transitioning to that of the chief value officer. This will enable retrospective analysis, reporting and reflection to inform the future operations and their impact on the greater society. This is the most robust way of ensuring both fluidity, flexibility and future sustainability.

## Enhancing Corporate Reporting: The Way Forward

Responding to the demand from investors, policymakers and others for reporting that delivers consistent, comparable, reliable and assurable information, IFAC calls for a new Sustainability Standards Board alongside the IASB.

We believe a new standard-setting board is necessary to build and coordinate interconnected financial and non-financial reporting The IFAC roadmap is available at https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/enhancing-corporate-reporting-way-forward

## Resources from our Network

The IIRC's Integrated Thinking and Strategy Group brings together 45 companies to share practical learnings and insights on integrated thinking and how it is deployed. They are actively developing case studies involving ABN AMRO (**case study issued**), Royal Schiphol, Leonardo, ING, Novo Nordisk, Enel, Assicurazioni Generali, NN Group, BASF, SNAM and Solvay.

# BUILDING TRUST IN BUSINESS THROUGH EFFECTIVE CORPORATE GOVERNANCE

Corporate and audit failures are usually dealt with through implementing additional regulatory measures. Such measures typically add requirements for boards and auditors but do not necessarily lead to improved oversight or performance and can often have unintended consequences.

There is a perception by some stakeholders that audit is failing in its objectives and should serve as the backstop to ensuring companies will never fail. This issue is heightened in the current uncertain environment, where there is increased likelihood that events or conditions exist that may cast significant doubt on an entity's ability to continue as a going concern.

The International Audit and Assurance Standards Board (IAASB) is exploring the differences between public perceptions about the role of the auditor and the auditor's responsibilities in a financial statement audit in their discussion paper: *Fraud and Going Concern in an Audit of Financial Statements*.

Greater learning and understanding of company failures would help to provide directors with more useful education and support. The PAIB Advisory Group focused on better understanding why certain companies failed in order to identify better solutions to enhance corporate governance, including the support NEDs and PAIBs need to enhance their roles.

**A Focus on Value Creation and Risk Needed to Improve Corporate Governance**

Simon Laffin, an experienced company chairman, finance and non-executive director (NED), joined the PAIB Advisory Group to discuss better solutions to enhance corporate governance and the role of board directors. Simon has written extensively about his experiences as a NED and lessons learned for improving corporate governance and risk management.

Simon shared his perspective of how company and governance failures can form a more empirical and informed discussion with regulators and others on ways to improve corporate governance. **READ MORE**

**Key takeaways include:**

- Companies, like any complex and interrelated system, are inherently prone to failure. Effective risk management is needed to reduce the likelihood, and the damage, caused by failures. No system or set of regulations can provide assurance that there will be no failure.
- Understanding deeply corporate and financial risks is a critical part of what boards need to do. There is a need for improved education about risk management and for utilizing better frameworks to assess corporate risk.
- Managing risk is a fundamental enabler of value creation and helps avoid value destruction. It needs to be core part of the professional accountant mindset and makeup, which requires:
    - Being more specific and deliberate in risk management and how risk analysis is used in decisions
    - Learning and applying approaches from high-risk safety-critical industries.

***"MORE REGULATION WILL NOT ADDRESS THE ROOT CAUSE OF COMPANY FAILURE"***

**IFAC Resource** — Enabling the Accountant's Role in Effective Enterprise Risk Management

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# FUTURE CFO AND FINANCE FUNCTION – NAVIGATING THE COVID-19 ERA

A year ago, IFAC set out its vision for the CFO and finance function. The PAIB Advisory Group reflected on this in the wake of the crisis to consider priority areas that remain highly relevant for accountants to consider as organizations shift their focus from crisis mode to recovery and longer-term strategic considerations.


***What has changed in the CV-19 era?***

**Customer and stakeholder focus**

Connectivity between the finance function and needs of internal stakeholders and external customers remains critical to delivering effective business partnering.

Finance must know the business, including understanding the impact of CV-19 on operations, to effectively engage with other functions, business leaders and operational managers.

Finance teams need to provide the information and insights to enable stronger relationships with customers. Although finance teams do not always directly deal with customers, they need to understand customer relationships and the dynamics of demand and revenue. To understand current customers and attract new customers, finance needs to use relevant metrics (such as billing and customer experience data) to develop and communicate a strong narrative around customer relationships and performance.

In relation to delivering business partnership internally, key focus areas include:

- Focusing on business priorities in a recessionary and challenging economic environment, including sources and uses of cash, changes to capex and working capital plans, increasing productivity with fewer resources, and sources of revenue and growth
- Evaluating changes to the strategy and business model and their economic effects through scenarios and forecasting
- Ensuring the organization's risk management and internal control frameworks are fit-for-purpose to identify and assess risk and better deal with uncertainty.

In relation to external stakeholders, focus areas include:

- Understanding and communicating key non-financial risks and trends and their potential financial impacts
- Addressing changed stakeholder expectations and needs in the context of sustainable recovery and the SDGs
- Increasing engagement with governments and public-private partnerships.

### Digital and Data-Driven

COVID-19 is accelerating digital investment and the digitization of customer and supply chain interactions. Aligning finance function digital strategy and priorities with those of the business will help enhance end customer value in terms of access and convenience, and integrate finance processes with digital operating models.

More finance and accounting work is being undertaken remotely, with an accelerated shift to digitized business and finance processes, and a strong focus on data-driven financial planning & analysis (FP&A). In the current virtual environment, the push for efficiency in accounting has stepped up, involving process simplification and streamlining, and task automation. For many, this has led to a faster close, and enhancements to self-service and routine reporting This is allowing finance teams to deliver value added services, with a significant shift to delivering proactive, forward-looking analysis, including enhanced analytics and modeling.

An important part of this shift is improving data, ensuring it is accessible and trustworthy, and can be utilized to help set priorities, develop forecasting and scenario analysis, and allocate capital.

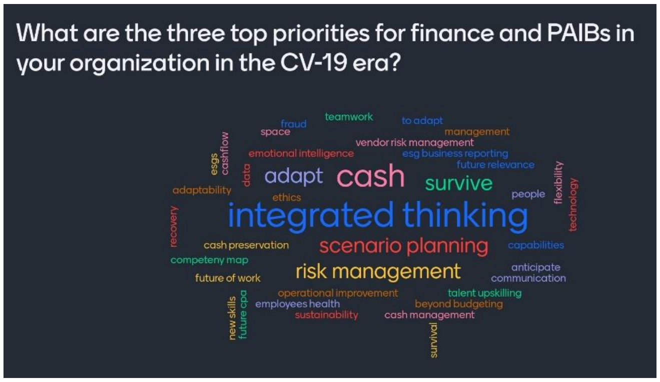
### Growth and Change Mindset

Times of crisis provide unique opportunities for transformative change. Strong leadership and culture change are needed to chart a new path and embrace innovation, agility, and new approaches to learning and development.

Finance leaders need to adapt their approach to remote working and advance business partnering in a world where most interactions are virtual. This involves a mindset shift.

With many teams working remotely, a primary consideration is the well-being and welfare of finance staff, for example dealing with longer hours and high expectations, and respecting boundaries between work and personal time. Mental health and well-being have become a key consideration.

Advancing business partnering in the remote working environment also involves having greater confidence in advising business partners in virtual meetings, maintaining connections and engagement, and more frequent communication within the finance team to keep finance staff fully engaged and motivated.




*Meeting Poll Results*

### Talent and Skills

Finance skills required by employers are evolving rapidly with a focus on attracting and developing competency and skillsets to support effective business partnering.

These include the core finance and accounting skillset applied to planning and forecasting, business analysis and performance management, and critical partnering skills including business and commercial acumen, influence and relationship building, and communication and storytelling. A key area of need and upskilling is digital and data literacy, and people with such skills are often brought in rather than employed on a full-time basis.

Talent management and recruitment is increasingly focused on desired talents and behaviors rather than skills alone. There is a demand for those with a strategic mindset that can demonstrate critical thinking, determination and self-awareness and deal with uncertainty and ambiguity.

An effective approach to developing talent is to include them in cross-functional teams, projects and meetings.

## CASE STUDY

**Rex Gu, CFO, Maersk Far East Operations**

Maersk's finance function transformation journey started five years ago with the advancement of an ERP system that has allowed transactional work to be fully managed in global shared service centers in the Philippines, India and China where the majority of its finance employees are based.

The retained finance team is positioned as a business function to drive value creation in a trusted business partner role. The finance team's involvement in value creation focuses on the tangible and actionable areas to create and protect value, and the specific activities they can perform as partners. The actionable areas are captured in a value creation framework for the finance team that provides inspiration and direction on where they need to contribute and what they can contribute to. **READ MORE**

## CASE STUDY

**Khalilullah Shaikh, CFO, Pakistan International Airlines**

Having recently joined Pakistan International Airlines as CFO, PAIB Advisory Group member Khalilullah Shaikh shared his experience of working as part of a new leadership team to help turn around the airline. This has involved transforming its finance function, including inducting a number of professional accountants, to better support the needs of the organization.

Fundamental to its business turnaround strategy, the management team had to first focus on strengthening its corporate governance and culture.

In the finance function, the focus has been on talent development and retention, building trust and collaboration, and encouraging an inquisitive and challenging mindset to break the status quo.
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# REVENUE MANAGEMENT

*Presentation by: Larry White, PAIB Advisory Group Member; Dr. Paul Rouse, Dr. Julie Harrison, and Dr Fred Ng of the University of Auckland Business School.*

Revenue management is:

- An area of the organization where PAIBs should be an active business partner.
- A business driver that can benefit from the insight and analytic skills of accountants.
- An effective point of finance team engagement for improvement and optimization across the business.

**Key takeaways**

For PAIBs to play an enhanced role in revenue management, they must understand:

1. The 4 levers of revenue management
2. The importance of data and analytics
3. Customer needs and product or service attributes that can improve profitability and customer satisfaction.

Revenue management is often an overlooked area for the accountancy profession but provides an opportunity for PAIBs to engage their business and analytic skills to help their organization create greater value to customers. It is, ultimately, the generation of revenue and the satisfaction of customers that drives business.

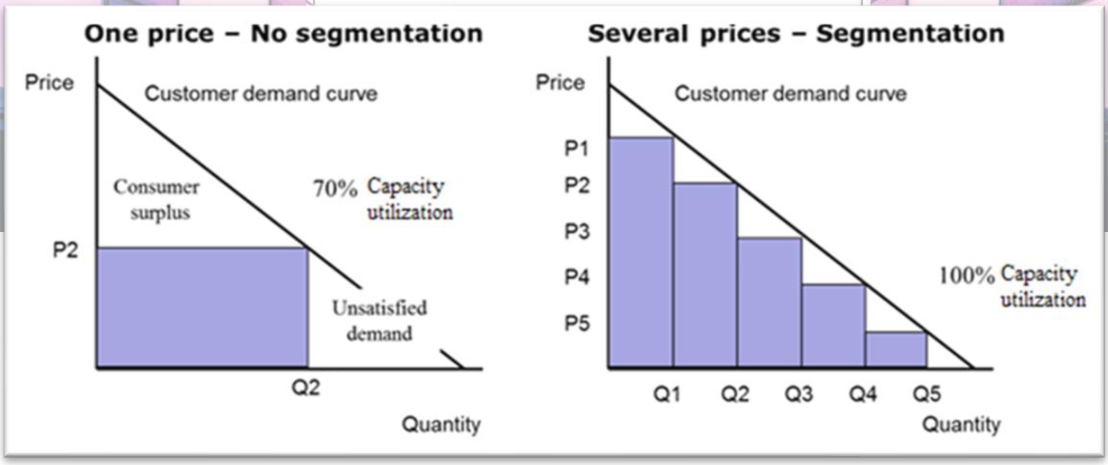
Revenue management is primarily about understanding customer needs and segments and translating those into more responsive and inclusive products, services, and operations. Naturally, revenue management analyses and decisions have implications on resources, investments, process management, and cost management. This makes revenue management a pervasive topic for engaging nearly every element of a business – a clear opportunity for the PAIB as a business partner.

Revenue management has four primary levers:

- **Pricing Basis** – Price setting can be done with a range of sophistication levels from cost-basis, to a market basis, or to prices set based on the value provided to individual customers.
- **Capacity/Inventory Allocation** – This lever defines the extent to which prices change based on demand. At the unsophisticated end, prices are simply set and don't change. As sophistication increases, prices are adjusted to respond to demand with increasing frequency and understanding of customer needs and what the customer values such as with airline pricing.
- **Product/Service Configuration** – Products and services (or a combination of the two) can range from one standard for all customers to being designed to segment customers based on characteristics that are valuable to the customer to individual customization.
- **Duration Control** – Internal processes can be standard for all customers or they can be adapted (with additional resources and technology) to respond to: the intensity of customer demand, the specific needs of customer segments, and/or the need to shape customer behavior to improve revenue.

Revenue management requires information for increasingly sophisticated analytics. There is a role for PAIBs in improving data collection, the nature of the data collected, and the sophistication of the analysis of the data.

One of the key opportunities is to grow revenue by understanding and adapting product/service attributes to customer needs and willingness to pay. This can increase the demand a business captures, improve margins, and maximize resource capacity use. Consider the benefit of moving from the graph on the left to the graph on the right in the figure below.




The presenters from the University of Auckland Business School have been teaching management accounting from a revenue management perspective and their course has become one of the most popular electives in the business school. They find it leads to improved understanding of cost, process, and capacity management and the ability to communicate across all components of a business.

The PAIB Advisory Group members discussed the extent to which finance and accounting staff in their organizations engage in revenue management, and agreed this is an area where PAIBs should be increasingly active as business partners and more information and education on the topic would benefit the profession.

The IMA published a new Statement on Management Accounting titled *Revenue Management Fundamentals* that contains a model for revenue management and links revenue management to an organization's profitability, cost, and investment management as part of a Profitability Analytics Framework.

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