Strategy, Sustainability, and Innovative Financial Reporting

Sean Stein Smith
Fairleigh Dickinson University

Strategy and strategic planning are integral to continued business success and growth in a competitive global environment, and this fact is only becoming increasingly important. In order for managerial decision makers to effectively navigate the competitive landscape it is essential to simultaneously sustain and innovate. Sustainability, in various forms, has been debated in both academic and practitioner literature for decades, but recently has evolved into a more integrated version of sustainability and business performance. Innovative ideas, including those linked to sustainability, require measurement and ranking using non-traditional metrics and evaluative tools. Accounting and finance, moving from traditional roles as gatekeepers to one of business decision maker, are well positioned to provide much needed information and evaluation to managerial teams via innovative financial reporting.

INTRODUCTION

Strategy is a word that is used in both academic and practitioner press releases and publications as organizations seek to adapt and evolve in an increasingly complex marketplace. International markets, balancing economic policies both domestically and in emerging markets, and contending with a mercurial financial landscape, are issues and concerns that managerial teams must address. The ability of managerial teams to think and act strategically has arguably never been more important. A differentiating factor in strategic action and scenario planning is the ability of organizations to generate, deploy, and integrate the necessary information in a timely and consistent manner. Sustainability, and the business opportunities embedded within the area of sustainability and eco-friendly initiatives, provide organizations with another opportunity to differentiate product and service offerings. Organizations and the managerial teams in charge of strategic planning that seize the opportunities presented by sustainability as well as integrating these opportunities into existing business are well situated for future success.

FINANCE AND STRATEGY

Strategy and scenario planning are integral for continuous organizational success, but the process of strategic planning and business decision making requires large amounts of information. Not only does this process require large quantities of information, but the information must also be timely, accurate, and flexible enough to be utilized to evaluate multiple options. More than ever before, with rising competition emerging from all areas around the globe, supply chains extended and more complicated than ever before, and regulations differing from nation to nation, effective strategic planning is critical. Planning is not enough; organizations must be able to analyze the information available and to produce innovative solutions to existing business problems. In addition to effectively interpreting and analyzing this information, external stakeholders and market participants must also be kept informed of and appropriately approve these initiatives. Finance, traditionally, has been at the periphery of the strategic planning and innovative processes, gatekeepers of financial data as opposed to integral members of the process. With changes occurring in the finance and accounting professions, this categorization is shifting, and with the integration of strategy and a more comprehensive view of financial performance, there is an emerging trend toward a more integrated corporate finance function.

STRATEGY & SUSTAINABILITY

Strategy and strategic planning are critical elements in the success or failure of business initiatives, and management teams must be able to accurately judge the business climate and evolve accordingly. In addition to traditional forms of strategic analysis such as competitor and price actions, organizations must now take into consideration an unorthodox source of strategic pressure, i.e., financial resource availability. Following the financial crisis of 2007-2008, the market has been flooded with large amounts of liquidity, which has depressed interest rates and returns on strategic initiatives, and has complicated financial decision-making (Christensen & Bever, 2014). An abundance of capital is, simultaneously, a great benefit and a complication in the managerial decision making process. In order to generate returns acceptable by current financial metrics, organizations must invest in long-term initiatives capable of generating stakeholder wealth in both the short and long term. Innovation, against that framework, is not an optional occurrence to be undertaken sporadically, but an integral part of the business decision making process that must be continuously adopted and adapted. The challenge facing managerial teams, however, is to develop ideas and strategies to innovate in ways that truly create sustainable competitive advantages. Observing market evidence, it is apparent that sustainability is being considered

Sustainability is a mega-trend that has been discussed and debated in both the practitioner and academic literature for several decades, but the topic area is evolving, as business organizations are now exploring new ways to leverage this trend. Establishing green metrics, reporting standards, and paradigms such as the triple bottom line, are changing the way in which organizations report financial results. One critical component of non-traditional reporting that is still missing from practitioner usage are sets of standardized and objective reporting and evaluative metrics, and such assurance standards are imperative to the continued adoption of these concepts. This area, however, is not without controversy and/or debate. Firms might simply be greenwashing in an effort to appear sustainable, while neglecting the changes to the underlying business model that are necessary to make this an operational reality (Orlitzky, 2013). Research by Sabbaghi (2014) illustrates a potential area of research and marketplace realities related to sustainability and financial performance, and the trading market for carbon credits and other such instruments. Activities such as this clearly link the theory and concept of sustainability to both market realities and financial performance, but to truly integrate sustainability into strategic planning objectives, standards and reporting frameworks must be established.

Building on the seminal works of both Christensen and Porter, it is clear that strategy and strategic planning are clearly evolving. In addition to the 5-forces model pioneered by Porter and analyzed for decades, additional pressures are exerted on organizations. Regulators, supply chain partners, environmental groups, NGOs, and other external stakeholders apply greater levels of pressure than in the pre-financial crisis business environment. Of particular interest is the growing attention that organizations are paying to stakeholder reporting and information. Sustainability is of interest to a wide range of stakeholders, and it is well positioned to play a key role in stakeholder reporting and other innovative strategies implemented by organizations.

INNOVATIVE REPORTING

The financial and competitive landscape has changed dramatically since the financial crisis of 2007-2008, with organizations now facing increasing pressures from non-traditional sources. Involving suppliers, partners, and other stakeholders in the supply chain is a concept that can be leveraged to create value for all participants (Garriga, 2014). The very nature of this research, and stakeholder reporting in general, is an innovative concept to address demands of the marketplace. All stakeholders, not only financial shareholders, require timely and relevant information to make the complicated financial decisions that form the basis for market interaction. Particularly concerning innovative and strategic ideas, the dissemination of quality information is essential for stakeholder understanding and support of such innovative ideas. Facing demands and pressures for timely and relevant information from business partners, suppliers, regulators, and NGOs, organizations clearly must develop objective metrics and data points to satisfy these requests for information (Dawkins, 2014). The need for such metrics and analytic capabilities is abundantly clear in both academic research and real-world applications. Management teams that must contend with global supply chains, and different laws and regulations surrounding business operations (as well as matters such as intellectual property), must focus on developing and distributing the information that these non-financial stakeholders require.

Traditionally, and something that still holds true to the present, business and other organizations have been almost exclusively concerned with satisfying the needs and requests of financial shareholders. Additionally, the legal responsibilities of debt covenants and other creditor required information have long played dominated roles in the financial reporting process. Building on research by Mason and Simmons (2014), whose research advocates embedding varying aspects of sustainability into governance policies, results in additional insights. Sustainability reporting is evolving into a more and more prevalent form of non-traditional financial reporting, and this is presenting the organizations and individuals involved with opportunities to differentiate themselves from the competition. Integrated financial reporting, cited by many as the culmination and combination of non-traditional reporting methodologies, appears to be the next logical step forward in the innovation process, as it relates to financial reporting and disclosure. An issue that is imperative for organizations and financial professionals to address, before innovative reporting can become fully integrated to the mainstream, to establish quantifiable metrics and relationships between reporting and organizational performance.

Integrated reporting, mentioned above as a culmination of non-traditional reporting practices, represents a clearly-defined framework that organizations can further refine and develop. Spearheaded by the International Integrated Reporting Council (IIRC), the framework is a template for a new type of financial reporting. Summarizing the underlying motivations behind the creation of the integrated reporting template is essential to explaining the value proposition to potential users (Abeysekera, 2013). Presenting such information in a quantifiable and concise manner allows the organization to more effectively communicate the value delivered to the marketplace. More specific and relevant to the fields of accounting and finance, the development and implementation of non-traditional financial reporting, and integrated reporting, creates opportunities for the accounting to innovate alongside the marketplace as a whole.

THE ROLE FOR FINANCE AND ACCOUNTING

Finance and accounting occupy key roles in any organization. Internal controls over assets, payments, and cash, as well as the production and distribution of financial statements are essential functions of the finance function, but several trends are expanding this scope. Over 95% (Hughen, Lulseged, & Upton, 2014). Integrated reporting is a new template for financial reporting developed by the IIRC, with support from numerous institutional, regulatory, and investor groups. The opportunities and strategies that are available for both individuals and organizations that are willing to embrace sustainability reporting and leverage this reporting format into an integrated format are numerous (James, 2013). One of the primary benefits cited is the enhanced clarity and informative benefits that disclosing more comprehensive measures have for the firm. An opportunity for the organization, and the CPAs and financial professionals employed therein, to establish and rank opportunities and challenges is something that benefits both the organization and the users of financial information (Roth, 2014). The evidence demonstrates that the marketplace will react in a positive manner to such disclosure, and organizations that are able clearly and effectively disseminate this information to the marketplace stand to benefit (Monterio, 2014). Against this framework, it is clear that the finance and accounting functions stand at an integral junction in the movement toward innovation and non-traditional financial reporting.

The integral accounting and finance functions already create, modify, and distribute the quantitative information that is critical for strategic planning and managerial decision making, and extending this linkage to innovation and sustainable planning is not illogical. A market example of the realities transforming how organizations communicate with the marketplace is the Johannesburg stock exchange, which in 2010 mandated that all entities listed issue financial reports in the form of an integrated financial report. In order to fully account for the risk and opportunities associated with strategic ventures, organizations must link strategy to quantitative data and information, which an integrated financial report accomplishes via a more holistic view of business performance (Mustata, Matis, & Bonaci, 2012). A key tenet of integrated reporting that assists managerial decision makers is the creation of five types of capital. The importance of developing a standard template of model is an imperative for the continued growth of use of and integrated reporting template (Fifka & Drabble, 2012). Discussed previously, the need for standards, metrics, and assurance standards to create an environment in which organizations can evaluate non-traditional information, and innovative ideas, objectively is a key step. Strategic initiatives, as cited by Christensen and Bever (2014), are often unable to be measured with traditional metrics. The need for flexible, adaptable, and comparable metrics for developing and comparing innovative ideas, as well as this distributing information to stakeholders, is niche that the accounting and finance function is well suited to fill.

CONCLUSION

Strategy, strategic planning, and scenario mapping have revolutionized the managerial landscape, particularly since disruptive innovation was introduced by Christensen in 1997. As global economic and competitive forces continue to increase in both variety and intensity, the ability of organizations to think and act strategically grows increasingly important. New products and services, mergers and acquisitions, and refining existing offerings all require a managerial team that is able to incorporate a strategic mindset into the business decision-making process. Sustainability also provides organizations a way in which to streamline operations and differentiate offerings to the marketplace. Melding the two creates a unique opportunity, but an opportunity that requires timely and relevant information. In order for organization to effectively integrate and implement strategic initiatives of any nature, or to launch sustainability-oriented initiatives, the managerial team must have access to the appropriate information. The finance and accounting functions, already responsible for the production and custody of quantitative information, are well positioned to seize these opportunities and to advance up the value-added food chain from gatekeeper to position of strategic partner.

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