

■ BY MAJELLA GOMES

THINK INTEGRATED FOR SUSTAINABLE SUCCESS

INTEGRATED REPORTING MEANS INTEGRATED THINKING.

INTEGRATED thinking, and concomitantly, Integrated Reporting (IR) were the flavour of the day at the recent CFO Dialogue 2015 organised by MIA and CIMA. The theme of this year's Dialogue was "Integrated Thinking, Sustainable Business Success."

Datuk Zaiton Mohd Hassan, Vice-President, MIA, noted that IR is the next evolution of corporate reporting. "Companies are encouraged to focus beyond their financial performance with a strong emphasis on how activities in their companies have impacted the economy, environment and society as a whole. In doing so, organisations can create greater value over the short, medium and long-term."



Datuk Zaiton Mohd Hassan
Vice-President, MIA

Integrated thinking is a theme that CIMA has been emphasising urgently for quite some time. Charles Tilley, Chief Executive, CIMA, explained in his keynote address that, "It is important to scan horizons and continue understanding what is going on. Recent research indicates that technology can be devastating; in the US, almost half of all jobs will be replaced with technology in the near future. Businesses are struggling to keep up. They need to be agile and resilient, but it's hard."



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The new paradigm requires a change in behaviour to achieve long-term sustainability.”

This new paradigm includes a revolution in corporate reporting in the form of IR, which is one way in which the accounting industry can help address this change. “IR is important,” he stressed. “The present reporting system is broken. It is a compelling reason to move on.”

Although the idea of IR has been gaining traction in Malaysia, he said that overall take-up is still lagging. “The building blocks are there but there is a long journey ahead. Effective integrated thinking requires top-class accounting information and insight,” he stressed, adding that integrated thinking should encompass seven steps: defining value

within the context of the organisation; articulating how the business model creates value; understanding the trends that impact the operating environment; identifying metrics significant to value creation; gathering reliable data, analysing and deriving insights; demonstrating interconnectivity of strategy, objectives, performance, risk and incentives; and identifying what can be done to further enable integrated thinking and decision-making.”

Tone from the top will be a key ingredient in ensuring take-up from business, said Datuk Zaiton. As members of the C-suite, CFOs will be instrumental in advising management and Boards on the benefits of IR and promulgating the integrated thinking culture throughout organisations. “As a firm believer that the tone has to be

MOVING UP AND MOVING ON

Despite setbacks and detractors, IR has recorded some nascent successes, such as India’s Kirloskar Brothers Ltd (KBL) which published its first integrated report for FY 2013-2014. KBL makes water pumps used for circulation in thermal power plants, for fire-fighting, and to turn turbines and has supplied Malaysian clients for over 30 years.

Connecting to the dialogue via Skype, Dr. Joydeep Chatterjee, General Manager, Corporate Quality Assurance, talked about the company’s IR implementation measures. Like most firms taking the IR route, it has had many challenges.

Among them were determining what should or should not be disclosed; how much to disclose; what was ‘financial’ and what was ‘non-financial’; and who the target audience should be.

What KBL found, first hand, was that IR cannot be a sustainability report or addendum to the annual report. It has to stand on its own and be a product of connectivity and integrated thinking. Through the process of preparing the IR, the firm has achieved a shift in mindset across the organisation, and it now sees the possibility of innovation and tremendous opportunity in its business model. IR also enabled it to identify key stakeholders and establish a robust stakeholder engagement programme.

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MANAGING THE VALUE OF TALENT



People aren't widgets, no matter how tempting it might be to treat them as such. Hence, it stands to reason that a one-size-fits-all approach to human resources isn't optimum.

Rozaini M Sani, Senior Vice-President, Finance & Corporate Services, Johor Corporation, opined that HR



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Charles Tilley, Chief Executive, CIMA

management was more complicated than auditing and accounting. "HR development has to be done selflessly," he said. "Talent has to be seen not as resources but human beings. Volatility and external pressures complicate things. We should go back to basics and instil values in our employees correctly. We have to have discipline, especially in a chaotic environment. Organisations will outlive us, so institutionalising knowledge and capabilities is a must"

HR policies differ between companies; in Maybank for instance, the HR policy ensures people move around. "Out of ten vacancies, eight must be filled internally," said Nora Abd Manaf, Group Chief Human Capital Officer.

But she cautioned that talent can be a liability as well. "We cannot manage

it the way it was done before," she said. "Everyone has a direct stake in ensuring the whole story is told; we all need to be part of the solution." When Maybank started its process of transformation in 2008, only about 15% of its staff was under the age of 30. This has changed substantially; staff retention rate is at almost 90%. "Our staff is challenged all the time," she said. "They're always on the go – they don't have time to even think about leaving!"

Drilling deeper into accounting talent issues, CIMA's Charles Tilley urged the creation of top-class management accounting functions - including communications, information and stewardship - that will impact positively on value. "As professional accountants, we have an important role," he concluded. "Never lose sight of the fact that we have to have excellent people with the right skills and competencies, underpinned by integrity and professionalism. IR is management accounting. If we can get IR right, we can drive business better – which will be a good thing."

set at the top of the organisation, I am of the view that embracing IR is the responsibility of the Board of Directors and top management team. It requires an integrated thinking mindset as a way of breaking down the company's internal silos."

NEEDED: NEW COMPETENCIES

Tilley's keynote address was followed by an interactive dialogue segment, themed "Breaking the Silos for Value Creation" by Paul Druckman, CEO, IIRC.

Delegates were divided into six discussion groups, in which they analysed their respective situations and discussed how best to manage the most pressing issues. The groups were facilitated by Kasturi Nathan, Partner KPMG Advisory; Venkkat Ramanan, Head, CIMA Southeast Asia; Richard Bedlow, Executive Director, Assurance, PwC; Chong Chen Kian, Director, Professional Standards and Practices, MIA; Chris Hill, CEO SEA, Black Sun and Douglas Brown, Executive Director, BDO Consulting. Group participants came from a diverse range of industries, including manufacturing, oil & gas, telecommunications, banking, plantations and construction. The respective facilitators later presented the gist of each group's discussions.

Among other issues, Kasturi's group addressed the role of top management in driving the tone at the top and culture of the organisation, and hence, the need for concise, comprehensive, credible and fit for purpose information should be seen as the DNA of an organisation's reporting approach. Hill's group focused on value creation, and what could be achieved with this, together with the change of mindsets which was

necessary to address the dynamism of various business environments. The question of organisational culture was also raised, with some participants conceding that business models have had to undergo radical change in order to survive, and that the major requirement in these circumstances was the ability to deal with the pressures stemming from the attempts to achieve the business's long-term vision.

Summarising his group's discussion, Bedlow said that in Malaysia, the focus still tended to be on short-term financials, although people were beginning to look beyond financials and assessing how to value relationships. Professionals, especially, had to be able to manage this as it strengthens credibility.

The participants of Chong's group felt that IR was ready to take off in Malaysia but companies needed to be more integrated than they currently are, and stop operating in silos. They also were concerned about getting the firm's



vision right, particularly in the light of the accountant's changing role and Boards' expectations. The possibility of too much disclosure was one issue that many found worrying; how to get buy-in from top management was another.

GETTING FINANCE FUNCTION BUY-IN

Remarking that the range of businesses represented at the Dialogue made the responses very relevant, Tilley urged the finance function to step up as a driver for sustainable business and to garner top support. "The finance function will not be effective unless it is embraced by top management," he said. "But ultimately, we have to value ourselves; we have to take accountability for ourselves. As the guardian of the truth, the finance function should help the Board understand the business model – what the business is, where value is created, what is happening in the external world, and how that impacts on the business." Druckman concurred, adding, "You can start IR at the top but it is really driven by enthusiasm at lower levels."

Addressing the matter of too much disclosure, Druckman asked participants to consider what was actually being disclosed. "Listed companies are already disclosing anyway," he remarked. "Our Framework is clear in that if you fear your competitive advantage is being affected, then don't disclose, but from experience it is highly unlikely." He added on the question of investor demand that "the more information you give, the more they will question and be interested in. So don't wait for investors to ask you; give them the information before they ask for it! Evidence demonstrates they want strategic information."

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INTEGRATED REPORTING RISING

Paul Druckman, CEO of the International Integrated Reporting Council (IIRC) remarked that IR had come a long way since he first presented the concept at the World Congress organised by MIA in 2010. "Over 1,000 companies are now doing IR," he revealed. "And more than 750 are participating in IR networks globally." About 40% of the top 30 reports are currently presented in integrated format, indicating that IR is gaining traction, and companies are already transitioning into it.

Likening the company to a living system in a session on IR updates, he said, "Employees are its lifeblood, management keeps its heart pumping, and organisational culture is its DNA. Leadership and entrepreneurship are its soul, and governance keeps it fit for purpose. Research shows that 44 of the largest 100 economies in the world are actually companies, so the way they do things can affect the way we do things. When we talk about IR it's not about the report; it's about the company."



Paul Druckman
CEO of the International
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(IIRC)

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But has integrated thinking improved? Research in South Africa shows that Boards seem to think so, as well as the executive level, although at the Boards opinions are even more positive than management.

On a journey around the world some examples are that the Securities & Exchange Board of India (SEBI) now intends to bring about an integrated reporting regime; IR is a listing requirement in South Africa; Japanese multinationals NEC, Fujitsu and Mitsubishi are taking the IR route; 16 Korean companies which include Samsung and SK Telecom; in Hong Kong, the Swire Group has got on the IR bandwagon, and in Singapore, the Marine Port Authority, DBS and the Singapore Stock Exchange are all doing IR; here in Malaysia, Sime Darby has adopted IR while other leading companies have also expressed interest in taking up IR.

Despite these encouraging signs of early adoption, IR is looking for a stronger and larger take-up. "The accounting system is incomplete," Druckman concluded. "Let's be bold and make sure the accountancy profession steps back into its role of designing a system that is fit for purpose today." ■

