



Grant Thornton

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London School of Economics

37th Annual Management Accounting Research Group

**Cultural change and
business model shifts:
Impact on accounting**

14 April 2016

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37th Annual Management and Accounting Research Group



**Cultural change and business model shifts:
Impact on accounting**

14 April 2016

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Partner in Grant Thornton UK LLP

Past Chair, Grant Thornton UK Partnership Oversight Board,
UK Public Policy and Regulatory Group and Global Public Policy Group



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Cultural change and business model shifts - discussion

- globalisation = fast **pace of change** and **complexity**
- can financial **reporting** remain **relevant** to competing and **evolving user needs**?
- the **way forward** – **supplement** financial accounting with meaningful **management accounting** and **narrative reporting**
- accounting **relevance** – will **depend** upon **cultural change** (preparers, auditors and users)
- open **discussion** and Q&A

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Pace of change and complexity

"Any intelligent fool can make things bigger and more complex... it takes a genius, and a lot of courage, to move in the opposite direction."

Albert Einstein

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Pace of change and complexity – business models (1)



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Pace of change and complexity – business models (2)

Google in 2016

Market cap	\$500 billion
Revenues	\$75 billion
Countries reached	> 100



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Pace of change and complexity – business models (3)



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Pace of change and complexity – diverse user needs (1)

 **London**
Stock Exchange




Deutsche Börse Group



 **NYSE**

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Pace of change and complexity – diverse user needs (2)



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Pace of change and complexity – regulatory mission creep



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Pace of change and complexity – rise and stall of IFRS



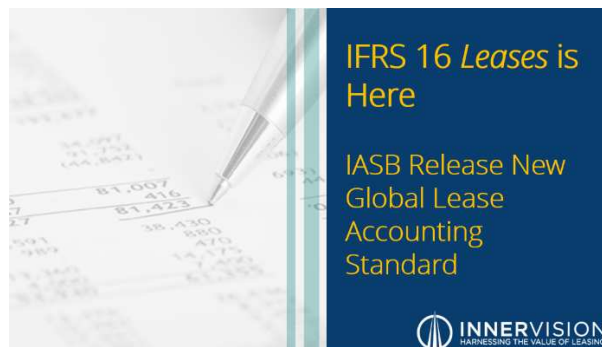
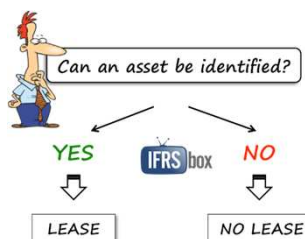
European Union adopts [a form of] International Financial Reporting Standards

19 July 2002

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Pace of change and complexity – IASB response



IFRS 16 *Leases* is Here

IASB Release New Global Lease Accounting Standard

INNERVISION
HARNESSING THE VALUE OF LEASING

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Relevance of financial reporting and evolving user needs (1)



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Relevance of financial reporting and evolving user needs (2)

THE WALL STREET JOURNAL

Adobe Systems Reports Higher Profits

Digital media recurring revenue up to \$2.35 billion as total revenue rose 9%



Adobe's Headquarters in San Jose, Calif. PHOTO BY AP/WIDEWORLD

By MARIA ARMENTAL

Updated June 16, 2015 6:04 p.m. ET

1 COMMENT

"Once you stop reporting [a KPI]... that is going to raise questions."

The New York Times

Valeant's Accounting Error a Warning Sign of Bigger Problems

By MICHAEL S. KATZ

Updated June 16, 2015



Michael Press, the outgoing chief executive of Valeant Pharmaceuticals, has been succeeded by Henry J....

Valeant Pharmaceuticals International's accounting confession may have sounded like a rounding error.

The embattled drug company said last week that it had wrongly booked \$58 million of revenue, a relatively small sum compared with its nearly \$10 billion in annual sales.

But investors had more cause for concern over the accuracy of the financial statements. Valeant said a special committee it had formed determined that "certain other accounting issues required review." The company also said two senior accountants had acted improperly.

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Relevance of financial reporting and evolving user needs (3)

Global Public Policy Committee – Global Survey of > **400 users** of audited financial information

Key findings:

- 1) **audited financial reports** continue to be **highly valued**
- 2) users (especially **investors**) want a **brighter light shone on the entity**
- 3) users also want more **information** on **systemic sectors**


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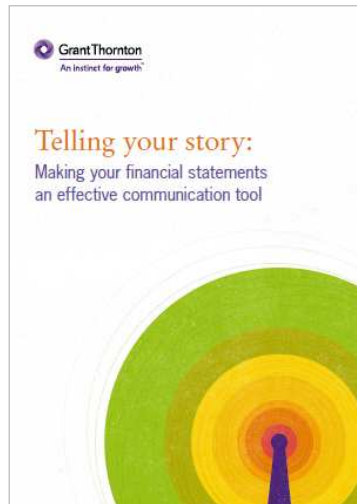
Relevance of financial reporting and evolving user needs (4)



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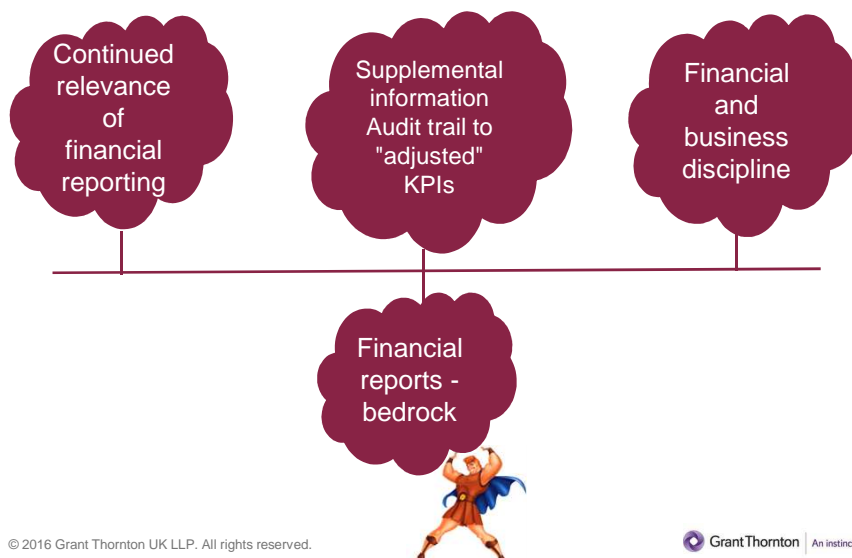
Relevance of financial reporting and evolving user needs (5)



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Relevance of financial reporting and evolving user needs (6)



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Way forward – supplementary narrative reporting

UK

FRC
BIS

EU

FEE
European Council

US

SEC
FASB

Global

EDTF
IIRC – Integrated Reporting

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Way forward – supplementary narrative reporting – UK Governance Code (1)



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Way forward – supplementary narrative reporting – UK Governance Code (2)



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Way forward – supplementary – IIRC



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Way forward – supplementary narrative information – IIRC

HOW IT ALL FITS TOGETHER

PURPOSE

SHAPING A VIBRANT ECONOMY



BUILDING TRUST
AND INTEGRITY
IN MARKETS



UNLOCKING
SUSTAINABLE GROWTH IN
DYNAMIC ORGANISATIONS



CREATING ENVIRONMENTS
WHERE BUSINESSES
AND PEOPLE FLOURISH

VISION 2020: THE GO-TO FIRM FOR GROWTH

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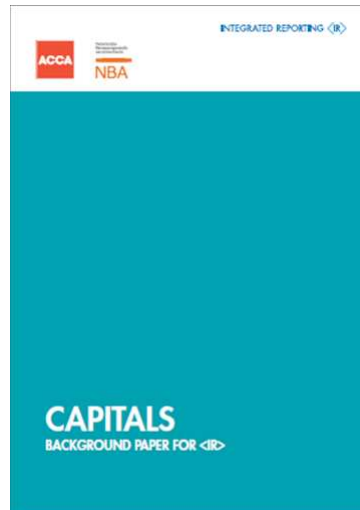
Way forward – supplementary narrative information – IIRC



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Way forward – supplementary narrative information – global – integrated reporting



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Way forward – supplementary – IIRC

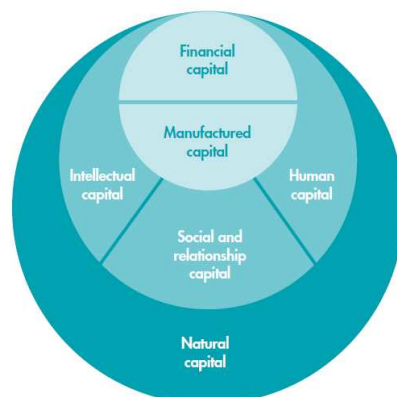


Figure 1: This diagram is one way to depict the capitals. Financial and manufactured capitals are the ones organizations most commonly report on. <IR> takes a broader view by also considering intellectual, social and relationship, and human capitals (all of which are linked to the activities of humans) and natural capital (which provides the environment in which the other capitals sit).⁵

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Way forward – supplementary narrative information – IIRC



"While we've heard strong support from corporate leaders for taking such a long-term view, many companies continue to engage in practices that may undermine their ability to invest for the future."

Larry Fink, CEO of Blackrock

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Way forward – supplementary narrative information – IIRC



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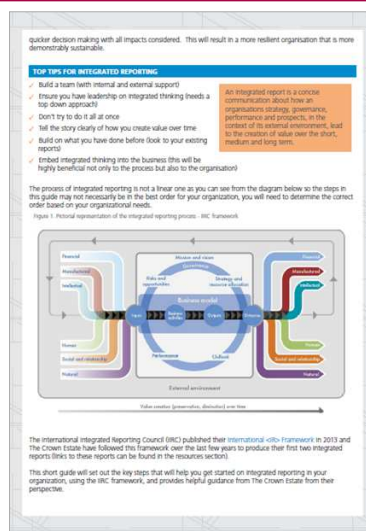
Way forward – supplementary narrative information – IIRC



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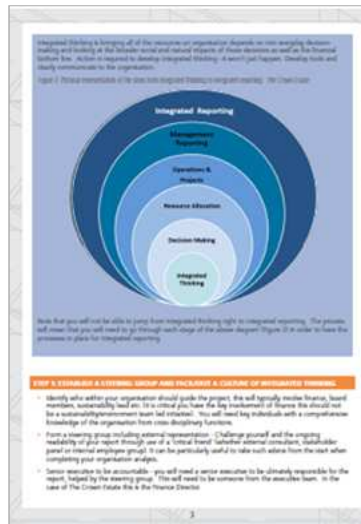
Way forward – supplementary narrative information – IIRC



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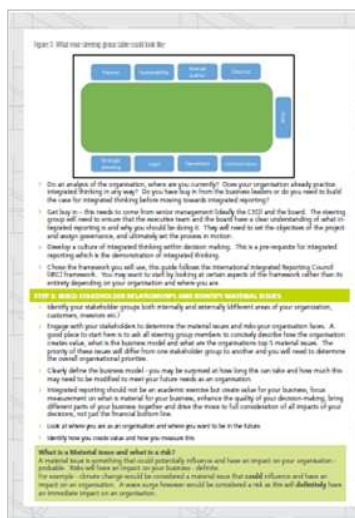
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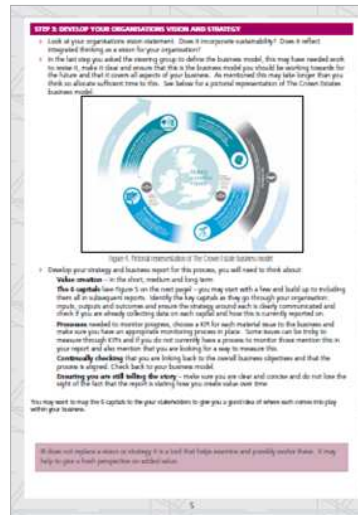
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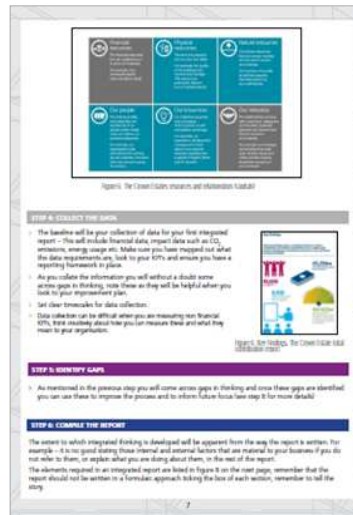
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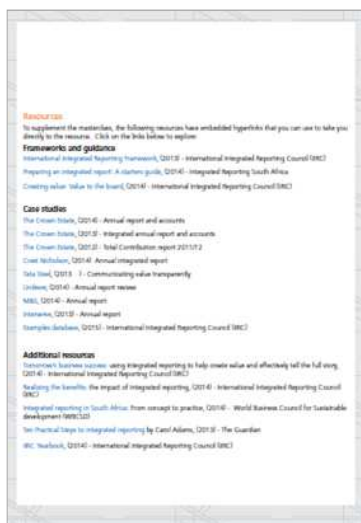
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Way forward – supplementary narrative reporting – EU directive on non-financial and diversity information



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Continued relevance of financial reporting will require cultural shifts

Focus was on

Absolute precision of numbers

Financial statements – IFRS measures

Send data to users

Information on individual entities

Focus will turn to

Pictures of broader information

Broader corporate governance measures

Using data to facilitate discussion

Use of big data and AI to understand systemic sectors

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Cultural change and business model shifts – call to action

- IASB - just STOP ! 
- Preparers - what am I trying to communicate to whom?
- Regulators - give space for innovation
- Users - how do I better communicate to make better decisions?

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Cultural change and business model shifts – conclusions

Glossary of texts referred to:

Grant Thornton *Telling Your Story*

<http://www.grantthornton.global/en/insights/articles/telling-your-story/>

UK Governance Code

<https://www.frc.org.uk/...Governance/UK-Corporate-Governance-Code->

Grant Thornton *FTSE 350 Corporate Governance Review 2014*

http://www.grant-thornton.co.uk/Global/Publication_pdf/Corporate-Governance-Review-2014.pdf

Grant Thornton *Strategic Review 2016*

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/strategic-review-2016.pdf>

IIRC Capital Background Paper for IR

<http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf>

Fortune Magazine Article on Business Model Disruption

<http://fortune.com/2015/10/22/the-21st-century-corporation-new-business-models/>

University of Singapore Research *Finding Higher Share Price Performance for ASEAN companies that adopt IR*

<http://www.kpmg.com/SG/en/IssuesAndInsights/ArticlesPublications/Documents/Towards-Better-Business-Reporting.pdf>

Nanyang University of Singapore Research *Tracking Superior Performance for [South African] Companies that adopt IR*

http://integratedreporting.org/wp-content/uploads/2014/04/Integrated-Reporting-and-corporate-valuation-Media-28-April-2014_NTU.pdf

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Cultural change and business model shifts – conclusions

Glossary of texts referred to:

Andy Haldane (Bank of England) *Interview company law and presumption in favour of the investor*

<https://www.youtube.com/watch?v=ZmUITuyRPd8>

GE Integrated Summary Report

<http://www.ge.com/ar2015/>

SAP Integrated Report

go.sap.com/integrated-reports/2015/en.htm

Generall Integrated Report

<http://www.ge.com/ar2015/>

Crown Estates *How to Implement Integrated Reporting in your Organisation*

<http://www.ukgbc.org/.../How%20to%20implement%20integrated%20reporting>

FEE Discussion Paper *The Future of Corporate Reporting*

http://www.fee.be/images/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf

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Questions

