**CPA contemporary business issue**

**Module 1: the accountant as strategic business adviser**

**Part A: the need for advice**

**The quest for productivity**

- Productivity = outputs as a ratio of the inputs = how efficient we are at producing goods & service
- Benefit of improved productivity can be shared
  - With employees (higher wages)
  - With customer (lower prices)
  - With suppliers (higher prices)
  - With government (higher taxes)
- Dramatic cost cutting / other short-term approaches -> can lead to false productivity
- Long term productivity improvement often requires investment in
  - Employee skills, training, development and culture, and combining this with new systems, technology and infrastructure
- Productivity – ethical dimension
  - Deploy people as resource in the most efficient manger – possible dehumanisation
  - Lower costs & productivity – can lead to safety & environmental degradation & reduction in living conditions
- High-cost countries – focus higher up the value chain and must innovate and expand into new areas

**Factors leading to the demand for advice**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Small enterprise</th>
<th>Mid-sized enterprise</th>
<th>Large enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Entrepreneurial leadership</td>
<td>• Entrepreneur less dominant, with small team of other professionals</td>
<td>• Separation of capital and management</td>
</tr>
<tr>
<td></td>
<td>• Focused product/ service range</td>
<td>• More sophisticated core business, but still has basic support processes (finance, hr)</td>
<td>• Wider product/ service range and multiple locations</td>
</tr>
<tr>
<td>Strategy</td>
<td>• Reacts quickly to business changes</td>
<td>• Market data and business planning beginning to be employed, often with outside help</td>
<td>• Slower response time to business changes</td>
</tr>
<tr>
<td></td>
<td>• Managing is intuitive, often no business plan</td>
<td>• Growth is through new products, new markets and integration</td>
<td>• Formal planning process and business/ strategic plan</td>
</tr>
<tr>
<td></td>
<td>• Growth is on a customer-by-customer basis</td>
<td></td>
<td>• Growth is through merger and acquisition</td>
</tr>
<tr>
<td>Customer/ community</td>
<td>• Few customers account for large part of turnover</td>
<td>• Growth of customer base</td>
<td>• Large, international customer base</td>
</tr>
<tr>
<td></td>
<td>• Close to their customers and customers’ business plans</td>
<td>• Moving away from the direct proximity of their clients</td>
<td>• Success or failure of the organisation is felt through the whole supply chain, the employee base and the wider community</td>
</tr>
<tr>
<td>Financial</td>
<td>• Private funding, family and/or employee owned</td>
<td>• External funding sought</td>
<td>• Capitalisation through public investors, exchange listing</td>
</tr>
<tr>
<td></td>
<td>• Often no formal budgeting process</td>
<td>Annual budget and operating plan</td>
<td>• Detailed budgeting processes</td>
</tr>
<tr>
<td></td>
<td>• Few conformance requirements</td>
<td>• Often still weak in applying accounting and tax matters with strong reliance on outside help</td>
<td>• Full finance and accounting function</td>
</tr>
<tr>
<td>Governance</td>
<td>• The entrepreneur manages and controls by observation</td>
<td>• Advisory board may be set up—mostly insiders</td>
<td>• Independent non-executive board</td>
</tr>
<tr>
<td></td>
<td>• Hands-on management and control</td>
<td>• Internal control becomes more formalised</td>
<td>• Formal and clear internal control and reporting structure</td>
</tr>
<tr>
<td></td>
<td>• No internal audit</td>
<td>• Internal audit function is likely to appear</td>
<td>• Full internal audit function</td>
</tr>
<tr>
<td>Work force</td>
<td>• Individuals are very important: multifunctional, cross-trained and loyal</td>
<td>• Employees still wearing several hats</td>
<td>• Formal and specialised functions and roles</td>
</tr>
<tr>
<td></td>
<td>• External support services needed (finance, hr, legal advice, it)</td>
<td>• Some support services brought in-house (finance, hr, it)</td>
<td>• Most support services brought in-house unless specific decision to outsource</td>
</tr>
<tr>
<td>It processes</td>
<td>• Technology implementation is as needed</td>
<td>• Using more automation</td>
<td>• Internally self-sufficient (or function outsourced)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Likely to have a disaster-recovery program focused on it functions</td>
<td>• Has formal contingency plans and business continuity plan</td>
</tr>
</tbody>
</table>
Requests for advice: operational—strategic—global

- Operational
  - Policies and processes are well followed?
  - Good cost control and cash flow management?
  - Efficiency and productiveness?

- Strategic
  - Right markets?
  - Future needs of our customer?
  - Future issues in the industry?

- Globally relevant issues
  - After-effects of the global financial crisis
  - Human-induced climate change & sustainability
  - Explosion of social media, live communication, cloud computing and big data

Counterpoint

- Some would argue that roles such as the audit of environmental information (e.g. Emissions, pollution and waste) require skills in engineering, environmental science and recording, capturing or auditing physical events, rather than skills in the auditing of financial information
- Response to these arguments is that the term accountant is incredibly broad, and the experience and qualifications of accountants span the whole spectrum of business and public sector activities
- 2 key expectations are that professional accountants
  - Make the right decisions about the services that they perform
  - Deliver services with professional competence and due care.

Providing and implementing advice

![Diagram](Image)

Table 1.2: Chain of events for business advisory services

<table>
<thead>
<tr>
<th>Stage</th>
<th>Example</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue</td>
<td>Lack of expertise</td>
<td>What causes the need for strategic advice?</td>
</tr>
<tr>
<td>Requirement</td>
<td>Expert advice</td>
<td>What does the business need to deal with the issue?</td>
</tr>
<tr>
<td>Request</td>
<td>To professional accountant</td>
<td>Some organisations will not proactively make the request, so accountants need to proactively sell their services and be in front of the client.</td>
</tr>
<tr>
<td>Investigation</td>
<td>Research and analysis</td>
<td>Ethical considerations should be included in the investigation.</td>
</tr>
<tr>
<td>Advice</td>
<td>Recommended action</td>
<td>The accountant needs to make sure that the advice resolves the issue. Again, ethical considerations are important here. The accountant may need to actively influence stakeholders to ensure buy-in and acceptance.</td>
</tr>
<tr>
<td>Decision</td>
<td>To follow recommendation</td>
<td>It is important to be influential in this process, so soft skills are vital. Make sure the process is timely, such that inaction or delay is not the reason a particular course of action must be taken.</td>
</tr>
<tr>
<td>Implementation</td>
<td>Actually follow recommendation</td>
<td>This is the most important step in adding strategic value to the organisation.</td>
</tr>
<tr>
<td>Review</td>
<td>To monitor progress or outcome of implementation</td>
<td>Regular monitoring and follow-up can help ensure that the implementation stage meets its stated objectives. If the desired outcome is not achieved, the review may need to feed back to the Issue, Advice or Implementation stages.</td>
</tr>
</tbody>
</table>
Accounting roles

6 main activities performed by professional accountants in business, as identified by the international federation of accountants

1. The generation or creation of value through the effective use of resources (financial and otherwise) through the understanding of the drivers of stakeholder value (which may include shareholders, customers, employees, suppliers, communities, and the government) and organizational innovation

2. The provision, analysis and interpretation of information to management for formulation of strategy, planning, decision-making and control

3. Performance measurement and communication to stakeholders, including the financial recording of transactions and subsequent reporting to stakeholders, typically under national or international GAAP

4. Cost determination and financial control, through the Use of cost accounting techniques, budgeting and forecasting

5. The reduction of waste in resources used in business processes through the Use of process analysis and cost management

6. Risk management and business assurance.

Providing strategic advice

- Traditional accounting roles and activities are often reactive—that is, they take place after the event.
- Contemporary accounting roles and activities, specifically strategic business advisers, need to be proactive

Table 1.3: Types of advice provided by professional accountants

<table>
<thead>
<tr>
<th>Financial management</th>
<th>Cash flows, working capital, fixed assets, capital expenditure, taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity and operations</td>
<td>SCM, improving and streamlining activities</td>
</tr>
<tr>
<td>Risk and internal controls</td>
<td>Business, strategic, operational, health and safety</td>
</tr>
<tr>
<td>Capital and organisational structures</td>
<td>Funding sources, outsourcing</td>
</tr>
<tr>
<td>People management</td>
<td>Succession planning, performance and rewards</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Environmental assessments and approaches, social impacts</td>
</tr>
<tr>
<td>Communications and information technology</td>
<td>Management information systems, customer relationship management</td>
</tr>
</tbody>
</table>

Soft skills—communication

- Being right is not enough. Just as important as having potential answers is to be able to communicate them in a manner that is readily understood by the receiver of the information
- Not just providing advice and information, you are also receiving feedback, interaction and information that you must incorporate into your messages

The accountant as internal adviser—a member in business

Figure 1.3: The roles and domain of the professional accountant in business

- Larger corporate and government bodies often have whole departments dedicated to providing support and advice
- The smaller enterprises that strong internal business advisory skills are very critical

Small-to-medium enterprises

- No single definition of an SME ranges are usually from
  - Micro business: zero to 10 employees
  - Small business: 11 to 100
  - Medium enterprise: 250 or 500
Smaller organisations often require generalist staff who have skills across a broad range of areas and who must perform a variety of tasks within the organisation.

As CPA Australia’s CEO has noted: ‘small businesses are key economic drivers and their state of health are not only indicators of broader economic performance but catalysts for such performance’

Example 1.6: understanding SME issues and focus (p.36)
- Confidence and growth
- Employment trends
- Access to finance
- Business advice
- Social media and online sales

Family-owned business
- ¾ of UK companies are family-owned
- Demonstrated strong identity and clear, longer-term vision
- The roles were intertwined between being a shareholder and being an employee.
- Difficulties also arose as growth occurred—for example, the increasing need for non-family employees, having to share control with external financiers
- A lack of separation of strategic and operational issues
- Succession planning also became an issue over generations.

Supporting entrepreneurial activity
- Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions

The accountant as external adviser—a member in public practice
- Areas where accountants have strong skills include:
  - Assessing entity structures and obligations
  - Developing manual and automated systems, processes and procedures coupled with strong internal controls, risk mitigation, performance measurement and reporting
  - Managing working capital operational issues in accounts receivable, accounts payable, inventory management and cash management.

Cross-selling and strategic partnering
- The opportunity then arises to partner with other accountants who offer specialised and complementary services in another accounting discipline.

Marketing
- In order to expand the service offering, accountants need to be able to communicate the new services that they are able to provide, and to explain why these services are useful to the client, and demonstrate that the pricing is appropriate

Strategic advice

Table 1.4: Provision of strategic advice

<table>
<thead>
<tr>
<th>Client behaviour</th>
<th>Potential approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware of approaching issues but paralysed and unable to make a decision.</td>
<td>In this situation the client may actually know the appropriate course of action, but feels powerless to take it or act upon it. In this case, step-by-step guidance through the process will be just as valuable as making the actual decision itself.</td>
</tr>
<tr>
<td>Inability to take decisive action about previously ‘loved’ parts of the organisation</td>
<td>A focus on identifying sunk costs and addressing the need for innovation and change are crucial here.</td>
</tr>
<tr>
<td>Often called ‘sacred cows’, there is a sense that these items (such as a once popular product or manufacturing facility) cannot be touched, despite poor ongoing performance.</td>
<td>Dealing with emotional and cultural attachment is just as important as the rational or logical analysis and decision.</td>
</tr>
<tr>
<td>Denial and avoidance—pretending that potential issues are not in fact occurring or serious; overestimating positive outcomes and ignoring reality</td>
<td>A firm focus on technical analysis of financial results, economic indicators and other factors to show the severity of the situation may be helpful here. Moving away from ideas and opinions and, instead, relying on numerical data and forecasts should help to remove emotion and move towards more disciplined action.</td>
</tr>
<tr>
<td>A lack of urgency, with positive but slow action when faster, decisive movement is required.</td>
<td>Scenario analysis—that shows the expected outcomes of different implementation schedules, may help to generate more intensity towards implementation.</td>
</tr>
<tr>
<td>Inaction and limited ability to respond due to lack of skills, financial or technical resources</td>
<td>Support with training and skill development combined with creating potential future scenarios and step-by-step action plans for achieving outcomes.</td>
</tr>
</tbody>
</table>
From reporting to advising
- The strategic adviser can quickly provide information to a client about whether there is a problem, such as a negative trend line, an increase in bad and doubtful debts or a declining cash balance.
  - Reviewing the systems and processes for issues such as:
    o How and when invoicing is done
    o How credit terms are established
    o Establishing whether statements are provided
    o When and how reminders to customers are made
    o How slow payments are followed up.

Part B: advising beyond traditional accounting areas

Broadening the focus
- From costs to include physical flows (such as inputs of energy, water and oil in terms of volume), physical outputs (such as the volume of waste and emissions) and the costs (such as carbon prices) attributed to these physical amounts
- The global reporting initiative (GRI) provides guidance for sustainable reporting
  - In the contemporary environment, accountants therefore need to be aware of the focus on sustainable SCM, both from an external reporting perspective and when providing SCM advisory services to organisations.

Table 1.5: GRI supply chain guidelines

<table>
<thead>
<tr>
<th>Supplier selection</th>
<th>List the economic, environmental and social criteria used when selecting new suppliers, and describe how the use of these criteria is encouraged within the organisation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier management</td>
<td>Explain:</td>
</tr>
<tr>
<td></td>
<td>- how expectations are established and defined in contracts with suppliers to promote improvement in economic, environmental and social performance (including targets and objectives);</td>
</tr>
<tr>
<td></td>
<td>- how suppliers are incentivised and rewarded for economic, environmental and social performance; and</td>
</tr>
<tr>
<td></td>
<td>- feedback and dialogue mechanisms for suppliers.</td>
</tr>
<tr>
<td>Product and service design</td>
<td>Identify changes, and describe their outcomes and progress.</td>
</tr>
<tr>
<td>Certifying and auditing suppliers</td>
<td>List the type, system, scope, frequency and current status of certification and audit.</td>
</tr>
<tr>
<td>Supplier termination</td>
<td>Describe systems in place to assess the potential economic, environmental and social impacts of terminating a relationship with a supplier, and strategy to mitigate the impacts.</td>
</tr>
</tbody>
</table>

Physical accounting
- Recording and reporting on the Use of different types of physical materials and the volumes used, consumed or transformed
- Considerations of waste, commercial and environmental sustainability, continuity of supply chains, and the effective use of resources
- When companies start producing and analysing this information, it can be a catalyst for change. Consider the following examples:
  - McDonald’s moved away from polystyrene to recyclable packaging for its hamburgers.
  - Dulux and other paint companies create water-based paints that have low or zero volatile organic compounds.
  - MonoSol has developed soluble and even edible packing films that replace plastic.
  - Eads (the parent company of airbus) uses three-dimensional printers (additive manufacturing technology) to ‘print’ aircraft parts rather than manufacture them, significantly reducing their waste of metal alloys, and cutting weight by up to 50%, which in turn saves fuel costs (Andy 2011).

Management accounting and the environment

Physical environmental management accounting (PEMA)
- Includes the Use of tools to record material, energy and water flows, as well as incorporating physical amounts into budgets, forecasts and capital investment evaluations
- Performance evaluation in regard to environmental criteria, developing systems that minimise pollution and waste and improve recycling
  - Capturing the total energy usage for the period and comparing it to budget
  - Identifying the usage between peak and off-peak times and maximising off-peak usage
  - Assessing the emissions from the energy used and identifying ways to reduce emissions
  - Retrofitting high-use machinery with meters to assess energy usage and to look for efficiencies.
Monetary environmental management accounting (MEMA)

- Management activities where EMA may typically be used for internal purposes include:
  - cost management
  - cost allocation
  - inventory and production planning
  - investment appraisal
  - performance evaluation and benchmarking
  - product/service design
  - product/service mix
  - product/service pricing
  - purchasing
  - SCM
  - External financial and environmental reporting (UN 2003).

Environmental costs and revenues

- Externalities transfer costs from the organisation to society

Integrating environmental measures—extending the balanced scorecard

- Environmental performance measures
  - volume or percentage of waste
  - number or percentage of suppliers certified
  - percentage of waste recycled/reused
  - volume of output per input
  - volume or percentage reduction in emissions
  - Proportion of non-toxic, dissolvable materials.

- BSC reporting — by providing detailed results for leading indicators relating to customers, employees and processes, it is hoped that attention will be devoted to issues quickly, and that appropriate changes and controls can be put in place to influence the financial (lagging) results.

- 2 ways of incorporating environmental aspects into scorecards
  - Integrate measures throughout existing perspectives
  - Create separate perspective or area for environmental results
    - Benefit — it demonstrates the importance and attention being devoted to this area
    - Downside — seen to be a separate, add-on and tokenistic component
    - Downside — tend to focus on outputs or results, rather than the drivers, causes or inputs

Part C: ethical interaction

The code of ethics

- Accountants are expected to be able to tie below factors together
  - Quantitative/financial factors
  - Qualitative/non-financial factors
  - Strategic and operational attributes
  - Ethical, social and moral implications.

- Mandatory requirement to comply with the compiled apes 110 code of ethics for professional accountants (the code)

Fundamental principles:

- integrity — to be straightforward and honest in all professional and business relationships.
- objectivity — to not allow bias, conflict of interest or the undue influence of others to override professional or business judgments.
- professional competence and due care — to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques, and to act diligently and in accordance with applicable technical and professional standards.
- confidentiality — to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not to disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor should they use the information for the personal advantage of the member or third parties.
- professional behaviour — to comply with relevant laws and regulations and avoid any action that discredits the profession

The code also provides a conceptual framework for members to apply as follows:

- identify threats to compliance with the fundamental principles
- evaluate the significance of the threats identified
- apply safeguards, when necessary, to eliminate the threats or to reduce them to an acceptable level

Addressing conflicts between organisational stakeholders

- Potential conflicts that can arise between economic, social and environmental issues
- How accountants’ provision of analytical and advisory services can help organisations to identify and navigate these issues
- Example 1.13: potential conflict no. 1: societal improvement from outsourcing?
- Example 1.14: potential conflict no. 2: oil or ethanol — the lesser of two evils?
- Example 1.15: potential conflict no. 3: capacity to pay — extracting excess profits
Accountants as facilitators of ethical business behaviour

- An increasing focus on stakeholders that is reflected in external reporting requirements (such as with sustainability reports), and also in internal systems (with the rise of non-financial measurement systems such as BSCs)
- In addition to reporting and analysing financial performance, accountants are also designing non-financial performance measurement systems.
- Clarke believes that trust, reputation, integrity and professionalism are powerful interlinked, and can be a guiding force for organisations
  - Organizations that conduct their affairs with integrity are trusted
  - Trusted organizations gain a good reputation
  - Organizations with a good reputation are consistently successful
  - The public expects higher standards of integrity from members of professions (IFAC 2008, p. 10).
- Accountants therefore need to demonstrate ethical business acumen—combining technical competence with a detailed knowledge of broader issues affecting industries, the economy, the environment and society

Part D: human resource issues and complexity

- The ability to analyse and assess employee-based issues and to include these in formal recommendations and plans is an additional set of skills that accountants require

Managing people

Cost
- A major cost that often has limited visibility is employee turnover
- Hiring new staff and training them so that they can contribute productively takes time and the cost can be significant, and so initiatives focused on employee retention should be developed

Assets and knowledge
- Well-trained and highly skilled employees are able to improve an organisation’s productivity well beyond that of its competitors and thus provide a significant advantage in the competitive business environment
- Human capital is the primary component of intellectual capital and is vital to the creation of organisational value.
- Organisations that succeed in building a corporate culture that engages, unifies and motivates its employees to achieve corporate goals are those most likely to be profitable

Relationships
- Developing these relationships between organisational areas and with customers, suppliers, lenders and owners is an essential part of building and growing a successful organisation
- The mutual dependence that exists between the management of an organisation’s HR and its business profitability

Contemporary people management issues

Table 1.6: some people issues faced by contemporary business leaders

<table>
<thead>
<tr>
<th>Issue</th>
<th>People dimension</th>
<th>Business dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>Determining and building innovative skills handling employee ideas and suggestions building a corporate culture that rewards innovation</td>
<td>Keeping ahead of competitors exploring for new ideas exploiting the right ideas for new products and services innovation through mergers and acquisitions</td>
</tr>
<tr>
<td>Business ethics</td>
<td>Determining how best to train effectively in business ethics dealing with grey areas preserving levels of trust in the workforce selecting and establishing an ethics arbiter</td>
<td>Costs of unethical behaviour damage to corporate image measuring and reporting ethics compliance</td>
</tr>
<tr>
<td>Offshoring</td>
<td>Impact of domestic job losses on the current workforce redundancy costs management of a remote workforce overcoming language issues morale issues for continuing local staff industrial action</td>
<td>Requirement to reduce cost base gauging customer satisfaction with offshored capability dealing with privacy and security concerns consequences of industrial action increased risk of business disruption damage from disgruntled staff</td>
</tr>
<tr>
<td>Teleworking and virtual work</td>
<td>Increasing the talent pool incorporating flexible working hours supervision and performance evaluation of virtual workers setting and enforcing virtual work policies remote location health and safety engaging virtual workers in corporate activities and culture</td>
<td>Reducing infrastructure costs insurance and workers’ compensation liability quality control of virtual work outputs productivity improvement</td>
</tr>
<tr>
<td>Talent management—acquisition and retention</td>
<td>Accessing scarce skill sets identifying critical skills identifying talent within the workforce keeping talent managing age profiles for critical skills succession planning long-term effects of reliance on contractors</td>
<td>Marginal costs of scarce skills costs of skills gaps costs of workforce turnover acquiring skills via mergers and acquisitions (M&amp;A) outsourcing or insourcing recruitment financial incentives to keep key staff from leaving the company (golden handcuffs)</td>
</tr>
<tr>
<td>Skills maintenance</td>
<td>Balancing business requirements with personal interests identifying skills that need to be updated or are becoming obsolete motivating people to retrain dealing with redundant skill sets</td>
<td>Maintaining operational capability while training for innovation costs and benefits of training to keep skills up-to-date certification costs outsourcing or insourcing training</td>
</tr>
</tbody>
</table>
Example 1.16: teleworking

Telework is defined as ‘the Use of information and communication technology to support work activities away from the office’

The defining issue—trust
- It requires the management of an organisation to have trust in the individuals involved

Why organisations choose teleworking
- A way to reduce energy use in office buildings, reduce the Use of public and private transport for commuting and to improve work/life balance for the affected workers

Does it actually work?
- Productivity in fact increased... this study also found that 90 % of teleworkers regarded their remote work as being as good as, or better than, work done in traditional workplace environments (Campbell & McDonald 2009, p. 7).

The opposing view
- This highlights the tension between the benefits of teleworking and the need for face-to-face interactions
- The spontaneous interactions, as well as the information-rich non-Verbal communication provided when people work together in person, need to be reproduced in some way for telecommuting to become fully accepted

The impact on employees
- The benefits of teleworking for employees range from improved work–life balance and a reduction in the stress of commuting to the ability to live where you want
- Many non-teleworkers were reluctant to take it up, possibly due to ‘perceptions about increased workloads, [and] potential for work/private life conflict

The impact on employers
- Reductions in operational costs
- Increases in the level of productivity
- Being a driver for innovation
- Improved recruitment and retention outcomes, particularly when telework is implemented to help to overcome any skill shortages that are caused by geographical barriers

A reduction in absenteeism associated with short-term staff family issues and through improving work–life balance for staff (Australian government 2014).

Making business sense of people management issues

[Diagram of corporate social capital, financial soundness, intellectual capital, external partner networks, relational capital, human capital, structural capital, human sigma, corporate culture, sense-making, vision, values, leadership branding]