Book review

Can accountants save the world?

Title: **Six Capitals** Author: **Jane Gleeson-White** Publisher: **Allen & Unwin**

Australian business writer Jane Gleeson-White sets the scene for *Six Capitals* with brief portraits of the three great waves that have created the modern accounting profession: the first was the ancient invention of agriculture and trade that necessitated the initial sets of accounts.

The second was brought about by the development of banks, capital and wage labour. Those mediaeval masters of early capitalism, the Venetian and Florentine moneylenders and traders, developed double-entry bookkeeping to keep pace with complex operations. The industrial revolution, which brought forth cost accounting, was a natural progression of this wave.

It's the third wave, our modern information age, in which accountants are struggling to put numbers to intangibles, that brings new challenges that have yet to be adequately met, she argues. Accountants themselves, Gleeson-White says, have long noticed the increasing divergence of market capitalization and the book value of companies.

Beyond what these divergences say about a company's risk or outlook, they also reflect the fact that traditional financial reporting represents a shrinking portion of an organization's true value – in some cases as low as 20 percent. As intangibles grow in proportion, there is crucial need not just to properly value the obvious ones – such as brand names – but to identify the less obvious.

In Gleeson-White's view, the audit community is guilty of often ignoring "intangibles such as knowledge, design, planning, research and development, branding and advertising."

Among the consequences of poor accounting: Earth suffers. The production of soap devastates rainforests while a simple hamburger has hidden costs, such as its carbon footprint and its effects on water depletion, soil degradation and human health. "The daily operations of business are destroying the planet and societies... because they are governed by one sole legal obligation: to maximize profit," she argues.

Who can step up to change the world? Accountants, of course. Their pivotal role as auditors and valuation specialists enables them to ascertain the full costs on society of big business.

Gleeson-White acknowledges that many non-accountants have an interest in saving the planet from corporate devastation. She cites Stephen Waygood, the British investor who, as Chief Responsible Investment Officer of Aviva Investors, takes a long-term view. "If the information we rely on is thin, then a short-termist view will prevail in the capital markets," she states.

How then to increase the stock of information available? The hint is in the title, *Six Capitals*, in which "capital" refers broadly to the store of value that an organization can use in the production of goods or services. The six, in this case, are those identified by the International Integrated Reporting Council: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. Together they represent stores of value that are the basis of an organization's value creation.

Gleeson-White then offers something of a paean to integrated reporting. She compares the release of the International Integrated Reporting Framework in 2013 to Luca Pacioli's codification of double-entry bookkeeping in his landmark 1494 treatise *Particularis de computis et scripturis* that helped create modern accounting.

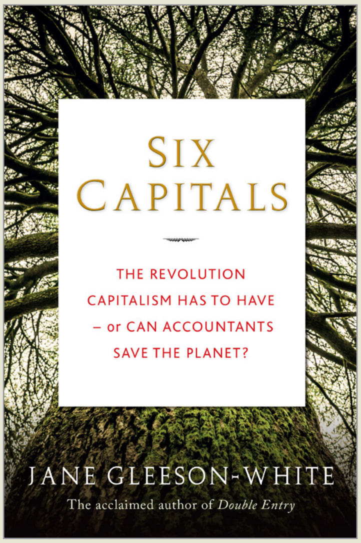
To be fair, she does point out that integrated reporting is in its infancy (see interview on this page), with only South Africa and France mandating its use (as of the end of 2013). She acknowledges that some accountants have questioned its clarity. What is the difference between "human capital" and "social and relationship capital," BDO Ukraine asked the IIRC in a comment letter.

Gleeson-White also tells the story of Coca-Cola HBC in Greece: the release of its first integrated report in 2014 coincided with the dismissal of more than 1,500 workers: financial capital trumped human capital under the guise of cost leadership. But to be fair, any business entity that sets out to save the planet will still be obliged to placate its investors and compete for market share. Even Aviva Investors likes to make a handy profit.

Author interview: Jane Gleeson-White

Despite the fact that *Six Capitals* follows on from her 2012 bestseller, *Double Entry: How the Merchants of Venice Created Modern Finance*, about the revolutionary advance in bookkeeping, Jane Gleeson-White doesn't want to be stereotyped as the muse of accountants.

Speaking from her Sydney home, Gleeson-White says there probably won't be a third volume about the profession. "I think I'll let accountants get on with the work at hand, which is enormous."



Though daunting, Gleeson-White is confident that CPAs can rise to the occasion – and make financial reporting better. She is heartened that much of the push comes from within what is a younger, more progressive profession. "I would say that most of the accountants I've directly spoken to in relation to these new initiatives have been in their 30s and 40s, and some of them in their 50s."

Many of the accountants she met during the research for *Six Capitals*, Gleeson-White says, are disaffected with the kind of financial reporting that contributed to Enron and subsequent scandals occurring. "Part of the integrated reporting initiative is a result of the failure of the accounting profession to behave in ways that might be exemplary."

The younger generation is inspired by new ways of thinking about business and accounting for the 21st century, she says, marveling that even in New York – "the heartland of capitalism" – minds are opening to the possibilities offered by integrated reporting. "They are looking at the long term to the future of the planet and their children and grandchildren."

She acknowledges that despite the grandiose ambition of the book's title, she is not convinced that integrated reporting is the only answer. "I have great doubts myself about integrated reporting's potential to save the world, but we can only see this as really early days and we haven't worked how to do it properly."

Accounting for a broader stock of inputs and transactions, Gleeson-White argues, is a transition that has to be made in all dimensions. "From stock markets to investors to regulators, all sorts of different bodies have to make this shift," she says.

Mounting disclosures are one issue that has made financial reports less clear. "Regulatory frameworks are still struggling with the legacy of requirements of the last 50 years," she points out.

For Gleeson-White, greater transparency does not necessarily mean a heavier burden. That's where CPAs can help, she points out. "Many accountants in the field believe a lot of red tape needs to be cleared away from financial reporting."