

Purpose *Beyond* Profit

The Value of Value -
Board-level Insights



INTEGRATED REPORTING <IR>

Black Sun
STAKEHOLDER COMMUNICATIONS

Purpose Beyond Profit:

The Value of

Purpose Beyond Profit: The Value of Value – Board-level Insights is a survey of executives from across the globe that seeks to understand trends and challenges in measuring, disclosing and understanding the value that companies create. Questions covered a range of topics investigating how value is thought about and understood, how companies approach strategic planning and performance measurement, and whether executives believe that they and investors have the right information for decision-making. The survey underlying this report is tied to an earlier survey, providing some indications of evolution in thinking over time.

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Value

Executives globally agree on the increasing benefit of understanding and communicating the value creation potential of their organisations to build relationships with stakeholders and improve integrated thinking and strategic decision-making. But our latest *Purpose Beyond Profit: The Value of Value - Board-level Insights* survey shows executives lack the management and reporting information to understand and interpret the future drivers of their business.

The story of how value creation is achieved and sustained is important, not only for executives – who are responsible for the successful stewardship of the business – but also for a wider range of stakeholders. In many ways, the integrity of the value creation story is essential to building trust in organisations.

Executive insights on understanding and explaining

Value

The latest *Value of Value* survey shows that a substantial majority of those surveyed, 79%, agree that using a longer-term perspective on strategic planning would improve value creation potential. Recent research substantiates this view: companies with longer-term perspectives have been found to be more profitable, with higher market capitalisations.

Executives also believe that the importance of meeting the expectations and needs of customers and inspiring and engaging employees will be much more important in the future. Our findings are that the importance of stakeholders other than customers and investors is growing significantly. This finding highlights the growing recognition that businesses rely on a broader set of resources and relationships. Businesses will need new models of management, measurement and leadership to fulfil their purpose and create value for all stakeholders.

"We have to get better at looking at the bigger picture, where our driver is not profit above all else,

as this is an unsustainable business model," one survey respondent noted.

Understanding and being able to communicate how businesses create value is critical, not just for attracting investors, but also to build relationships with other stakeholders and improve integrated strategic decision-making within companies.

Our research found that 93% of executives think that effectively explaining value creation in corporate disclosures is important. Executives reported that strategic information, future-oriented information and data, and information about non-financial dimensions of performance are particularly important really to understand business value creation.

Despite wide acknowledgement by executives that a longer-term view and a broader range of performance metrics are key to improved performance and long-term sustainability, the majority are struggling. Only 11% of survey respondents report being able to make decisions using a broad range of internally generated data, beyond financial metrics, and only 24% believe external reporting

creation

does a very good job of meeting the information needs of investors and other stakeholders.

While companies develop tools and data to help them understand and report on non-financial dimensions of performance, a recent survey of investors found that nearly 75% of respondents are using non-financial information in investment decisions at least occasionally or on a case-by-case basis^[1]. While governance is the aspect investors look at most often, more than half report that they consider information about the management and performance of material environmental and social issues.

Meanwhile, integration of financial and non-financial information is also a focus for investors, but lack of integration is not their chief concern. The main barrier to using non-financial information in investment analysis is the lack of high-quality, material information. Investors claim that using non-financial information is time consuming and costly, in part because companies disclose not only low-quality information but significant quantities of immaterial information.

The biggest factors that limit the use of non-financial information include: lack of appropriate quantitative environmental, social and governance information (55%); lack of comparability over time (50%); and questionable data quality (45%)^[2].

The good news from our survey is that 38% of executives report their organisations are actively working on capturing new data and creating tools to understand their performance more broadly. Companies are taking action to close the gap between the information that is reported and disclosed and the information that is needed both internally and externally.

There is widespread agreement that, in the long run, new types of information are needed to maximise insight into value creation. While companies are clearly on the right track, building new information systems and collecting new types of data is a long-term process.

Transforming,
measuring and
reporting on

Va

THE VALUE CREATION STORY IS VALUABLE

In our survey of executives across the globe, we found that a majority, 93%, think effectively explaining value creation in corporate disclosures is important. Beyond attracting investors, good information about value creation can improve both relations with other stakeholders and internal decision-making.

At the same time, a majority reported a lack of confidence that their businesses disclose the right information externally, or capture the right information internally.

Only a small minority of executives surveyed, 24%, believe that their current corporate reporting adequately meets the information needs of investors and other key external stakeholders, while even fewer, 18%, say that publicly disclosed information reflects the information they need to run their business. This lack of confidence in the information companies gather and report is fairly consistent across regions.

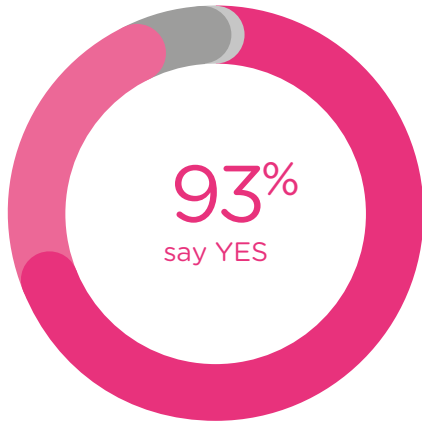
Our finding that executives do not believe they are disclosing the information investors really need aligns with findings from recent investor surveys. While investors still rely on annual reports to a large extent, they also report that the information they receive is generally inadequate to assess future value creation potential. Research indicates that investors want a broader range of information, going beyond short-term financial data, to help manage investment risk, evaluate industry dynamics, validate an investment thesis and assess a company's forward-looking information.



93%

Agree effectively explaining value creation in corporate reporting is important

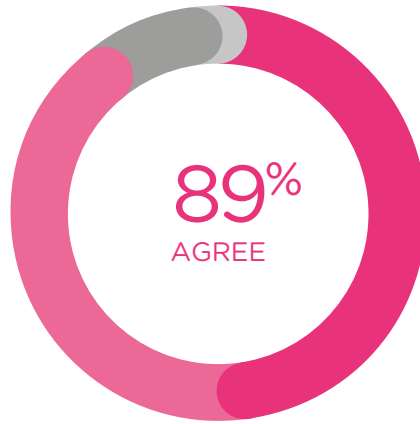
Executives agree on the need to shift focus to wider value creation...



Q As a CEO/CFO/COO, how important is it that you can effectively explain how your business creates value for the long term through your corporate reporting?

Yes, very much	69%
Yes, somewhat	24%
No, not really	6%
No, not at all	1%

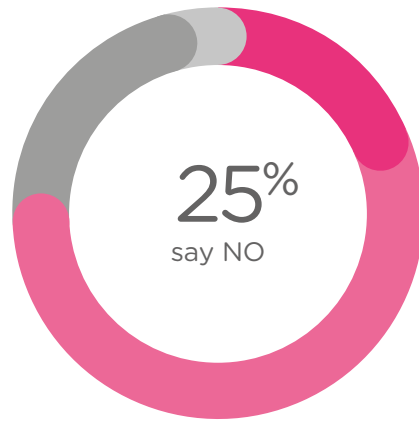
...and explain wider value creation...



Q To what extent do you agree that organisations need to shift their focus from pure shareholder value creation to wider value considerations such as customer satisfaction, value to society and co-creation of value through other external relationships?

Strongly agree	48%
Agree	41%
Disagree	9%
Strongly disagree	2%

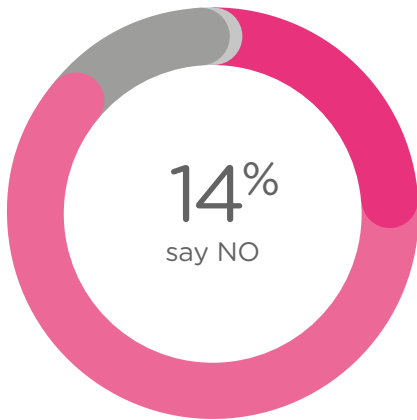
...but feel current corporate reporting does not meet internal information needs...



Q Do you feel your current corporate reporting meets internal information needs for decision-making purposes?

Yes, very much	18%
Yes, somewhat	57%
No, not really	21%
No, not at all	4%

...or the needs of investors and other key stakeholders.



Q Do you feel your current reporting meets the information needs of investors and other key external stakeholders?

Yes, very much	24%
Yes, somewhat	62%
No, not really	13%
No, not at all	1%

BALANCE OF POWER CLEARLY SHIFTING

There is widespread agreement that companies are measuring and reporting on a narrow view of value creation. Across all regions, the majority of executives, 89%, agree that organisations need to shift focus to wider value creation. Considerations such as customer satisfaction, value created for society and co-creation of value through other external relationships are becoming more important to future success.

Our finding is that companies are reporting a narrow range of information because they are capturing and producing a narrow range of information. Executives believe the information and processes they currently use for internal decision-making could be improved, with a majority of respondents reporting dissatisfaction with the information they have, reinforcing the need for a broader range of information. Understanding why this is true is important to understand how to close the information gap and seize the opportunity of capturing and providing a more holistic set of information about value creation to support better decision-making.

89%

Agree need to shift from shareholder-only focus

Research from CIMA and the Association of International Certified Professional Accountants (the Association) published in 'Joining the Dots'^[3] shows that organisations that have advanced capability in the four Principles to create and preserve value underpinning the CGMA Global Management Accounting Principles © - Influence, Relevance, Analysis and Trust - enjoy a decision-making advantage^[4] - for example, in terms of better performance, improved strategic execution, and fewer failures of strategic initiatives due to delays in decision-making and reduced susceptibility to delivering flawed information to decision-makers.

The practices of management accounting as described by the Global Management Accounting Principles provide the integrated information required to support integrated thinking and decision-making, in particular taking into account both financial and non-financial performance across multiple timeframes. This integrated information is the foundation for a shared understanding of how an organisation creates value through its business model.

Integral reporting
pieces of the

Value
creation

Accounting and information systems are primarily geared to producing financial information. While this is important and businesses can't remain viable without maintaining profitability, financial information is not providing a complete picture of whether and how companies are truly creating value.

Survey respondents reported three areas where they see significant information gaps in their businesses: quality information about strategy; business model; and information about other non-financial dimensions of performance. These types of information are considered particularly valuable for understanding future performance.

STRATEGIC INFORMATION IS KEY TO FUTURE PERFORMANCE

Across all regions and sectors, strategic information is what executives believe to be the most critical to understanding and communicating the short, medium and long-term performance of businesses. A majority of executives, 84%, believe strategic information is most critical, representing a significant increase from prior survey results, an indication that strategy may be growing in importance.

While strategy is the area executives consider most important to understanding future performance, they don't believe they are capturing the right information to have true insight. 84% of survey respondents reported that strategic information – including objectives, product pipelines, SWOT analysis and core competencies – was most critical to understanding future business performance. About half said that their company is only somewhat successful in capturing the strategic information they need to run their business, while nearly 20% knew they were not capturing the right strategic information.

This fits with an overall finding that executives don't believe their company is successfully capturing the most essential information to make important business decisions.

% of executives with a high level of confidence in the information captured by their organisation

picture

23%

Operating environment information (including industry analysis)

29%

Operational metrics (including capacity utilisation and employee satisfaction)

28%

Strategic information (including goals and competencies)

12%

Business impacts (including environmental and social)

24%

Business model (including what, how and by whom value is created)

A business's strategy is its plan for moving forward, and the implementation of a strategy reflects the choices and decisions used to guide a company to greater profitability and success. Executives believe that strategic information is critical for understanding future value because it gives insight into the rate of change and the success of change management. As change has become faster in many industries – and many aspects of life – understanding and managing change are more important than ever.

Companies that are very methodical about measuring and reporting on strategy implementation frequently measure and disclose outcomes against goals and targets. This also reflects the nature of reporting systems, which are primarily designed and used to produce outcome information as opposed to process information. However, to really understand how and to what extent strategic change is taking hold within an organisation, more process information may be needed. This may include information about:

- Getting corporate culture right;
- Fostering creativity and innovation;
- Focusing on continuous improvement;
- Empowering people; and
- Fitting operational decisions within strategic objectives.



Agree strategic information is critical to future performance

BUSINESS MODEL CRITICAL TO FUTURE VALUE CREATION

If the strategy is the plan for moving forward, the business model is the framework in which a company executes its strategy, creating value through core business processes for different types of stakeholders. Our research found that executives believe that clear disclosure on their company's business model is second in importance only to disclosure about their strategy. 68% of respondents said that information about the business model, including how and for whom value is created, is critical to understanding future value creation.

Again, about half said that their company is only somewhat successful in capturing the information about their business which is critical in understanding their value creation model, while 20% knew they were not capturing the right information.

Today, organisations are considering a shift from short-term to long-term thinking, and from focusing on financial capital to managing impact on a broader range of capitals.

As companies move from maximising financial profits to optimising multiple aspects of value creation for all stakeholders, insights into business models may become more important.

A large majority of respondents, 87%, either use non-financial information in decision-making or are actively trying to do so. Executives see multiple benefits from using both financial and non-financial information to make decisions, with the majority agreeing that it would deliver benefits such as more effectively identifying and managing risk, driving improvements in decision-making and helping to achieve a more forward-looking, longer-term view of performance. However, only 12% reported that they are confident they are capturing the right information about environmental and social outcomes, and only 11% reported that they have successfully integrated non-financial information in decision-making processes.

Executives overwhelmingly agree that bringing financial and non-financial information together creates the following benefits

96%

More effective identification and management of risk

92%

Builds trust and confidence with stakeholders

96%

Drives improvements in business decision-making

88%

Strengthens relationships with investors and creditors

96%

A more forward-looking, longer-term view of company performance

Companies clearly have confidence that non-financial information, particularly used together with financial information, can be very helpful. They aren't providing the right information to investors for the same reason that they don't have the right information internally - they are still working on developing the right tools and capturing the right data. On the positive side, companies are actively working to address non-financial information gaps. 38% of executives reported that their companies were in the process of capturing additional data or developing new tools to better understand non-financial dimensions of performance.

There is evidence that it is very important to get this right. Researchers have found that the positive effects from investing in and properly managing material non-financial issues are larger for firms that focus only on material issues than for firms that focus on both material and immaterial issues^[5]. In other words, it's important to make sure that businesses don't fall into the trap of measuring and managing what is easy to measure and manage. For non-financial dimensions of performance, what is material varies a great deal by sector. Using resources to manage less important, or immaterial, issues takes away from resources available to manage critical, highly material issues, undermining overall performance.

Q To what extent are strategic decisions made in your organisation taking into account a broad range of non-financial factors alongside traditional financial analysis?

11%

Non-financial factors are extensively researched and significantly influence strategic decision-making

13%

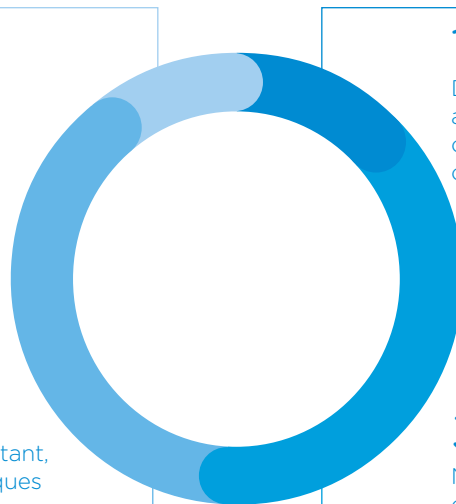
Decisions made almost exclusively on basis of financial considerations

38%

Non-financial factors are considered important, and tools and techniques are currently being developed to better understand and incorporate into strategic decision-making

38%

Non-financial factors considered important but lack reliable tools and techniques to incorporate in strategic decision-making



"Integrated thinking - aligning purpose and the business model to market opportunities and sustainable performance" is research from the CIMA Global Academic Research Program, which comes from a number of case studies, that seeks to understand how organisations align purpose and the business model to market opportunities and sustainable performance and, in particular, how the finance organisation helps understand, enhance and report strategies for long-term value creation^[6].

New reporting mechanisms required for



If companies really believe that strategic information is of the utmost importance and integrating non-financial information with financial information in decision-making has tangible, positive benefits, why are so few companies capturing this information? Largely this is because accounting systems are still best suited for providing information about tangible assets, even while business investment in intangible assets far exceeds investments in traditional tangible assets^[7].

Despite the dramatic changes in the strategies and operations of businesses, the structure and content of corporate financial reports have remained almost entirely unchanged for at least a century. In the 2016 book *End of Accounting and the Path Forward for Investors and Managers*, Accounting Professors Lev Baruch and Feng Gu argue that there has been a constant decrease in the relevance of financial information in investors' decisions, a decline they date from the 1950s. They say that accounting measures such as earnings per share, selling, general and administrative spending, and return on equity have lost relevance and predictive value for investors.

Baruch and Gu attribute this decline in relevance of reported financial information to the failure of financial accounting to recognise intangible assets such as intellectual property rights or brand value. They argue that while intangible assets are increasingly important to how businesses function and grow, they are not fully covered by accounting standards such as the International Financial Reporting Standards (IFRS). After listening to literally hundreds of company conference calls, they found that nearly all questions asked by analysts involve companies' current strategy and success in generating and deploying intangible assets^[8].

To understand the likely future direction and performance of an organisation, investors and executives need improved information on all resources available. Often, these resources are intangible in nature and largely ignored in corporate reporting, creating a disconnect between disclosure and information needs^[9].

Achieving decision-useful information does not just mean providing more information, about more types of assets and capitals. It is also necessary to manage and report on the connecting links between strategy and the fundamental assets or capitals that organisations rely on to sustain competitive advantage.

Time

There is widespread agreement that, in the long run, new types of information are needed to maximise insight into value creation. While companies are clearly on the right track, building new information systems and collecting new types of data, this is a long-term process. In the short term, progress may be made by focusing on new ways of disclosing what is currently available. In other words, how can reported information be reported in more useful ways?

79%

Agree future performance is most important for investors

To begin with, the time horizon for reported information – with a focus on short-term results and past performance – is not ideal for most internal and external information needs. In addition, our findings show that while producing profits for investors is and will remain important, the need to create value for other stakeholders is growing. Understanding and reporting on value created for customers, suppliers and employees still lags behind disclosure on total shareholder return.

FOCUSING ON LONGER TIME HORIZONS

While some companies are trying to get better at providing future-oriented information, much corporate disclosure continues to be focused on the past. Only a small minority of executives believe that past performance is very important to investors. In contrast, 79% of executives think that future performance is what investors are most interested in understanding.

We found that companies would prefer to work with a longer-term view of performance than they do currently. Executives believe they should be using a longer time horizon internally for strategic planning. Our research found that 34% of executives currently use a planning horizon of over three years, while 60% would prefer to use longer-term horizons of more than three years. A majority, 79%, of executives agreed that a longer-term perspective on strategic planning would improve company performance and value creation potential.

Recent research substantiates this view: companies with longer-term perspectives have been found to be more profitable with higher market capitalisations. The McKinsey Global Institute, a think tank associated with the global management consulting firm, working with the Focussing Capital on the Long-Term Global Initiative (FCLTGlobal), has demonstrated that companies with longer-term approaches to strategy and decision-making outperform their peers with shorter-term strategic focuses on a range of economic and financial metrics. They found that the revenue of firms with longer-term perspectives not only grew more than the revenue of other firms, it did so with less volatility.

79%

Agree longer-term perspective on strategic planning would improve value creation potential

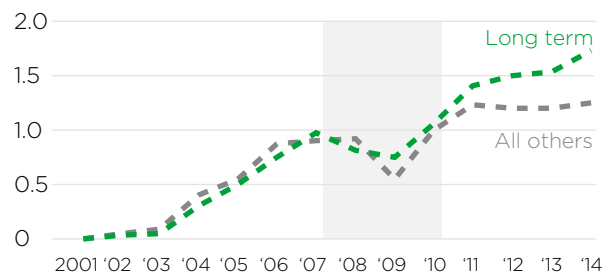
Companies with long-term perspectives were also found to exhibit stronger financial performance over time. Market capitalisation grew more than that of other firms and total return to shareholders was also superior^[10].

One way for companies to move toward a longer time horizon is to have long-term shareholders. This may not be an option for all companies, but a number of efforts have been made by policymakers to discourage short-termism, giving long-term investors more shares, more voting power or tax incentives. France, for example, has a rule that gives extra voting rights to long-term shareholders and the European Commission has considered something similar. In the US, some courts have ruled that a firm's owners are those who have held shares for a long time, as opposed to those who happen to own them at any given moment^[11].

Of course, the reasons why companies focus and report on less than optimal timeframes are complicated. All forward-looking information involves uncertainty. Companies also have concerns that disclosing forward-looking information may give competitors too much insight, harming competitive advantage, or that it will lead to issues of liability.

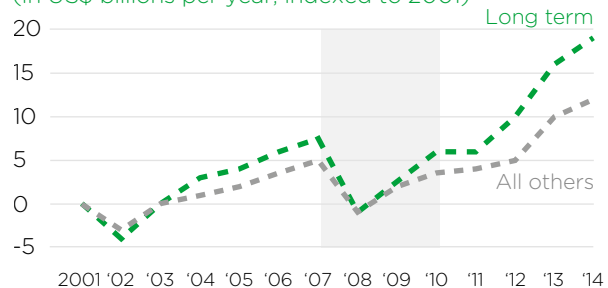
Average company earnings

(in US\$ billions per year, indexed to 2001)



Average market capitalisation

(in US\$ billions per year, indexed to 2001)



Source: McKinsey Corporate Performance Analytics; S&P Capital IQ; McKinsey Global Institute Analysis

STAKEHOLDER AUDIENCE WILL BE MORE IMPORTANT TO FUTURE SUCCESS

For publicly-held companies, the importance of creating value for investors is critical. In the future, meeting the needs and expectations of customers and engaging employees will grow far more in importance than profitability and financial returns for investors alone in achieving business success. This reinforces the concept that organisations can only create lasting value for investors if they can develop successful and enduring relationships with customers, employees, suppliers and the communities in which they operate as well as their shareholders. The International <IR> Framework^[12] addresses this concept specifically, stating 'the ability of an organisation to create value for itself is linked to the value it creates for others'. An integrated report can help to enhance 'transparency and accountability by disclosing how key stakeholders' legitimate needs and interests are understood, taken into account and responded to'.

Our findings show that the importance of stakeholders other than customers and investors is growing significantly. Less than a third viewed suppliers and other business partners as of extreme importance at present, but nearly half thought these stakeholders would become extremely important in the future. This finding highlights the growing recognition that businesses rely on a broader set of resources and relationships.

One challenge of capturing and reporting decision-useful information is that companies are attempting to create value for a range of stakeholders. Different stakeholders logically have different perceptions of value, and creating long-term value requires businesses to understand which outcomes are sought by their stakeholders.

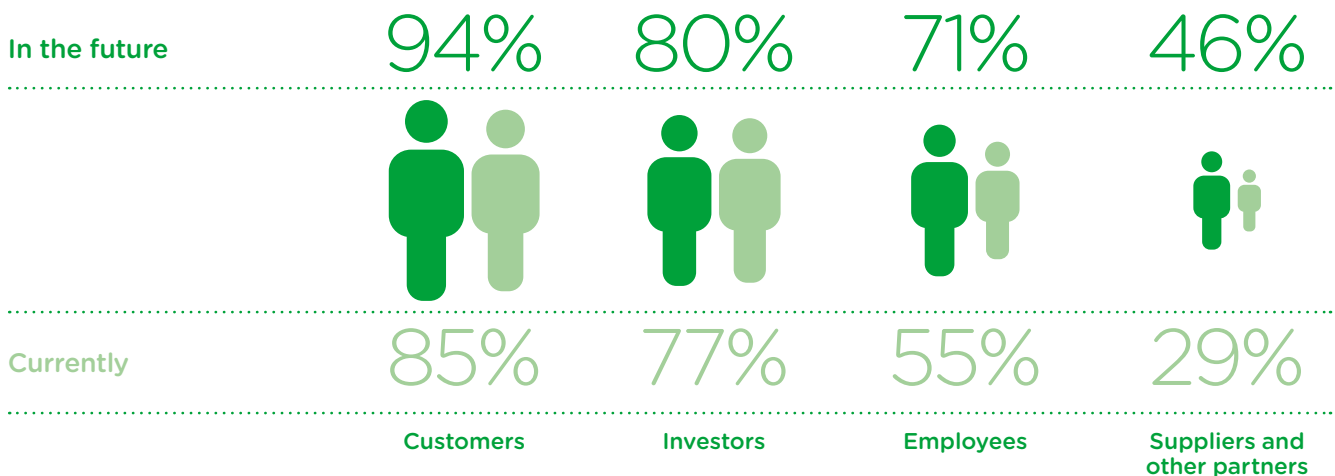
Financial performance metrics are important to all of a firm's core stakeholders, but they do not adequately measure the value different types of stakeholders receive. The ability to create value for stakeholders – such as customers – is a predictor of future firm performance. It is therefore important to find ways of capturing a more complex and holistic view of value in a systematic and comprehensible fashion. Achieving this may benefit businesses in a number of ways.

Most financial performance measures are so aggregated that they are not truly useful for problem solving. However, if an organisation tracks value created for multiple stakeholders, it is in a much better position to determine potential sources of problems as well as opportunities.

Rather than focusing on financial performance, stakeholder-based performance measures, such as customer satisfaction and employee engagement, challenge managers to examine value from the perspective of stakeholders who are involved in creating it. Suppliers and employees provide resources and help turn them into outputs, and they receive value from the organisation at the same time. Customers are the ones to whom value is delivered. Using stakeholder-based performance measures can give managers the information they need to engage stakeholders, allowing them to use relevant insights to create more value^[13].

The narrow view of value in corporate reporting is therefore an important part of the gap between the information that companies disclose and the information boards, investors and other stakeholders need.

Executives see a range of stakeholders as being extremely important to the success of their business:



Comparing
executive insights
and investor
views on

Value

We found widespread concern that the nature and usefulness of information captured by companies are inadequate to information needs. In addition, a great deal of the information that companies produce is either historical or relevant only for short-term decision-making, creating a disconnect between what is disclosed and reported and the information needs of internal and external decision-makers. Findings from other recent studies provide more context to understand the relevance of these survey results.

FINDING THE RIGHT INFORMATION IS ESSENTIAL

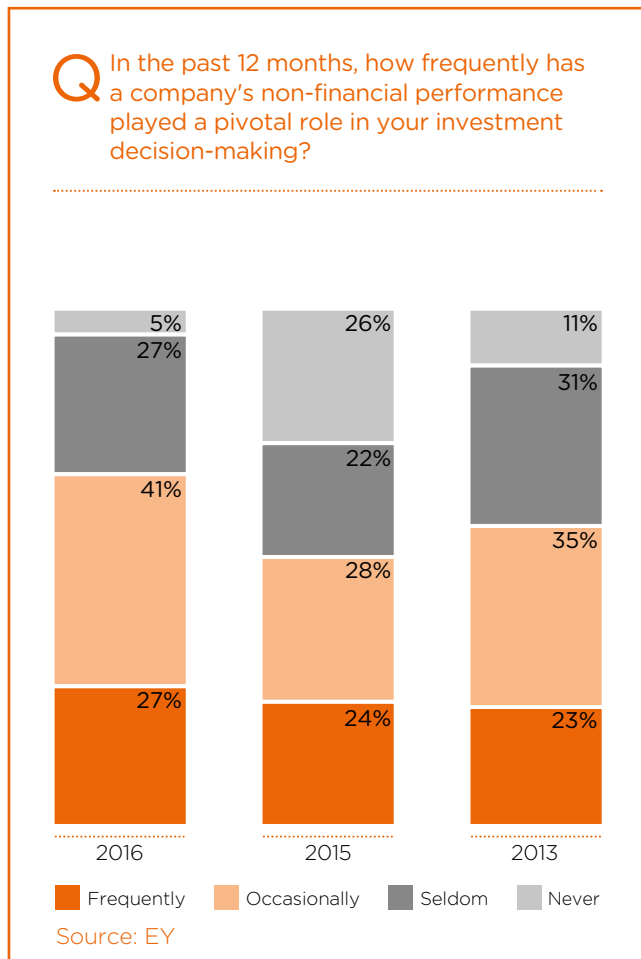
Our research found that nearly all executives agree that working with a broad range of non-financial factors is necessary to create long-term value. Although executives surveyed say that the most critical information to communicate involves strategy (84%) and the business model or value creation processes (68%), less than a third have confidence their company captures the most critical strategic, value creation or business model information.

Investors agree that this information is important, but not currently readily available. They want forward-looking information about strategy, business models and the ability of the company to create sustainable long-term value. A majority of investors surveyed by PwC, 70%, expressed a desire for 'clearer links between the financial results and the business model, risk and strategy information in the annual report'. Investors noted that in order to achieve better links, companies would need to report different types of information. In addition, 88% suggested that their 'perception of the quality of a company's reporting impacts their perception of the quality of its management'^[14].

While companies continue to struggle to develop tools and data to help them understand and report on non-financial dimensions of performance, the CFA Institute's 2017 survey of investors found that nearly 75% of respondents are using non-financial information in investment decisions at least occasionally or on a case-by-case basis. Governance is the aspect investors look at most often. More than half report that they consider information about the management and performance of material environmental and social issues. Meanwhile, a survey for institutional investors commissioned by EY found investors increasingly see a pivotal role for non-financial information in investment decision-making, and that the proportion of investors who dismiss non-financial information as trivial or unimportant has fallen^[15].



INVESTORS INCREASINGLY SEE A PIVOTAL ROLE FOR NON-FINANCIAL INFORMATION IN INVESTMENT DECISION-MAKING



Investors are using non-financial information for a variety of reasons, including gaining insight into management decision-making. The investor survey found that while the primary reason investors use ESG information is to understand risk, 41% use this information as a proxy for understanding the quality of management and decision-making, and more than a third use it to identify investment opportunities^[16].



Even though there is widespread agreement that corporate disclosure would benefit from closing information gaps, we also know that it is important to focus on providing better information, not more information. We know from other studies that companies are already struggling with information overload, and that there is a learning curve involved in effectively making decisions with increasingly complex data sets.

An executive survey conducted in 2015 for CIMA and the AICPA found that one third of respondents claimed big data was making decision-making worse, not better, and 80% of respondents admitted that their organisation had used flawed information to make a strategic decision at least once in the prior three years^[17].

BETTER INFORMATION FOR BETTER INTERNAL AND EXTERNAL DECISION-MAKING

Our research found that executives struggle to find the metrics to gauge performance in a world where value creation requires a broader measurement than can be covered by accounting measures alone. Only 24% have confidence that current reporting satisfactorily meets the information needs of investors and other key stakeholders, and nearly all, 96%, said that bringing financial and non-financial information together improves insight into how businesses create value over time, which supports better decision-making.

Meanwhile, integration of financial and non-financial information is also a focus for investors, but surveys of investors find that lack of integration is not their chief concern. Investors claim that using non-financial information is time consuming and costly. Other barriers to using non-financial information include inconsistencies in reported information and the lack of third-party verification of data quality. In addition, investors find that significant quantities of the non-financial information that is reported are not deemed to be financially material^[18].

96%

Agree bringing financial and non-financial information together improves insight

Q Which of the following statements best reflects your views on why you do not consider non-financial issues in your decision-making?



Non-financial measurements are seldom available for comparison with those of other companies	42%
Non-financial information is often inconsistent, unavailable or not verified	42%
Non-financial disclosures are seldom material or have a financial impact	16%

Source: EY

Reporting on

Value

can help drive
behavioural
change

INTEGRATED THINKING AND REPORTING IS NEEDED TO CAPTURE THE VALUE CREATION STORY

The majority of executives, 93%, across all regions agreed on the importance of effectively explaining how their business creates value for the long term through their corporate reporting. There is increasing recognition that the reporting process is a tool which can be used to help businesses understand the ability of their organisation to create value in the short, medium and long term.

Investors have called for clearer reporting on business models, strategy and growth plans to offset an excessive focus on short-term performance. We see this in the annual letters from Larry Fink, Chairman and CEO of BlackRock, where he calls for a framework for long-term value creation and then for an understanding of the board's strategic response to changes in circumstances. In his 2018 letter, Fink went one step further, suggesting that 'the board is essential to helping a company articulate and pursue its purpose, as well as respond to the questions that are increasingly important to its investors, its consumers, and the communities in which it operates'^[19].

Executives broadly agree that a more holistic, longer-term view of value created for all stakeholders is needed. This represents an exciting opportunity, with accountants, regulators and many stakeholder groups – standards setters, business, investors, academics, civil society – actively working to change corporate disclosure practices in ways that address identified information gaps. This direction mirrors the objectives of Integrated Reporting and, in fact, 83% of executives believe that adopting Integrated Reporting can help their organisations succeed. This shows recognition that embracing integrated thinking and integrated reporting would help broaden and extend organisations' views on value creation to inform judgements needed to take the best decisions to create and preserve value.

Integrated Reporting provides a structured set of categories that organisations can report against, using six capitals to provide a more holistic view of assets, outcomes and value creation. Designed to 'explain to providers of financial capital how an organisation creates value over time', Integrated Reporting provides a valuable framework for documenting and explaining the focus and strategy of a business^[20].

The objectives for Integrated Reporting include:

- To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- To provide a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time
- To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- To support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Source: The <IR> Framework, IIRC

While only 5% of the companies involved in our survey currently produce an integrated report, more than 80% are convinced that Integrated Reporting has the potential to help their business succeed. About half are moving towards Integrated Reporting, with 33% already incorporating some aspects of Integrated Reporting in their disclosure.

A report by the IIRC and Black Sun^[21] that surveyed 66 organisations (mostly companies) found that Integrated Reporting helps to build stronger relationships and enable a better understanding with providers of financial capital:

- 56% report a positive benefit in relations with institutional investors
- 87% believe providers of financial capital better understand the organisation's strategy
- 52% report a positive benefit in relations with analysts
- 79% believe providers of financial capital have greater confidence in long-term viability of business models.

Some companies admitted that the main barriers to integrating reporting are the limitations of internally generated information. Companies that are at an early stage of capturing and using non-financial information are usually also at an early stage of figuring out how to present and explain non-financial performance to external audiences.

Other companies report that their investors or creditors are not interested in anything beyond historical financial performance. There is, however, ample evidence that investors are searching for ways to better understand future value creation, which usually requires a broader view of performance.

Across the globe, investors who use non-financial dimensions of performance in analysis agree that integrating financial and non-financial information is the most effective strategy^[22]. There are a variety of approaches that investors take to integrating non-financial factors, including trying to translate them into future cash flows.

Not all investors use non-financial information, but its use has been steadily growing. The main barrier to non-financial information use by investors is not lack of interest, but lack of quality. Investors want better, more reliable information^[23].

% of executives reporting that specific objectives of Integrated Reporting are important to their business

83%

Improve the relevance of information available to investors to enable a more efficient and productive allocation of capital

77%

Provide more accountability/transparency in regard to tangible and intangible assets and all capitals

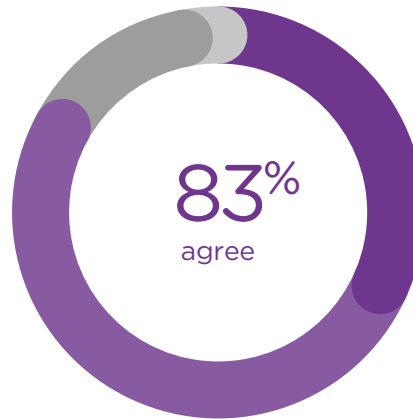
80%

Provide a more complete, forward-looking picture of the full range of factors that impact on value creation

76%

Reduce short-term thinking by supporting decision-making and focusing on sustainable value creation

Q Do you think the adoption of Integrated Reporting could help your business to deliver success?



Yes, very much	32%
Yes, somewhat	51%
No, not really	14%
No, not at all	3%

Conclusion:

Value is valued

Companies spend an enormous amount of time and energy capturing and reporting information. As society and businesses change at an ever-increasing rate, the information that companies need to capture and report is also changing, and existing accounting, information and reporting processes and systems are not up to the task.

For long-term success, businesses need to measure the right things, even if doing so is difficult. As a starting point, it is necessary to broaden the dimensions of performance that are considered in accounting and reporting systems, as well as the time horizons used.

Taking such an approach allows businesses to measure and report intangible value including long-term value creation for different stakeholders and the current value, and likely future value, of a range of intangible assets, from intellectual property to corporate reputation and customer sentiment.

The good news is that work is well under way to address the information gaps identified by executives and investors. New approaches to capturing and reporting information are being discussed in accounting firms, universities and by regulators across the world.

For example, the Association has been undertaking a global consultation on a business model framework and is developing a practical toolkit to manage the creation, delivery and sharing of value (see online link on page 11). To create value, organisations must put in place infrastructure, capability and relationships that support the conversion of inputs into outputs that meet the needs of customers. New management accounting tools can make value creation more transparent and easier to manage and understand. The publication of the toolkit is anticipated for Spring 2018.

The development of Integrated Reporting and refined approaches to presenting and discussing business models are important developments in the movement forward to greater clarity and understanding of corporate value creation.

Top considerations for executives around the

Value creation story

1

What is your definition of value?

- Express a clear statement of purpose, mission and vision, making clear the types of value your organisation is designed to create.
- Ensure you have a clear understanding of your company's role in society and then make sure that this is translated into tangible policies for the board's agenda.
- Ensure you consider how stakeholders are engaged, how their interests are considered, and how business decisions are made with these in mind.

2

What is your business model?

- Ensure that your organisation and its stakeholders have a shared understanding of your business model and how it creates value.
- Explain how the company's business model creates long-term value by identifying key value drivers. Identify the resources and relationships critical to the long-term success of the organisation. How might these change over time? How does your business model create different types of value for different stakeholders?
- Make sure you demonstrate the value creation process beyond purely financial returns, outlining how your organisation's operations transform, create and destroy value.

3

What are the circumstances under which the company is operating and how might these change?

- State management's view of the market, major trends impacting the market, potential for growth, the company's relative positioning and underlying assumptions.
- To provide context, outline trends that have a material impact on the company and its stakeholders and what these mean for the long-term future of your company.

4

What is special and distinctive about what you do as an organisation?

- Highlight sources of competitive advantage such as talent, access to resources, or other assets that enable the company to execute its strategy and win in the marketplace.
- Focus on characteristics that make your company different, such as your purpose or unique processes for creating value.

5

What are the opportunities that you are trying to exploit?

- Disclose strategic goals ultimately tied to drivers of value creation (e.g. returns on invested capital, organic revenue growth) in the context of current and future market trends, and the company's competitive advantage.

6

What are your strategic goals targeted at long-term value creation?

- Lay out a detailed execution roadmap that defines short, medium and long-term actions linked to key milestones.
- Specifically explain strategic priorities, provide strategic timeframes wherever possible and ensure you report back on previous strategic priorities, explaining whether the business has met these priorities or not.

7

Do you understand the connection between different value-adding activities and the decisions made?

- Provide medium and long-term metrics and targets that indicate the company's ability to deliver on its strategy, such as customer satisfaction, brand strength, R&D investments linked to the product pipeline, and human capital.
- Demonstrate how your strategy has been designed with consideration of your key stakeholder groups. Explain how these priorities are measured and tracked.

8

How well will your business model stand up to changes in your organisation's operating environment?

- Explain how capital and non-capital investments, including a mix of resource allocation, will yield sustained competitive advantage and the creation of long-term value.
- Ensure you provide insight into the areas of the business where you are investing.

9

What are the key risks you need to understand and manage?

- Provide an overview of risks and their mitigation plans, including sustainability challenges (e.g. ESG issues).
- Clearly outline how the board has assessed the company's viability over the long term.
- Ensure that you demonstrate a direct link between strategic priorities and specific risks, showing also how this aligns with your company's risk appetite.

10

Do existing KPIs align with how your organisation creates value?

- Articulate how executive and director compensation is tied to long-term value creation and strategic goals.
- Make a clear link to your company's values, explaining how the board provides oversight and embeds culture throughout your company.

Inspiration for this came from FCLTGlobal:
Straight talk for the long term: How to improve investor-corporate dialogue

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This Association-Black Sun-IIRC Board-level Insight is a global survey that finds out how business leaders think they can best tell their value creation story. Questions cover a range of topics investigating how executives understand value, think about value and tell their own value creation story. This survey is based on the views of over 400 AICPA and CIMA members in 2016. This cohort included 41 CEO/Presidents, 177 CFOs and other C-suite executives from over 50 countries, providing a unique insight into executives' view of the value of value.

THE ASSOCIATION

The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigour and resources, the Association advances the reputation, employability and quality of CPAs, CGMAs and accounting and finance professionals globally.

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IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.

www.integratedreporting.org

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