



THE VALUE OF THE
VALUE

CREATION DISCUSSION:
A BOARDROOM BELLWETHER



The evolution of the corporate reporting landscape in recent years has been substantial. With the financial crisis acting as a catalyst, it became apparent that for many companies, corporate reporting did not reflect reality. Nor did it adequately indicate the complexities, critical relationships and dependencies which many companies were reliant upon. In fact, it became abundantly clear that the corporate reporting of old was no longer fit-for-purpose.

Several years on and many countries have brought in significant legislative changes to their reporting requirements to try and guard against history repeating itself. In fact, many companies corporate reporting has changed beyond recognition as a result.

With all this development and change, we wanted to understand more about the opinions of executives on corporate reporting; the challenges, benefits and what the best practice reporting framework of the future might look like.

So what do executives think?
Read on to find out more...



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EXECUTIVE SUMMARY

Long-term value creation is the overarching objective of each and every Board of Directors. 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 wider stakeholders. From investors, to employees, to customers and community, the value of understanding a company's value creation story is literally, invaluable. In many ways the integrity of the value creation story is essential to building trust, particularly following the financial crisis which saw trust in businesses plummet.

Encouragingly, it seems that the executives who participated in our survey were in agreement. While recognising the challenges, it appears that the benefits of communicating how a company creates value, focusing more on the long term and demonstrating the critical relationships between financial and other performance metrics, is part of the future landscape for corporate reporting. It also enables executives from across the globe to meet some of the most pressing challenges of the evolving reporting environment, including the demand for greater transparency and the need for more rigorous stewardship.

And this is where Integrated Reporting (<IR>) is coming into play. Positioned as 'a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, leads to the creation of value in the short, medium and long term,' it seems to be answering many of the challenges which executives are increasingly facing. <IR> is concerned about the 'story behind the financials' and how well the organisation is positioned to be successful in the future.

The IIRC's long-term vision is 'a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm.' Put simply, <IR> is not just about reporting but about integrated thinking and responsible business, and the benefit that comes from the discipline of needing to think, plan and manage in a more integrated way. This process of thinking your business through will help to embed into internal processes, management information and decision-making an understanding and consideration of the interdependencies and trade-offs over time between the capitals that make up the creation of value.

METHODOLOGY

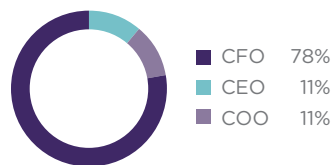
<IR> therefore presents an opportunity rather than an obligation. Aiming to improve the quality of information provided to stakeholders, but particularly those who provide financial capital. <IR> will provide better information for business and investment decision-making and assist stakeholders to understand how the company's own Board and management assess the ability of the organisation to create value over time to inform their own assessments.

However, <IR> is a journey and the opportunity to use <IR> as a tool to better understand businesses and better 'tell one's story' through bespoke reporting is the first step. The next step is to encourage an international approach to integrated decision-making and corporate behaviours. This report captures clear evidence of the recognition, aspiration and value in taking the next step.

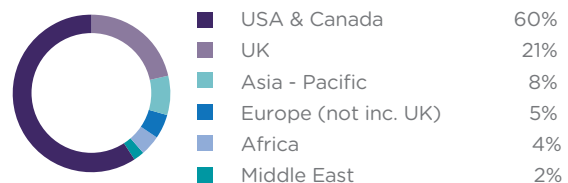
In the summer of 2014, members of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) took part in a brief survey aimed at capturing executive opinions towards developments of the corporate reporting world. To achieve this, we asked our respondents a total of 15 questions mapping executive thoughts on the value creation discussion, the effectiveness of current practices and the reporting opportunities at hand.

More than 350 responses were received from CEOs, CFOs and COOs from across the globe, providing a unique insight into the reporting priorities and challenges of the executive. The results of these questions are laid out in detail on the pages ahead, with some of the key differentiators between executive groups and regions drawn out as a matter of further interest. Together, they tell the complete story of executive enthusiasm for the potential benefits of better reporting.

Roles of respondents:



Country of origin:



EXECUTIVE SUMMARY

An overview of executive opinions and attitudes towards value creation presents a much better understanding of value and how value is created and communicated. These encouraging findings and insights will help further advance and aid developments in corporate reporting for both the authors and audiences of corporate reports.



Executives see the value in the value creation story

- 65% of executives feel that it is very important to be able to effectively explain value creation through their corporate reporting, while an additional 29% feel that it is somewhat important to do so.
- 80% believe that the value creation discussion is most useful for investors, followed by 68% for employees and 46% for customers.

[See more on page 6](#)



Executives recognise that there is room for improvement in their current reporting

- Despite the importance of corporate reporting, only 26% of our respondents are confident that their current reporting very much meets the information needs of investors and other external stakeholders.
- Executives are even less convinced of the effectiveness of their current reporting for internal decision-making, with only 22% suggesting that their reports very much meet the information needs.

[See more on page 8](#)



Benefits of bringing together financial and non-financial information to provide the full picture

- Executives feel bringing together financial and non-financial information would help to better explain how their business creates value over time.
- 91% agree that doing this would help to effectively identify and manage company risks. Similarly, 89% agree it would help to present a more forward-looking, long-term view of performance and 87% agree that this would help to drive improvements in business decision-making.

[See more on page 14](#)



<IR> is recognised by executives as a way of helping to deliver business success

- Reflecting the participants' enthusiasm for effectively reporting on value creation and integrating financial and non-financial information to do so, executives have responded positively to the potential benefits of <IR>. In particular, 26% believe it would very much help to deliver business success, while a further 54% believe that <IR> could somewhat help.

[See more on page 16](#)





Executives see the strategy and business model as the most important information

- Executives feel for reports to meet internal and external information needs they should primarily focus on communicating strategy and business model.
- Encouragingly, executives recognise that the information most critical to successfully running their businesses is the same as the information needed to explain how their business will perform overtime.

[See more on page 10](#)



There is an appetite amongst executives for a long-term focus

- Among the various reporting issues in need of improvement, executives would like to reduce the focus on short-term thinking. For instance, executives would like to use longer strategic planning horizons than they currently are, with 65% suggesting they would ideally like to look more than four years into the future, compared to just 37% who currently use this.

[See more on page 12](#)



Awareness of <IR> among executives is high

- 63% of executives have heard of <IR>.
- Encouragingly, 28% of executives already incorporate a level of <IR> into their current reports, although they do not refer to it as such. An additional 12% are taking steps towards adopting <IR>, while 23% are waiting to see how it develops before pursuing.

[See more on page 18](#)





94%

SEE THE VALUE IN THE
VALUE CREATION
STORY

How important is it that you can effectively explain how your business creates value for the long term through your corporate reporting?



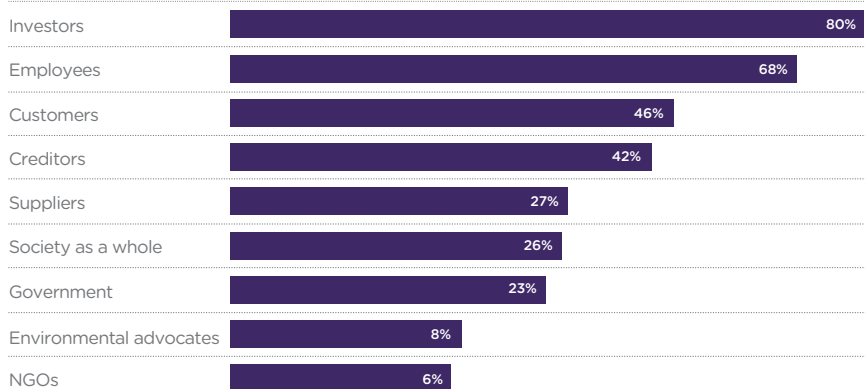
The importance of explaining value

Value creation, a company’s ‘reason for being’, seems to be fast becoming the ultimate measure by which it is judged and executives are in no doubt about the importance of effectively explaining how their business creates value through their corporate reporting. 29% feel that it is somewhat important, while two-thirds believe it is extremely important. Only 1% felt that it was not at all important.

Insights

CEOs were the executives most convinced of the ‘value of value creation discussion’ with 74% of CEOs stating that it is extremely important that they can effectively explain how their business creates value for the long term through their corporate reporting.

For whom is the value creation discussion most useful?

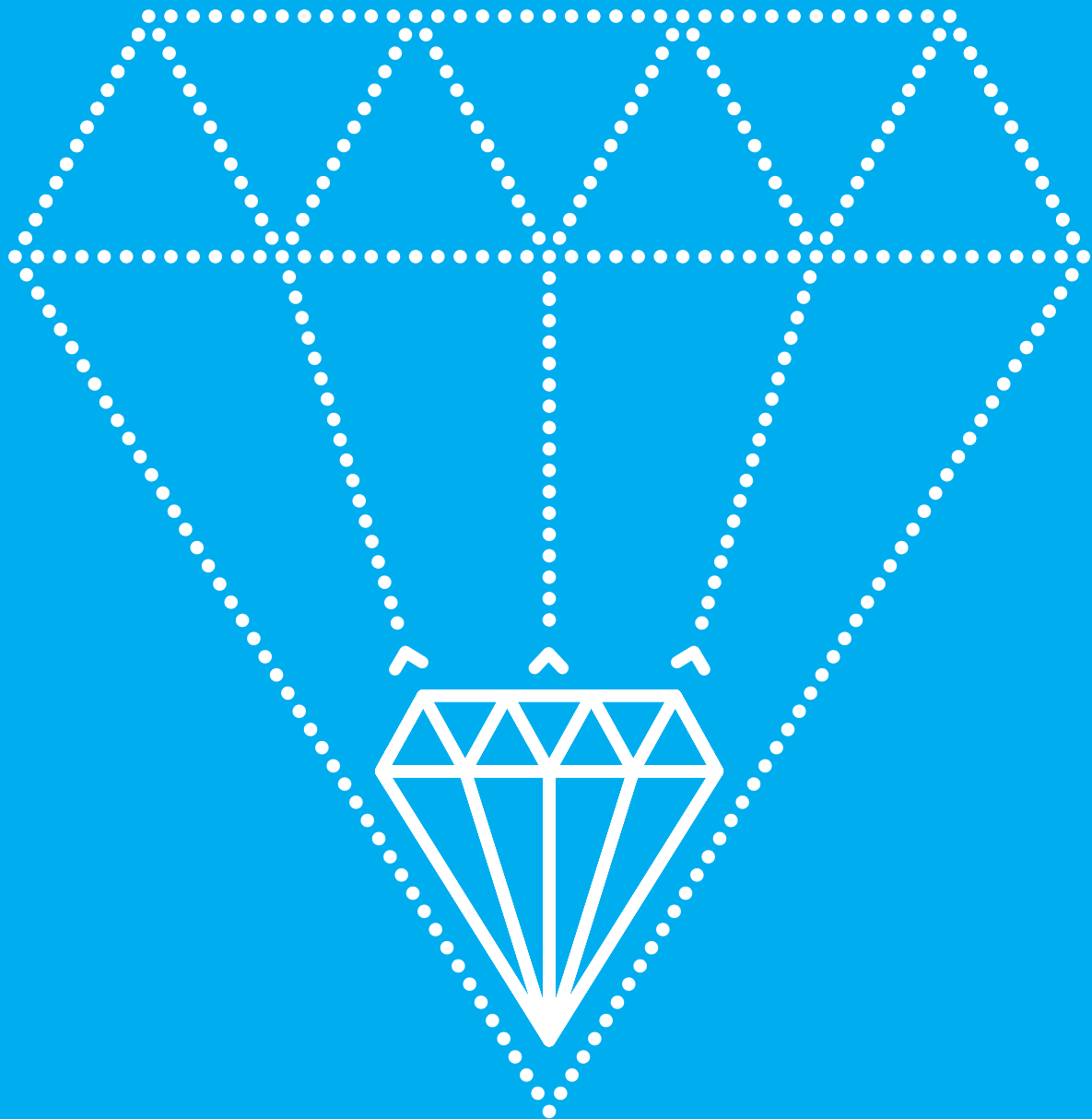


Who is the value discussion useful for?

Not surprisingly, executives feel that the value creation discussion is still most useful for investors, 80%, followed by employees, 68%. Customers and creditors are also seen as key beneficiaries. In order to actually create value, executives believe that their focus must be more balanced. This means moving away from a sole focus on providing financial returns for investors, to also meeting expectations and needs of customers, while inspiring and engaging people to ensure future business success. Transparency and public trust were also high on the agenda, and in the future the focus on aligning social and environmental responsibility with business objectives and meeting and protecting needs of future generations will become increasingly important.

Insights

CEOs were keenly aware of the importance of employees to their future business success, with 80% believing that they were the most important audience for the value creation discussion.



ROOM FOR IMPROVEMENT IN
EXTERNAL AND INTERNAL
REPORTING

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



External reporting fails to hit the spot

The effectiveness of corporate reporting has long been under close scrutiny, particularly post the financial crisis. Today, only a minority of executives, 26%, are confident that their current reporting very much meets the information needs of investors and other external stakeholders. This leaves almost three-quarters of executives who acknowledge that there is room for improvement in their corporate reporting to be fit for purpose in a rapidly changing world.

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




Internal communications in need of a rethink

Executives felt that their current reporting could do more for internal decision-making, with only 22% suggesting that their reports very much meet information needs. Of course, performance reporting is a means to an end, rather than an end in itself, but one of the key objectives of reporting is to bring all the relevant information together to facilitate decision-making. With a quarter of executives dissatisfied with their reporting, there is ample room for improvement and it is clear that action is needed.

Insights

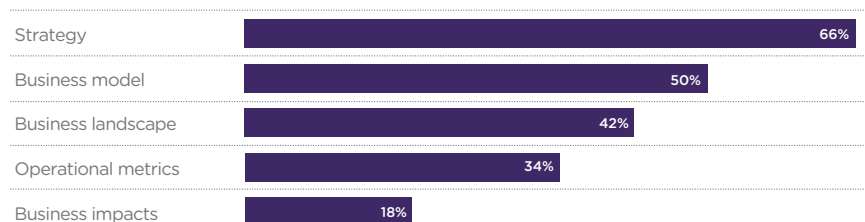
- Interestingly, CEOs are the most satisfied with their current reporting as far as internal decision-making needs are concerned. CFOs are the least confident of the executives in their current reporting.
- UK executives are critical about the value of their current reporting, with 39% suggesting that it fails to meet internal information needs for decision-making purposes. The North Americans have a different view about their reporting, with only 18% stating that current reporting does not fulfil their decision-making needs.



STRATEGY & BUSINESS MODEL

...ARE AT THE HEART OF
EFFECTIVE COMMUNICATION
ABOUT PERFORMANCE

What information do you feel is most critical in communicating how you believe your organisation will perform in the short, medium and long term?



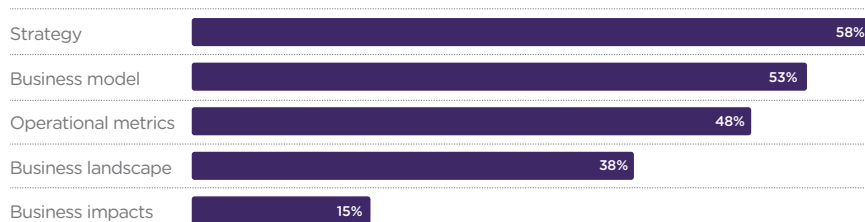
Business model and strategy form the critical components of communications

Executives are in no doubt that communicating clearly about their strategy, 66%, and business model, 50%, will be most critical to explaining how their organisation will perform in the short, medium and long term. In fact, the majority of executives agree that the more rigorous description of business model and strategy will provide investors and other key external stakeholders with a better understanding of the processes, relationships and resources that the business depends on and the strategy for developing and preserving business capability over time. Interestingly, executives reported that it was less important to communicate about business impacts, with only 18% agreeing with this statement.

Insights

- CEOs, CFOs and COOs all agree that it is more important to communicate information about the business landscape rather than the impact their operations have.
- UK executives were most focused on the strategy; with 79% stating that it was most critical.

What information do you feel is most critical in successfully running your business in the short, medium and long term?

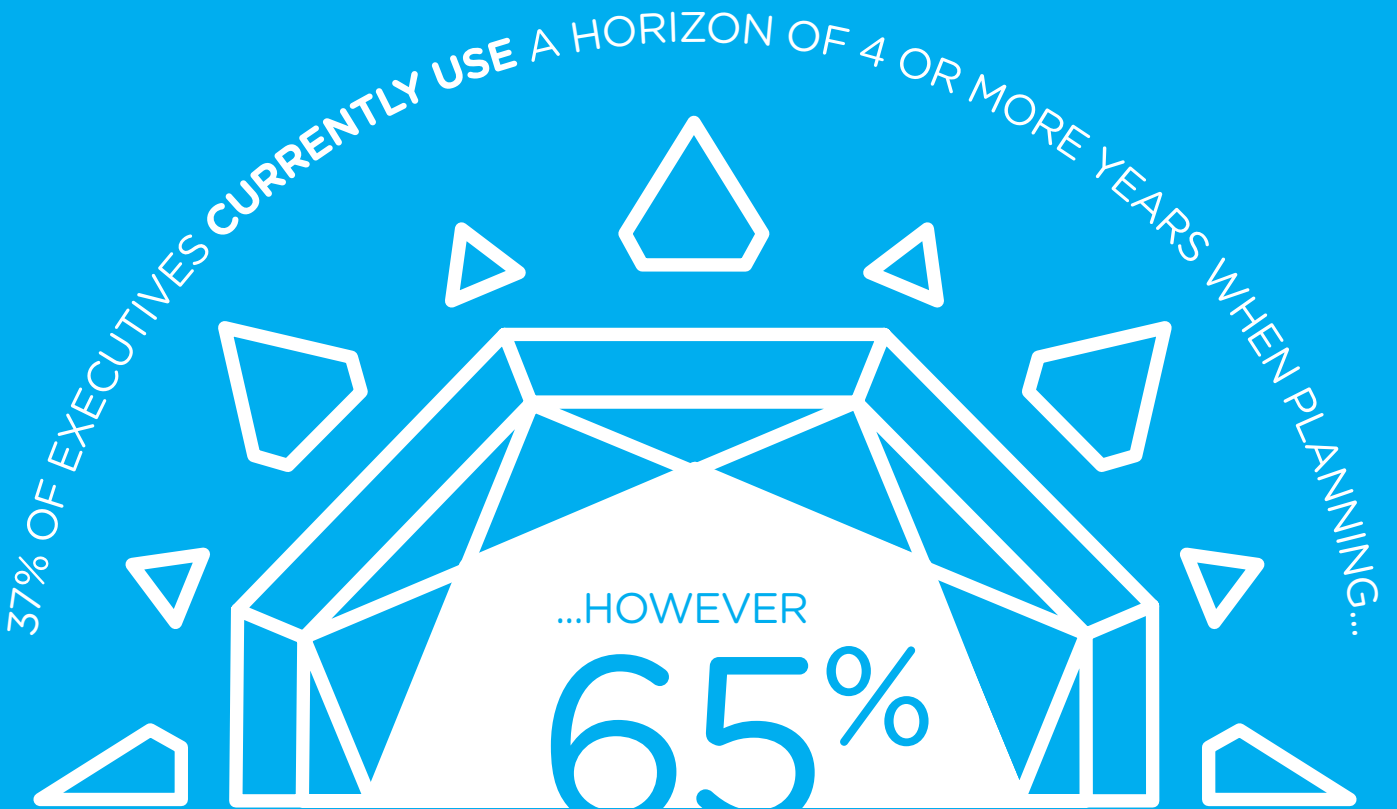


Strategy and business model vital to running business

Encouragingly, executives recognise that the information most critical to successfully running their businesses is the same as the information needed to explain how their business will perform over time, with a focus from the majority on strategy and business model. Again information about the impacts of their business were seen to be less critical to the overall success of their business.

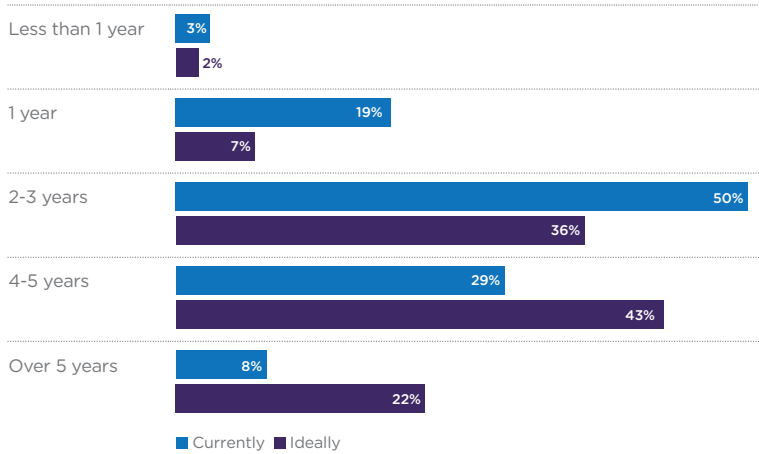
Insights

- The UK is the only region that finds it more important to focus on business model rather than strategy when running the business, with 73% suggesting that it is critical to do so.



**WOULD LIKE TO PURSUE A TIME
FRAME OF 4 YEARS OR MORE**

What strategic planning horizons do you currently use and which would you ideally like to use? (Tick all that apply)

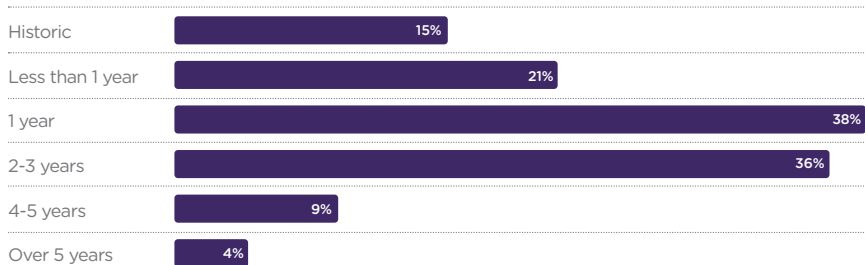


Preference for a more long-term focus

When it comes to planning, there is a disparity between the current planning horizons and the ideal planning time frames. At present, half of executives use a horizon of 2-3 years when planning, while just 37% use a horizon of 4 years or more. Interestingly, when asked what the ideal time frame would be,

a much more significant number of executives, 65%, would like to pursue the longer time frame of 4 years or more. Evidently executives feel that having a long-term focus would be beneficial to running businesses effectively.

Which of the following time horizon(s) in analysing company performance do you believe investors and creditors are focused on? (Tick all that apply)



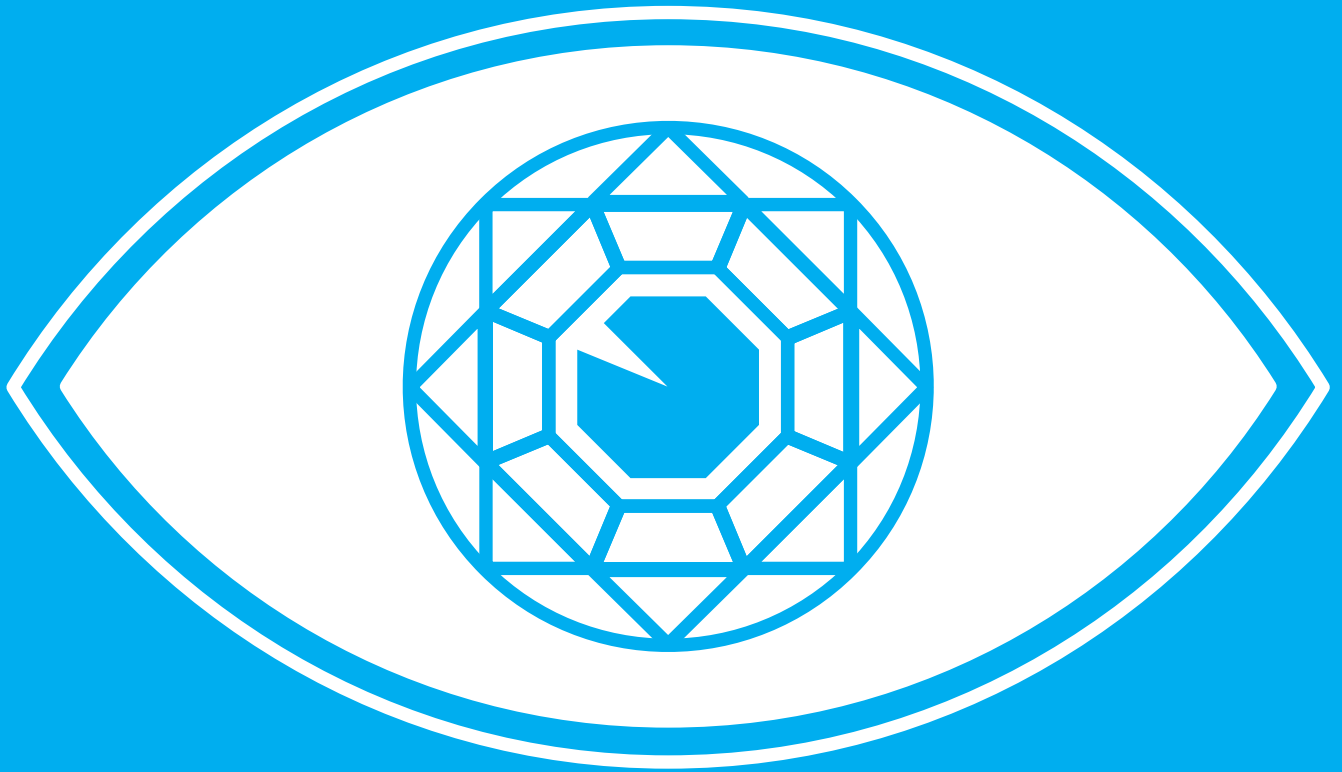
Investors and creditors focused on the short term

Executives believe that investors and creditors predominantly rely on either historic or short-term horizons when analysing performance, with only 13% suggesting that they rely on a time frame of 4 years or more. Seemingly, the perception is that decisions are being made without consideration of the long-term viability of the businesses.

Insights

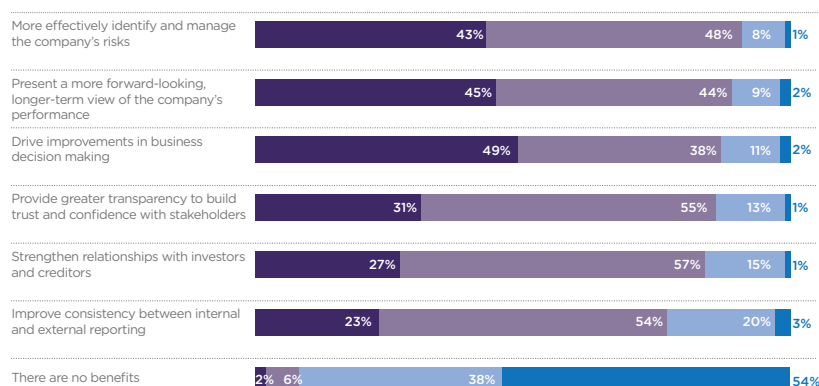
- 24% of UK executives believe that investors focus on historic time horizons when analysing performance, compared to 14% of North American respondents who feel the same.

SEE THE FULL PICTURE



BY BRINGING TOGETHER THEIR
FINANCIAL AND OTHER
PERFORMANCE INFORMATION

Being able to bring together financial and non-financial information to better explain how my business creates value over time would bring the following benefits:

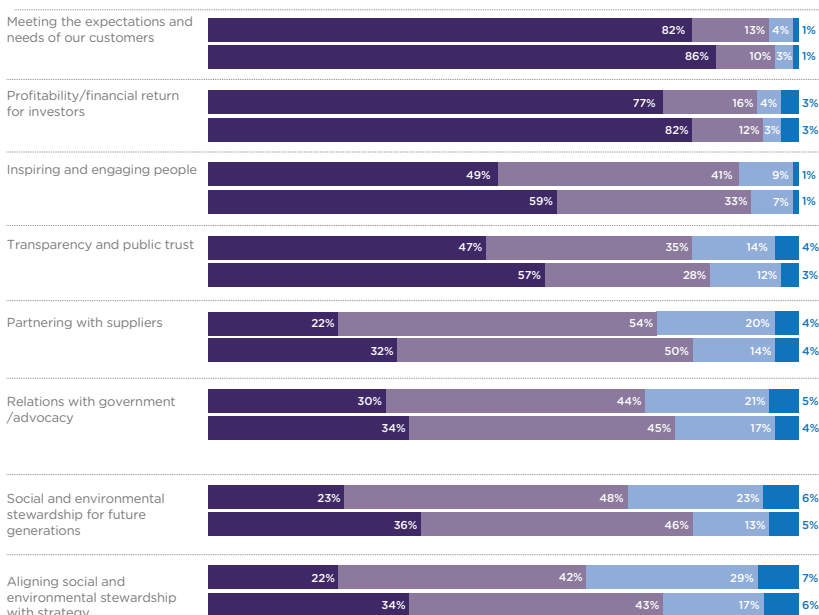


- Extremely important
- Somewhat important
- Not very important
- Not at all important

Benefits of bringing financial and other performance information together are recognised

Executives were largely positive with regards to the benefits of bringing together financial and other performance metrics. In fact, 91% agree that bringing this information together would help to effectively identify and manage company risks. Similarly, 89% of executives agree it would help to present a more forward-looking, long-term view of performance and 87% agree that this would help to drive improvements in business decision-making. Just 2% of executives didn't see any benefit to doing this.

Please rate the extent to which the following factors are important to the success of your business currently and the extent to which they will be in the future:



- Extremely important
- Somewhat important
- Not very important
- Not at all important

Customers and investors most important to business success

Of those factors which are the most important to executives regarding the success of their businesses, the most popular factor was meeting the expectations and needs of customers, 82%, followed by financial returns for investors, 77%. This is followed by inspiring and engaging people, 49% and transparency and public trust, 47%. Overall, executives believe these factors will grow in importance in the future, however slightly, with the biggest change being seen in meeting the social and environmental needs and protecting the interests of future generations.



AGREE <IR> COULD HELP DELIVER
BUSINESS SUCCESS

Do you think <IR> could help deliver business success?

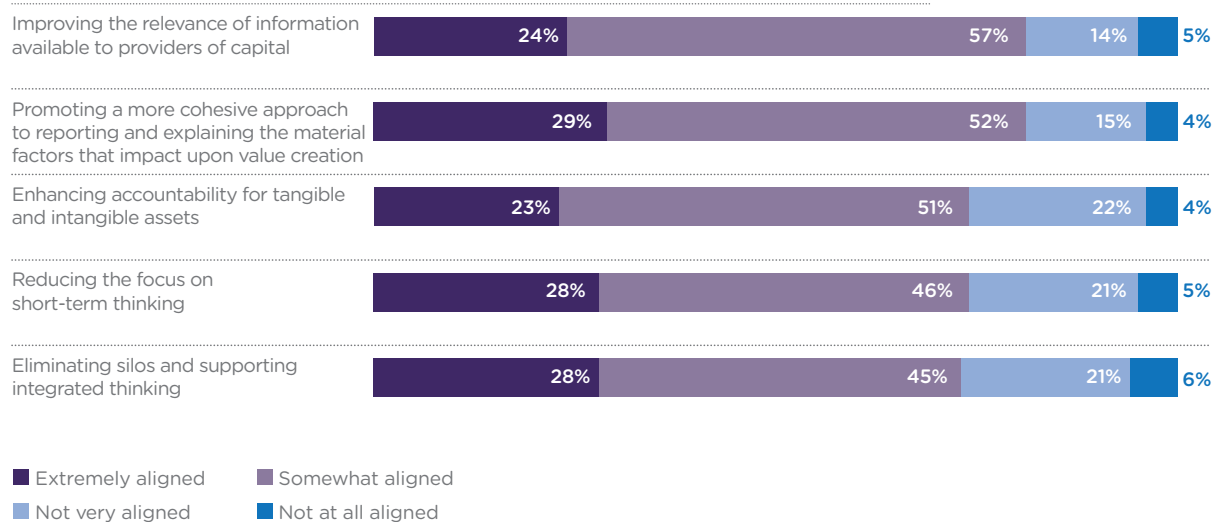


<IR> potential for helping businesses succeed
 The majority of executives, 80%, feel that adopting <IR> could help to deliver business success. Reflecting enthusiasm for reporting on value creation and integrating financial and other performance information, executives responded positively to the potential use of <IR>.

Insights

- 95% of executives from Europe (excluding the UK) believe that <IR> could help to deliver success.

Integrated Reporting aims to improve the quality of information available to investors and creditors to achieve the following aims. To what extent do the following issues align with your corporate objectives and priorities?



Alignment between the issues companies face and those <IR> seeks to resolve

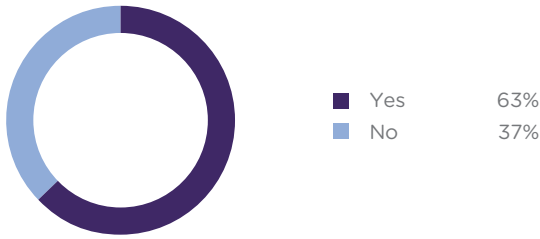
The issues which <IR> sets out to resolve are largely aligned with those issues companies face. For example, 81% of executives believe there is alignment with two key issues; the need to improve the relevance of information available to providers of capital; and the need to promote a more cohesive approach to reporting and explaining the material factors that impact upon value creation.

Furthermore, almost three-quarters of executives saw some alignment around enhancing accountability for tangible and intangible assets, reducing the focus on short-term thinking, eliminating silos and supporting integrated thinking.



HAVE HEARD OF
INTEGRATED REPORTING

Have you heard of 'Integrated Reporting'?

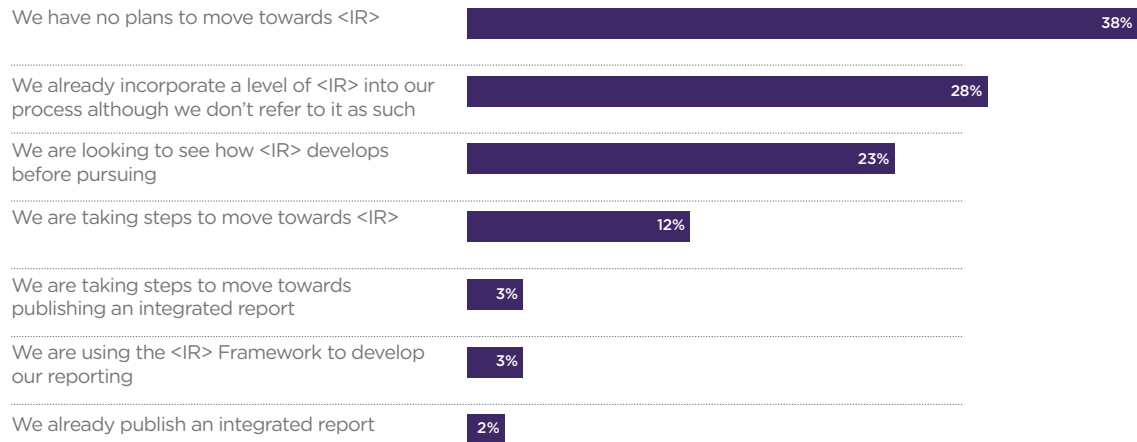


<IR> recognised by the majority
63% of executives have previously heard of <IR>, whereas just 37% had not. In fact, it seems that <IR> is becoming increasingly recognised as part of the corporate communications landscape.

Insights

- COOs are the most familiar with <IR>, with 71% having previously heard of <IR>, followed by CFOs at 62% and CEOs at 55%.
- 73% of those from the UK had heard of <IR> prior to our survey, compared to 53% of those from North America.

If you are planning to adopt Integrated Reporting in the future, when do you expect to do this?



Companies are on a journey towards <IR>

While there is a significant amount of enthusiasm and confidence in the potential benefits of <IR>, a large proportion, 38%, of our respondents have no plans to adopt <IR> at present. However, it is encouraging to see that 28% of companies believe that they currently incorporate a level of <IR> into the process but without using the terminology <IR>. Those who are more cautious, are using a 'wait-and-see' approach, with 23% suggesting that they are going to see how <IR> develops before embarking on the journey.

Insights

- 39% of UK executives say that they already incorporate some level of <IR> into their current process, although they don't refer to it as such.

CONCLUSION

The evolution of the corporate reporting landscape relies heavily upon boardroom support to maintain momentum. The potential benefits of <IR> are to see the story beyond the financials and analyse how well the organisation is positioned to be successful in the future.

Our findings provide a valuable insight into the development of this support, beginning with boardroom appreciation of the importance of the value creation story and culminating in executive enthusiasm for the potential of <IR> to improve how it is told. However, recognition of the benefits is only the beginning of the battle; realising them is a matter of seizing the opportunity at hand. With that said, it is up to the executive to take the next step of the journey towards better thinking and better reporting.

Sallie Pilot

Director of Research and Strategy
Black Sun Plc



ACKNOWLEDGEMENTS

This research is the result of collaboration between Black Sun, Chartered Institute of Management Accountants (CIMA), the American Institute of Certified Public Accountants (AICPA), Tomorrow's Company and the International Integrated Reporting Council (IIRC) with the aim to support organisations in introducing <IR> into their business. We would like to thank all those who contributed their time, knowledge, insight and experience in order to help shape this report.



The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887.

The logo for the Chartered Institute of Management Accountants (CIMA), consisting of the word "CIMA" in a white, bold, sans-serif font centered within a solid red rectangular box.

CIMA

Chartered Institute of
Management Accountants

The Chartered Institute of Management Accountants (CIMA) is the world's leading and largest professional body of management accountants, with over 227,000 members and students operating in 179 countries, working in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders.

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INTEGRATED REPORTING <IR>

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. The International <IR> Framework has been developed to meet this need. <IR> is enhancing the way organizations think, plan and report the story of their business. Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance.

tomorrow's company

Tomorrow's Company is a London based global think tank delivering value for business leaders and owners by addressing the systemic and behavioural questions of the business world. We defined the inclusive duties of directors for the UK's Companies Act 2006; our work on financial markets informed the creation of the UN PRI; our thought leadership is at the heart of the UK Stewardship Code and of the integrated reporting movement; King III in South Africa acknowledges our influence. We believe businesses can and should be a force for good. We inspire generations of business leaders to shape the way they do business. Our work today will restore the licence for business to operate and for businesses to be successful tomorrow.

Black Sun is one of Europe's leading strategic corporate communications consultancies. Founded in 1991, it brings together corporate reporting, sustainability and digital communications to create powerful integrated solutions for clients.

Black Sun works with companies – from small businesses to large global organisations – to produce effective communications that build greater trust and confidence with stakeholders. Its dedicated strategic research team identifies trends and best practice to provide clients with up-to-date analysis, advice and guidance.

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