

Best Reporting (4/5/2017)

Web article

<http://integratedreporting.org/news/illuminating-value-through-best-practice-corporate-reporting/>

Illuminating value through best practice corporate reporting

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The corporate reporting landscape is changing. As investors and other stakeholders demand more relevant disclosure in corporate reports, new legislation, frameworks and guidelines are pushing organisations towards broader definitions and discussions of value creation.

In the UK, the preparation of strategic reports in line with Financial Reporting Council (FRC) guidance demands improvements in quality and relevance. The Global Reporting Initiative's (GRI) G4 standards are emphatic in their focus on materiality. And in the EU, recent legislation has extended requirements for large companies to disclose non-financial information within their management reports.

As a result, a positive step-change in corporate reporting is underway in a number of global markets, and the days of the narrowly-focused annual report would appear to be numbered. While the disclosure of financial performance remains paramount for the investor community, there is a growing belief that a more holistic view of the way a company creates and sustains value is also crucial for investor insight.

Indeed, in accordance with best practice, more and more companies are beginning to rethink their approach to managing and reporting on their intangible assets – on those aspects of the business that don't show up on the balance sheet. It seems that the view once articulated by Albert Einstein, that “not everything that counts can be counted, and not everything that can be counted counts”, is finally gaining traction.

Exploring value creation

Of course, one of the key drivers of this recent evolution in corporate disclosure is Integrated Reporting. At a recent Black Sun Best Practice Communications Academy Workshop, held at the Investor Relations Society's offices in London, stakeholders engaged in meaningful debate on the implications of Integrated Reporting – or, as it may be more simply and usefully described, 'best practice reporting'. Delivered by Sallie Pilot, Black Sun's Head of Research and Strategy and Chair of the Investor Relations Society's Best Practice Committee, the workshop comprised a series of engaging discussions and breakout sessions on integration and other key reporting trends.

During the opening sessions, participants discussed the myopia of short-termism and considered recent examples of companies that have suffered by focusing too much on either profitability or growth (BP, Wells Fargo, Volkswagen). With 86% of senior executives agreeing that longer time horizons for business decisions would improve performance, the workshop attendees were united in the opinion that long-term thinking is essential for business success. Only through long-term, forward-looking reporting, it was agreed, will investors and other stakeholders gain a true understanding of a company's performance, prospects and potential.

Next up was old-school corporate philanthropy, and how reporting which centres on corporate donations to charities is outdated and misses the point. What's needed now is a reporting process which reframes positive social and environmental impacts as value creation. This process should include better, more holistic information which shows how value created for employees, customers and society at large also delivers value for investors. The workshop participants then discussed how better information will also demonstrate better links between performance and the drivers of business value; provide a clearer picture of progress in the implementation of strategy; and enable deeper insights into the underlying health of a business.

The business case for best practice

Throughout the day, discussions frequently returned to the fact that the business case for integrated or best practice reporting sells itself. With compelling benefits for companies, investors and wider stakeholders alike, the wider value creation story is one that would make even the most intransigent CEO take note. Simply put, best practice reporting presents too many win-win scenarios to ignore. The problem, however, is getting senior management to listen and overcoming resistance to change. Perhaps once the investment community engages fully with the principles of integrated reporting and, more importantly, the integrated thinking and behaviours that underpin it, we may start to see even greater momentum and progress within the reporting landscape.