

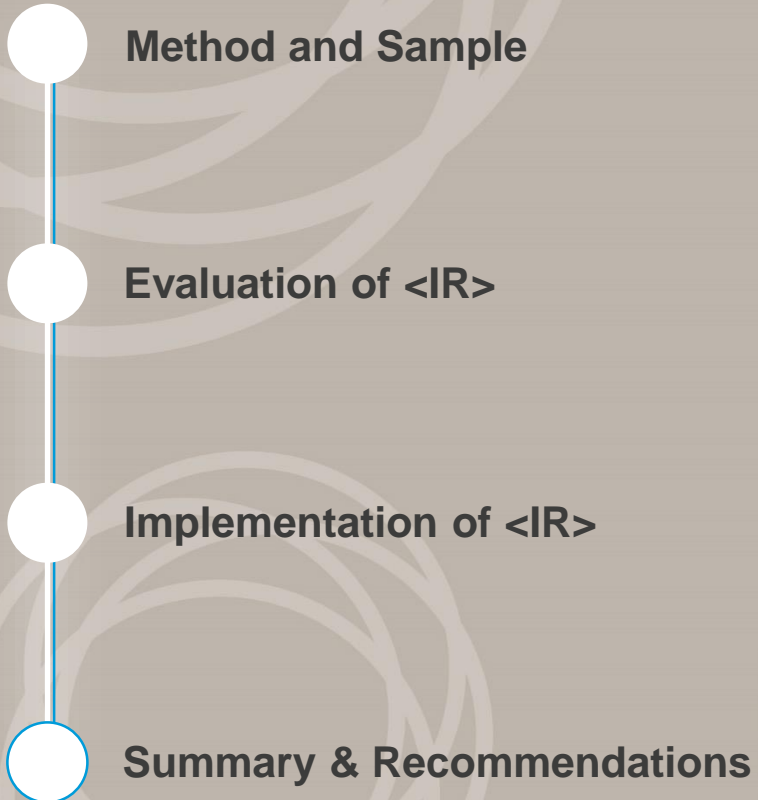
# How Valuable is Integrated Reporting? – Insights from <IR> Companies

UNIVERSITÄT LEIPZIG

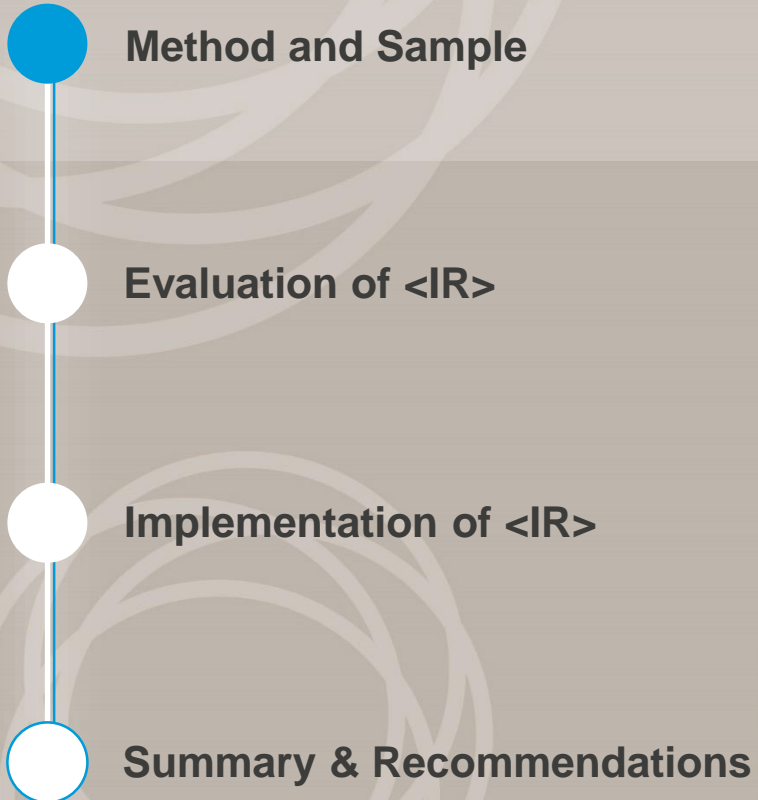
Results of a joint research project of  
CCR and the University of Leipzig –

sponsored by Clariant International

# Agenda

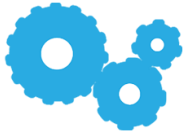


# Agenda



# Research Method

In-depth interviews with <IR> companies



## Method

Qualitative expert interviews via telephone  
(December 2015 – April 2016)



## Sample

13 companies\* in Europe, South Africa and Asia that  
have already implemented <IR> as a management  
and reporting approach for at least two years



## Experts

The participants are responsible for and/or are  
involved in <IR> within their companies



## Interview length

45 minutes to 1.5 hours per interview

\*Additionally, four consultants from three different firms were interviewed due to their practical experience with <IR> implementation for their clients – companies from South Africa and Europe.

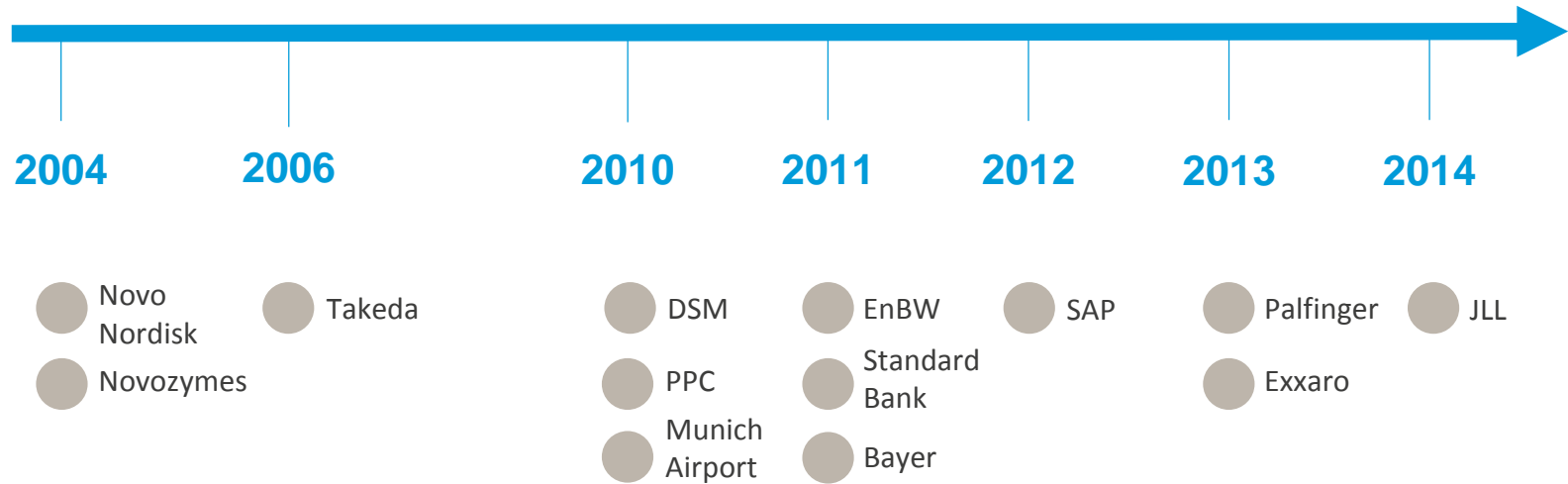
# Participating Companies

Participants come from three continents and nine industries



# Implementation Timelines

From innovation to institutionalization

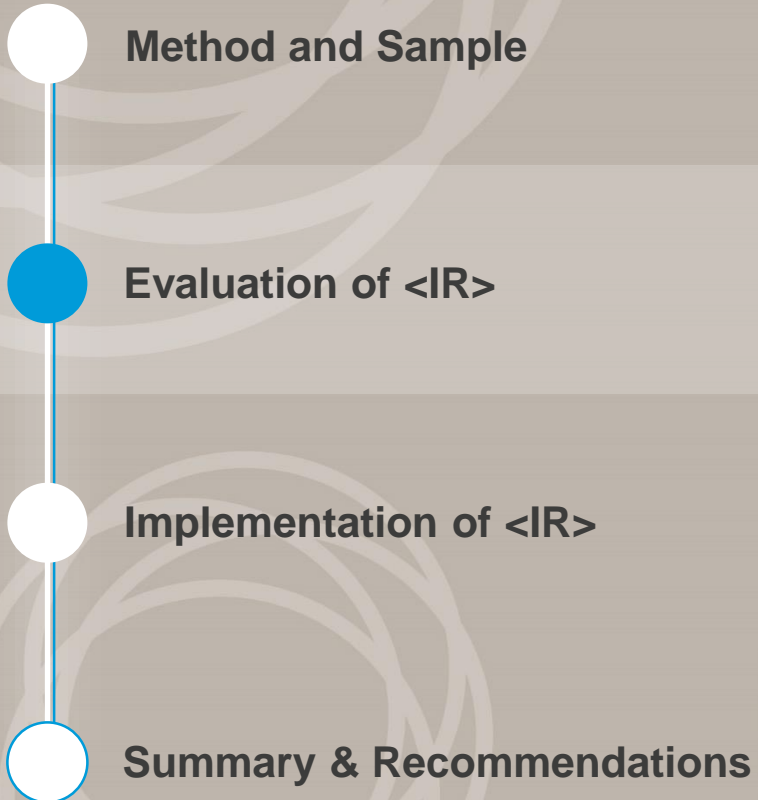


Two European pioneers started the implementation process in 2004

<IR> implementation actually started from 2010 onwards

- Introduction of <IR> as a mandatory requirement for listed companies on the Johannesburg Stock Exchange in South Africa (“apply or explain”)
- Formation of the The International Integrated Reporting Council (IIRC)
- <IR> Pilot Program with nearly 100 businesses and investors participating worldwide (2011-2014)

# Agenda



# Assessment of <IR>

Overview: Arguments *for* the implementation of <IR> from a company perspective

	INTERNAL BENEFITS	EXTERNAL BENEFITS
MANAGEMENT LEVEL	<ul style="list-style-type: none"><li>▪ Improved risk management &amp; decision-making</li><li>▪ Detailed understanding of value creation</li><li>▪ Holistic understanding &amp; management of the organization</li></ul>	<ul style="list-style-type: none"><li>▪ Holistic &amp; transparent company presentation</li><li>▪ Competitive advantage as a first mover</li><li>▪ Improved stakeholder communication</li></ul>
REPORTING LEVEL	<ul style="list-style-type: none"><li>▪ Enhanced efficiency of reporting process (esp. due to material issues)</li><li>▪ Strengthened internal dialogues</li><li>▪ Simplified operational decision-making</li></ul>	<ul style="list-style-type: none"><li>▪ Report as a new communication instrument</li><li>▪ Investor satisfaction from a company perspective</li><li>▪ Improved sell-side prognosis</li></ul>



# Assessment of <IR>

## Selected quotes on internal benefits from a company perspective

### Improved risk management & decision-making

«We all managed to see what the company is about. The thinking has changed internally.» *Head of Sustainability, Utilities Sector*

### Detailed understanding of value creation

«People are understanding that you need to have a specific strategy and that **strategy has to make clear how you create value** [...] We are not just here to create value in the short term -- we have a large sustainable business for the long term.» *Finance Executive, Financial Sector*

### Strengthening of internal dialogues

«The departments who were not used to interact with anybody, they now have to **discuss ideas and deal with feedback and strong opinions**. Now, we built up the working relationships between the departments.» *Head of Investor Relations, Technology Sector*

### Enhance efficiency of reporting process

«The initial stage was that we implemented the same systems for our financials and non-financials. With system integration the foundation for making an Integrated Report was in place.» *Head of Accounting, Chemicals Sector*

# Assessment of <IR>

## Selected quotes on external benefits from a company perspective

### Holistic and transparent company presentation

«We now show a **holistic picture of our company** which gives a realistic overview.» *Head of Strategic Sustainability, Transport Sector*

### New communication instrument

«I was a little bit surprised when I heard our integrated report is used for **internal training purposes** and the **onboarding of new executives**. I didn't realise it would be used for that but it is actually used for that.» *Finance Executive, Financial Sector*

### Fulfillment of investors' needs

«There are more and more investors who **consider sustainability aspects** in their overall analysis.» *Head of Management Report, Healthcare Sector*

### Improved company valuation

«[...] doing integrated reporting actually enables describing all parts of the organization. It better describes value creation and helps to assess your company's value.» *Head of Accounting, Chemicals Sector*

# Assessment of <IR>

Overview: Arguments *against* the implementation of <IR> from a company perspective

## INTERNAL CHALLENGES

Considerable effort  
and costs

No manual for  
successful <IR>

Resistance of  
employees and  
departments

## EXTERNAL CHALLENGES

New potential risks  
due to  
transparency

Taking  
responsibility for  
negative incidents

*«We certainly **don't** have the linkage between **non-financial KPIs and remuneration** that people want to see. I think it is very difficult to establish that in an organization. I **don't think that we are going to achieve it in the short term.**»*

*Finance Executive, Financial Sector*

# Agenda



**Method and Sample**



**Evaluation of <IR>**



**Implementation of <IR>**



**Summary & Recommendations**

# Processes: Influences on implementation *Management level*

Internal and external facilitators or obstacles from a company perspective

	INTERNAL FACTORS	EXTERNAL FACTORS
FACILITATORS	<ul style="list-style-type: none"><li>▪ Recognition and support from management</li><li>▪ Integrated thinking embedded in strategy</li><li>▪ Understanding of the relevance of non-financials</li></ul>	<ul style="list-style-type: none"><li>▪ Use of frameworks and guidelines</li><li>▪ Clear stakeholder feedback</li><li>▪ Expert advice from peers, consultancies, standard setters, academics, etc.</li></ul>
OBSTACLES	<ul style="list-style-type: none"><li>▪ Limited understanding of the benefits of &lt;IR&gt;</li><li>▪ Limited resources &amp; unclear role distribution</li><li>▪ Ongoing structural changes (e.g. M&amp;A)</li></ul>	<ul style="list-style-type: none"><li>▪ Lack of regulations or guidelines for &lt;IR&gt;</li><li>▪ Unknown stakeholder reactions or demands</li><li>▪ Non-transparent industry peers, customers/clients</li></ul>

# Processes: Influences on implementation *Reporting level*

Internal and external facilitators or obstacles from a company perspective

	INTERNAL FACTORS	EXTERNAL FACTORS
FACILITATORS	<ul style="list-style-type: none"><li>▪ Adaption of existing structures &amp; processes</li><li>▪ Effective collaboration between teams</li><li>▪ Internal support &amp; appreciation</li></ul>	<ul style="list-style-type: none"><li>▪ Specific information requests from stakeholders</li><li>▪ Use of frameworks &amp; guidelines for report drafting</li><li>▪ Support from experts</li></ul>
OBSTACLES	<ul style="list-style-type: none"><li>▪ Company-wide pre-financial data analysis, data quality, linkage between financial &amp; non-financial KPIs</li><li>▪ Fear of change</li><li>▪ Lack of resources</li></ul>	<ul style="list-style-type: none"><li>▪ No investor interest</li><li>▪ Lack of guidelines</li></ul> <p>«It is aggravating that the <b>IIRC framework is sort of unprecise</b>. Every company has to implement certain aspects in their own way. Internally, when you come up with such a framework, everybody asks <b>‘What does that mean specifically?’</b>» <i>Head of Sustainability, Transport Sector</i></p>

# Agenda



**Method and Sample**



**Evaluation of <IR>**



**Implementation of <IR>**



**Summary & Recommendations**

# Summary

Potential benefits from different perspectives



## Management/Board

- Enhance company profile
- Signal strategic/cultural initiative
- Enhance management reporting
- Improve risk management
- Take leadership role
- Address new/other investors (long-term, ESG)

## Accounting/Finance

- Broaden strategic relevance
- Enhance management reporting
- Steer collection/analysis/quality and KPI development of pre-financial data; ensure relevance and linkage of pre-financials with key financial KPIs,
- Improve risk management
- Acting according to peers
- Preempt regulation

## Investor Relations

- Enhance company profile
- Improve reporting quality, improve risk communication
- Satisfy shareholder needs
- Address new/other investors (long-term, ESG)
- Competitive advantage
- Preempt regulation



# Summary

Potential benefits from different perspectives



## Strategy

- Holistic strategy development
- Deeper understanding of business, key drivers and opportunities
- Improve risk management,
- Base strategic decisions on enhanced data set (pre-financials, financials)
- Account for complexity, connect KPIs



## Sustainability

- Broaden strategic relevance (sustainability as core within corporate center and most importantly, business units)
- Strengthen sustainable corporate strategies
- Enhance management reporting
- Improve risk management



## HR

- Engage employees, signal employee appreciation, improve identification/commitment
- Foster corporate culture
- Employee assessment according to financial and pre-financial targets / HR innovation / Enabling 360° feedback
- Strengthen employer brand

# The Voice of the Capital Market

Insights from CCR Integrated Reporting Roundtable / September 2016 / Zurich

## KEY TOOLS IN ANALYSING A COMPANY:

Financial data; Data on market size, growth, competitors, and market share development; Reality checks (store checks, talks with competitors); Management meetings; Meetings with management of competitors; Newspaper, internet; Gut feeling

## WHO CARES ABOUT YOUR ANNUAL REPORT?

Probably many of your other stakeholders but most analyst do not read the full annual report – Why? They already know... BUT: full financials are read; EXCEPTION TO THE RULE: annual reports are being read when initiating on a company

## WHAT DOES THE IDEAL ANNUAL REPORT LOOK LIKE?

Financials; Market data as accurate and reliable as possible; Any useful market intelligence data; All dead bodies that could potentially emerge; Short and punchy; Hard copies and a simple pdf: analyst like to make notes and keep the report as a reference

## WHO CARES ABOUT YOUR STORYTELLING?

Probably many of your stakeholders but sell-/buy-side want hard facts: Case studies and storytelling without the basics is not useful to them

# The Voice of the Capital Market

Insights from CCR Integrated Reporting Roundtable / September 2016 / Zurich

## WHAT SHOULD YOUR REPORTING EXPLAIN IN TERMS OF PREFINANCIALS?

How ESG will impact the business; The material issues; Your commitments, how you will deliver, progress; Value delivered today and going forward; G (Governance) as the most relevant part of “E-S-G” from an investors’ perspective today

## INTEGRATED REPORTING FOR THE CAPITAL MARKET? NOT YET!

### BUT:

- Sustainability (as a business case) disclosure attracts SRI investors including pension funds – shareholder targeting from a company perspective
- Integrated Reporting follows integrated thinking: <IR> as disclosure of your business approach, long-term strategy, sustainability as integral part of long-term financial success – investors are interested in your strategy and competitive advantage!
- “Chicken or egg”: Don’t wait until investors ask. If it’s relevant for your company, report about it – not once a year in the AR, but on every roadshow, one-on-one, call etc.

## THE AUTHORS

A joint research project of the Center for Corporate Reporting and the University of Leipzig.

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### **Center for Corporate Reporting (CCR): Dr. Kristin Köhler (CEO)**

CCR is the independent center of excellence for corporate reporting in Germany, Austria, and Switzerland and the central point of contact for all key players engaged in corporate reporting. Activities of CCR include the annual Symposium, topic-specific events, the trade publication «The Reporting Times», the annual report library and exclusive services for corporate members.

### **University of Leipzig: Prof. Dr. Christian P. Hoffmann (Academic Support)**

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The University of Leipzig's Institute for Communication and Media Studies is the leading research institute and think tank for communication management in Europe. The chair for Communication Management focuses on challenges and current developments in financial communication, corporate reporting, stakeholder communication and the impact of digital media.



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