Driving value by combining financial and non-financial information into a single, investor-grade document

In a flattening world, integrated reporting is gaining ground and identifying opportunities for value creation

Of special interest to
Chief risk officers
Chief executive officers
Chief financial officers
Audit committee members
While globalization, advanced communications and interdependencies have shrunk the globe, they have also increased the complexities of business in the 21st century. Combined with pressing environmental and social challenges, businesses face profound big-picture pressures — not least of which are increased investor and stakeholder expectations surrounding the reporting of non-financial and financial information, both needed to understand an organization’s true value. In a rush to satisfy and comply, many companies have reacted with “more is more” reporting strategies to provide this information, creating reporting fatigue.

Enter integrated reporting
Integrated reporting provides context to financial and non-financial information and goals. It connects strategies with the organization’s commitment to the long-term stewardship of material environmental, social and economic issues.
What's the issue?

Over the last 20 years, investor and stakeholder reporting expectations have evolved. In addition to traditional financial performance measurements, companies are asked for more complete non-financial performance metrics and measurements. This change reflects a paradigm shift in market evaluation, where for many companies their intangible value now constitutes the major part of their market value. Leading businesses have responded by publishing sustainability reports, which include environmental, social and governance data in addition to financial disclosures.

However, investors and other stakeholders need reports that do more than merge best practices from financial (management and measurement) reporting and non-financial (operational, structural and risk management information) reporting. They need clarifying information.

Leading companies have turned to integrated reporting to illuminate a company’s material financial and non-financial value drivers. This has two benefits:

- A holistic view of a company’s short-, medium- and long-term value. By aligning business practices, tangible and intangible assets, and material financial and non-financial capital risks with a company’s strategic focus, sustainability agendas and future goals, the integrated report can provide a comprehensive picture of short-, medium- and long-term company value.
- Improvements in brand value and viability, company policy and bottom line. During the process of combining information for an integrated report, a company must collect material information across business departments, which are often in silos. This requires thorough connectivity across every level of the business and provides a foundation to embed sustainable business practices. This “integrated thinking” has the potential to provide lasting benefits through increased efficiencies and collaboration that improves brand value and viability, company policy and the bottom line.

Leading companies have turned to integrated reporting to manage, measure and clarify material financial and non-financial value drivers.

Why now?

Pressures are mounting to increase the quantity and quality of financial and non-financial disclosure. At the same time, emerging social and environmental risks require companies to develop initiatives that transform these challenges into opportunities and sustained value drivers. This signals a larger shift in the marketplace in how investors and other stakeholders weigh components of a company’s market value. This shift in asset valuation, increasingly felt by company leadership, is already seen on various exchanges, finance terminals, independent sustainability reports and other reporting channels where non-financial information readily is available.

Integrated reporting represents an excellent opportunity to meet these increased demands for transparency of non-financial information and their calls for both quantitative and qualitative improvements in all reporting.

Creating unified integrated reporting standards

Leading companies seeking to capitalize on integrated reporting’s potential have begun to work on a globally recognized integrated reporting framework and integrated reporting standards with groups such as the International Integrated Reporting Council, The Prince’s Accounting for Sustainability Project, the Global Reporting Initiative, the American Institute of CPAs and the International Federation of Accountants.

Unified integrated reporting standards could allow companies to:
- Define emerging risks
- Communicate new value drivers
- Satisfy transparency demands from investors and other stakeholders
- Ensure consistency of reported information
- Present a complete picture of organization value
How does it affect you?

By connecting material financial and non-financial information, business model, governance, strategy, and opportunities and risks, integrated reporting unifies a company’s:

- Business practices
- Tangible and intangible assets
- Financial and non-financial capital risks
- Environmental, social and economic information

Integrated reporting:

Connecting financial and non-financial information to your overall business model

Through coherent and concise communication, an integrated report can highlight the information that is most pertinent to the direct creation and preservation of value. This can help a company distinguish itself to investors and other stakeholders, directly enhancing short-, medium- and long-term value.

Integrated reporting should do more than window dress. The “integrated thinking” required by this approach also creates a strong network of communication, collaboration and process efficiencies. These benefits can drive and sustain added value across the organization:

- Better financial and non-financial linkage across business silos including improved cross-functional alignment
- More sophisticated company governance and strategic oversight including collective empowerment on key organizational issues
- Enhanced understanding of convergent financial and non-financial risks and opportunities that directly affect capital
- Refined strategic environmental, social and financial objective integration
- Additional opportunity for innovation of new revenue streams
- Increased investor and stakeholder interaction

Integrated reporting requires company wide integrated thinking and strategy.
What's the fix?

There are four initial steps toward implementing integrated reporting:

1. **Define your desired state.** Determine what integrated reporting means to your company. Frame your business goals, vision, and environmental and social objectives with capital opportunities and risks.

2. **Assess material issues.** Complete a thorough materiality analysis to determine what integrated reporting risks and opportunities are important to company leadership, investors and stakeholders. Prioritize their responses to determine the material issues and related business strategies.

3. **Compare current state against integrated reporting definitions.** Evaluate integrated reporting practices, and select the methods that best fit your organization. Mirror the quality, processes and controls of these leading companies and organizations.

4. **Create a road map.** Prioritize reporting on the environmental, social and fiscal activities and projects that further an organization's ability to create and preserve value. Design and implement robust processes and controls that support credible, high-quality reporting. Further, engage leadership, investors and stakeholders to prioritize projects that best ensure ROI and communicate successes with an external audience.

**Implement integrated reporting**

Leverage existing reporting processes by integrating financial and non-financial material into a single, integrated report that connects:

- Sustainable business practices
- Tangible and intangible assets
- Material financial and non-financial capital risks and opportunities
- Short-, medium- and long-term value creation and preservation
What’s the bottom line?

Integrated reporting is more than the merging of financial and non-financial reporting information – it can focus and help develop company strategies to manage both financial and non-financial capital. Integrated reporting can help prepare a company to meet 21st-century business challenges by:

- Refocusing and redefining financial and non-financial goals
- Building integrated communication, processes and efficiencies throughout the company
- Driving short-, medium- and long-term financial and non-financial value
- Engaging investors and other stakeholders
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