



Integrated Reporting for a Long-term Strategy

*Mapping the International Integrated Reporting Framework
to FCLT Global's "10 elements of a long-term strategy"*

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Integrated Reporting for a Long-term Strategy

Professor [George Serafeim](#)'s paper, "[Integrated Reporting and Investor Clientele](#),"¹ presented "evidence that suggests a causal relationship between the corporate practice of integrated reporting and an investor base with longer-term shareholders."

Mapping the [International Integrated Reporting Framework](#)² to the "10 elements of a long-term strategy,"³ leverages Serafeim's findings and creates a framework for communicating a company's long-term strategy to investors. The framework has three broad objectives.

1. Provide practical guidance for establishing a corporate-investor dialogue about an organization's long-term objectives and the actions needed to achieve strategic goals.
2. Challenge the perception that integrated reporting is a communications initiative by focusing on the role of the integrated reporting process in changing corporate culture, governance, and strategy.
3. Position integrated reporting as a part of a broader agenda to overcome the challenges of short-termism.

¹ George Serafeim. "Integrated Reporting and Investor Clientele," *Journal of Applied Corporate Finance* 27, no. 2 (2015): 34–51.

² International Integrated Reporting Council. "International <IR> Framework," December 2013.

³ Dominic Barton, Jonathan Bailey, Joshua Zoffer. "Rising to the challenge of short-termism," FCLT Global, September 2016.

FCLT Global. "Straight talk for the long-term: How to improve investor-corporate dialogue." March 2015.

10 Elements of a Long-term Strategy

This list is a reproduction of material published by [FCLT Global](#).⁴

1. Express a **clear statement of purpose, mission, and vision**.
2. Explain **how the company's business model creates long-term value** by identifying key value drivers at the reporting unit level.
3. State **management's view of the market**, major trends impacting the market, potential for growth, the company's relative positioning, and underlying assumptions (e.g., macroeconomic factors).
4. 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, clearly substantiated by fact.
5. 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. Layout a **detailed execution roadmap** that defines short-, medium-, and long-term actions linked to key milestones and strategic goals targeted at long-term value creation.
7. Provide **medium- and long-term metrics and targets** that indicate the company's ability to deliver on its strategy, such as customer satisfaction over time, brand strength, and product pipeline investment and returns. Explain how the selected metrics will be measured and tracked consistently.

⁴ Barton, Bailey, Zoffer, "Rising to the challenge of short-termism" and FCLT Global, "Straight talk for the long-term."

8. Explain how **capital and non-capital investments**, including the mix of resource allocation, will yield sustained competitive advantage and the creation of long-term value.
9. Provide an **overview of risks** and their mitigation plans, including sustainability (environmental, social, and governance) issues.
10. Articulate how **executive and director compensation** tie to long-term value creation and strategic goals.

The Integrated Reporting/Long-term Strategy Map

The following structure organizes the disclosure elements of an integrating report in a way that is consistent with the “10 elements of a long-term strategy.” Three categories — materiality, stakeholder engagement, and governance—were added based on the comments about these topics during presentations and panel discussions at the [Strategic Investor Initiative](#) CEO Investor Forum on February 27, 2017 in New York. Individual items of disclosure have been referenced to the source paragraphs in the International Integrated Reporting Framework and to other publications.

PURPOSE, MISSION, AND VISION

(Long-term strategy element #1 — Express a clear statement of purpose, mission, and vision)

1. Describe the organization’s culture, ethics, and values and how they drive the way people make decisions and work toward shared objectives (<IR> Framework: 4.5).
2. Describe the views of the board and management on what the organization wants to be in the future and how it will shape the business and sector (<IR> Framework: 3.41).
3. Explain the board’s and management’s perspective on the role of their organization in society (“[The Role of the Corporation in Society: Implications for Investors](#)”⁵)

MANAGEMENT’S VIEW OF THE MARKET

(Long-term strategy element #3— Explain management’s view of the market)

1. Identify principal activities and markets (<IR> Framework: 4.5).

⁵ George Serafeim, Emily Kaiser, Josh Linder, Kim Nguyen-Taylor, Ivan Naranjo, and John Streur. “The Role of the Corporation in Society: Implications for Investors.” Calvert Investments, September 2015.

2. Describe the competitive landscape for the industry and sector, for example, the relative strengths and weaknesses of competitors, customer demand, the threat of new competition, substitute products or services, the bargaining power of customers and suppliers, potential for organic growth and acquisitions (<IR> Framework: 4.5).
3. Discuss macro and micro economic conditions affecting the industry and sector (<IR> Framework: 4.7).
4. Discuss global and local trends likely to impact the business and sector, for example, the speed and effect of technological change, population and demographic changes, human rights, poverty, education, carbon emissions, biodiversity, water stress, human health impacts of emissions, resource shortages, the legislative and regulatory environment in which the organization operates, and the political environment in countries where the organization operates (<IR> Framework: 4.5).

COMPETITIVE ADVANTAGE

(Long-term strategy element #4— Highlight sources of competitive advantage)

1. Describe how the organization differentiates itself in the marketplace, for example, product differentiation, market segmentation, delivery channels, and marketing (<IR> Framework: 4.29).
2. Explain how ongoing process improvement, education and training, diversity, recruiting, workplace flexibility, and employee mobility contribute to the long-term success of the company (<IR> Framework: 4.17).
3. Discuss how the organization develops and exploits intellectual capital, for example, patents, copyrights, software, rights, licenses, and organizational knowledge, for example, systems, procedures and protocols (<IR> Framework: 4.29).

4. Explain the role of innovation in creating competitive advantage (<IR> Framework: 4.29 and “[The Performance Frontier: Innovating for a Sustainable Strategy](#)”⁶).

MATERIALITY

(<IR> Framework Guiding Principle 3D, Materiality)

1. Describe the methodology used to identify material issues and identify the guidance used in the process, for example, Sustainable Value Matrix,⁷ [Sustainability Accounting Standards Board](#), or [GRI](#).
2. Describe how the assessment of materiality addresses issues across the organization’s entire supply chain.
3. Explain which issues have been given the highest priority and the process used for prioritization.

STAKEHOLDER ENGAGEMENT

(<IR> Framework Guiding Principle 3C, Stakeholder relationships)

1. Explain the strategy and methodology used for stakeholder engagement.
2. Describe the methodology used to prioritize stakeholders.
3. Describe the nature and quality of relationships with principal stakeholders.
4. Explain how and to what extent the company responds to stakeholder needs and expectations.

⁶ Robert G. Eccles and George Serafeim. “The Performance Frontier: Innovating for a Sustainable Strategy.” *Harvard Business Review* 91, no. 5 (May 2013): 50–60.

⁷ Robert G. Eccles, Michael P. Krzus, and Sydney Ribot. “The Sustainable Value Matrix,” chapter 6 in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*. New York: John Wiley & Sons, Inc., 2014.

5. Identify investors included the stakeholder engagement process.

RISKS AND OPPORTUNITIES

(Long-term strategy element #9—Provide an overview of risks)

1. Identify the internal and external sources of critical risks and opportunities, including environmental, social, and governance issues, such as the sector and industry issues identified in standards issued by the Sustainability Accounting Standards Board (<IR> Framework: 4.25).
2. Discuss the organization’s assessment of the likelihood that material risks or opportunities will come to fruition, the magnitude of effects if they do, and specific circumstances that might accelerate the likelihood of the risk or opportunity occurring (<IR> Framework: 4.25).
3. Describe how the organization will mitigate key risks or create value from opportunities, including the identification of the associated strategic objectives, strategies, policies, targets, and KPIs (<IR> Framework: 4.25).
4. Explain how the business model or strategic objectives may be influenced by changes in the external environment or identified risks and opportunities and describe how the organization would respond to those changes (<IR> Framework: 4.16).

HOW THE BUSINESS MODEL CREATES LONG-TERM VALUE

(Long-term strategy element #2—Explain how the company’s business model creates long-term value)

1. Identify the key elements of the business model (<IR> Framework: 4.13).
2. Explain how the business model creates value for investors and for society (<IR> Framework: 4.19).

3. Explain how the organization approaches the need to innovate (<IR> Framework: 4.16 and “The Performance Frontier: Innovating for a Sustainable Strategy”⁸).
4. Explain how and why the business model is considered to be resilient and adaptable to change (<IR> Framework: 4.16).

STRATEGIC GOALS

(Long-term strategy element #5—Disclose strategic goals)

1. Identify the organization’s strategic goals and how progress towards reaching those goals will be measured, for example, ROIC, organic revenue growth, operating income (<IR> Framework: 4.28).
2. Discuss strategic goals in the context of macro and micro economic conditions, current and future market trends, and competitive advantage (<IR> Framework: 4.28).
3. Identify the resources required to implement the business strategy and discuss the ongoing availability of those resources (<IR> Framework: 4.28).
4. Describe the extent to which material environmental and social considerations, including those tied to the themes identified in the [UN Sustainable Development Goals](#) (see Appendix 1), have been embedded into the organization’s strategic goals (<IR> Framework: 4.29).

STRATEGY EXECUTION ROADMAP

(Long-term strategy element #6—Lay out a detailed execution roadmap)

1. Explain the actions the company plans to take to achieve short-, medium, and long-term goals (<IR> Framework: 4.28 and 4.29).

⁸ Eccles and Serafeim. “The Performance Frontier.”

2. Explain how the company's contemplated actions are linked to strategic goals and milestones (<IR> Framework: 4.28 and 4.29).
3. Explain whether and how the business model might be required to change over the medium- and long-term in order to achieve strategic goals (<IR> Framework: 4.28 and 4.29).

MEDIUM- AND LONG-TERM METRICS AND TARGETS

(Long-term strategy element #7—Provide medium- and long-term metrics and targets)

1. Explain the milestones, targets, and KPIs, for example, new products or services (including those tied to the themes and categories of the [UN Sustainable Development Goals](#), see Appendix 1), new markets, customer satisfaction, cost management, and productivity of assets, that will be used to track progress toward achieving goals and objectives over the medium- and long-term (<IR> Framework: 4.28).
2. Disclose sector- and company-specific quantitative indicators used to measure success with respect to meeting targets, managing risks, and leveraging opportunities (<IR> Framework: 4.31).
3. Explain the significance of selected indicators, their implications, and the methods and assumptions used in compiling them (<IR> Framework: 4.31).
4. Explain how changes in the external environment could affect metrics and targets and the achievement of medium- and long-term strategic objectives (<IR> Framework: 4.37).
5. Explain how changes in the external environment could impact the availability, quality, and affordability of resources the organization uses, for example, the continued availability of skilled labor or natural resources (<IR> Framework: 4.37).

6. Explain the changes between past and current performance and between current performance and the company's medium- and long-term targets (<IR> Framework: 4.31).

CAPITAL AND NON-CAPITAL INVESTMENTS

(Long-term strategy element #8—Explain how capital and non-capital investments will yield competitive advantage)

1. Discuss the relationship between critical issues (i.e., trends, risks, opportunities) and capital and non-capital investments, for example, expenditures for property, plant, and equipment, intellectual property, people, etc. (<IR> Framework: 3.5).
2. Explain how investments provide a source of differentiation or competitive advantage for the organization and contribute to the resilience of the business model (<IR> Framework: 4.14).
3. Discuss the nature and magnitude of trade-offs made when making capital allocation decisions, for example, R&D vs. acquisitions vs. dividends vs. repurchase of shares (<IR> Framework: 4.15 and 4.56).
4. Describe the impacts, both positive and negative, on financial capital (funds available through operations, debt or equity financing), manufactured capital (plant, property, equipment), intellectual capital (patents, copyrights, licenses), human capital (the organization's people—their capabilities, experience, drive to innovate), social capital (shared organizational values, relationships with customers, suppliers, communities), and natural capital (air, water, land) including significant effects on the capitals up and down the value chain (<IR> Framework: 2.14 and: 4.31).

GOVERNANCE

(<IR> Framework Content Element 4B, Governance)

1. Explain the organization's leadership structure, including the skills and diversity (range of backgrounds, gender, competence and experience) of the board and the

extent to which regulatory requirements influence the design of the governance structure (<IR> Framework: 4.9).

2. Describe the processes used to make strategic decisions, build and monitor the culture of the organization, its approach to risk management, and mechanisms for addressing ethical issues (<IR> Framework: 4.9).
3. Explain what particular actions the board has taken to influence and monitor the strategic direction of the organization (<IR> Framework: 4.9).
4. Describe any governance practices that exceed local or regional legal requirements (<IR> Framework: 4.9).
5. Discuss the role of the board in promoting and enabling innovation (<IR> Framework: 4.9).
6. Describe the board process to approve the integrated report (<IR> Framework: 1.20).
7. Describe the board process to issue “The Statement of Significant Audiences and Materiality”⁹.

EXECUTIVE AND DIRECTOR COMPENSATION

(Long-term strategy element #10—Articulate how executive and director compensation ties to long-term value creation)

1. Explain the role of the board in determining executive compensation (<IR> Framework: 4.9).

⁹ Robert G. Eccles, Michael P. Krzus, and Sydney Ribot. “Materiality,” chapter 5 in *The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality*. New York: John Wiley & Sons, Inc., 2014.

2. Explain how board and executive compensation is linked to medium- and long-term strategic objectives (<IR> Framework: 4.9).

3. Explain the relationship between board and executive compensation and specific ESG goals, mitigating critical risks, and seizing opportunities to innovate over the medium- and long-term (<IR> Framework: 4.9).

Acknowledgements

The ideas presented in the following publications are the foundation for the integrated reporting/long-term strategy map.

Dominic Barton, Jonathan Bailey, Joshua Zoffer. "[Rising to the challenge of short-termism](#)," FCLT Global, September 2016.

Veronique Menou and Laura Nishikawa. "[Toward Sustainable Impact Through Public Markets: A Framework to Align Investments with the UN Sustainable Development Goals](#)," MSCI ESG Research, Inc., April 2016.

George Serafeim. "[Integrated Reporting and Investor Clientele](#)," Journal of Applied Corporate Finance 27, no. 2 (2015): 34–51.

FCLT Global. "[Straight talk for the long-term: How to improve investor-corporate dialogue](#)." March 2015.

Robert G. Eccles, Michael P. Krzus, and Sydney Ribot. *[The Integrated Reporting Movement: Meaning, Momentum, Motives, and Materiality](#)*. New York: John Wiley & Sons, Inc., 2014.

International Integrated Reporting Council. "[International <IR> Framework](#)," December 2013.

Robert G. Eccles and George Serafeim. "[The Performance Frontier: Innovating for a Sustainable Strategy](#)." Harvard Business Review 91, no. 5 (May 2013): 50–60.

Appendix 1 – UN Sustainable Development Goals

This table is a reproduction of information developed by MSCI ESG Research.¹⁰

Theme	Category	Definition
Basic Needs	Nutrition	Basic products, as defined by Choices Programme , refer to those products that contribute to the daily intakes of essential nutrients, while non-basic products are not needed to fulfill daily nutritional requirements.
Basic Needs	Major Disease Treatment	Drugs that aim to treat major diseases of the world as defined by the World Health Organization daily adjusted life year (DALY), as well as neglected tropical diseases , and orphan drugs .
Basic Needs	Sanitation	Basic hygiene and sanitation products including soaps, oral care and diapers.
Basic Needs	Affordable Real Estate	Low-income housing options take the form of homes for reconstruction efforts, affordable residences for the elderly and units devoted to be managed under social rent or purchased through shared equity or shared ownership. Low-income commercial properties include commercial spaces for Small and Medium Enterprises (SMEs).
Empowerment	SME Finance	Loans to small and medium enterprises as defined by national standards or company disclosure.

¹⁰ Veronique Menou and Laura Nishikawa. "Toward Sustainable Impact Through Public Markets: A Framework to Align Investments with the UN Sustainable Development Goals," MSCI ESG Research, Inc., April 2016.

Theme	Category	Definition
Empowerment	Education	Educational services, as well as products used in a school environment (i.e. training software, educational books and materials used by students and teachers as part of their education programs).
Climate Change	Alternative Energy	Products, services, or infrastructure projects supporting the development or delivery of renewable energy and alternative fuels.
Climate Change	Energy Efficiency	Products, services, infrastructure, or technologies that proactively address the growing global demand for energy while minimizing effects on the environment.
Climate Change	Green Energy	Design, construction, redevelopment, retrofitting, or acquisition of ‘green’ certified properties—subject to local green building criteria.
Natural Capital	Sustainable Water	Products, services and projects that attempt to resolve water scarcity and water quality issues, including minimizing and monitoring current water use and demand increases, improving the quality of water supply and improving the availability and reliability of water.
Natural Capital	Pollution Prevention	Products, services, or projects that support pollution prevention, waste minimization, or recycling as a means of alleviating the burden of unsustainable waste generation.

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