Value of Value.
The new long-term horizon for business leaders.
Welcome to the latest instalment of the Value of Value report, designed to provide boards with insights into how businesses are shaping their narrative on value creation.

As this report shows, we are witnessing changes to how businesses think, act and communicate about their purpose.

The financial crisis of 2008 remains the defining issue for the current generation of executives and their organizations.

With environmental concerns rising in a globalized world, consumer and investor trust now comes at a premium and organizations are expected to combine profits and purpose.

Short-term capitalism must change to long-term, sustainable growth and businesses need to lead the way. The long-term leaders I have met and admire are also stewards of their business’s societal trust and ensure a sustainable future for both business and our planet.

In practice, these leaders have changed the way they govern and manage their corporations.

This report, prepared by the IIRC, the Association of International Certified Professional Accountants and Black Sun, aims to identify and track the critical topics in the shift towards long-term capitalism.

We hope it sparks and guides future dialogues on one of the key business issues of our time.

Dominic Barton

Dominic Barton is the Chair of the IIRC. He spent nine years as the Global Managing Partner of McKinsey & Company until 2018.
Business leaders globally agree that their organizations need to shift their focus from pure shareholder value creation to wider value considerations, such as value to society and co-creation of value through other external relationships.

There is widespread recognition that future success is based on thinking and doing things differently, particularly with regards to stakeholders and the environment. This suggests that organizations and investors are increasingly acknowledging the intrinsic link between an organization’s social licence to operate and its profitability. 72% of executives believe that aligning their organization’s profitability objectives with social and environmental responsibility is very important to their success.

Business leaders believe long-term thinking cultivates long-term success.

Although barriers to long-term thinking and behavior exist, if given the choice, most executives feel that they should be planning further into the future than they currently are. Currently just 30% of executives use a strategic planning horizon that exceeds three years, although 77% would like to start using a planning horizon that is longer than three years. This represents a 10% increase in preference for a longer term strategy since our 2016 edition. 82% of executives believe that taking a longer-term perspective to strategic planning would improve their organization’s value creation potential.

The link between success and long-termism is apparent when these two opinions are viewed together. Executives also believe that investors are mirroring their long-term views. Only 15% of those surveyed think that investors view past performance as important.

Future Business Success
relies on a broader perspective

Business leaders generally agree that future success relies on consideration of stakeholder perceptions and wider value creation.

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In addition, 96% of business leaders feel that it is important that they can effectively explain how their organization creates value for their key stakeholders in the long term.

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The importance of broader information remains undisputed. More business leaders than ever felt that it is important to consider broader information alongside financial information in order to give investors and other stakeholders a more complete picture of the value they create.

An overwhelming 97% of executives agreed that bringing together financial and broader performance information would help their organization explain how it creates value over time. Of these executives, 64% rated broader information considerations as extremely important, an increase of 15% from 2016.

- articulating a clear statement of purpose, mission, and values;
- highlighting sources of competitive advantage such as talent; and
- explaining how the organization’s business model creates long-term value by identifying key value drivers.

Despite widespread agreement for these broader performance concepts in principle, the majority of business leaders seem to struggle with communicating them. An even bigger challenge is that only 11% of executives believe that non-financial factors are extensively researched and significantly influence strategic decision-making in their organization. 36% of executives consider non-financial or broader factors important but lack reliable tools and techniques to better understand and incorporate them into strategic decision-making. The good news is that 46% are currently developing such tools and techniques.

We've seen an increase in the number of executives who believe their business models effectively explain how they create long-term value while identifying key value drivers. Business models remain a key tool in disclosing an organization’s value creation process.

Investors remain a key stakeholder, yet with the recent focus on millennials and the future needs of the corporate workforce, it’s no surprise that the importance of employees, and communications to employees, is becoming top of mind for executives. Today’s employees want to work for organizations with similar values – especially ones that have a clear purpose beyond a financial focus and make a difference in wider society. Employees at 77% (55% in 2016) pull into the lead for the stakeholder group that executives feel the value creation discussion is most useful for. They are followed by customers at 74% (85% in 2016) and then investors in third place at 68% (77% in 2016).

Employees take the lead as the focus audience of the value-creation narrative

Reinforcing the need to balance purpose and profit, the top three factors business leaders deemed important to the success of the organization are:

- meeting the expectations and needs of customers;
- inspiring and engaging people; and
- profitability and financial return for investors.

There are many possible reasons as to why the shift in stakeholder focus has taken place, however when this is viewed in light of the executive’s preference for longer-term strategic horizons and value, it suggests that concepts such as trust and purpose are inherent factors due to their employee and societal relevance. Organizations may be feeling the pressure of regulatory and societal demands for increased transparency. They may still be in the process of fulfilling these needs.
Focusing on Value
leads to better communication

We are seeing positive movement and improved confidence in reporting. The majority of executives believe that, in the last three years, their corporate reporting:
• is becoming more reliable for internal and external use;
• is becoming a better form of strategic insight into the organization;
• has a better focus on outcomes for the organization;
• has promoted better engagement on value creation with investors; and
• is becoming more forward looking.

51% feel they are making progress on the reporting journey, albeit slowly. In order to make positive change in the long term, new and more relevant forms of data are required within some organizations. Many organizations are using reporting as a tool to drive change within their business.

99%
BELIEVE THAT IT’S IMPORTANT TO EXPLAIN HOW THEIR ORGANIZATION CREATES VALUE

Having the right focus on value creation can help drive internal changes and support external communication. 99% of executives believe that it’s important to effectively explain how their organization creates value for the long term through corporate reporting. This is a 6% increase since 2016 and highlights the consistent relevance of effective corporate reporting from an executive perspective.

A focus on value internally leads to better corporate reports and communication

Integrated Thinking
needs board support to progress further

Most business leaders believe that the aims of integrated reporting align with their corporate objectives. In fact 74%, of executives think that integrated reporting will promote a more cohesive approach to corporate reporting and better enable them to communicate the full range of factors (financial and broader performance information) that materially affect their organization’s ability to create value over time.

74%
THINK THAT INTEGRATED REPORTING WILL PROMOTE A MORE COHESIVE APPROACH

Integrated reporting is the culmination of integrated thinking and aims to improve the quality of information available to investors and wider stakeholders.

Integrated thinking is becoming mainstream, but needs board support to progress further

As a strategic tool, integrated reporting could provide a wealth of benefits to help any organization, and 76% of executives agree. That said, only 35% feel that they receive the vital board or executive level support needed to make progress on their integrated reporting journey. As with many elements of organizational success, board members will need to be more public and clear about their support for integrated thinking and find more integrated ways of disclosing information for reporting. A clear tone at the top drives organizational change more effectively and allows an organization to capitalize on benefits faster.

Three quarters of executives surveyed agree that integrated reporting would:
• improve the relevance of information available to investors;
• promote a cohesive approach to corporate reporting;
• enhance accountability for tangible and intangible assets;
• eliminate internal silos; and
• reduce short-term thinking.

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10 questions for executives to help develop their value creation stories.

1. Have you explained the state of play?

Provide management’s view of the market, major trends impacting the market, potential for growth, the organization’s relative positioning, and underlying assumptions.

Remember to outline the trends that have a material impact on the organization and its stakeholders.

Also explain what these mean for the long-term future of your organization to provide context.

2. Who are you?

Express a clear statement of purpose, mission, and vision; ensure this communicates a clear understanding of your organization’s role in society and ensure this is translated into tangible policies for the board’s agenda.

Also explain how stakeholders are engaged, their interests considered, and business decisions made with these in mind.

3. Does your business explain how you create value?

Ensure that your organization demonstrates its long-term value creation process beyond purely financial returns, outlining how your organization’s operations transform, create or even destroy value.

Considerations for enhancing your value creation story

4. What makes your business unique?

Highlight sources of competitive advantage such as talent, access to resources, or other assets that enable your organization to execute its strategy and succeed in the marketplace.

Focus on highlighting the characteristics that make your organization different, such as purpose or its reason for existing in the context of your stakeholders and value creation.

5. Where is your business going?

Lay out 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.

Specifically explain strategic priorities, provide clear time frames whenever possible and ensure that your organization reports back on previous strategic priorities, explaining whether the organization has met these priorities or not.

6. How will you get there?

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 organization’s competitive advantage.

Specifically explain strategic priorities, provide clear time frames whenever possible and ensure that your organization reports back on previous strategic priorities, explaining whether the organization has met these priorities or not.

7. Do you measure what gets managed?

Provide medium and long-term metrics and targets that indicate your organization’s ability to deliver on its strategy, such as customer satisfaction over time, brand strength, and product pipeline investment and returns.

Demonstrate how your organization’s strategy has been designed with consideration of key stakeholder groups.

Explain how these priorities are measured and tracked.

8. What are your challenges?

Provide an overview of risks and their mitigation plans, including sustainability challenges (e.g. ESG issues).

Clearly outline how your board has assessed the organization’s viability over the long term and ensure that it demonstrates a direct link between strategic priorities and specific risks, showing also how this aligns with the organization’s risk appetite.

9. Is action linked to reward?

Articulate how executive and director compensation tie into long-term value creation and strategic goals.

Make a clear link to your organization’s values, explaining how the board provides oversight and embeds culture throughout your organization.

10. Have you provided a complete picture of value?

Explain how capital and non-capital investments, including a mix of resource allocation, will yield sustained competitive advantage and the creation of long-term value.

Ensure your organization also provides insight into the areas in which it is investing.
The International Integrated Reporting Council

The evidence continues to demonstrate that moving towards integrated reporting is not just the right thing, but the best thing an organization can do for its long-term viability.

The findings of this survey demonstrate that business leaders recognize this, but that there is a need for support and guidance to build effective integrated thinking and reporting.

It sounds simplistic, but what we hear from those at the forefront of this integrated reporting movement is that the best thing an organization can do is just get going. Do not let perfection be the enemy of the best thing is to just get going. Do not let perfection be the enemy of the best thing.

I warmly congratulate colleagues in the Association and in Black Sun for producing this valuable new research.

Richard Howitt
Chief Executive Officer of the International Integrated Reporting Council (IIRC)

And the IIRC’s technical team works with market leaders to develop guidance, practice notes and share best practice.

This requires first class management information which the majority of organizations are still struggling with. This research shows that only 10% believes that non-financial factors are extensively researched and significantly influence strategic decision-making. Separate research of our own, Joining the Dots, supports this finding and concludes that senior leaders are struggling to make the right decisions due to bureaucratic decision-making processes, siloed and short-term thinking, intra-organizational breakdowns in trust and collaboration, and difficulty translating ever-expanding volumes of information into relevant knowledge. The systems and cultures in which organizations are functioning are making it difficult to do integrated thinking.

It further shows that organizations that have advanced capability in the four Principles to create and preserve value mentioned above are making it difficult to do integrated thinking. For example, in terms of better performance, improved strategic execution, and fewer failures of strategic initiatives due to delays in decision-making and reduced susceptibility to delivering flawed information to decision-makers.

The practices of management accounting as described by the GMAPs provide the integrated information required to support integrated thinking and decision-making, in particular, taking into account both financial and non-financial performance across multiple time frames. This integrated information is the foundation for a shared understanding of how an organization creates value through its business model.

This brings me to a second tool that I believe is capable of assisting organizations as they aim to adopt more integrated ways to develop strategy and operate their organization. The CGMA Business Model Framework is a practical tool designed to help boards, senior executives and staff quickly and easily gain an understanding of their organization’s business model. This improves connectivity of key decisions and activities associated with how your current business model contributes to wider value generation.

Integrated thinking in a multi-capital environment is a hot topic amongst organizations that are seeking to gain a competitive edge in today’s fast changing business environment. Management Accountants are at the forefront of these developments and we will continue to support them in their quest to provide solutions that lead to long-term business success.

Andrew Harding FCMA, CGMA
Chief Executive, Management Accounting, Association of International Certified Professional Accountants

Visit www.cgma.org/resources for our research

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Strategic insight

Black Sun’s research takes real-world business cases into consideration, as well as regulations and changes in the marketplace. This helps us devise practical tools and approaches to effectively address business problems with communications solutions.

Our Horizon Series research annually identifies best practice and emerging trends in corporate communications, across key storytelling channels.

www.blacksunplc.com/horizon

Practical advice

Black Sun has a long history of driving business towards increased transparency and informing corporates about the internal benefits of improved communication and reporting.

Through our partnership with the IIRC, we host a Best Practice Examples Database that highlights effective approaches to Integrated and Annual Reporting disclosure.

examples.integratedreporting.org/home

Creative excellence and technology

Creatively, we continue to push the boundaries to capture attention and stimulate emotional connections through digital, creative, film, animation and social media.

Black Sun developed CONNECT in partnership with Adobe, a unique CMS platform based on client communication needs. Social media, printed documents, assets and messaging can all be controlled from this single hub.

www.blacksunplc.com/connect

Active engagement

We are active in the corporate reporting and communications industry as an advisor, commentator and trainer, hosting hands-on workshops on everything from social media and website communications, to regulation and corporate reporting.

Consider joining our next event or workshop to pick up some practical skills.

www.blacksunplc.com

In an age when trust has taken center stage as a basis for successful long-term business, purposeful stakeholder communication on topics such as value, governance and future prospects has never been more relevant.

It’s not enough for a business to make money and provide dividends. Investors, society and even some governments are increasingly asking questions about a business’s long-term contribution to the society in which it operates. Simply put, profit is not enough.

The key catalyst has been poor corporate governance decisions that have shone a light on the less effective approaches to business, and some less than ethical practices by certain high-profile organizations in recent times. It’s no surprise that, in addition to meeting increased regulatory requirements, more businesses are trying to improve their communications to demonstrate transparency.

The key benefit of clear and transparent communication is increased stakeholder trust, and in turn a social license to operate.

We believe that organizations can use their messages to support a clearer understanding of their operations, performance and long-term value creation, and in doing so, drive better, more informed decision-making.

For over 25 years Black Sun has helped companies tell the story of how they create value for the people that matter to them – investors, employees, customers and society. We view communications as an opportunity to guide business towards better practice and prompt them to go beyond legislative requirements and tell a truly holistic story. This will ultimately differentiate them and provide a strategic advantage.

To support consistent, authentic and joined-up communications, we recommend some of the following tools and resources listed here.

Come chat to us about stakeholder communication programmes that change perceptions, influence behaviors and create business advantages by building greater trust and confidence with investors.

David Christopherson

CEO of Black Sun PLC

‘Purpose and Profit’ Value of Value: Board-level Insights is a survey of executives from across the globe that seeks to understand trends and challenges in measuring, disclosing and understanding the value that companies create. This survey is based on the views and opinions of almost 100 business leaders as at March 2019. 78% of respondents were part of an organization’s Finance function and 62% worked in private companies.

Questions covered a range of topics investigating how value is thought about and understood, how companies approach their strategic planning and performance measurement, and whether executives believe that they and investors have the right information for decision-making.

The survey underlying this report is tied to an earlier survey, providing some indications of the evolution in thinking over time.
The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents 667,000 members and students across 184 countries and territories in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMAs and accounting and finance professionals globally.

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Black Sun
Black Sun is an international stakeholder communications agency. For over 25 years, we’ve helped our clients to effectively articulate their unique story to employees, investors and wider stakeholders. We are led by insight, driven by creativity and powered by the latest technology. We are corporate storytellers, passionate about driving positive change, and united by a common purpose of making businesses more valued in the eyes of their stakeholders.

www.blacksunplc.com

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IIRC
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.

www.integratedreporting.org

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