



# Snapchats for Boards

by TPA Global

## Integrated Reporting for Boards



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### 1. What is integrated reporting and how does it affect multinationals?

In the current 'Knowledge Era' financials do not tell the story behind value creation as they did in the 'Industrial Era'. Value creation has become even more dependent on intangibles. Empirical research has shown 80% of the value of major enterprises is not on the balance sheet. Therefore, most annual reports do not reflect a 'real enterprise value'.

Integrated reporting combines financial reporting with other types and channels of reporting that are relevant for closing the gap between real and perceived value of the enterprise to all major stakeholders. So how do you disclose the enterprise value? In summary, 4 types are key:

1. **Financial reporting.** Financial statements reviewed and signed off by accountants versus Management account, which do capture the "actual" versus "targets" gaps to steer and control;
2. **Sustainability reporting.** The sustainability reporting does include environmental factors and a more holistic view of a corporate value chain. Example: CEO Paul Polman introduced Unilever's "Sustainable Living Plan" a yearly sustainability report. The aim reported is to reduce Unilever's environmental footprint and to increase its 'positive social impact', but also to double sales and increase long-term profitability. Do we think that companies which are putting a focus on sustainability in their communications might have a larger shell life. To do it right, companies need to be rigorous, goal-oriented, and accountable. The evidence is building that transparency on your 'value chain' is creating long-term value<sup>1</sup>;
3. **Diversity reporting**<sup>2</sup>. Diversity reporting contains the composition of workforce. Examples on reporting based on ethnicity, gender, age, length of service and educational background. Until today this reporting, however, is hardly used to emphasize that an experienced workforce, long-standing suppliers and customer base, are intangibles creating lots of value.
4. **Intangibles reporting.** When intangible capital is being reported, a more hidden part of running a business will become transparent. Example: an 'innovation premium' is "the premium the market gives companies because investors expect them to come up with new products or markets – *and* they expect the company to be able to generate high profits from them"<sup>3</sup>. Forbes estimated Tesla Motors' innovation premium in 2015 to be 85%<sup>4</sup>. Nortel is an example for which intangible reporting could have made a difference for its survival of the company. After its bankruptcy an alliance of technology giants

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<sup>1</sup> [Fortune: Like it or not, sustainability is now core to your business](#)

<sup>2</sup> A research by McKinsey showed that more diverse companies perform better, also financially. McKinsey: Hunt, Layton & Prince, 2015, Diversity Matters

<sup>3</sup> Dyer, Gregersen & Christensen, 2011, The Innovator's DNA: Mastering the Five Skills of Disruptive Innovators

<sup>4</sup> [Forbes: The world's most innovative companies](#)

bought Nortel's patent portfolio for \$4.5 billion<sup>5</sup>, a significant value totally overlooked by Nortel management.

## 2. What are the practical implications?

With today's main focus on financial reporting an organization is mainly sharing financial data with one of its main stakeholders: the shareholders. Integrated reporting might closed the gap between 'perceived' versus 'actual' enterprise value. Therefore, transparent communication to all stakeholders is key.

Today's financial reporting has been creating suboptimum behavior of management boards towards the whole range of stakeholders. Example: in case the stock of Big pharma and the major oil and gas companies would be overvalued, it poses an unrealistic expectation by investors on the return they expect from boards. Big pharma has been investing ten times the R&D expenditures compared to ten years ago, yet no higher level of pharmaceutical products is being launched to the market place. The excessive investments in locating and claiming carbon based energy reserves in the biggest oil and gas companies<sup>6</sup> seems to be in conflict with any environmental agreement governments have signed up to. Who is challenging the big Pharma and Oil & Gas business model today?

When organizations are communicating to their multiple stakeholders in an integrated manner, this could unlock 10% to 30% of today's real – rather than perceived - value of the enterprise. Looking solely at perceived enterprise value, where shareholders dominate all business decisions, might become a 'dead-end street' strategy. More accurate enterprise value disclosed through integrated reporting might result in a 'fair and sustainable market price for shares'. In 2016 Larry Fink of BlackRock, one of the largest asset management funds in the world, has indicated that an annual financial reporting, rather than the quarterly reporting cycle, will be seen in the future as a sign of operational excellence and sustainability, since this will allow the board to refocus again on mid- to long term stakeholders management.

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<sup>5</sup> Gollin, 2011, Monetizing Intellectual Property to Improve Financial Performance

<sup>6</sup> Martin & Kemper, Harvard Business Review Dec. 2015, The Overvaluation Trap

### 3. Boardrooms agenda on integrated reporting

The list of ten questions provides structure to an engaged dialogue between board members.

#### The list of questions on integrated reporting:

1. Do we meet the expectations of our stakeholders?
2. To which stakeholders do we currently report?
3. Is our stock overvalued and to what extent has that influenced our management decisions?
4. Is there a risk that our organization will be on the front page of the newspaper for malpractices on our supply chain and other ethical standards?
5. What are our targets for sustainability reporting?
6. How does diversity add to the enterprise and shared value?
7. Do we measure and report our turnover rate of talents?
8. What is our organization's reputation in terms of workplace?
9. Can we define and quantify our key intangible assets?
10. What is our organization's innovation premium?

#### Authors



Steeff Huibregtse

Phone: +31 20 462 3530

Email: s.huibregtse@tpa-global.com

Eveline Clement

Phone: +31 10 713 8599

Email: eveline@iprplaza.com

Mary Adams

Phone: +1 781 729 9650

Email: adams@smarter-companies.com

[www.smarter-companies.com](http://www.smarter-companies.com)