

SUMMARY GESCHÄFTSBERICHTE-SYMPOSIUM 2016

REPORTING – OVERCOMING THE ILLUSORY WORLD

How to avoid, prevent, disperse an illusory world – that was the mission of this year's Geschäftsberichte-Symposiums (GBS) hosted by the Center for Corporate Reporting (CCR). How can those responsible for reporting get the support they need for an authentic, easy to understand and relevant stakeholder-oriented report? This was the focus of top-notch plenary speakers and outstanding representatives from various companies leading Best Practice sessions at the GBS 2016. We have summarized the key takeaways for you.

«YOU CAN'T REPORT ON ANYTHING THAT DOES NOT REFLECT THE INNER WORKINGS OF A COMPANY.»

Individuals responsible for reporting and communications are called upon more than ever to make senior management and operational units aware of the links between corporate culture, behavior and communication. An illusory world becomes evident when the annual report is misinterpreted as a handsome image brochure that projects a corporate culture and management that has very little to do with the corporate realities of management, strategic direction and corporate governance in a company. Prof. Dr. Axel P. Lehmann, Group Chief Operating Officer, UBS points out the danger in this: «You can't report on anything that does not reflect the inner workings of a company.» Otherwise the report will satisfy minimum regulatory requirements but fail to present the business case to shareholders, employees, customers and other stakeholders in a clear, consistent, authentic and comprehensive way.

Reporting can only highlight an extract of corporate reality. So then the question arises: is the focus on pure financials and quarterly performance, or do investors get to see and understand the business model, long-term strategic direction, opportunities and risk management that includes input and output factors? Peter Bakker, Chairman & CEO WBCSD (World Business Council for Sustainable Development), Dr. Dominique Biedermann, Chairman Ethos Foundation, Dr. Mirjam Staub-Bisang, CEO Independent Capital Group and Dr. Rudolf Wehrli, Chairman Clariant made a strong case for the latter – in so far as this reflects the corporate reality. Axel Lehmann insists that «We need to report on a quarterly basis and still communicate our long-term strategy.»

One thing is certain: if reporting is not authentic you jeopardize the stakeholder trust that has been cemented over a long period of time: «Trust comes on foot, but leaves on Facebook» (Peter Bakker). Those responsible for reporting can underscore the connection between authenticity and credibility – and lend support in its anchoring within the company. Naturally, reporting always reflects corporate management: Integrated Reporting as a holistic reporting approach means nothing without Integrated Thinking, according to Bakker. Nevertheless, annual report doers are important catalysts. They convey the various stakeholder demands internally to Management. In essence, in their role as communicators, they support internal transformation processes and interdisciplinary collaboration, and report in various media on the direction of the company.

«COMPANIES NEED TO FIND THEIR VOICE.»

Through active stakeholder management communication professionals are asked integrate the relevant topics emanating from the perspective of the company and from diverse stakeholders into the company's internal decision-making processes and reporting. Prof. Dr. Timo Meynhardt, Chair at the Dr. Arend Oetker Faculty for Business Psychology and Management, HHL Leipzig Graduate School of Management and Managing Director of the Center for Leadership and Values in Society, University of St. Gallen, summarizes this as follows: «Public value is what the public values.» It doesn't matter what A transmits, rather what B receives. Dr. Andreas Burckhardt, Chairman Bâloise Holding AG confirms this: «Each and every bit of external information needs to be selective so that it is can be understood by the relevant stakeholders.» And that leads to the fundamentals of information transfer and communication. Axel Lehmann, COO UBS noted the considerable disparity between theory and practice: «As a company we are facing challenges to communicate the social value we deliver.» Companies need to find their voice – Meynhardt refers to civil society, Bakker and Staub-Bisang do as well, but focus on the capital market.

Companies cannot help but engage with relevant stakeholders if they want to be successful in the long-term. The annual report is not the driver of this. It is the overall daily communication with stakeholders in Dr. Burckhardt's view. Communication creates trust, but total frankness is often punished in the market and does not create value. Those responsible for reporting operate in this area of tension between (regulated) transparency, stakeholder demands and company interests. Their job is to decide what reporting should achieve, and depending on the current situation in the company, devise tailor-made reporting approaches. In combination with authentic communication they can diffuse illusion or prevent it from ever occurring.

The annual report is only the start, the compendium of corporate history – that includes the past, but more importantly the future, too. It answers the questions of where the company is coming from, where it wants to go, what value it delivers for employees, customers, shareholders, and other stakeholders, and how it will do all this sustainably and in the long term. This «story» is not specific to the annual report, but rather the basis for all communication inside and outside the company – and a way for the company to find its voice.

«ACCOUNTANTS WILL SAVE THE WORLD.»

Building trust through transparency and authenticity are not solely communication tasks. Reporting is primarily fact-based – and in the case of financial reporting that means numbers-based. In order that the «soft» factors, such as social or natural capital, attain the same weight in a company and in the capital market and can therefore be included in strategy and investment decisions, the key figures need to be presented in a way that they are comparable. Many years ago Peter Bakker predicted that accountants would save the world. With great conviction he repeated this forecast at the Symposium: «Accountants will save the world.» A paradigm shift in accounting and company valuation is already underway. A number of capital market-oriented initiatives are currently working on how to better unite the financials and non-financials – in accounting, corporate valuation and in reporting. «The share price of your company will be determined by the non-financial performance of your company», according to Bakker.

Bakker is not talking about starry-eyed idealism or sustainability as an add-on: «CSR is dead. The Triple Bottom Line has gone bankrupt.» As soon as investors (and companies) have to

decide between financial and non-financial objectives, the former will always take precedence. An overhaul of the financial accounting standards to include non-financials in accounting rules and valuation approaches will come according to Bakker, and the existing view of the company will fundamentally change. Companies are obliged to adapt these changes early on.

INFOBOX – SUSTAINABLE CORPORATE MANAGEMENT AND CAPITAL MARKETS

The Sustainable Development Goals (SDG) adopted in 2015 are an essential driver of «sustainable capitalism» and accounting standards in the realm of sustainability. The [SDG Compass](#) of GRI, the UN Global Compact and World Business Council for Sustainable Development (WBCSD) offer companies guidance in the development of company-specific strategies and the establishment of sector-specific indicators in implementing SDG. The main challenges for the total 17 objectives and 169 indicators are summarized according to sector to bridge them from theory to practice, and make them more manageable. Bakker feels that «Even the best CEOs like Paul Pollmann at Unilever cannot manage 169 targets at once.»

Furthermore, the «Task Force on Climate-related Financial Disclosures» (TCFD) of the «Financial Stability Board» (FSB), currently headed up by the founder and chairman Michael Bloomberg, are developing guidelines for the integration of climate-related information in corporate reporting. The final report will be published at the end of 2016. The recommendations for implementation by companies and financial institutions are voluntary for the time being.

LINKS TO FURTHER LITERATURE:

- ➔ Sustainable Development Goals, [SDG](#)
- ➔ Task Force on Climate-related Financial Disclosures, [TCFD](#)
- ➔ «[Breaking the tragedy of the horizon](#) – climate change and financial stability», speech by Marc Carney, Governor, BoE

SELECTION OF OTHER INITIATIVES:

- ➔ [Consultations SIX](#)
- ➔ [Corporate Reporting Dialogue](#)
- ➔ EU Directive, [Disclosure of Non-financial information](#)
- ➔ Global Reporting Initiative, [GRI](#)
- ➔ International Integrated Reporting Council, [IIRC](#)
- ➔ Principles of Responsible Investment, [PRI](#)
- ➔ [Statement Campaign](#) (Eccles, Youmans)
- ➔ Sustainability Accounting Standards Board, [SASB](#)
- ➔ [Sustainable Stock Exchange Initiative](#)
- ➔ [The Reporting Exchange](#)
- ➔ [UN Global Compact](#)

At the same time the capital market is expected to make its contribution to attaining «sustainable capitalism.» The good news for companies: Transparency rules apply not only to them, but also increasingly to investors. In the future investors will (need to) check even more closely as to which companies they choose to invest in. ESG (Environmental, Social, Governance) topics are gaining in importance – and are a fundamental component of corporate reporting, investor relations and stakeholder communication.

«MORE SUSTAINABLE BUSINESSES ARE MORE SUCCESSFUL.»

Not only Peter Bakker underscores long-term thinking and sustainable investments with his statement «more sustainable businesses are more successful», but also investor representatives Mirjam Staub-Bisang and Dominique Biedermann. It is important for companies to realize that sustainable investments eventually lose the label of «eco» or «green» not least through their proven outperformance (see [Friede, Busch, Bassen 2015, «ESG and financial performance: aggregated evidence from more than 2000 empirical studies»](#)) as they gain the attention of investors. This development is far from mainstream. In Spring 2015, together with Prof. Dr. Peter Forstmoser, Dr. Rudolf Wehrli and Dr. Mirjam Staub-Bisang made a submission to the Swiss Federal Office of Justice for the introduction of a loyalty dividend. This proposes that shares held longer than two years should yield a 20 percent higher dividend. Shareholder commitment and engagement should be honored with such a loyalty reward and foster a sustainable corporate strategy. There is a legal precedence for this in France, whereby the potential for offering loyalty shares is already anchored (additional voting rights, dividends).

The proposal from investor representative Dominique Biedermann was received with some reservation. In principle Dr. Biedermann also supports long-term, sustainable corporate management and good corporate governance in companies. The loyalty dividend can definitely be applied as a tool. But he doubts that investor representatives can be influenced solely by it. More important are a compelling strategy, competent management and a long-term successful business model.

The loyalty dividend cannot and should not serve as a carte blanche for a management often driven by self-interest and does not only act as a «good» agent. This explains why up until now remuneration components tied to long-term oriented, and in particular, non-financial goals have hardly appeared in employee and management compensation systems. Those responsible for reporting can again play an active role in raising awareness within the company in this context.

But beyond that it is the board of directors who exercise their duty in supervising Management and the company's business focus. Boards will (need to) take on a more visible role in reporting and communication. On the whole, investor representatives advocate direct contact with the various capital market players – and issues identification from the company perspective through holistic reporting. Long-term orientation has already caught on in companies and in the capital market. It is now time for corporate management to conduct themselves accordingly – and to reflect this in (Integrated) Reporting.

INTEGRATED, DIGITAL, VISUALIZED, PROCESS-ORIENTED AND EASY TO UNDERSTAND – APPROACHES FOR EXCELLENT REPORTING

The Fast Close reporting process at Novartis, Integrated Reporting at UBS, Infographics to visualize the business model at Coca-Cola HBC, Online First as a reporting approach at Kuoni or CEO communication at Infineon: our Best Practice sessions were as varied in subject matter as there are reporting challenges facing decision-makers and doers. Together with our speakers we have summarized the key learnings. You can access the following session handouts and presentations in the password-protected [Member section of our website](#).

- Session I: Fast close reporting process at Novartis
- Session II: From financial and non-financial reporting to Integrated Reporting <IR> – what does it take to get there? (UBS)
- Session III: The boss speaking – clarity and language in CEO communication (Infineon & Communication Lab)
- Session IV: Digital reporting – «Online first» at Kuoni Group
- Session V: Business model infographics – practical insights from Coca-Cola HBC

>> [LINK TO THE MEMBER SECTION OF THE CCR WEBSITE](#)

>> [LINK TO THE GBS 2016 PHOTO GALLERY](#)

SAVE THE DATE: The next Geschäftsberichte-Symposium will take place on **JUNE 8, 2017**.

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About the Center for Corporate Reporting

The Center for Corporate Reporting (CCR) is the independent center of excellence for corporate reporting, supported primarily by corporate members, and is the the first point of contact for all key players in the corporate reporting community. CCR's activities include the annual Symposium, topic-specific workshops and events, the trade publication «The Reporting Times» (www.reporting-times.com) and exclusive services for corporate members.

Our objective is to foster the quality of reporting and heighten its effectiveness – for the companies reporting and for their stakeholders. **We create value through knowledge and networking.**

Extract from the CCR corporate membership: AFG Management AG, Ascom, Baloise, Clariant, Swiss Post, Geberit, Givaudan, Hilti, dorma+kaba, Komax, Lindt & Sprüngli, Lonza, Mikron, Nestlé, Raiffeisen, Roche, RUAG, Schindler, SGS, Siegfried, Suva, Swiss Re, Swisscom, Valora, Zurich Insurance Group, LLB, Implenia, Syngenta, and many more.

Next CCR event:

Integrated Reporting Roundtable, Workshop III, Topic: «The Voice of the Capital Market» on September 21, 2016 in Zürich (EY)

More information and regular updates on our activities: www.corporate-reporting.com