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Convincing the reluctant CEO to adopt Integrated Reporting

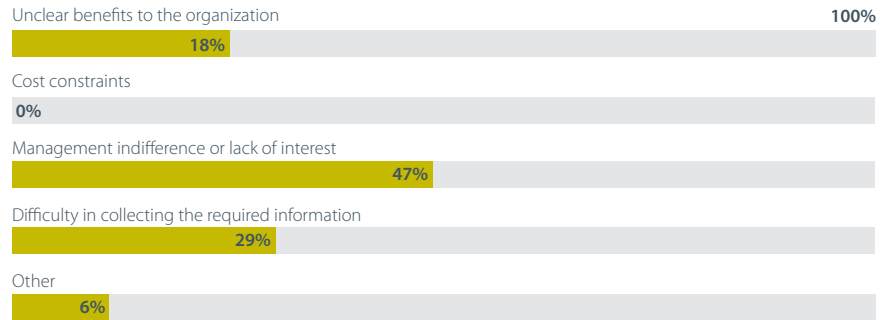
A small but rapidly growing number of companies are combining their financial performance measures with non-financial performance information, commonly known as environmental, social and governance (ESG) factors, in a single, comprehensive report. So why aren't more companies jumping on the Integrated Reporting bandwagon?

Some of the early adopters of Integrated Reporting principles believe there are a number of real benefits to this approach. Leading firms such as United Technologies, Southwest Airlines, Philips and others see Integrated Reporting as a way not only to help investors and other stakeholders gain a deeper understanding of their companies' performance, but also to help improve their overall reputation.

So what is holding back more firms from jumping on the Integrated Reporting bandwagon? During a recent webinar I led with Professor Robert Eccles of the Harvard Business School, one of the leading authorities on the topic of Integrated Reporting, we conducted a non-scientific poll with communications executives to find out what factors are holding back adoption. The results in the table on the next page indicate that management indifference or lack of interest was the most frequently mentioned result.

In response to this finding, we developed this article, which we hope can help you to advance the conversation around Integrated Reporting with your CEO and his or her management team.

WHAT IS THE SINGLE BIGGEST CHALLENGE YOU SEE IN CREATING AN INTEGRATED REPORT?



Integrated Reporting is an emerging management discipline that will help executives rethink their business strategies in light of the growing demand for sustainable business practices.

The context for Integrated Reporting

CEOs have been trained to focus much of their energy on one objective: increasing shareholder value. And in the simplest terms, increasing enterprise value through a rising stock price and dividends accomplishes this objective. Integrated Reporting is an emerging management discipline that will help executives rethink their business strategies in light of the growing demand for sustainable business practices. The key elements driving Integrated Reporting are environmental factors, social factors and governance factors (ESG):

Environmental factors

Utilization of finite natural resources, environmental impact and risk dominate today's global agenda. In every industry, stakeholders are asking important questions about corporate activities and the effects on the environment. Over the long term, business costs and performance will be affected by shortages of raw materials.

There are companies that are reporting effective use of resources, and aggressive management of their environmental footprint can positively affect the financial bottom line. Pepsi Bottling Group (recently acquired by PepsiCo) demonstrated leadership in this regard. Their 2008 report documents in great detail how they are managing their water usage, reducing the amount of plastic in products, reducing fuel consumption and handling a host of other environmental issues.

Social factors

A focus by companies on social concerns is growing day by day. If anyone doubts the future of what it will take to be competitive in the global economy, look at the issues facing companies around the world on labor relations. A little closer to home, companies in the U.S. are competing for talent.

With the move towards a knowledge-based economy, this intense competition will only continue to expand. One of the CEO's largest tasks today is to build companies that are attractive to people. In this way, the CEO has become a key figure in recruiting tomorrow's talent and keeping them productive, healthy and happy after they join.

Governance factors

In the wake of events such as the collapse of Lehman Brothers, Enron, WorldCom, Tyco, Arthur Andersen, Parmalat, Global Crossing, AIG, Bear Stearns and others, investors and a broad range of other stakeholders are increasingly looking at governance factors to judge the risk inherent in their relationships with companies.

Management is being pressed harder than ever to show transparency in the makeup of their boards, to clarify compensation practices and to demonstrate how management is making key decisions. New rules recently put into place by the SEC to provide proxy voting access for shareholders with as little as 3% ownership are another step towards redefining how management must demonstrate its governance to create proof points for its corporate reputation.

Where is the money?

Lastly, there are market forces at work. Companies will have to follow the money of the future. Nearly \$20 trillion of assets globally and \$3 trillion in the U.S. are being invested considering financial and ESG performance combined. Simply put, CEOs are going to have to incorporate non-financial performance into their reporting if they want access to the capital of tomorrow.

The deepening need to correlate investment performance and ESG performance is advancing at an accelerated pace, and this knowledge is redefining how markets of the future will work. Companies such as Goldman Sachs, CalPERS, MSCI and Bloomberg are moving quickly to add ESG factors that drive investment decisions. With the current momentum, if your company is not adopting Integrated Reporting principles in a few years, investors may choose to look elsewhere.

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Making your case

So how will you make the case? Here are four basic steps you can take to get started:

- Determine the material factors that create enterprise value in your firm
- Review the Global Reporting Initiative data and other indices to gain a view on your industry peers
- Build support by conducting an Integrated Reporting workshop with a cross-functional team
- Develop an initial three-year plan with specific milestones and associated benefits to the firm

Armed with these facts, you'll have the beginnings of a convincing argument you can make to your CEO about the benefits and opportunities of Integrated Reporting.



HAMPTON BRIDWELL
CEO and Managing Partner

Hampton is CEO and managing partner of Brandlogic and oversees client engagements in all practice areas, with a special focus on brand and identity strategy and consultation. He has over 15 years of experience in corporate brand identity, marketing communications and interactive media.

Because of his background in Web, marketing, communications and brand strategy, he has the unique ability to guide the implementation of strategy across media, a skill clients value to help maximize their potential. His particular emphasis is on advising companies how to leverage their identity program to achieve business objectives. Hampton has provided the strategic direction for the development and implementation of identity systems, brand management, and corporate communications for clients such as Avon, BD, Chevron, IBM, John Deere, Lincoln Financial, Merck, Texaco, The Hartford, Travelers, UPMC, Wyeth and Xerox.

A recognized thought leader on environmental, social and governance (ESG) factors and their effect on brand and reputation, Hampton is continuously exploring ways that corporations can utilize Integrated Reporting principles to build business value.

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