

COMMUNICATING VALUE CREATION WHEN PLANNING FOR A POST-COVID WORLD

Covid-19 threatens organisations' ability to generate value. Many businesses are thinking about their purpose, business model, and how to serve stakeholders beyond shareholders alone, comments *Stathis Gould*, director of advocacy at the International Federation of Accountants (IFAC)

Today's overwhelming uncertainty is revealing fractures in corporate reporting.

With constrained cash flows, new questions about business models and forecasting in the face of uncertainty, many businesses are grappling with an urgent and multifaceted challenge: how to chart a path toward long-term, sustainable success while tending to the needs of all stakeholders.

Companies must establish and provide more comprehensive information about who they are serving and in what ways. Doing this requires two things: focusing on long-term value creation and enhancing external reporting.



Stathis Gould, IFAC

Embrace value creation

Boards, CEOs and managers are crying out for better information on what is driving value, and on opportunities for and risks to long-term value creation.

But PwC's 22nd *Annual Global CEO Survey* reported that data considered critical or important for decision making is not comprehensive enough in most organisations. This inadequacy inhibits the ability of boards and management teams to steer organisations on all relevant aspects of value creation.

CFOs and finance teams can lead in delivering enterprise-wide understanding of value creation by integrating and connecting financial and non-financial value drivers across three interrelated value perspectives:

- **Traditional accounting perspective** (balance sheet/book value) – derived from capital employed and represented by the financial statements;

- **Investor's perspective** (business value) – derived from strategic and intangible assets that generate future growth and provide the basis for residual income, sustainable earnings and valuations, and reduced risk;
- **Society's perspective** (societal value) – representing the impacts of an organisation's activities on customers, employees, society, and the environment. External impacts, which represent future opportunities and risks, can be quantified and monetised, but are typically not yet reflected in the cashflows of the company.

Understanding these perspectives on value is necessary for management to make informed decisions that optimise value creation while managing trade-offs between various stakeholders' interests. This is especially important in the face of Covid-19.

The CFO and finance function are well positioned to provide high-quality information across these three value perspectives. Through integrated performance management and reporting, they can bring together relevant data to deliver actionable information that leads to value-creating and value-preserving decisions across the organisation.

Understanding value creation is one piece of the puzzle; another is improving corporate reporting. For external reporting to be useful and reflect reality, it should align with internal priorities and the measurement of value creation.

External communication

Corporate reporting should capture all relevant information about organisations required by investors and other stakeholders to make decisions on allocating their capital. But information on key drivers of value creation is largely missing in corporate reporting and disclosures.

This is a significant problem, with intangible assets making up over 80% of all business value. Under increasing expectations from investors and asset managers, companies are increasingly disclosing environmental, social and governance (ESG) factors. These have been shown to be financially material and can represent opportunities and risks to long-term value creation. The additional information being reported is not necessarily helpful: some of it lacks comparability or usefulness and is not placed in context.

Momentum has grown for enhancing corporate reporting to respond both to complexity caused by different jurisdictional requirements and to the absence of agreed-upon standards beyond financial reporting.

IFAC has made a strong call for global standards that address non-financial information to improve the quality of reporting, reduce costs to business, and better enable investors and asset managers to allocate their capital toward long-term value creation. The development of global standards should also help assurance practices to evolve – an important piece of the puzzle, as assurance is most effective when applied against metrics and disclosures that follow clear best practices or standards.

The standard-setting activities of organisations such as the Sustainability Accounting Standards Board and Global Reporting Initiative, along with more recent initiatives such as the World Economic Forum Common Metrics project, provide the building blocks for comparable, consistent and reliable data on ESG factors – among other issues – needed by investors and other stakeholders. The International Integrated Reporting Framework provides the strategic and multi-capitals context for metrics and, we believe, provides the framework for international efforts to connect financial and non-financial reporting.

Covid-19 has left individuals, businesses, and societies with one certainty: uncertainty. For organisations that can weather the short-term challenges, developing a long-term strategy that delivers value to all key stakeholders, and communicates this to the market, will be the foundation of success. ■