



Leveraging the CEO Investor Forum to make integrated reporting relevant in the capital markets

Integrated reporting and long-term strategic plans.

By **Michael Krzus** | February 2nd, 2017

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On February 27, 2017, the CECF's Strategic Investor Initiative will host a CEO Investor Forum. The Forum will feature ten CEOs presenting their long-term strategic plans to an audience of institutional investors. This event has the potential to be much more than a dialogue between CEOs and analysts. It is an opportunity to launch a bold collective response to the problem of short-term termism and establish a role for integrated reporting in developing and communicating a long-term strategy.

The CEO Investor Forum itself is a great example of a collaborative response to short-term thinking, a subject that was discussed in "Rising to the challenge of short-termism," a September 2016 paper published by FCLT Global. The paper explored the causes and effects of short-term thinking based on the findings of a 2016 McKinsey survey of over 1,000 global C-level executives and board members.

Even though many executives cited investors as the cause of short-term pressure, the McKinsey survey found that almost 40% of the respondents held themselves responsible as the source of pressure to focus on the short-term. In addition, 87% felt pressure to deliver strong results within two years or less with 51% of those surveyed feeling pressure to deliver strong financial performance within 12 months.

The authors noted that a collaborative approach to solving the problems associated with short-termism should involve institutional investors, corporate management, board members, regulators and legislators. Clearly, finding ways to help companies balance long-term viability and short-term profitability will be difficult. It is possible that the quest for a collective approach will begin in earnest on February 27.

So, what does integrated reporting have to do with pushing back against the cycle of short-termism? A study by George Serafeim, "Integrated Reporting and Investor Clientele,"

provides one answer. The paper concluded, “The main finding of my analysis is that companies that produce integrated reports show a clear tendency to have more long-term, ‘dedicated’ holders and fewer transient investors. ...my study provides evidence that suggests a causal relationship between the corporate practice of integrated reporting and an investor base with longer-term shareholders.” In conjunction with the Forum, the Strategic Investor Initiative has prepared a toolkit that CEOs can use in developing and presenting their publicly disclosed long-term strategic plans to investors. The toolkit content is evolving and currently includes contributions from Bain & Company, BlackRock, BrownFlynn/Sustainerv, FCLT Global, McKinsey & Company, State Street Global Advisors, Strategic Investor Initiative, and Vanguard.

The summary of an exercise to map the Content Elements of the Integrated Reporting Framework to the 10 elements of a long-term strategy (referenced in “Rising to the challenge of short-termism”) was shared with the Strategic Investor Initiative. The map provides practical guidance for how to structure content in a way that can facilitate investor conversations about a company’s long-term objectives. Perhaps more importantly, CEO’s and directors can use the map to discuss and then formulate their organization’s long-term strategy.

For example:

1. What does the organization want to be in the future?
2. How will the business model balance short-term profitability, long-term viability and societal concerns and expectations?
3. What is the competitive landscape for the industry and sector?
4. How does the company use innovation to create competitive advantage?
5. What are the organization’s strategic goals and how is progress measured?
6. What actions are necessary to achieve medium, and long-term goals?
7. What KPIs will be used to track progress toward achieving medium- and long-term objectives?
8. What is relationship between critical, i.e., material issues and capital and non-capital investments?
9. What are the sources of material risks and opportunities including ESG issues?
10. How is executive compensation linked to medium- and long-term strategic objectives?

Answering these questions lays the foundation for a company to (1) engage investors in a dialogue about its long-term strategy, (2) explain how it will balance the imperative for long-term viability with the demands for short-term profitability and (3) attract more ‘dedicated’ investors.

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