CLARKSTON CONSULTING

INSIGHTS

The ROI of Integrated Reporting

Like most companies, you are likely looking for new ways to cut costs, improve margins and add new revenue streams, all the while attracting and maintaining talent and reducing reputational risks. Many companies are overlooking a fundamental strategy that can shed light on new ways to improve business in many of these areas – Integrated Reporting.

Integrated Reporting refocuses Corporate Social Responsibility and sustainability efforts to align with and support your company's core values, business objectives, and both short and long-term goals. In doing so, the process identifies where it is most critical to invest, based on financial return and stakeholder concerns. Leaders in both the Consumer Products and Life Sciences industries are experiencing the benefits of Integrated Reporting at a rapidly increasing rate. In this paper, we investigate what the ROI of Integrated Reporting can look like for your company, and how you can realize it.

What Defines an Integrated Report?

Integrated Reporting is the process of measuring and reporting on the most material aspects of corporate value creation, risk, and prospects. The process is one that is repeatable year-over-year, using stakeholder and shareholder engagement to identify the most critical economic, environmental, and social aspects that are affecting your company. The report aligns your Corporate Social Responsibility and sustainability actions (CSR for our purposes) with these material aspects and outlines the risks and opportunities stemming from the hotspots. By providing this holistic view, an Integrated Report arms the C-suite to make informed business decisions to optimize CSR programs, uncover opportunities for efficiencies, mitigate risk, and funnel investment into corporate sustainability efforts that will lead directly to bottom line growth.

Integrated Reporting innovators use CSR programs to directly increase returns and grow business.

How does Integrated Reporting help reach business objectives?

All too often, CSR is siloed from the rest of the business. Your company could be investing in sustainability programs almost blindly, or at least without significant thought to the core strategy and operations of the business. In doing this, you could be missing out on key opportunities to more effectively collaborate with partners and increase business productivity. Integrating this area into the heart of your business will, without exception, provide additional value. Innovators in Integrated Reporting are illustrating a clear-cut ROI, proving how their CSR programs directly increase returns and grow business in a healthy way when considered as part of the core business rather than a separate arm.

What ROI can your company expect?

The type of ROI that can be achieved will differ based on what is most material to your company and the associated risks and opportunities. Below are examples of what corporate elements you should consider when defining what to include in your report, and how by investing each of these elements you can uncover ways to save costs and increase profit in a way that is meaningful to your business goals. Tying each of these considerations to its financial impact in an Integrated Report allows for analysis beyond that which is available in traditional CSR.

Element	CSR Consideration	Financial Impact
Compliance	- Lawsuits- - Regulations (*e.g., FDA, OSHA, government agencies*) - Safety - Quality	- Fines - Shutdown costs - Insurance - Tax benefits - Recalls
Operations	- Operational processes- - Operational inputs - Procurement practices - Environmental impacts - Transportation - Renewable energy	- Material cost savings - Recycling cost savings - Additional revenue streams - Energy cost savings
Productivity	- Training - Knowledge sharing - Labor practices - Business-to-business relationships & communication - Mergers & Acquisitions	- Reduced employee cost per activity or project - Higher level of engagement - Increased leverage to negotiate prices - Cost benefits of collaboration
Public Relations	- Marketing - Media mentions - NGO interactions - Transparency	- Satisfied stakeholders (*customers, suppliers, vendors, shareholders, associations*) means increased opportunities for investment - Customer satisfaction / repeat customers - Broadened customer base via public trust / more valued products - Decreased customer base via public distrust

Examples

Fines: *In Smithfield's 2013 Integrated Report, they reported a 52% reduction in significant environmental fines from 2012 to 2013.*[1]

Recycling Cost Savings: *Eli Lilly decreased their total waste generation by 27% between 2007-2012. They reduced their waste to landfill by 62%.*[2]

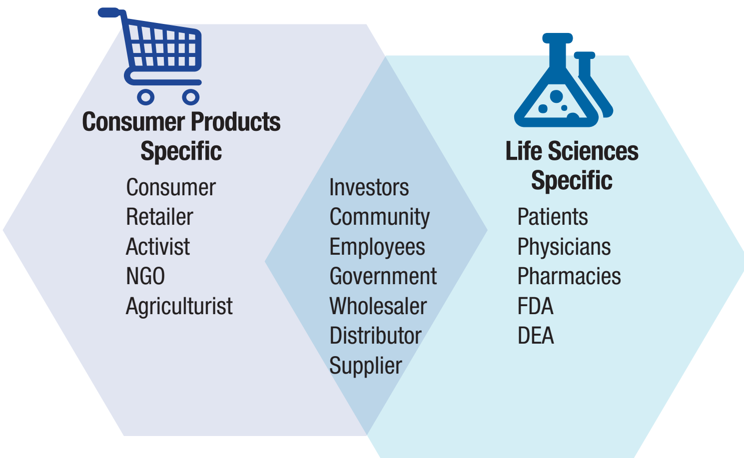
Cost Benefits of Collaboration: *By merging for expansion into India, Pfizer and Wyeth reduce risks and gain a stronger position to enter a market that is expected to reach $55B in annual sales by 2020.*[3]

Decreased Customer Base via Public Distrust: *Johnson & Johnson to pay $2.2 billion for false marketing.*[4]

Materiality

Assessing what aspects or areas are most material is a process. A key piece to this process is defining the stakeholders whose opinions matter to your company and understanding your current and desired level of engagement with each. You need to define all the stakeholders for which their opinions matter to your company. Shareholders are key stakeholders, but additional parties vary by company. There is a significant overlap in common parties between the Consumer Products and Life Science spaces, as well as important distinguishing factors between these two industries.

Typical Stakeholders



Each of these stakeholders can and will impact the performance of your business. But by evaluating their opinions and identifying issues that are most important to these parties and your company, you have the ability to focus your efforts on the most relevant and crucial aspects.

Once you have identified your areas of focus, the Integrated Reporting process guides you to measure and analyze the investments based on performance and future opportunities and risks. Track and analyze those sustainability initiatives that support the material aspects identified on their overall profitability. If one program is not profitable, consider the materiality and overall impact of that program; if it does not align with your business objectives or core values, do not continue to spend money for the sake of being “green”. Identify where more profitable sustainability opportunities lie in line with your materiality, and reinvest.

What you get out of the report

While the first step is analyzing materiality, identifying what aspects are crucial to short and long-term success; beginning to gather data on the performance of your initiatives is the next step. Reinvesting in the most strategic CSR programs is only one of the outcomes of Integrated Reporting. The results serve as a layout for additional projects that should be considered for optimum operational efficiency. An Integrated Report provides the insight for decision makers to determine what else should be explored to improve overall performance, such as lifecycle assessments or supply chain diagnostics.

Addressing concerns about Integrated Reporting

Exposing so much information and openly defining metrics to be judged against can be a little daunting. As you analyze your company’s materiality, you may identify multiple aspects that have no activity. Maybe your company doesn’t have any CSR or sustainability programs in place, or perhaps the programs that are in place are not performing well. And what if while digging into your impacts further, you identify undesirable information?

If undesirable information is discovered, you have two choices – conceal it, hoping media and consumers remain in the dark, or be transparent using an Integrated Report. Fortunately or unfortunately, consumers and media are savvier than they have ever been. Thus, the first option comes with great risk. In assessing companies that operate with various levels of transparency, consumers prefer those that communicate both shortcomings and goals for improvement through mediums like Integrated Reports, compared with company's that are less transparent.

The Bottom Line

The Integrated Reporting methodology gives you visibility to see where your business is today and also address risks and opportunities for the long haul. We are talking about realizing what aspects are most crucial to your company, through the eyes of multiple stakeholders, all of which have a profound impact on success in today’s world. By refocusing programs to align with key objectives and goals, you begin to understand where maximum returns lie. Investment should be driven by expected returns, and investment in CSR programs is no different. By identifying metrics and measuring a baseline for CSR and sustainability data, you bring your company one step closer to identifying opportunities for improvement, growth, cost savings, and risk reduction. The bottom line is, it’s all about the bottom line.

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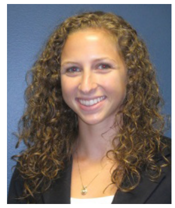
About the Authors



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