

Unilever: Is your business model safe without IR?

Charles Nichols, group controller at Unilever, tells Jessica Fries why integrated reporting is critical for companies and investors to be able to take a longer-term view of their business model and properly assess its performance

How does integrated reporting support your business model?

It's really about the needs of our business. We live in a very volatile world where businesses such as Unilever face issues that need long-term solutions. I think it's natural that we should be thinking in terms of how we talk about our long-term perspective internally and the way we tell our story externally.

Is IR already having an impact on internal decisions and external reporting?

Yes. One thing you'll notice is that in our 2012 annual report, we talk about our business model more holistically. Internally, there's a growing recognition that sustainability isn't just about corporate social responsibility, but is actually a fundamental economic business issue. We're not only thinking about what outcomes we're looking to achieve in terms of financial performance, but also in terms of our impact on the environment and society.

Do you see any barriers to integrated reporting?

Potentially, yes. The first is fragmentation: we could get a proliferation of regulation with stakeholders pushing development in different directions, which would be a great shame.

I think fear is another barrier. Inherently, companies are more comfortable with backward-looking financial information rather than forward-looking non-financial information. I think there are understandable concerns about exactly how much transparency is appropriate before you start providing more information to the competition than you would normally wish to share.

How have you attempted to overcome some of the barriers?

We've taken a fairly phased approach. We launched our Unilever Sustainable Living Plan a few years ago and developed a number of metrics to measure our performance on it. So far, we've been trying to improve the robustness and the maturity of those metrics, ready to offer them up for independent assurance.

We shouldn't lose sight of the fact that we spent 150 years developing our financial KPIs and here we are, in 18 months trying to do the same on the non-financial front.

Do you see a role for assurance?

I think there is a role for independent assurance. It provides credibility to external stakeholders – there is some degree of scepticism out there – so independent verification of the progress that's being reported is important.

It also raises the bar in terms of the rigour and discipline of our own internal processes. If you know that the KPI you're responsible for is going to be subject to external assurance, that's a pretty high motivation to do a good job.

It's also about future-proofing. I see it as inevitable over time that non-financial information will become an ever more important part of our corporate narrative – so we might as well get our ducks in a row now. And we need the kind of rigour that assurance provides.

So far, the IIRC has adopted a market-led approach. Do you think that without a 'regulatory stick', integrated reporting will become the norm for how companies communicate to the market and stakeholders?

I think that this is a unique opportunity to shape something that's probably going to happen anyway and really start to shape this thing for the future. If companies don't get their act together, then sooner or later the regulators are going to do it for us.

But are investors really asking those broad non-financial questions?

If they're not, then they should be. There are enough highly-publicised examples of market failures where companies have destroyed inordinate amounts of value because investors, and in some cases, the boards, haven't really understood the business model and been able to ask the right questions at the right time.

A passive approach risks losing control of this agenda, so I would encourage companies and investors to respond.

So what's your vision for the future of integrated reporting?

It would be nice to think that in the not too distant future we will have one single approach to corporate reporting across the world. It might be wishful thinking, but standardised non-financial KPIs, comparable between different companies and across the world, would be nice to have.

One of the most important components for 'nirvana', as it were, is a shift away from the short term and the backward view of life, towards something that is more forward looking and longer term.

■ www.pwc.com/gx/en/corporate-reporting/integrated-reporting/what-is-the-ir-framework-and-why-is-it-important.jhtml

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