

# ARE YOUR FINANCIAL STATEMENTS CAPTURING YOUR Long-term value?

The role of business and financial institutions is being questioned. Society is increasingly demanding that companies serve a social purpose and contribute to the greater good. Corporate social responsibility is no longer seen as a “nice to have” but is gradually becoming a must for companies. Business is being called upon to demonstrate a strategy for long-term value creation rather than short-term financial performance.

By Jolanda Dolente and Roger Müller



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Investors are disappointed with how companies are reporting today. Organizations often report the wrong things by measuring what is easy rather than what is right. Most of the company’s value nowadays is related to intangible assets. These are not fully captured in traditional accounting creating a disconnect between accounting results and long-term shareholder returns. Items such as brand, intellectual property, talent, training, customer and employee loyalty, are just a few elements that we all know can “make” or “break” a company, yet, nowhere it is captured, quantified and evaluated. Profit helps in a quick way to recognize short-term changes in revenues and costs, but does not account for investments made for the long-term. Intangibles have increased from representing 20% of corporate value forty years ago to over 80% now in some industries. However, in the meantime, traditional accounting methods have not evolved to measure the value of intangibles as they do with tangible assets. Disclosures aren’t adequately reporting the links to material risks and opportunities and they don’t reflect the full value of businesses.



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## Managing for short-term shareholder profit is no longer an acceptable strategy.

### The Embankment Project

The Coalition for Inclusive Capitalism and EY are working together on the Embankment Project which brings together a variety of stakeholders with the purpose of creating a long-term value framework offering a consistent model for how companies can effectively measure and report the value they create. The objective of the Embankment Project is to develop and test a new framework that en-

ables greater trust in business and creates greater long-term shareholder value. Such a framework will help companies deliver a broader and more accurate picture of the company’s authentic value to their stakeholders, including investors and wider society. It will help improve allocation of capital for the long-term as well as enable stakeholders to make more considered judgment about long-term behaviors and value creation – which will ultimately bring us one step further in making the world a better working place.

## Can a different framework of value enable greater trust in business and create greater long-term shareholder value?

The Embankment Project is now in the midst of the first testing phase by asset owners, asset managers and “asset creators” that have embarked in this journey to finalize the long-term value methodology. We look forward to keeping you updated with the developments as the project progresses. In the meantime, questions for the board and management to consider:

- Do you know what percentage of your market capitalization is based on intangibles? Can you appropriately explain the drivers behind these intangibles to investors?
- How is the company aligning its strategy and business with long-term value concepts? If it needs to transform to do this, what is its approach?
- How do you plan to measure the creation of value for your stakeholders? Do you have appropriate information and decision-making tools to optimize your company’s long-term value?

#### THE EMBANKMENT PROJECT

The Embankment Project for Inclusive Capitalism is a 18-month project bringing together 33 global companies from across the consumer products, health services and the industrials sectors, in addition to investment and asset management organizations, representing more than \$ 25 trillion of assets under management. The group will scrutinize, test and refine a long-term value framework that is being developed by EY.

# Fakten sprechen Klartext.

Wie gut Ihre Medien zur Jahresberichterstattung abschneiden, beantwortet seit mehr als 25 Jahren das Schweizer Geschäftsberichte-Rating. Beim Rating 2017 ist Linkgroup in den Design-Kategorien «Print» und «Online» mit je 6 Lösungen unter den ersten 20 mit von der Partie. In der konsolidierten Wertung «Print/Online» durfte Linkgroup zum ersten Platz von HIAG sowie zu den Zweit- und Drittplatzierten Zur Rose und Implenja beitragen. Für den Gesamtsieger Geberit arbeitet Linkgroup im Bereich der Berichterstattung seit dem IPO im Jahr 1999.\* Wir stimmen Mobile Devices, Desktop und Print bereits in der Konzeptphase aufeinander ab. Ihre Kommunikationsportfolios nutzen die Vorteile der unterschiedlichen Medien und Kanäle. Stets bilden sie eine stilistische Einheit und stärken Ihre Marke. Wir bürgen für eigenständige, kreative und strategisch verankerte Lösungen: digital, analog oder crossmedial.

\* Mehr unter [www.gbrating.ch](http://www.gbrating.ch)

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