

# THE ECOSYSTEM OF AUTHENTICITY



ANALYSIS OF FTSE 100 CORPORATE  
REPORTING TRENDS IN 2019

14TH EDITION



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Welcome to the 14<sup>th</sup> edition of the Complete 100, Black Sun's annual flagship research, which identifies trends and best practice in corporate reporting, and assesses how companies are responding to challenges and changes within the reporting landscape.

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## THE SIX PRINCIPLES OF TRUST

We break the components of trust into six principles based on the expectations of society and influenced by upcoming legislative reporting requirements. For the purpose of the Annual Report, the principles serve as content themes that cut across the typical content components of an Annual Report with the aim of building trust. The Six Principles of Trust section explores why and how companies currently report on each element, along with broader considerations for today and tomorrow.

# Welcome

Now more than ever businesses need the trust of their stakeholders and society at large to prosper over the long term. This trust is comprised of elements that are intrinsically linked to one another, forming part of an ecosystem, whereby change to one element automatically impacts them all. However, fundamental for all is authenticity. Without authenticity, corporate trust will ultimately not be restored.

A **purpose** focuses the company on what is most important

A focus on **wider value creation** and multi-capital thinking

A value creation **culture** that emphasises innovation and agility

An understanding of **stakeholder** expectations through **engagement**

Ensuring **diversity** of workforce and thinking



The only way to create **trust** and by extension **profit** over the **long-term**

# Executive summary

Black Sun has been tracking the evolution of reporting for more than 14 years, examining how companies are responding to a changing environment and regulatory landscape.

This year we've seen continued debate around the need to restore corporate trust and the challenges companies face in implementing the suite of legislative initiatives that take effect for companies with financial years beginning in or after January 2019.

Many of the topics these initiatives are trying to address – such as aligning purpose, values, behaviours and strategy – will be central to reinstating trust in businesses as we move forward in a new and increasingly complex world.

## A CHANGING WORLD

The world is transitioning; the speed of technology, automation and artificial intelligence, climate change and intergenerational inequality are all elements of a new reality. Concepts like purpose, wider value creation and contribution to society have become part of everyday language. It is increasingly clear that, to keep our planet and societies viable in the long term while supporting prosperity, we all have a responsibility to ensure that this transition becomes more inclusive than those that came before.

Investors and society at large are increasingly expecting companies to evidence how they are part of the solution to some of the world's societal problems in order to regain some of the corporate trust that has been eroded over time.

The traditional roles and boundaries between the expectations for corporates, investors and regulators are increasingly blurred – companies must put purpose before profit, investors need to act like 'universal owners' and custodians of value while enabling companies by providing access to capital, while regulators must regulate on issues such as purpose.

In our conversation with companies, it is clear that most are fully aware of this societal watershed moment. However, some are struggling to articulate their desire to be 'part of the solution'. For the early adopters among companies, this means fundamentally rethinking their business model to become more purposeful. That said, there is still a large group that has yet to start the journey in earnest.

## THE ECOSYSTEM OF AUTHENTICITY

In order to regain trust, companies should acknowledge that they are part of a larger ecosystem and evidence that they understand their impacts and dependencies, and how these may change over time. Ideally, companies should act accordingly and play their part in including stakeholders and wider society to partake in their success. In fact, a companies' own success will depend on the support of its stakeholders and their ability to transition, develop or hone skills like flexibility, agility and innovation in order to meet the challenges of a new economy. Over time, this may impact their business model.

In order to succeed in this time of transition and disruption, companies may also find that their purpose can serve as a razor sharp vision that cuts through the noise and focus it on what is most important. While altruistic in nature, the best purposes integrate a strategic direction, allowing all parties to benefit from the outcome thereby making them more trustworthy. Most importantly, companies should be authentic in their actions as well as their reporting.

From a reporting perspective specifically, this means achieving a company-centric and balanced corporate narrative that provides specific insights with a focus on materiality. This narrative needs to be true to the fabric of the company and not littered with popular phrases or buzz-words that hold little meaning but rather generate more cynicism among stakeholders.

“To regain trust, companies should acknowledge that they are part of a larger ecosystem and evidence that they understand their impacts and dependencies, and how these may change over time. Ideally, companies should act accordingly and play their part in including stakeholders and wider society to partake in their success.”

The suite of upcoming reporting requirements for Annual Reports collectively appear to capture the current societal sentiment and this could prove powerful in generating corporate trust if companies truly embrace the spirit of them. However, the requirements may equally serve as no more than additional tick-box exercises for those that do not apply them earnestly. Authenticity will be key to realising any value in this regard.

## THIS REPORT

Our research this year shows broad improvements in most areas, with more dramatic improvements around topics that are driven by upcoming regulatory changes.

Highlights include:

- The vast majority of the FTSE 100 is prepared for the upcoming reporting requirements when it comes to purpose, with almost two thirds now setting out their purpose in reports. However, some appear to be retro-fitted into existing thinking and discussions rarely extend to what success looks like or how it will be measured.
- Reporting on culture has continued to plateau; however, the focus appears to be shifting slightly with companies increasingly discussing how culture contributes to value creation instead of just outlining how they prevent value being destroyed.
- Stakeholders have remained a major topic this year with almost all companies having some level of discussion on stakeholder engagement. There are also reassuring signs suggesting that stakeholder considerations are increasingly seen as crucial to operational and financial success. This is a major shift in thinking compared to the more siloed views of stakeholder engagement just a few years ago.

- Narratives around diversity continue to improve. Diversity policies are becoming more detailed and are increasingly encompassing the wider workforce. However, linkages between diversity within the wider workforce and strategy are decidedly rare, even when the business case is strong.
- Companies increasingly discuss the value they create for wider society and take a multi-capitals approach to understanding their dependencies. However, few clearly communicate how this informs their strategy.
- Uncertainty is affecting many of the typical measures of long-term thinking, but many still provide discussions around future investment in new and existing capabilities. Companies are increasingly applying a longer-term lens to disclosure, discussing risks and opportunities stemming from increased global focus on sustainable development.

This year's report has two sections and two features; one on ESG and another on the changing nature of Annual Reports.

The first section sets out our six principles of trust: Purpose, Culture, Stakeholders, Diversity, Wider value creation and Long-term thinking. Individually and collectively, these principles contribute to developing corporate trust and are rooted in long-term thinking, planning and preparedness. Each of the themes provides a framework for discussions on reporting trends.

The second section looks at reporting trends as well as 'best and next practice' in reporting by each of the typical 'building blocks' or content elements communicated in an Annual Report, a helpful resource to preparers of reports.

We hope that this report will be a useful contribution to the reporting debate.

# The six principles of trust



## CULTURE

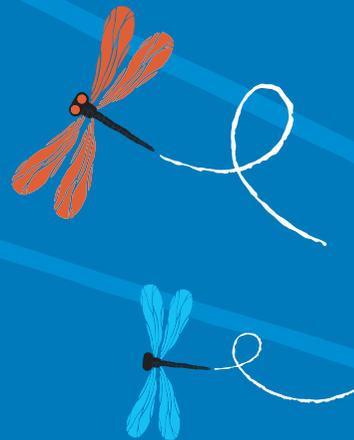
A company with a healthy corporate culture is seen as a safer and more attractive company to invest in, partner with and work for.

**75%** *+1 FROM 2017*

of companies set out their values

**6%** *+3 FROM 2017*

of companies provide a KPI relating to culture



## DIVERSITY

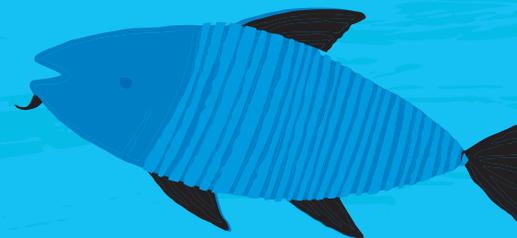
A diverse board and workforce that represents a wide range of stakeholder views will make a company more informed and ultimately more trusted.

**41%** *+3 FROM 2017*

of companies provide a detailed discussion of their diversity policy

**25%** *+13 FROM 2017*

of companies discuss their strategy for addressing the gender pay gap



## LONG-TERM THINKING

Demonstrating long-term thinking and preparedness is the glue that holds the narrative together and makes it believable.

**35%** -7 FROM 2017

of companies set out forward-looking priorities for capital allocation

**26%** -3 FROM 2017

of companies provide a timeframe for their strategy

## PURPOSE

The purpose of a company shapes its ecosystem. A company that communicates how it is 'part of the solution rather than the problem' is a more trusted company.

**72%** +6 FROM 2017

of companies set out their corporate purpose

**22%** -4 FROM 2017

of companies provide a link between purpose and strategy



## STAKEHOLDERS

Social licence to operate by securing the trust of key stakeholders is essential for long-term success.

**67%** +6 FROM 2017

of companies clearly identify their stakeholder groups

**6%** NEW

of companies provide specific examples of how the board has regard for stakeholders

## WIDER VALUE CREATION

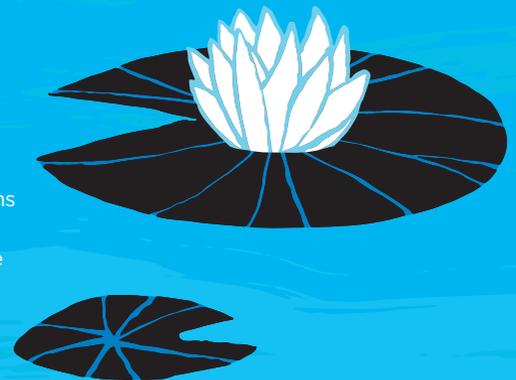
Communicating the full range of value created and the actions taken to manage, sustain and develop these sources of value will make a company appear better prepared for the future.

**68%** SAME AS 2017

of companies provide a commitment to wider value creation

**14%** NEW

of companies provide information on relationships in their investment case



# Regulatory update

During 2018 the Department of Business, Energy and Industrial Strategy and the Financial Reporting Council unveiled a package of reforms coming into force for years beginning on or after 1 January 2019. The changes are designed to strengthen the link between reporting and Section 172 of the Companies Act. Section 172 requires directors to promote the success of the company in the interest of shareholders and, in doing so, have regard for wider stakeholders and the impact of decisions over the long term.

The UK Corporate Governance Code has been streamlined, focusing on the application of Code principles. From a legislative perspective, the Companies (Miscellaneous Reporting) Regulations 2018 introduce new requirements relating to remuneration and stakeholders. Finally, the FRC's Guidance on the Strategic Report has also been updated to reflect the changes. On the following pages we summarise the top-line themes of the new requirements.

Beyond 2019, the regulatory outlook is uncertain. The Kingman Review has recommended the replacement of the FRC with an Audit, Reporting and Governance Authority. What this will mean for narrative reporting is unclear although the new authority will have heightened powers of enforcement.

## JANUARY 2019

The 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 will come into force for years beginning on or after 1 January 2019.

## APRIL 2019

The Streamlined Energy and Carbon Reporting (SECR) Framework will be implemented for years beginning on or after 1 April 2019.

## KEY QUESTIONS TO CONSIDER

How does **diversity** support strategy?

Who are the company's most **material stakeholders**?

How does **culture** support value creation?

Is the company's **purpose** clearly defined?

Where will the report address **stakeholders**?

How does **remuneration** support strategy?

What are the company's **intangible sources of value**?

How does **executive remuneration** link to pay across the company?

### JANUARY 2020

The European Single Electronic Format requiring companies to publish their Annual Report in XHTML/iXBRL format will come into force for years beginning on or after 1 January 2020.

### BEYOND

In June 2019, The Department of Business, Energy and Industrial Strategy completed its consultation on the recommendations of the Kingman Review proposing the replacement of the FRC with an Audit, Reporting and Governance Authority (ARGA). This new authority will have enhanced powers and a wider remit to ensure quality in governance and reporting.

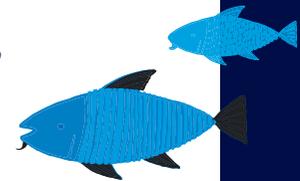


## DISCUSSION OF THE COMPANY'S SOCIETAL CONTRIBUTION

- The updated Code states that the Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned.
- The Code broadens the role of the Board to include 'contributing to society'.

Not a major focus area.

- The revised Guidance on the Strategic Report outlines that an entity's purpose is why it exists – it could encompass generating benefits for members through its economic success whilst having regard to the matters identified in Section 172 and, in the broader social context, contributing to inclusive and sustainable growth.
- The Guidance explains that purpose should be linked to the company's strategy and business model.



## CONSIDERATION OF STAKEHOLDERS' INTERESTS

- The Corporate Governance Code states that the Board should understand the views of the company's other key stakeholders and describe how their interests and the matters set out in Section 172 of the Companies Act 2006 have been considered by the Board.
- The Code also requires companies to have a formal workforce advisory panel, a worker-director or a designated non-executive director responsible for employee issues – or to explain their alternative arrangements.
- Companies must include within the strategic report a 'Section 172' statement on how the directors exercised their duty to promote the success of the company and in doing so have regard for wider stakeholders.
- The directors' report is required to include an employee engagement statement and a wider stakeholder engagement statement. These will need to outline how the directors engage with and have regard for stakeholders.

- The Guidance on the Strategic Report provides further guidance on what companies should disclose in their Section 172 statement.
- This includes guidance on the link between Section 172 duties and related topics such as culture and capital allocation.

UK CORPORATE GOVERNANCE CODE

THE COMPANIES (MISCELLANEOUS REPORTING) REGULATIONS 2018

GUIDANCE ON THE STRATEGIC REPORT

## DIVERSITY, CONNECTIVITY, CULTURE AND WIDER VALUE



- Companies will be required to draw a link between their diversity policy and strategy, and outline the gender balance of those in senior management and their direct reports.
- Companies will need to outline how the Board has assessed opportunities as well as risks.
- The Code emphasises company-specific insight and highlights the importance of linkages with the rest of the Annual Report.

Not a major focus area.

- The revised Guidance introduces a new focus on sources of value that have not been recognised in the financial statements and how those sources of value are managed, sustained and developed.
- The Guidance has also incorporated some of the findings of the FRC's culture project. This includes alignment of purpose, strategy and culture and links between culture, stakeholders and Section 172.

## INSIGHT INTO THE INTERNAL AND EXTERNAL CONTEXT OF REMUNERATION



- The updated Code requires companies to explain in their Annual Report how their remuneration policy aligns with the principles of clarity, simplicity, risk, predictability, proportionality and alignment with culture.
- The Code also requires clearer reporting on how remuneration delivers company strategy, long-term success and alignment with workforce remuneration.

- Under the Miscellaneous Reporting Regulations companies will be required to publish the ratio of the CEO's remuneration to the median, 25th and 75th quartile of pay among their UK employees with supporting commentary.
- There are also further requirements relating to the impact of share price appreciation on pay outcomes and the remuneration committee's use of discretion.



Not a major focus area.



# Building blocks

Each Annual Report consists of a number of typical content elements which together make up the value creation story.

## SETTING THE SCENE

Who the company is, what it does and why it exists

**72%**

-14 FROM 2017

of companies include a separate 'at-a-glance' section

**31%**

-1 FROM 2017

of companies include an investment case

## LEADERSHIP STATEMENTS

How management demonstrates ownership and personal reporting

**55%**

+8 FROM 2017

of Chair or Chief Executive statements include at least a basic discussion of the company's stakeholders

**16%**

+11 FROM 2017

of Chair or Chief Executive statements include at least a basic discussion of the company's stakeholders

## BUSINESS MODEL

How the company creates value for shareholders and society

**67%**

+4 FROM 2017

of companies include value creation outcomes in their business model

**40%**

+6 FROM 2017

of companies discuss key revenue or profit drivers in their business model

## MARKET

How the company responds to key trends in the external environment

**54%**

+3 FROM 2017

of companies explain how they are responding to market trends

**18%**

NEW

of companies make explicit reference to strategy in their market discussion

## STRATEGY

How the company deploys its resources to achieve its long-term goals

**84%**

-3 FROM 2017

of companies outline specific strategic actions or initiatives

**33%**

+5 FROM 2017

of companies include a link between strategy and culture or values

## PERFORMANCE

How the company measures performance against its strategy

**77%**

+3 FROM 2017

of companies include a non-financial metric as one of their main KPIs

**12%**

+7 FROM 2017

of companies directly link KPIs to principal risks

## RISK

How the company protects value by managing principal risks

**78%**

+17 FROM 2017

of companies indicate whether principal risks have changed in terms of significance during the year

**45%**

+6 FROM 2017

of companies make specific reference to particular principal risks in their viability statement

## GOVERNANCE

How the Board provides oversight and promotes the success of the company

**61%**

NEW

of companies discuss the new Corporate Governance Code in the Chair's introduction to corporate governance

**36%**

+4 FROM 2017

of companies include governance case studies

## REMUNERATION

How the company incentivises value creation and strategic performance

**51%**

-5 FROM 2017

of companies include a remuneration 'at-a-glance' statement

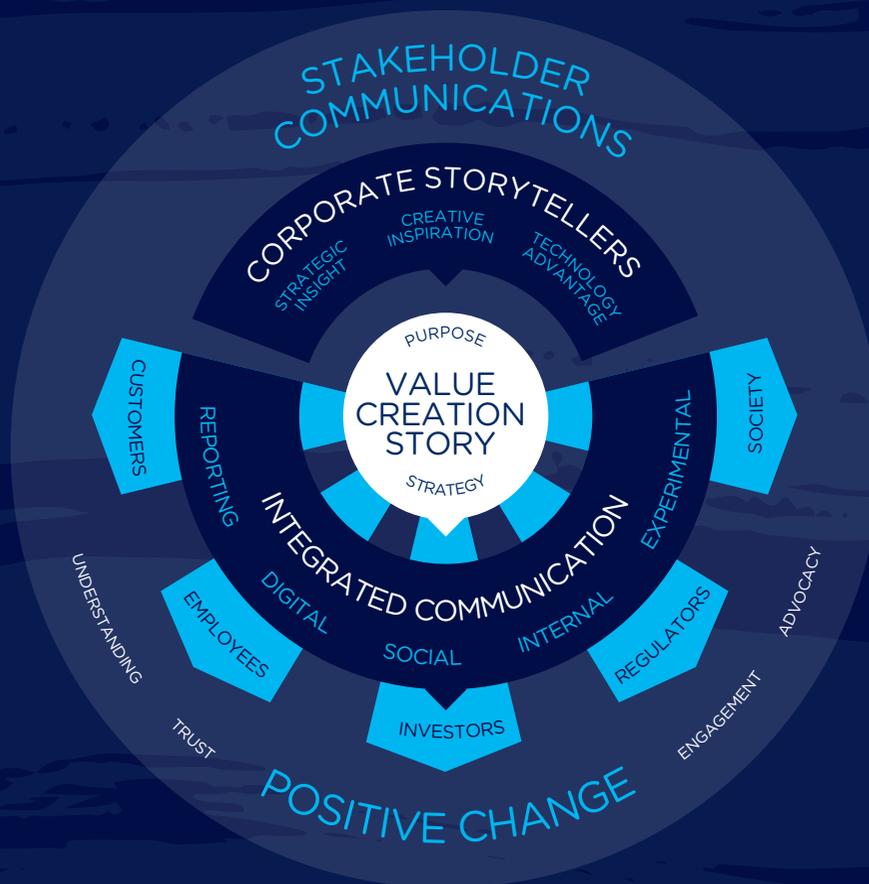
**38%**

+28 FROM 2017

of companies discuss a CEO pay ratio

**WE MAKE BUSINESSES MORE VALUED IN THE EYES OF THEIR STAKEHOLDERS.**

We help businesses define, articulate and communicate how they deliver long-term value in a changing world. Through a unique combination of strategic insight, creative inspiration and technology advantage we enable our clients to communicate a consistent, relevant and integrated corporate story that informs and influences customers, employees, investors and broader society. The outcome of our work is positive change and transformed business relationships. We deliver the corporate story across a range of communication channels and formats, often cascading from the annual reporting process.



## OUR PORTFOLIO OF ENGAGEMENT TOOLS

- Annual and Sustainability Reports
- Websites
- Social media
- Film and animation
- Intranets and apps
- Investor presentations
- Live experiences such as Capital Market Days
- Content and communications consultancy:
  - Sustainability communications
  - Employee engagement
  - Purpose communications
  - Change management
  - ESG strategy
  - Gender Pay Gap reporting
  - Topic-specific workshops

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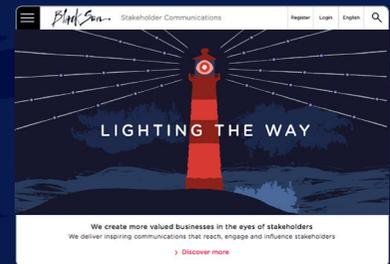
# HORIZON SERIES

This research is part of Black Sun's Horizon Series which annually identifies best practice and emerging trends in corporate communications, across key channels and geographies. What began as a survey of corporate reporting trends of the FTSE 100 in 2005 has grown into a truly holistic measurement of companies' communication across their key 'storytelling' channels – print reporting, digital and social media – giving the complete picture for communication professionals.

We are committed to ensuring that insights, research and thought leadership are an integral part of our approach. This informs our development of authentic communications solutions which connect the right message, with the right audience, at the right time, on the right channel.

Whether it is helping to communicate with investors, capture the spirit of legislation and regulation in your Annual Report, creating a corporate website, reaching and inspiring people through social media, attracting and building talent, or engaging wider stakeholders on sustainability.

By pushing ourselves every day to understand the world around us, we provide practical but powerful communications solutions.



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