

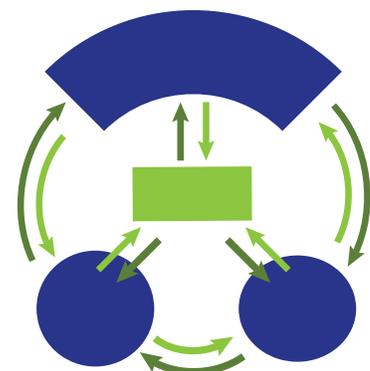
NON-FINANCIAL REPORTING (NFR): MANAGING RISKS AND LEVERAGING OPPORTUNITIES

Companies are increasingly subject to requests for information on environmental, social, economic, and other non-financial matters. There are many stakeholder groups requesting (or demanding) information. Reporting frameworks may be imposed by the user (customers, for example), or by industry groups, or other entities. Stakeholders request different kinds of information. Stakeholders use this information in different ways.

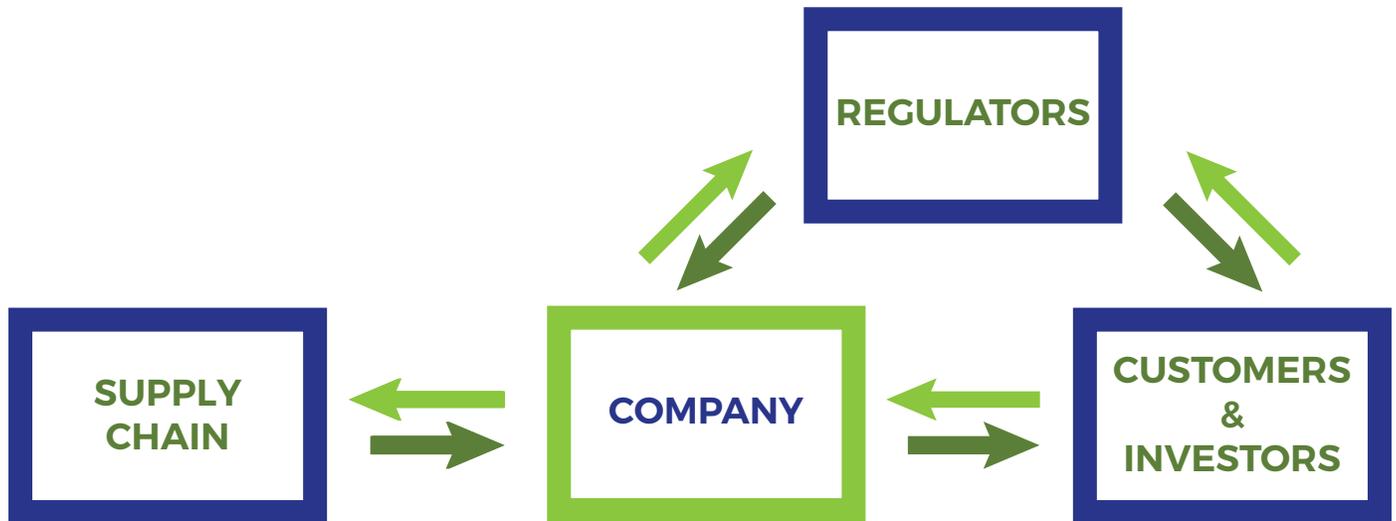
Some stakeholders contend that NFR should be more prominent in submittals to the Securities and Exchange Commission. One group has gone so far as to identify material issues for each industry sector and specific industry group. Even the SEC included Sustainability as a specific issue in the Concept Release “Business and Financial Disclosure Required by Regulation S-K”, published in April 2016.

The trend is clear: more stakeholders are demanding more information, to be used for more purposes. Stakeholders use NFR information to make decisions on investment, purchases, employment, and other reasons that result in financial impact to the company. Indeed, the information in NFR is increasingly a part in an organization’s social license to operate.

Douglas Hileman Consulting LLC (DHC) helps companies ensure that their approach to NFR is up to current needs for risk management – and leveraging opportunities.



The figure below depicts a traditional business model of a simple supply chain, business activities, and delivery to customers and reporting to investors. Some aspects were governed by regulations, with some communications to and from regulators.



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FIG 1. TRADITIONAL CHANNELS FOR NON-FINANCIAL REPORTING

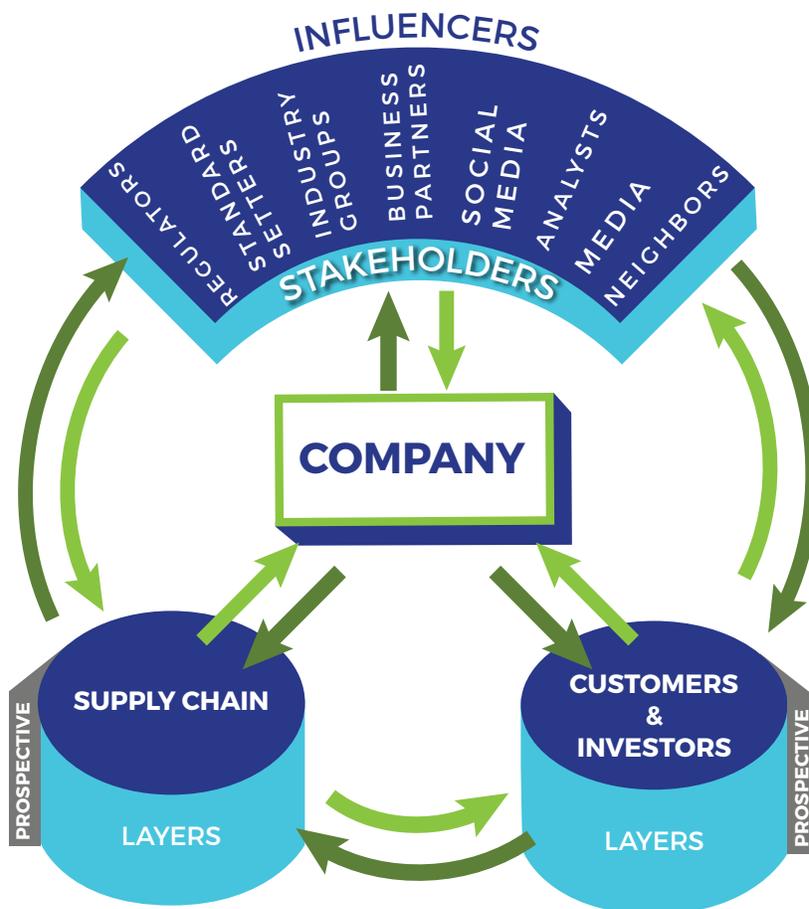
The current business environment is more complex. Supply chains extend deeper. Companies’ responsibilities to the value chain have been extended. A broad array of stakeholders now request (or require) information on environmental, social, economic, and other non-financial information. There are now regulations for some issues (greenhouse gas emissions, conflict minerals, human trafficking) that were social concern just a few years ago.

The vast majority of large companies publish a standalone Sustainability (or Corporate Social Responsibility) report, often following the Global Reporting Initiative (GRI) framework. This is a good start, but only a start. As Figure 2 shows, there are more stakeholders and communications channels than ever.

NFR should be viewed as an enterprise risk issue. It poses risks in many ways, such as non-compliance, reputation risk, or lost sales. It also presents opportunities, such as preferred investments, attracting top talent, or improving operational efficiencies - if only companies would manage it this way.



THE FAR-REACHING IMPACT OF NON-FINANCIAL REPORTING



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FIG 2. MULTI-DIMENSIONAL CHANNELS FOR NON-FINANCIAL REPORTING (NFR)

Today's model for NFR has become complex and multi-dimensional. Each communications channel requires information fit for that specific purpose. Organizational systems and controls have not kept pace with the increased demand. Roles and responsibilities may be scattered throughout the organization, with little training, authority, or coordination. As a result, reporting of non-financial information may be incomplete, inaccurate, unsupported, and/or unaligned with customer requirements or the company's business objectives.

NON-FINANCIAL REPORTING: HOW IS YOUR ORGANIZATION DOING?

Take this quick diagnostic.

1. Does anybody in your company know all the reporting channels for non-financial information?
2. Do you know how you compare to peer companies?
3. What are customers asking for?
4. Who is responsible for generating information and data?
5. Are there controls in place to safeguard against manipulation of data?

DHC's full diagnostic helps align NFR with an organization's goals and objectives.

ABOUT US



Douglas Hileman, CRMA, CPEA, P.E. is President and Founder of Douglas Hileman Consulting LLC (DHC). DHC helps clients achieve effective and efficient solutions, and to manage risks and leverage opportunities in non-financial reporting. He has helped clients with Sustainability program development, assessment, reporting, and auditing. He has distinctive experience in the SEC's conflict minerals rule, and is one of only four professionals to lead an Independent Private Sector Audit for each of the first three reporting periods. He has provided training to clients, and has presented on NFR at numerous conferences. He is a member of the [global] Guidance Development Committee of the Institute of Internal Auditors. His firm supports clients nationwide with a network of professional colleagues.

HOW WE CAN HELP

DHC has developed a diagnostic as an initial, high-level assessment of your company's approach to NFR. If you answered "no" to any of the five questions above, then your company's approach to NFR could pose risk. DHC has a proven methodology to assess a company's non-financial reporting, either for reports pursuant to specific frameworks (Global Reporting Initiative, industry codes of conduct, customer requirements), or enterprise-wide.

We take an enterprise-wide approach to NFR, as well as support in these other areas:

- Sustainability report writing
- Auditing systems & controls;
- Establishing KPIs
- Designing initiatives in advance of new/ emerging issues that will require information for external reporting.

DHC's approach has proven useful in engaging with executive management and helping clients manage risk and capture value from NFR.



CONTACT INFO

Douglas Hileman
P: 818-416-6403
E: doug@douglashileman.com