



# Does corporate reporting need a culture shock?

Meeting the transparency expectations of investors and other stakeholders

Financial Accounting Advisory Services (FAAS)  
Sixth global corporate reporting survey

November 2019

■ ■ ■  
The better the question. The better the answer.  
The better the world works.

**EY**

Building a better  
working world



# About the research

More than 1,000 chief financial officers (CFOs) and financial controllers of large organizations were surveyed to understand the challenges they face in corporate reporting. The research was conducted by Longitude on behalf of EY Global Financial Accounting Advisory Services (FAAS).

More than half (55%) of respondents' organizations have revenues in excess of US\$5b a year, and 10% in excess of US\$20b a year. Half the respondents (50%) were from the CFO community, and more than one in five (22%) were group CFOs. The remaining 50% were finance directors or financial controllers (group, divisional or regional), or from the treasury function. Respondents were split across the Americas; Asia-Pacific; Europe, the Middle East, India and Africa (EMEIA); and Japan. Thirteen main sectors were represented, with 49% publicly held or listed and 51% privately owned.

The survey was supplemented by in-depth interviews with the following CFOs, heads of reporting organizations and EY subject matter professionals:

<b>Dijana Bacic</b> Chief Audit Executive, Barry Callebaut	<b>Toyohiro Fukata</b> EY Japan FAAS Leader
<b>Ricardo Jaramillo</b> CFO, Grupo SURA	<b>Karsten Fuser</b> EY Global and EMEIA FAAS Markets Leader
<b>Stephen Rivera</b> Vice President, Global Technical Accounting Advisory Services & Policy, Johnson & Johnson	<b>Mathew Nelson</b> EY Asia-Pacific FAAS Leader and EY Global Climate Change and Sustainability Services (CCaSS) Leader
<b>Hani Abdulwahab Zahran</b> Group CFO, Jabal Omar Development Company	<b>Ben Taylor</b> EY UK & Ireland (UK&I) FAAS Leader
<b>Dana Bober</b> EY Americas FAAS Leader	<b>Peter Wollmert</b> EY Global and EMEIA FAAS Leader
<b>Joon Arn Chiang</b> EY Asia-Pacific Markets Leader	

The EY Global FAAS Team would like to thank everyone who contributed their insights and knowledge to this report.

# Contents

Foreword	3
Executive summary	4
1. Creating more open and accountable corporate reporting to win stakeholder trust	6
2. Closing the culture reporting disconnect	16
3. Building trust into data analytics and artificial intelligence	26
The way forward	36

# Foreword

Organizations recognize the need for transparency in their corporate reporting. It is key to telling their value-creation story to investors and providing the information they demand. Critically, it is also key to earning the trust of investors and other stakeholders. This trust issue is critical in an environment where corporate reporting is under the regulatory spotlight. In a number of major markets, there is an increasing public, political and media focus on reporting, with a call for more robust regulatory oversight. This increased focus has followed a number of high-profile corporate failures and has raised questions around the emphasis auditors place on the going concern of a business, and also the forward-looking nature of corporate reporting.

However, to really push the transparency agenda, a wider shift in attitude is required. Because corporate reporting has traditionally focused on historical financial data, the mindsets of those who produce it are far more aligned with focused, backward-looking financial reporting. Therefore, transparent, forward-looking reporting – based on a wider balance between financial and nonfinancial information – requires changes not only to frameworks and practices but also to mindset and culture. In other words, a change of attitude is required if corporate reporting is to offer stakeholders open and transparent communication about value creation.

This culture issue is the theme of this latest report, which builds on the research that the EY Global FAAS Team has conducted annually since 2014. In earlier studies, finance leaders were focused on connected reporting, finance talent, finance operating model transformation, a rethink of traditional corporate governance models, and how to challenge the corporate reporting model by turning the huge volumes of data that organizations have at their disposal into a strategic reporting asset.<sup>1</sup> Today, organizations are looking at their corporate reporting to genuinely engage with investors and other stakeholders. For this to happen, organizations should adopt a new culture and mindset regarding the information that they share about themselves. In other words, a culture based on openness, authenticity and accountability.

Corporate reporting can play an instrumental role in driving that culture – creating an environment where business and finance leaders are motivated to communicate and engage openly with core stakeholder groups. To achieve this goal, finance teams should create more open and accountable corporate reporting to give investors and other stakeholders trusted financial and nonfinancial insight, provide a better view of their culture's impact on growing and protecting enterprise value, and build trust into their approach to data analytics and emerging technologies such as artificial intelligence.

By embracing the role of culture in corporate reporting, finance leaders can provide the transparency that investors and other stakeholders require, building a new era of trust based on credible, authentic, accountable and open corporate reporting.



**Peter Wollmert**  
EY Global and EMEA FAAS Leader

---

1. *Connected reporting: responding to complexity and rising stakeholder demands*, EY, 2014; *Are you prepared for corporate reporting's perfect storm?* EY, 2015; *How can reporting catch up with an accelerating world?* EY, 2016; *Can innovative corporate reporting build trust in a volatile world?* EY, 2017; *How can the digital transformation of reporting build the bridge between trust and long-term value?* EY, 2018.

# Executive summary

## 1. Creating more open and accountable reporting to win stakeholder trust

Corporate reporting is under significant pressure to meet demands for openness and transparency. This latest research shows that providing transparent financial and nonfinancial reporting is critical to the continued relevance of corporate reporting on many levels, from meeting the demands of investors to telling the organization's value-creation story and supporting long-term value creation. However, while the pressure is on for organizations to be more open and accountable, a significant number are not providing the quantitative nonfinancial reporting information that is the foundation of greater transparency. To meet these demands for increasing transparency – and to plug any gaps in nonfinancial reporting – there are two priorities for finance teams: first, ensuring that finance uses its strengths and credibility to play a central role in driving a more open and accountable enterprise culture; and second, clarifying finance's role in nonfinancial reporting.

## 2. Closing the culture reporting disconnect

For corporate reporting to play its role in building a more open and accountable culture, organizations should act to meet heightened expectations for nonfinancial disclosures. One area that will likely be key is enterprise culture. Today, there is a significant reporting disconnect that requires closing. Over three-quarters of finance leaders surveyed say that investors increasingly want more insight into company culture, but only a minority of large organizations report quantifiable key performance indicators (KPIs) in this area. To give stakeholders the culture insight they are looking for, organizations should focus on the following areas: turning the increasing volumes of data at organizations' disposal into trusted culture reporting and shifting the culture of finance itself so that the function better supports transparency.

## 3. Building trust in data analytics and artificial intelligence

With both financial and nonfinancial information key to transparency, nonfinancial data should be as credible and trusted as financial data. However, finance leaders face a number of critical challenges in building a trusted approach to nonfinancial data. Most critically, they should be able to exploit nonfinancial data while also managing any risks. While the increasing volumes of data at organizations' disposal are a strategic asset, they also come with attendant risks. For example, reporting teams should be confident that their approach to nonfinancial data protection, privacy and compliance is up-to-date with changing regulatory and societal expectations. At the same time, they should also be sure that the data behind disclosures is trusted by its intended audience. For example, do they believe it to be objective and accurate? To address these and other challenges, there are two priorities: first, putting in place the advanced tools to gather and analyze large amounts of data; and second, building trust into advanced systems, including artificial intelligence.

## The way forward

Culture is traditionally considered to be something that is “soft” and difficult to define. However, the implications of culture for enterprise value could not be clearer. Finance leaders surveyed are of the strong opinion that a healthy culture is key to growing value and that a harmful culture poses a significant risk to value. Culture is expected to play an increasingly important role in corporate reporting in two ways: first, in terms of finance teams playing a central role in driving transparent reporting, creating an open and accountable culture that genuinely engages with investors and meets fast-changing reporting demands; and second, in terms of providing stakeholders with meaningful, credible and relevant data-driven insight into the organization's culture and its link to performance and value. To drive culture's critical role in corporate reporting, three actions are key: first, putting in place a robust approach to culture reporting; second, changing the talent mix to drive finance culture change and overcome resistance; and third, building trust and ethical algorithms into the artificial intelligence used to create reports.





**Figure 1. Driving an open and accountable culture – key statistics from the finance leaders surveyed.**

An open and accountable culture, where leaders are motivated to communicate and engage openly with core stakeholder groups, is critical to meeting transparency demands. Corporate reporting plays a key role in driving that culture – creating more open and accountable corporate reporting, providing a better view of their culture's impact on enterprise value, and building trust into data analytics and artificial intelligence (AI).



# 1

Creating more open and  
accountable corporate reporting  
to win stakeholder trust



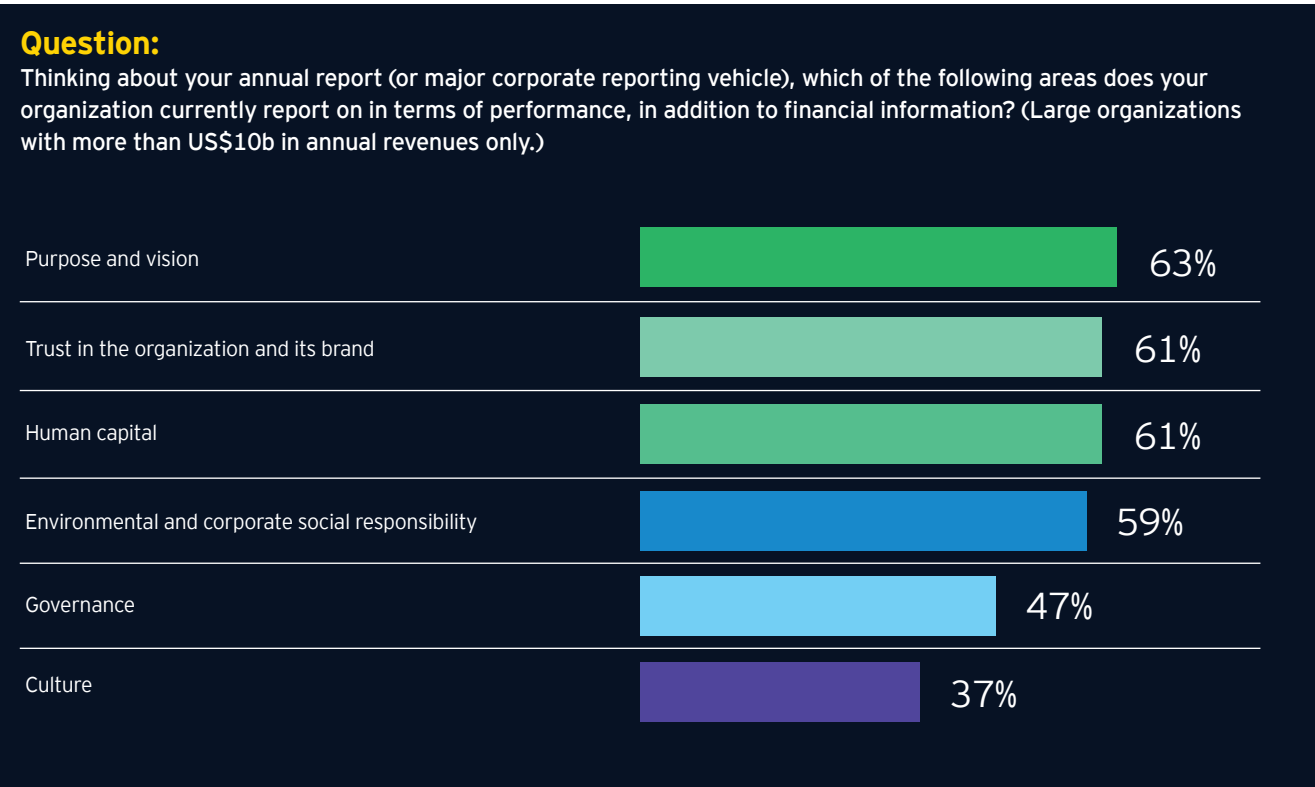


Corporate reporting is under significant pressure to meet demands for openness and transparency. This research shows that providing transparent financial and nonfinancial reporting is critical to the continued relevance of corporate reporting on many levels:

- ▶ **Meeting the demands of investors:**  
74% of finance leaders surveyed say investors increasingly use nonfinancial information in their decision-making.
  - ▶ **Securing the organization's license to operate and building trust:**  
76% of respondents say there is increasing societal pressure to be more transparent.
  - ▶ **Telling its value-creation story and supporting long-term value:**  
72% of respondents say that focusing purely on financial reporting offers only a partial view of the company's value-creation framework.
- At the same time, corporate reporting is also facing increasing regulatory scrutiny in a number of markets, with legislators asking if today's reporting models are fit for purpose.

However, while the pressure is on for organizations to be more open and accountable, a significant number are not providing the quantitative nonfinancial reporting information that is the foundation of greater transparency. For example, as chart 1 shows, if we look at large organizations (those with more than US\$10b in annual revenues), there is progress in the number providing quantifiable KPIs in areas such as human capital and the environment. However, only 37% provide KPIs on culture.

Chart 1. Percentage of large organizations providing ongoing performance reporting or KPIs on key nonfinancial metrics





**Peter Wollmert**, EY Global and EMEA FAAS Leader, points out that organizations making increased use of nonfinancial reporting raises the question of how to provide disclosures that are seen as credible. “Investors see a future for corporate reporting where they receive additional, strategic information, which allows them to better assess the opportunities and risks for the company and which compensates for some of the limitations of focusing only on backward-looking financials,” he says. “It’s clear that this sort of transparency and extended information is a positive thing – it brings incremental value to the users of financial statements and, ultimately, to capital markets. But we should bring to people’s attention that the more forward-looking and nonfinancial information you provide, the more you have an issue with providing an independent check of these sorts of disclosures and how they are inspected or assessed. For example, to show that underlying assumptions are right or at least reasonable.”

To meet these demands for increasing transparency – and plug any gaps in nonfinancial reporting – there

are two priorities for finance teams: first, ensuring that finance uses its strengths and credibility to play a central role in driving a more open and accountable enterprise culture; and second, clarifying finance’s role in nonfinancial reporting.

37%

Only 37% of large organizations provide KPIs on culture.

### **Material issues take environmental, social and governance mainstream**

Environmental, social and governance (ESG) reporting has been at the forefront in driving innovation and momentum in nonfinancial reporting. According to the latest EY study of institutional investors – *Does your nonfinancial reporting tell your value creation story?*<sup>2</sup> – nearly all of the investors surveyed (96%) use ESG information in their decision-making, up from 68% in the previous year’s study.

**Mathew Nelson**, EY Asia-Pacific FAAS Leader and EY Global Climate Change and Sustainability Services (CCaSS) Leader, also believes there is a growing recognition that ESG reporting is not something that organizations should be

compartmentalizing, because many of the issues that fall under the ESG umbrella represent significant, material issues for enterprise value. “Organizations are not saying ‘we will report more ESG stuff now,’” he says. “It’s more that those things that they are reporting on are becoming more material without necessarily being labeled as ESG-type issues. Organizations are reporting on these issues because they are impacting their business – they just happen to be correlated to areas that would traditionally have been seen as ESG-related. They’re reporting on these areas because they’re mainstream issues that are material to the business.”

---

2. *Does your nonfinancial reporting tell your value creation story?* EY, 2018.

### **Jabal Omar: building a new era of transparency in the Kingdom of Saudi Arabia**

Jabal Omar Development Company (JODC) is one of the largest real estate developers in the Middle East and one of the largest listed companies in Saudi Arabia's Tadawul stock exchange. Its flagship project, Jabal Omar, is a Makkah-based, multi-use real estate mega development project within walking distance of the Grand Mosque. It is designed to provide capacity for the ever-increasing number of pilgrims that visit Makkah on an annual basis.

**Hani Abdulwahab Zahran**, Group CFO, Jabal Omar Development Company, outlines how organizations of the size and influence of JODC are taking the lead in offering comprehensive corporate reporting and transparency - a trend that will likely continue to develop as the Kingdom stays in line with global developments. "Given our size, we tend to be among the leaders in sharing financial information at this level of detail," he explains. "From my perspective, being transparent like this is a significant benefit for companies. Publishing to the external market acts as a check and shows that you are following the correct steps. It means people understand where you are going as an organization - your plans for the future. And it's clearly critical for sources of capital, be it equity or debt. With this sort of transparency, people can follow your story and be part of it. Globally, we see that organizations are disclosing more and more detail. I believe the Kingdom will be no different, following the same direction it's taking."





# Two priorities for finance teams

## Priority one: give finance a central role in driving a more open and accountable enterprise culture

Finance leaders believe their teams can play a leading role in the wider culture of the organization, capitalizing on the credibility of finance teams and the skills of finance people. In fact, when we asked finance leaders to say how finance can support and reinforce a healthy corporate culture, the fact that finance is “focused on transparency and openness” emerged as the number one quality. The key attributes that finance brings to a healthy enterprise culture, placed in order according to the research, are as follows:

- |   |   |
|---|---|
| 1 | We are focused on transparency and openness (27%)                                 |
| 2 | We are recognized as having high standards of integrity (22%)                     |
| 3 | We are willing to report compliance risks and unethical behavior (18%)            |
| 4 | We are focused on managing risk (16%)   |
| 5 | We can provide stakeholders with a rational, evidence-based view of culture (13%) |
| 6 | We are prepared to challenge senior management and board decisions (4%)           |

Of course, finance leaders should be absolutely sure that their finance teams do actually understand and embody the values that are important. To create that understanding, finance leaders should set out and carefully

communicate clear expectations around values and behaviors. They can then use that framework to check that people at all levels and reaches of the finance organization are effectively living them.

### **Transparency in the public sector: intense scrutiny continues to rise**

High levels of transparency are a fact of life in the public sector. The disclosure of high-quality performance information is seen as critical – allowing governments and the wider public to understand how public sector departments are performing and providing assurance on the use of public money. When we spoke to a senior finance leader at a major government department in the Asia Pacific region, they outlined how the department's transparency approach is multi-faceted. While it produces an extensive annual report, with detailed and comprehensive financial and nonfinancial KPIs, efforts do not end there. "There are other processes that the public can use to obtain information from the department in terms of expenditure," they explained. "We have 'freedom of information' requests, where members of the public can ask for information on expenditure and other documents. There are also parliamentary committee hearings and questionnaires in regard to the annual report and also in terms of budget papers. There is a high level of scrutiny, as you would expect, as it's taxpayers' money, and I would say that the amount of information that's disclosed continues to increase."

### **Johnson & Johnson: passionate about openness and transparency**

At Johnson & Johnson – one of the world's leading multinational health care companies, with more than 130,000 employees across the world – Stephen Rivera, Vice President, Global Technical Accounting Advisory Services & Policy, outlines why transparency should be part of the organization's cultural DNA rather than something that is imposed by rules or frameworks. "My view about the company's philosophy is that it wants to be transparent about providing nonfinancial information on a voluntary basis," he says. "We're happy to provide that if we believe it's helpful for people to know what we're doing and to show that we're delivering on our vision of 'using our reach and size for good.' But that's a part of our culture, and I believe this information should always be voluntary rather than externally orchestrated. If companies have a passion for this, and feel it's important to consistently provide this sort of information, they should not be forced to do it through regulations."



“

At some point, CEOs and boards will be pushing finance departments to create a more controlled process and to define what that looks like.

**Priority two:**  
clarify finance’s  
role in nonfinancial  
reporting

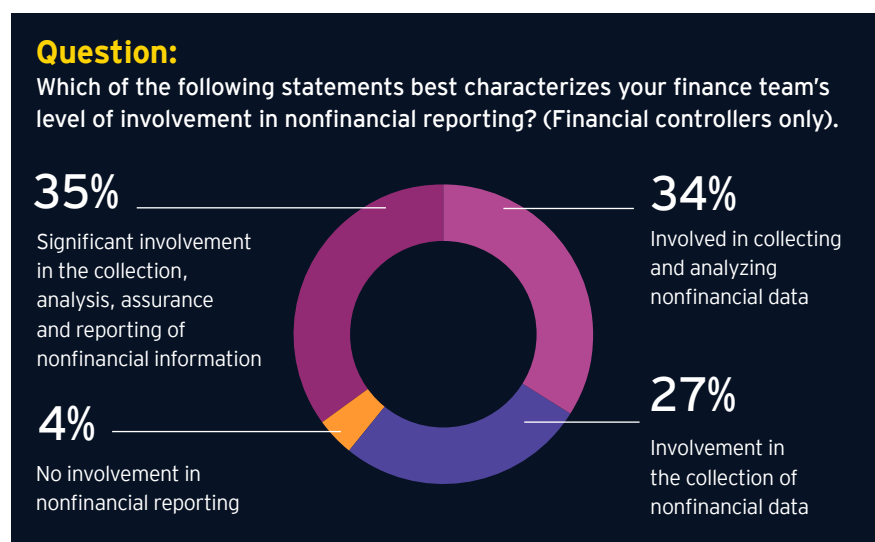
Of course, while transparency and openness are key to giving stakeholders the information they want, that information should also be credible and trusted. Here, finance leaders can bring a range of skills and attributes to bear in creating nonfinancial reporting that is trusted. According to the CFOs in our survey, the chief capability that finance can offer here is the function’s deep skills in data analytics, as shown opposite, where the key attributes are listed in order according to the research.

Top areas where finance plays a valuable role creating trusted nonfinancial reporting – CFO respondents only (group, divisional and regional)

- |   |  |
|---|--|
| 1 | Providing data analytics knowledge (20%)   |
| 2 | Applying financial reporting standards and leading practices to nonfinancial information (19%)       |
| 3 | Establishing robust controls for nonfinancial information (17%)                                      |
|   | Integrating financial and nonfinancial data (17%)  |
| 4 | Ensuring nonfinancial reporting information is consistent with financial reporting disclosures (15%) |
| 5 | Providing an overview of the relevance of nonfinancial information (12%)                             |

However, if finance is to play a role in creating nonfinancial reporting that can be trusted, the role it plays requires clarification. Currently, there are widespread differences in the roles that finance teams actually play. According to the financial controllers surveyed, only 35% say finance teams have an end-to-end role, with significant involvement in collecting, analyzing, assuring and reporting information. As chart 2 shows, other teams are limited to involvement in data collection (27%) or collection and analysis of nonfinancial information (34%).

**Chart 2. The differing involvement levels of finance teams in nonfinancial reporting**



### Barry Callebaut: internal audit takes a hard look at nonfinancial reporting at world's biggest chocolate manufacturer

**Dijana Bacic** – Chief Audit Executive responsible for internal audit at Swiss-based Barry Callebaut, the world's leading manufacturer of chocolate and cocoa products – believes that companies need to ask hard questions about nonfinancial reporting, from where data is sourced to how it is interpreted, if they want to ensure that reporting is useful to,

and trusted by stakeholders. "As well as sustainability reporting, we look at a range of people-related KPIs," she says. "One possibility is to look at how those people-related KPIs were reported. This includes looking at the data sources, as this sort of information is not as easily available as financial data, and you do not always have consistent reporting of it in different entities. And then,

once you have that data, how you interpret it. For example, is there consistency in interpretation year-on-year, were some of the parameters changed, and what conclusions were reached from that KPI reporting? That's why I offered to look at nonfinancial reporting from an internal audit perspective and report back to the board."



**Ben Taylor**, EY UK&I FAAS Leader, points out that finance's involvement is becoming more important given the growing emphasis on the economic impact of nonfinancial issues, but that there are challenges to teams being involved. "Historically, nonfinancial reporting was often separate," he says. "But today, companies are showing how an investment in areas such as the environment and social reporting leads to a financial outcome. That is where finance functions can bring their disciplines and knowledge – developing economic metrics that people can believe in and showing the correlation

to financial performance. But that demand is going to be balanced against two challenges: one, how resource-constrained finance teams are taking on this workload; and second, the skills challenge – how you get people who may be skilled in technical accounting standards to focus on nonfinancial areas, such as culture."

**Dana Bober**, EY Americas FAAS Leader, believes that pressure could come from the top for finance to get more involved in nonfinancial disclosures. "Today, in the US, CFOs and controllers are often very focused on meeting the regulatory

requirements for financial disclosures," she explains. "It's often difficult for them to oversee nonfinancial data. But if other groups – such as investor relations – are releasing information because it's what stakeholders are asking for, it may well have not gone through the same robust control process that the rest of the financial data has been through. I think that, at some point, the pendulum will swing a little bit, where CEOs and boards will be pushing the finance departments to create a more controlled process and to define what that looks like."

## Executive action area

### Defining the nonfinancial reporting operating model

The benefits of moving toward robust nonfinancial reporting are significant, from improving trust to managing risk. However, senior leadership teams should define their operating model, including a clear understanding of what role finance should, and will, play. There are a number of areas for action:

**1.** Understanding how the finance function's discipline, systems and experience with data gathering for internal and external reporting purposes can play a critical role in nonfinancial reporting.

**2.** Defining critical elements of the operating model for nonfinancial reporting, including processes, formalized internal controls and the role of external assurance.

**3.** Assessing the efficiency and effectiveness of data management and the technology investments that are required to improve data management (including removing manual reporting processes that can be error-prone and labor-intensive).

2



## Closing the culture reporting disconnect





For corporate reporting to play its role in building a more open and accountable culture, organizations should act to meet heightened expectations for nonfinancial disclosures. One area that will be key is enterprise culture. Currently, there is a significant reporting disconnect that should be closed. As we saw in the previous section, only around a third of large organizations report quantifiable

KPIs on culture, yet 79% of finance leaders say that investors increasingly want more insight into company culture.

This survey shows that finance leaders are very clear that culture is not a “soft” issue that has little to do with the value of their organizations. Instead, they see it as central to growing and protecting enterprise value:

- ▶ It is key to growing organization value as a trusted brand: 83% say “a healthy corporate culture where values or behaviors are consistently lived is critical to building trust.”
- ▶ It is key to protecting value, with 81% saying that “a healthy corporate culture where values or behaviors are consistently lived can help reduce risk.”



“

People are getting hammered and even fired. When you have that sort of scrutiny, you have to be able to demonstrate you have done something to address the concerns.

For Joon Arn Chiang, EY Asia-Pacific FAAS Markets Leader, increasing external scrutiny of harmful cultures is likely to drive a greater focus on culture reporting. “When a regulator or commission focuses on harmful cultures, as is happening now in certain sectors, the organizations in the spotlight get a lot of bad press,” he says. “People are getting hammered and even fired. When you have that sort of scrutiny, you have to be able to demonstrate you have done something to address the concerns. This creates an environment where investors and stakeholders want clear communication about the internal culture of an organization. Organizations should be able to demonstrate that they’re taking active steps to improve those aspects of their culture that are less than desirable.”



Sector viewpoint: the high price of a harmful culture

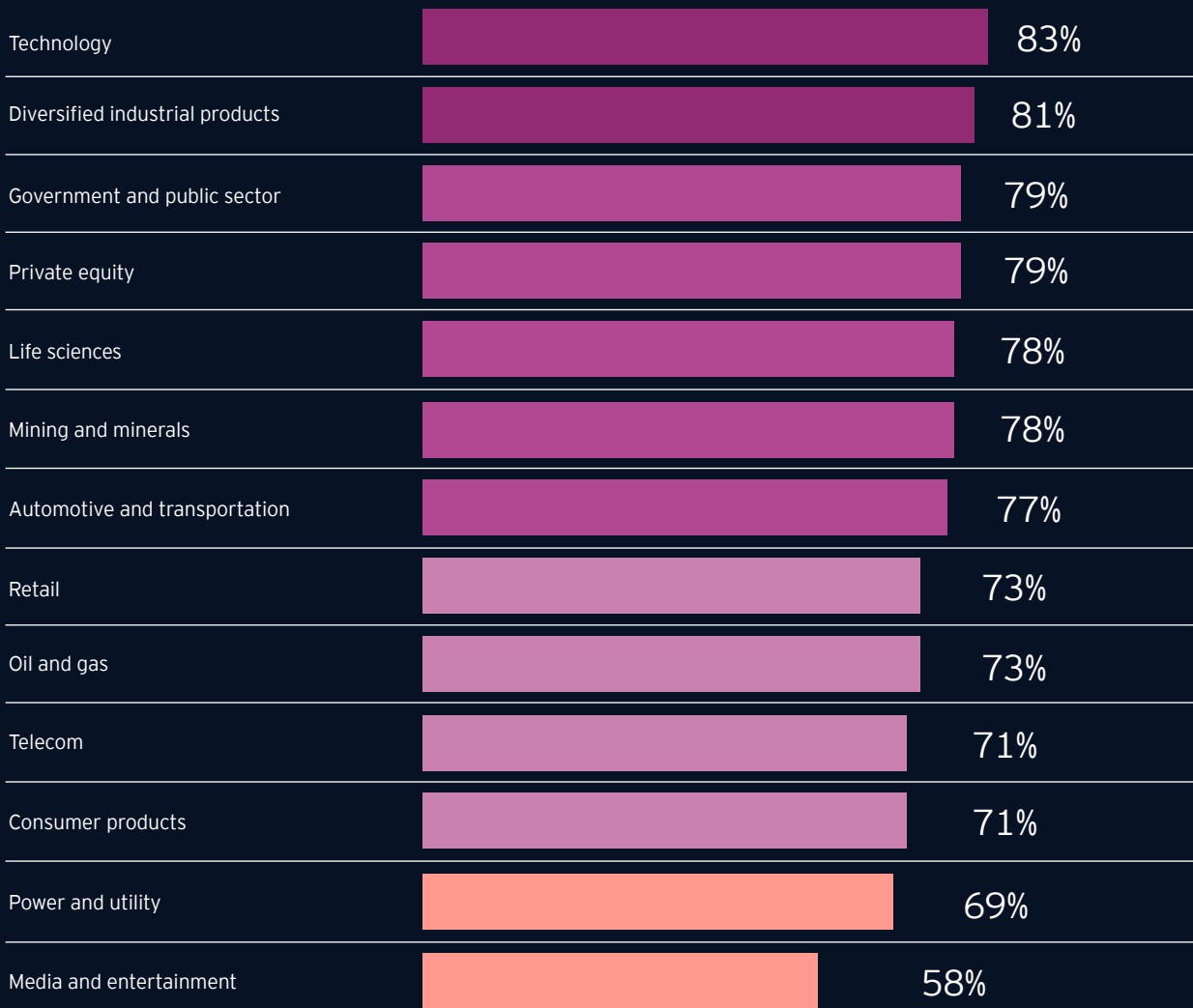
The price that organizations can pay for a cultural lapse often makes front-page news. The large fines levied on organizations for the errant behavior of departments or individuals has led to major efforts to tackle “toxic”

cultures. In the survey, finance leaders from the vast majority of sectors are strongly of the opinion that a “harmful corporate culture is one of the most significant threats to sustainable value” (see chart 3).

Chart 3. Percentage of finance leaders who say a harmful corporate culture is a significant threat to value, by sector

Question:

Thinking about the link between culture and enterprise value, please state whether you agree or disagree with the statement: “A harmful corporate culture is one of the most significant threats to sustainable value.”



The one sector where sentiment differs is media and entertainment. While a majority still say a harmful corporate culture is one of their biggest threats to value, sentiment is not as strong as in other sectors. This could reflect the fact that this industry faces very high levels

of disruption. Therefore, the sector’s finance leaders believe that there are more pressing risks to the value of their organizations beyond culture: for example, the impact of disruptive new entrants to the sector and fast-changing customer preferences.



The direct impact of a positive culture on value is clear. If an organization can improve its standards of corporate governance, encourage the right behaviors and instill positive values, it can reduce risks, improve compliance and ethics, and focus employees on the company's strategic objectives. Culture impacts the workforce (it is key to fostering innovation) and customers and society (by earning trust and safeguarding reputation). Therefore, if an organization understands its culture and how that impacts its performance, it will be better placed to make the changes required to drive operational transformation and innovation, and grow the business.

To achieve that understanding – and give stakeholders the culture insight they are looking for – there are two priorities: first, turning the increasing volumes of data at organizations' disposal into trusted culture reporting; and second, shifting the culture of finance itself so that the function better supports transparency.

## Two priorities for finance teams

### Priority one: turn increasing volumes of data into trusted culture reporting

According to the survey, the majority of finance leaders (79%) say that they have the data volumes today to give stakeholders the cultural insight they want. However, while the data may be available, there is still some way to go before reporting on cultural indicators is business as usual for most organizations. For example, as chart 4 shows, slightly more than half report on employee engagement today and less than half report on performance around whistleblowing.

# 79%

say that they have the data volumes today to give stakeholders the cultural insight they want.

Chart 4. Percentage of organizations that report on a range of cultural indicators



The fact that culture reporting has a long way to go before it is an established practice reflects the challenges that stand in the way of developing a reporting regime for culture. Culture is traditionally seen as a “soft” issue that is far removed from a “hard” area such as financial performance. This research shows that senior finance leaders have significant concerns about the challenges that stand in the way of producing relevant, credible and trusted culture reporting. The group CFOs that were surveyed say their major concern is over controls and data quality, with the critical barriers, placed in order according to the research, being:

- 1 The lack of rigorous controls and quality management for culture-related data (19%)
- 2 The lack of frameworks to assess culture (18%)
- 3 The challenges of interpreting unstructured data and information (17%)
- 4 Concerns around the year-on-year comparability of culture-related data (15%)  
Lack of skills in assessing and reporting on culture (15%)
- 5 The difficulty of defining objective metrics (14%)<sup>3</sup>

3. Percentages do not total 100% because of rounding.

These challenges reflect the scrutiny that will be placed on culture reporting. Stakeholders, such as investors, have high expectations of reporting, and this will be no different for culture reporting. They will want to see consistent, investment-grade information,

where they can make cross-industry comparisons and understand the impact on long-term value. They will also want to see performance reporting that is material to the industry and business model.

Addressing the challenges facing culture reporting, and meeting the demands of stakeholders, requires a comprehensive approach, from finding or building the relevant skills to putting controls in place.


Executive action area

Three steps to culture reporting

1. Identify the behaviors, values and beliefs that make up a culture

2. Understand what elements of culture you should be measuring

3. Understand how these factors – such as behaviors – affect business performance and the quantifiable measures that will be used to assess and report on performance





### **Grupo SURA: award-winning, transparent reporting shines a light on people and culture**

Colombia's Grupo SURA, one of Latin America's biggest financial groups, is widely recognized for its commitment to transparent reporting that meets the needs of investors and other stakeholders. Winner of a Sustainability award from RobecoSAM – the ESG data, ratings and benchmarking specialist – it was also recognized in 2018 by the Colombia Stock exchange for its relationship with investors. Grupo SURA's CFO, **Ricardo Jaramillo**, outlines how the organization continues to drive the frontiers of reporting transparency.

**Q. Ricardo, can you tell us about Grupo SURA's corporate reporting philosophy and how it drives transparency?**

"Our strategy at Group SURA is rooted in four principles, and one of them is transparency. The others are respect, responsibility and fairness. We follow all of these principles in terms of reporting, both financial and nonfinancial. This is to provide not only investors, but all stakeholders – employees, suppliers, clients and customers – with adequate KPIs to understand and track the development of our strategy and to understand our culture. By sharing those developments, we build long-term relationships with all those groups."

**Q. What involvement does your finance team have in nonfinancial reporting, and what value can finance teams bring to the process?**

"At Grupo SURA, the finance team has significant involvement, though it of course involves a cross-functional team effort, involving other areas such as communications, legal, human talent,

sustainability and risk teams. Finance is a very important part of the process because we can tell the rest of the organization what they have missed and what figure could be relevant to consider. Also, the development of nonfinancial information is not as advanced as financial. The finance team, therefore, can add significant value by bringing to bear the methodologies and best practices we use to construct financial KPIs. Our methodologies and best practices can be applied to the process of nonfinancial as well."

**Q. How important is reporting on culture and cultural KPIs at Grupo SURA?**

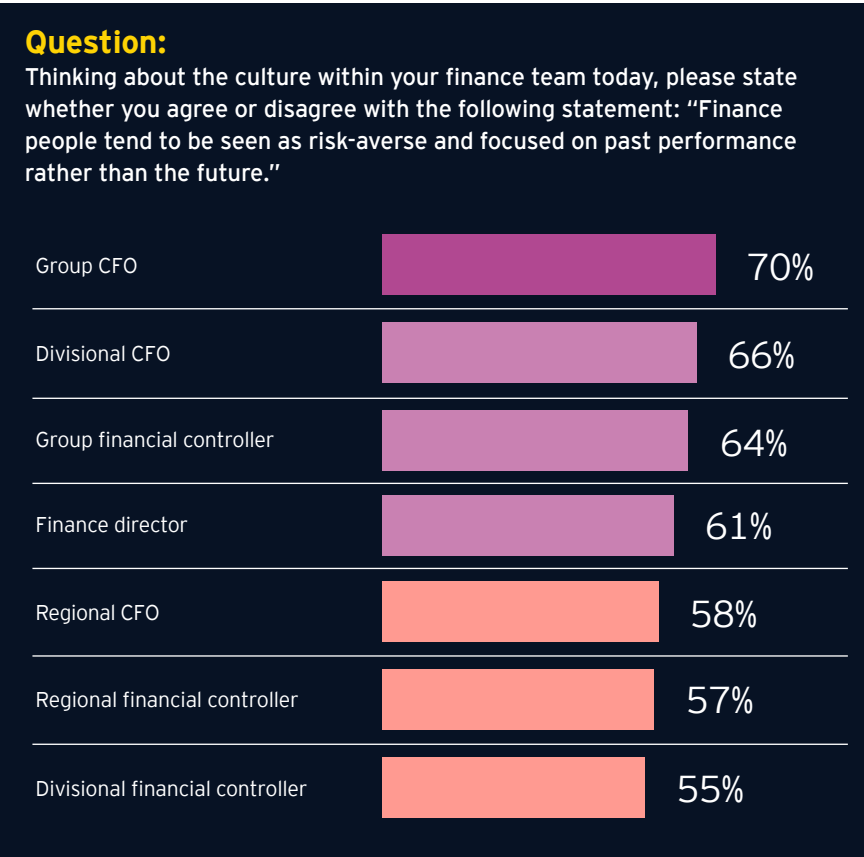
"For us, it's very important because we believe that our culture is one of our key strengths. When I travel around the world with the investor relations team, I increasingly find that the initial conversations are about culture. I was surprised at first because we would normally be used to questions around areas such as financial performance. Instead, people were asking about our motivations and how long we have been with the company. At the beginning, this felt strange, but we now understand that these stakeholders believe that people, at the end of the day, are driving the results. So, if you have good people and they are committed, that is good for the long run. That's definitely a trend that we're seeing with investors."

Priority two:  
shift finance  
culture to support  
transparency

As well as shining the spotlight on the wider enterprise culture, finance leaders should also turn their attention to the specific culture of finance. According to this research, a majority of finance leaders (71%) say that supporting increased transparency requires a change in the culture of their finance team. More should be done to create a culture in finance where team members are motivated and encouraged to engage and communicate with stakeholders.

A part of the problem, according to the survey, is that many finance leaders believe that their teams are perceived as being risk-averse and focused on past performance. As chart 5 shows, this is particularly true at the most senior leadership level, with 70% of group CFOs feeling this is the case.

Chart 5. Percentage of leaders who feel that finance people are perceived as risk-averse and focused on the past, by role



71%

say that supporting  
increased transparency  
requires a change in the  
culture of their finance team.

As a result of these concerns, changing the finance function's culture is a priority for senior finance leaders around the world (see "The regional viewpoint: CFOs driving culture change across the world"). Of course, driving culture change is a notoriously difficult

process, given that it means confronting long-held beliefs and orthodoxies, and overcoming resistance. Finance leaders can begin with two action areas: first, they can articulate the new behaviors and values that they would like their finance teams to embrace;

and second, they can take a personal stand by ensuring they role model those new behaviors and values. This is the simplest but most powerful way of demonstrating that change is required and that it is a leadership priority.

The regional viewpoint: CFOs driving culture change across the world

As chart 6 shows, driving finance function culture change is a strategic priority across the globe, with a majority in every major market saying that this is a specific CFO focus. This consistent global focus on the function's culture could reflect the increasing attention on culture in a digital age.

Cultural barriers are seen as one of the greatest to driving digital transformation and growth:

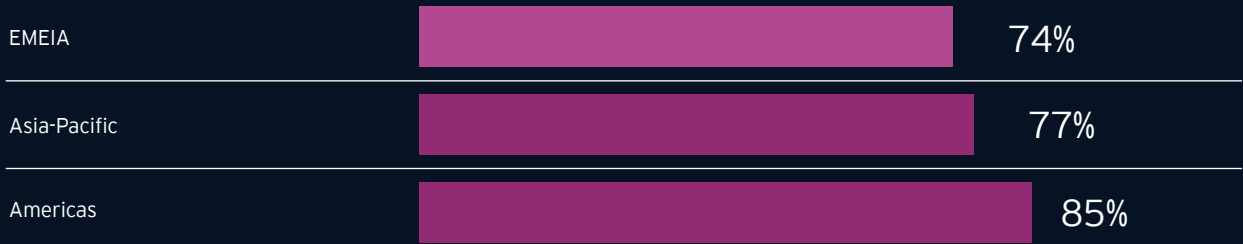
- ▶ If people are too risk-averse, organizations can be too slow to respond to changing market trends or a disruption.
- ▶ If parts of the organization are not customer-focused, consistent digital customer experiences are impossible to achieve.
- ▶ If people are focused on their own narrow silo, teams will not

collaborate to solve complex, cross-departmental digital challenges.

With many CEOs focused on confronting these cultural issues, CFOs are also focused on transforming the culture of their teams to drive transparency, accelerate digitization and create reporting that meets the fast-changing demands of stakeholders.

Chart 6. Percentage of respondents who say finance function culture change is a CFO priority

**Question:**  
Thinking about the culture within your finance team today, please state whether you agree or disagree with the following statement: "Driving culture transformation in finance is a major priority for our group CFO."







# 3

## Building trust into data analytics and artificial intelligence



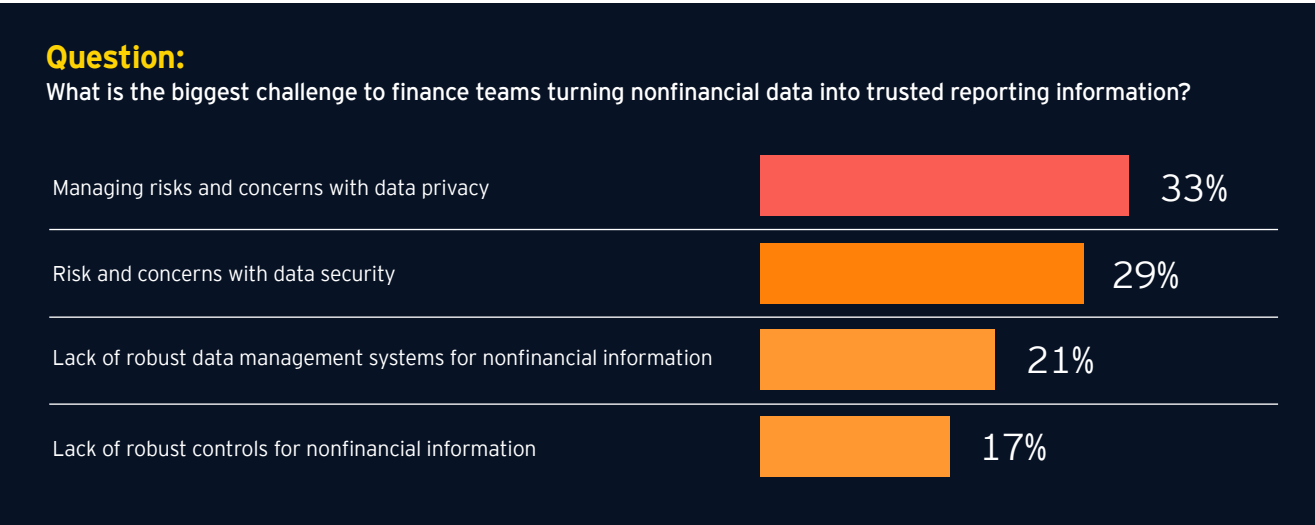


With both financial and nonfinancial information key to transparency, nonfinancial data should be as credible and trusted as financial data. However, finance leaders face a number of challenges in building a trusted approach to nonfinancial data. The research shows that two areas are particularly challenging.

First is utilizing nonfinancial data while also managing any risks. Although the increasing volumes of data at organizations' disposal are a strategic asset, they also come with attached risks. For example, reporting teams should be confident that their approach to nonfinancial data protection, privacy and compliance is up-to-date

with changing regulatory and societal expectations. Finance leaders are very much aware of these risks. When asked to select the single biggest challenge that stood in the way of turning nonfinancial data into reporting information, most respondents chose data privacy, followed by data security concerns (see chart 7).

**Chart 7.** Respondents’ views on the one single area that poses the biggest challenge to turning nonfinancial data into trusted reporting



Second is ensuring that the data behind disclosures is trusted by its intended audience. The research shows that finance leaders are very much aware that significant challenges should be overcome before investors and other stakeholders can trust in the credibility of nonfinancial disclosures and use the insight to inform their decision-making. These challenges range from concerns over how objective the data is to whether the data has been subject to any sort of independent, external checks and controls. The critical challenges, placed in order according to the research, are as follows:

- 1 Concern over how objective the data is (24%)
- 2 Concern over inaccuracies (23%)
- 3 Lack of transparency into the data-gathering process (19%)
- 4 Lack of sector-specific frameworks to compare organizations in an industry (18%)
- 5 Lack of independent third-party assurance (15%)<sup>4</sup>

The question therefore becomes: how do organizations increase stakeholder confidence in their reporting of nonfinancial information, such as culture?

Deploying advanced technologies – and ensuring that the data outputs from these approaches are seen as credible and trusted – is a critical part of the answer.

4. Percentages do not total 100% because of rounding.



## Two priorities for finance teams

### Priority one: put in place the advanced tools to gather and analyze large amounts of data

Robotic process automation (RPA) and AI are critical technologies in corporate reporting and effective data analytics. RPA allows onerous and time-consuming reporting tasks (such as data gathering) to be completed more efficiently and effectively, and AI may give reporting a depth of insight that was never available before. For example, AI can be used to build variable revenue forecasting models.

# 30%

Only 30% of financial controllers surveyed say they have a scaled solution for data collection.

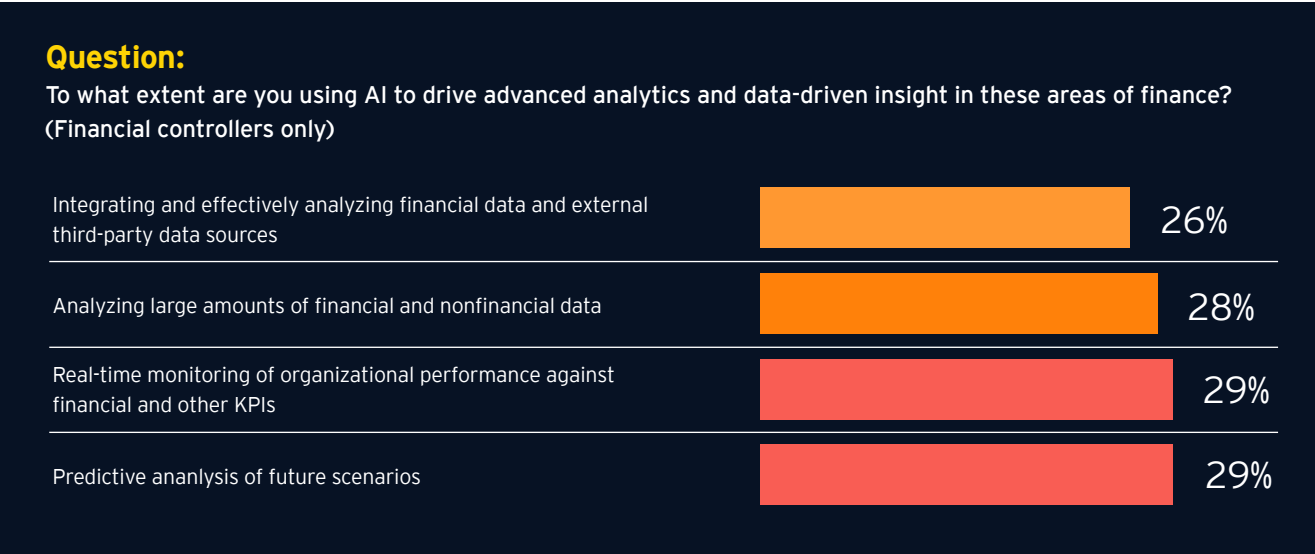
However, there is still some way to go before most finance teams have moved beyond isolated pilots and experiments to deploy – at scale – these smart systems:

► **RPA:** only 30% of the financial controllers surveyed say they have a scaled solution for automating data collection for corporate reporting, and only 26% say they have the same for supporting self-service reporting. For **Toyohiro Fukata**, EY Japan FAAS Leader, this means that many organizations are missing out on a significant opportunity. “The complexity of accounting today has increased the amount of data and procedures required for the financial close process,” he explains. “However, by using RPA, you can streamline the

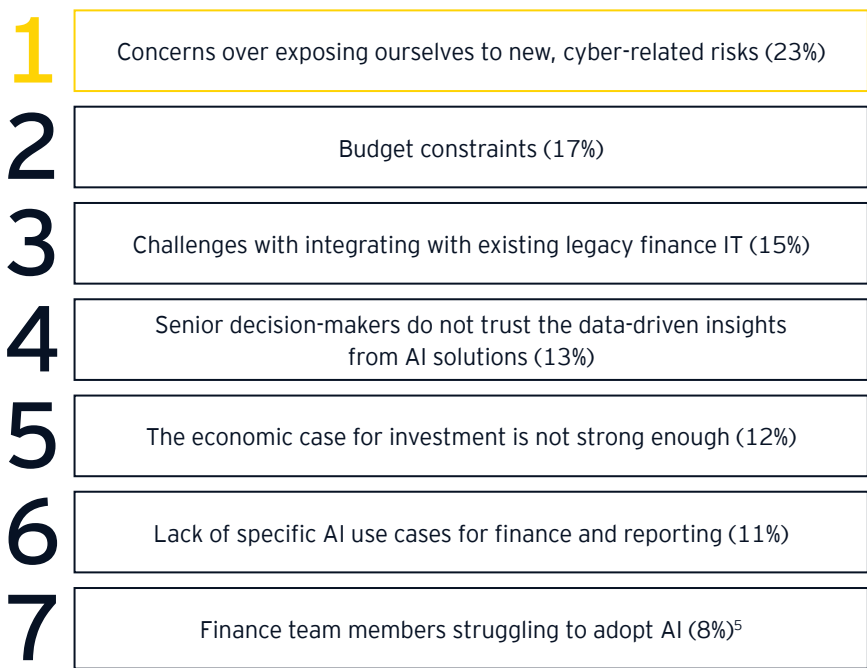
close process, and reports can be prepared faster with fewer people than before. RPA can also increase speed of execution and reduce errors. It may help free up employees to focus on higher value-added tasks and therefore improve employee satisfaction. Finally, it may also reduce manual data edits, increase the quality of data, reduce compliance risks and simplify audits, as the bots leave digital log files of all their activities.”

► **AI:** as we see in chart 8, there is still a significant way to go before finance teams across organizations are commonly making use of AI to drive advanced analytics.

Chart 8. Percentage of financial controllers who say they have deployed AI, at scale, to tackle data analytics tasks



To drive deployment of AI – and transform their approach to data analytics – finance leaders should carefully manage any risks. When senior finance leaders were asked about the challenges that stand in the way of adopting AI tools, concerns over risk exposure topped the list. For the group CFOs surveyed, the critical challenges to AI adoption, placed in order according to the research, are as follows:



5. Percentages do not total 100% because of rounding.

#### Executive action area

##### Seizing the AI prize: understanding and managing key risks

AI has the potential to transform corporate reporting. However, as with any breakthrough innovation, finance leaders should carefully manage new risks. These will be particular to each finance organization and individual application, but finance leaders should begin by assessing their situation against the spectrum of possible risks, which include:

- ▶ **Algorithmic bias:** machine learning algorithms identify patterns in data and codify them in predictions, rules and decisions. If those patterns reflect some existing bias, the algorithms are likely to amplify that bias and may produce outcomes that reinforce existing patterns of discrimination.
- ▶ **Overestimating the capabilities of AI:** since these systems do not understand the tasks they perform, and rely on their training data, they are far from infallible. The reliability of their outcomes can be jeopardized if the input data is biased, incomplete or of poor quality.
- ▶ **Programmatic errors:** where errors exist, algorithms may not perform as expected and might provide misleading results that have serious consequences.
- ▶ **Risk of cyber attacks:** hackers who want to steal personal data or confidential information about a company are increasingly likely to target AI systems.
- ▶ **Legal risks and liabilities:** currently, there is little legislation governing AI, but that is set to change. Systems that analyze large volumes of consumer data may not comply with existing and imminent data privacy regulations, especially the EU General Data Protection Regulation.
- ▶ **Reputational risks:** these systems handle large amounts of sensitive data and make critical decisions about individuals in a range of areas, including credit, education, employment and health care. So any system that is biased, error-prone, hacked or used for unethical purposes poses significant reputational risks to the organization that owns it.

---

Source: Why artificial intelligence is both a risk and a way to manage risk, *EY website*, [https://www.ey.com/en\\_gl/assurance/why-ai-is-both-a-risk-and-a-way-to-manage-risk](https://www.ey.com/en_gl/assurance/why-ai-is-both-a-risk-and-a-way-to-manage-risk), accessed 5 August 2019).



**Priority two:**  
clarify finance’s  
role in nonfinancial  
reporting

60%

of group CFOs surveyed say “the quality of the finance data produced by AI cannot be trusted in the same way as data from our usual finance systems.”

Many of today’s existing finance systems have trust built into them, with robust assurance and controls. However, AI does not enjoy the same levels of trust today. In fact, the research shows that senior finance leaders have significant concerns about trust issues when using AI for corporate reporting. In particular, the research found that there is concern at a senior level over whether these systems can be trusted to produce quality finance data in the same way that people trust existing finance systems. In the research, 60% of group CFOs said that the quality of the

finance data produced by AI cannot be trusted in the same way as data from their usual finance systems.

At the same time, group CFOs are concerned about the attendant risks, with 68% referring to the risks of using AI in finance and reporting, from security threats to regulatory risk.

These trust-based concerns reflect the fact that developments in these systems have moved so fast that they have left control and regulatory frameworks in their wake. The survey found that:

66%

of finance leaders say that the global regulatory environment has not yet caught up with developments in AI.

75%

say that governance, controls and ethical frameworks still need to be developed and refined for AI.

72%

say that developments in AI move so quickly that governance and controls will need to be much more agile.

However, **Karsten Fuser**, EY Global and EMEA FAAS Markets Leader, points out that, while regulatory frameworks may be behind the AI curve, it is still incumbent upon senior finance leaders and boards to stay up-to-date with developments. "While we have seen that regulatory frameworks are still lagging the accelerated pace of innovation in AI, you should still to be up-to-date with the latest developments and what's on the horizon," he explains. "It's critical that finance leaders are up-to-date with emerging frameworks, policies and legislation. Being up to speed with the latest developments – and those that are pending – will be key if you want to build trust and manage any ethical issues."

#### Key questions for global finance leaders for trusted AI

1. Do you know where artificial technologies are being applied within the organization, particularly in terms of nonfinancial data or information that makes its way into corporate reporting?
2. Do you have a talent strategy for recruiting and retaining people with the necessary skillsets to manage and staff AI-related projects, including issues of trust and ethics?
3. Have you assessed how the adoption of AI impacts the integrity of the finance function and its disclosures, both financial and nonfinancial?
4. Does the finance team have appropriate structures in place to manage ethical issues and understand how to address any algorithmic biases?



# The way forward

Culture is traditionally considered something that is “soft” and difficult to define. However, the implications of culture for enterprise value could not be clearer. Finance leaders acknowledge that a healthy culture is key to growing value, and that a harmful culture poses a real danger to value.

Culture will also play an increasingly important role in corporate reporting in two ways. First, finance can drive transparent reporting, creating an open and accountable culture that genuinely engages with investors and meets fast-changing reporting requirements. Second, reporting will provide stakeholders with meaningful, credible and relevant data-driven insight into organization culture and its link to performance and value.

There are three action areas that will be critical to driving a culture of openness and accountability in corporate reporting:

1. Put in place a robust approach to culture reporting
2. Change the talent mix to drive finance culture change and overcome resistance
3. Build ethical algorithms and trust into AI

## **Put in place a robust approach to culture reporting**

Culture reporting is a clear priority for finance. Regulators and investors are increasingly pushing organizations to do more to gain a better understanding of how their cultures impact business outcomes linked to performance and risk, and boards are putting an increasing focus on this area. Four steps are critical. First, you should understand the overall business context and scope by looking at a range of culture-related risks and mapping the beliefs

of your people. Second, identify the behaviors, values and beliefs your people are observing to establish current and desired cultural attributes, and assess cultural norms and nuances. Third, assess how the behaviors, values and beliefs impact your organization's performance. And finally, identify metrics and dashboards, using the results and insights to inform leadership action and form the basis of reporting.

## **Change the talent mix to drive finance culture change and overcome resistance**

The culture of finance functions is likely to have become ingrained over many years. To overcome resistance to change, and drive sustainable culture change, finance leaders should inject new ideas and fresh impetus into the team. This will likely be critical to make a break from the past and overcome inertia and resistance. Changing the finance and reporting talent mix may provide an important lever for culture change. By changing recruitment criteria to favor openness and innovation, finance leaders can seek to attract people from different sectors and backgrounds who come without the ingrained assumptions and biases of typical recruits, and who bring new perspectives.

## **Build ethical algorithms and trust into AI**

If organizations fail to adopt governance and ethical standards that foster trust in AI, they may not be able to harness the full potential of these exciting technologies in finance and reporting. Organizations should commit to building trust proactively into every facet of the AI system from day one. This trust should extend to the strategic purpose of the system, the integrity of data collection and management, the governance of model training, and the rigor of techniques used to monitor system and algorithmic performance.







# Key findings by market

Creating more open and accountable reporting to win stakeholder trust

	Stakeholders, such as investors, increasingly consider nonfinancial information in their decision-making	Focusing purely on financial reporting provides only a partial view of the organization's framework for sustained value creation	There is increasing societal pressure for organizations to be more transparent and accountable	A healthy corporate culture where values or behaviors are consistently lived is critical to building trust
Global	74%	72%	76%	83%
Australia	75%	70%	85%	75%
Belgium	55%	75%	60%	63%
Brazil	90%	85%	85%	93%
Canada	70%	73%	80%	78%
China Mainland	77%	81%	63%	93%
Denmark	60%	53%	68%	70%
France	73%	65%	78%	80%
Germany	63%	58%	65%	70%
Hong Kong SAR	80%	73%	68%	85%
India	80%	85%	88%	95%
Italy	73%	70%	75%	83%
Japan	63%	45%	68%	80%
Mexico	73%	63%	83%	88%
Netherlands	53%	75%	80%	65%
Norway	90%	88%	90%	93%
Poland	80%	80%	83%	78%
Russia	60%	75%	48%	75%
Saudi Arabia	85%	71%	71%	88%
Singapore	90%	78%	88%	93%
South Africa	78%	88%	90%	98%
South Korea	70%	58%	58%	83%
Spain	68%	70%	83%	88%
Sweden	70%	65%	75%	68%
UAE	72%	57%	74%	83%
UK	90%	95%	90%	98%
US	83%	80%	90%	98%

A healthy corporate culture where values or behaviors are consistently lived can help reduce risk	A harmful corporate culture is one of the most significant threats to sustainable value	Governance, controls and ethical frameworks still need to be developed and refined for artificial intelligence	Developments in artificial intelligence move so quickly that governance and controls will need to be much more agile	The global regulatory environment has not yet caught up with developments in artificial intelligence
81%	77%	75%	72%	66%
80%	73%	75%	70%	68%
70%	48%	60%	65%	48%
83%	85%	78%	78%	70%
88%	85%	70%	73%	58%
88%	77%	88%	77%	56%
65%	63%	58%	58%	58%
83%	75%	70%	65%	60%
78%	73%	55%	60%	58%
75%	75%	80%	65%	65%
95%	85%	95%	88%	88%
73%	80%	70%	70%	58%
80%	70%	65%	65%	45%
93%	83%	75%	78%	68%
70%	65%	65%	68%	65%
85%	85%	90%	78%	90%
88%	83%	83%	80%	70%
90%	75%	75%	78%	70%
76%	82%	82%	65%	47%
90%	78%	75%	80%	80%
90%	83%	85%	83%	78%
68%	75%	68%	65%	60%
75%	83%	65%	65%	60%
68%	68%	63%	63%	63%
72%	80%	67%	67%	59%
85%	90%	90%	90%	80%
90%	78%	93%	83%	90%











## EY contacts

### **Peter Wollmert**

EY Global and EMEA FAAS Leader  
peter.wollmert@de.ey.com  
+49 711 9881 15532

### **Karsten Fuser**

EY Global and EMEA FAAS Markets  
Leader  
karsten.fueser@de.ey.com  
+49 711 9881 14497

### **Dana Bober**

EY Americas FAAS Leader  
dana.lombardo-bober@ey.com  
+1 212 773 8670

### **Mathew Nelson**

EY Asia-Pacific FAAS Leader and  
EY Global Climate Change and  
Sustainability Services (CCaSS)  
Leader  
mathew.nelson@au.ey.com  
+61 2 9288 8121

EY | Assurance | Tax | Transactions | Advisory

### **About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). For more information about our organization, please visit [ey.com](https://ey.com).

© 2019 EYGM Limited.  
All Rights Reserved.

EYG no. 005438-19Gbl

BMC Agency  
GA 1013457

ED None



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

**[ey.com](https://ey.com)**

The views of the third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

Certain services and tools may be restricted for EY audit clients and their affiliates to comply with applicable independence standards. Please ask your EY contact for further information.