

Valuing Non-Financial Performance

a community of practice proposal

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Context

Organizational value is not solely defined by financial performance. Non-financial performance is a significant factor in strategic implementation, investment decisions and outcomes. However, valuation conventions require easily quantifiable data for which there are commonly accepted standards of measurement - traditional financial performance indicators – which is why they are no longer fit for purpose.

Leaders, managers and investors operate with only partial information. Those that assess performance by financial returns on investment, the profit and loss account and short-term impacts on the balance sheet are overlooking non-financial drivers instrumental in the creation (or destruction) of company value. And not just over the long-term.

With an average 85% of stock market value not represented in the listed companies' balance sheets we are seeing the emergence of broader value concepts such as stakeholder value, shared value and value chains. There has been a growth of investment, management and accounting approaches intended to reflect these valuation trends – balanced scorecards, ESG investing, and integrated reporting, to name a few.

But these new approaches have limitations. They currently rely on sets of non-financial indicators that are inadequately linked to financial performance. As such, they do not fit with the dominant conventions of management accounting, business case analysis, quantitative investment techniques and valuation modelling.

Our mission

This Community of Practice seeks to advance knowledge and understanding of the relationship between financial and non-financial performance and address three key challenges.

How can we:

1. identify more effective ways to monetise or valorise non-financial factors?
2. where this is not possible, use indicators and metrics to fully represent the value – short and long term – of non-financial performance to better inform decision making?
3. ensure these concepts are integrated into management, accounting, reporting and investment conventions?

Outcomes

The Community of Practice will focus on the pooling the intellectual property of participants, from across a broad range of professional and practitioner backgrounds, to:

- explore and share the current state of knowledge in connecting financial and non-financial performance, drawing on individual expertise and experience;
- identify remaining gaps in the current state of knowledge and how these might be addressed;
- transfer learning from areas of non-financial performance where monetisation or effective valorisation has been demonstrated, to others where material questions remain;
- review existing and emergent frameworks of material non-financial factors, indicators and metrics and test their potential for fully valuing elements of non-financial performance.

In so doing, can we converge on a range of robust and credible approaches and methodologies to fulfil our mission?

Active participation is sought

We are seeking participants from a wide range of relevant backgrounds and experiences. For example:

- company practitioners in fields of:
 - Finance and/or corporate development
 - Investor Relations
 - Risk and corporate governance
 - Project and change management
 - Product/market development and allied marketing
 - Human and intellectual capital management
 - Corporate responsibility and sustainability
- consultants and corporate advisers
- asset managers (and owners) and their advisers
- financial analysts and modelers
- corporate finance, commercial market and fixed income analysts
- equity finance and venture capital analysts and investors
- researchers, academics and educators in:
 - Finance, Strategy and Marketing
 - Organisational Behaviour
 - Operations and Supply-Chain Management
 - Business Sustainability Management

We are particularly keen to welcome those who can bring practical or applied theoretical experience of:

- company analysis and its application in development of business models and management tools;
- development of business and investment cases: linking quantitative and qualitative, use of benefits models, etc;
- design and/or implementation of management accounting and other analytical approaches connecting operational data to financial outcomes;
- financial and non-financial analysis and modeling in equity, fixed-income and other capital markets;
- quantitative ESG research, especially where integrated in mainstream investment decision making;
- development of due diligence analysis particularly where linked to M&A activity and/or subsequent IPO placement.

Participate in what?

The Community of Practice will operate primarily as a virtual network using the LinkedIn groups platform. Other activity may emerge from the interaction of participants – collectively or bilaterally. But only if the parties agree.

It will be a closed group, initially by invitation, subsequently by peer referral.

It will revolve around online discussions of topics initiated by facilitators or participants. They are necessarily informal and unstructured. It's about sharing and dissemination of knowledge, supplemented and amplified through learning with others, and the signposting of information and resources.

Examples of discussion topics we expect to emerge include:

- At a macro level, activities where the challenges of linking financial and non-financial are a key component;
- At the micro level, elements of non-financial performance where effective valuation of inputs/outputs would be transformational. For example:
 - Human capital management
 - Customer value analysis
 - Brand and reputation valuation
 - Product and market development
 - Risk assessment
 - Project and change business cases
 - Social and environmental impacts
 - Integrated reporting and thinking
 - Investment valuation and modelling
- the non-financial relevance of financial metrics such as NPV, DCF, FCF, EBIDTA, ROC, ROI, TSR, EPS, etc., etc.;
- application of current and potential research;
- practical experience of generic or proprietary systems and processes to valorise non-financial performance.

What is a Community of Practice?

- Groups of people who come together to share and to learn from one another face-to-face and/or virtually
- Brought and held together by a common peer interest
- Driven by a desire and need to share problems, experiences, insights, templates, tools, and best practices
- Members deepen their knowledge by interacting on an ongoing basis
- This interaction leads to continuous learning and innovation

What a Community of Practice does

Create: own and develop collective knowledge

- develop and manage good practice
- build organizational and individual competence

Organise: develop and manage materials

- inspire tools, guidelines, templates
- collate data and resources

Disseminate: connect people across boundaries

- who knows what?
- who or what is driving advances in knowledge?
- How can I apply what we know?

Embed: share ideas and insights

- share tacit, complex ideas and insights
- help each other solve problems and find innovations

What individual members do

- Ask & answer questions
- Share resources
- Share case stories
- Contribute to peer assist discussions
- Create things together
- Practice new skills

Facilitator responsibilities

- Define scope, ideal outcomes, and boundaries
- Ensure participants receive more value than they contribute
- Promote, encourage, and reward productive behaviours
- Enable constructive disagreement and creative conflict
- Advocate for the community and its members
- Monitor, measure, and report
- Marshal internal advocates, resources, & support
- Manage tools and member experience

Why Communities of Practice succeed

1. Strong common bond
2. Peer driven and facilitated
3. Bottom up organisational direction
4. Responsive, evolving agenda
5. Relevant and focused scope
6. Needs-led processes

Virtual Communities of Practice

depend on a small minority of active users to lead discussions and activity. Experts can be activists but tend to contribute where an issue is directly relevant to their expertise. The vast majority are passive observers and occasional contributors drawn in by the need to 'transact' on a personally salient or very immediate issue. Many will 'lurk' on the periphery, dipping in and out from time to time or when roused by an issue on which they have strong feelings or a propensity to 'agitate' vigorous discussion.



Linked

330 million users worldwide

70% of professionals

60% of managers

1.5 million professional/interest groups

HR Group - 978,000 members

Project Management – 740,000 members

Marketing, PR, Sales – 371,000 members

Sustainability Professionals – 118,000 members

Corporate Strategic Planning – 64,900 members

Super CFOs Network - 56,000 members

Governance, Risk & Compliance – 51,000 members

Employee Engagement – 23,000 members

Net Promoter Score – 19,100 members

ESG Investing – 10,786 members

Intangible Assets & Finance – 985 members

81% of users belong to at least one group

		Features	Benefits
Phase 1 Q1 2016	Connection	<ul style="list-style-type: none"> • Identify key contacts • Invite to join • Set out compelling case for joining • Reinforce by LinkedIn communication • Encourage referral to additional or more appropriate contacts 	<ul style="list-style-type: none"> • Identification of thought leaders and potential areas of cross-disciplinary collaboration
Phase 2 H1 2016	Building	<ul style="list-style-type: none"> • Scope common agenda • Identify key current issues/challenges • Frame discussions and stimulate contributions • Demonstrate value of links to additional references/resources • Establish terms of reference/engagement • Collect and collate practice/resource library 	<ul style="list-style-type: none"> • Define primary challenges and key current themes and issues • Begin to scope gaps and problems to address • Build knowledge and resources library
Phase 3 2016	Engagement	<ul style="list-style-type: none"> • Establish trust and loyalty to community • Develop outreach to less active members • Welcome new members • Guide discussions around common/recurring themes to develop fresh thinking • Promote knowledge and experience sharing • Identify and address the need for new competences/capabilities or resources 	<ul style="list-style-type: none"> • Sharing of knowledge and expertise • Raising knowledge and competence/capability thresholds
Phase 4 2016+	Collaboration	<ul style="list-style-type: none"> • Individual engage in bilateral and group engagement to address common issues • Proposals for formal thematic, functional or geographic working sub-groups • The community becomes a primary repository of expertise and 'go to' source of advice/ideas for most members • Community is a platform for sensing and assessing members' organisational environment through rapid opinion collection 	<ul style="list-style-type: none"> • Embedding collective knowledge and memory • Co-creating new solutions • Response to primary challenges and dissemination learning
Phase 5 2016+	Adaptation	<ul style="list-style-type: none"> • Collective advancement of knowledge • Stimulus for innovation and generation of new approaches/solutions • Redefinition of agenda and key challenges • Create need for new or reinvigorated platforms and channels 	<ul style="list-style-type: none"> • Energised networks of practitioners • Refined and focused agenda enabling effective resource allocation