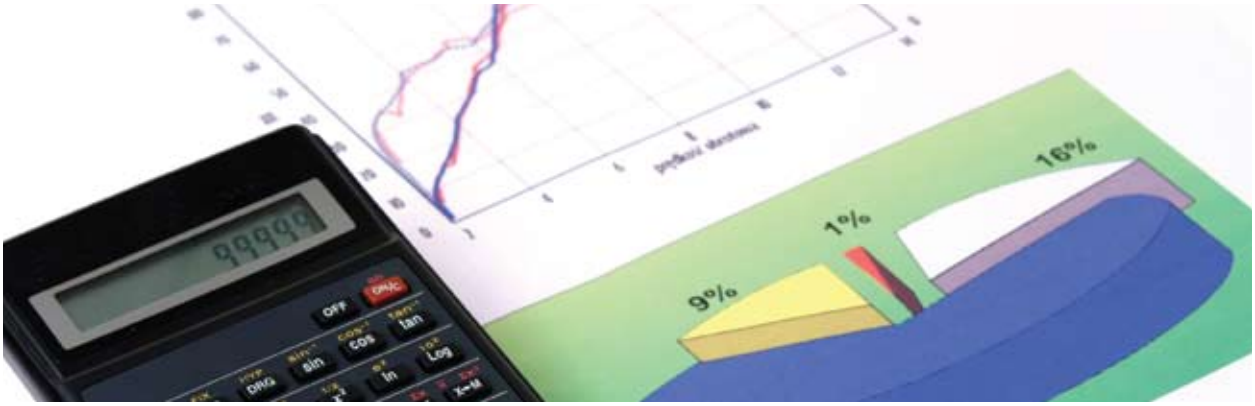
Integrated Reporting: *Moving Beyond Financial Reporting*



The International Integrated Reporting Council has been working relentlessly to develop a renewed reporting model to refocus the scope of corporate reporting. Integrated reporting is about matching business strategy with short-term business results. The main output is expected to be an 'integrated report,' which would be an organisation's primary report. The proposed 'integrated report' would provide more concise, meaningful corporate reporting, combining the different strands of reporting into a coherent whole. The Council had come out last year with a discussion paper on integrating reporting with an objective to forge a global consensus about the direction in which reporting should evolve. Author in the present article has tried to simplify the agenda and vision of the IIRC with a focus on integrated reporting through its September 2011 discussion paper. Read on.

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Development of integrated reporting is designed to enhance and consolidate existing reporting practices. The International Integrated Reporting Council (IIRC) had, on 12th September, 2011, published a discussion paper (DP) *Towards Integrated Reporting – Communicating Value in the 21st Century*, which describes the Council's vision to move towards a reporting framework that provides the information needed to assess organisational value in the 21st century. To elaborate, the intention of the IIRC is to work towards a fresh approach to reporting that puts together material information, which provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value. The paper offers proposals for developing of an international integrated reporting framework, and outlines next steps towards its creation and adoption that include a two-year pilot programme and a publication of exposure draft in 2012.

Reporting – Proposals by the IIRC

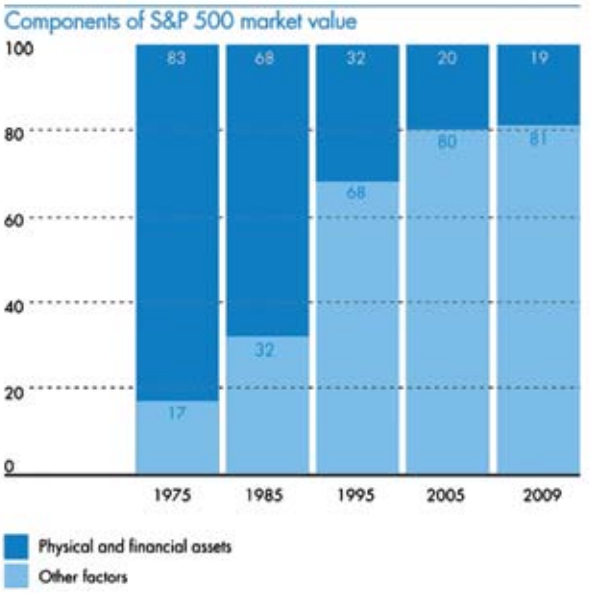
Role of IIRC

The International Integrated Reporting Council comprises a cross-section of leaders from various sectors, including corporate, investment, accounting, securities, regulatory, academic and standard-setting ones as well as the civil society. As part of the pilot programme, the IIRC offers a select group

of companies the opportunity to demonstrate global leadership in this emerging field of corporate reporting. Already over 60 international companies have been invited to join the programme, and the companies from various sectors including Tata Sons, Microsoft Corporation, HSBC, Coca Cola, etc., have been securing their participation. The objective is to create a globally accepted and integrated reporting framework in order to bring together financial, environmental, social and governance information in a clear, concise, consistent and comparable format with an aim to help with development of more comprehensive and comprehensible information about organisations, prospective as well as retrospective, to meet the needs of a more sustainable global economy.

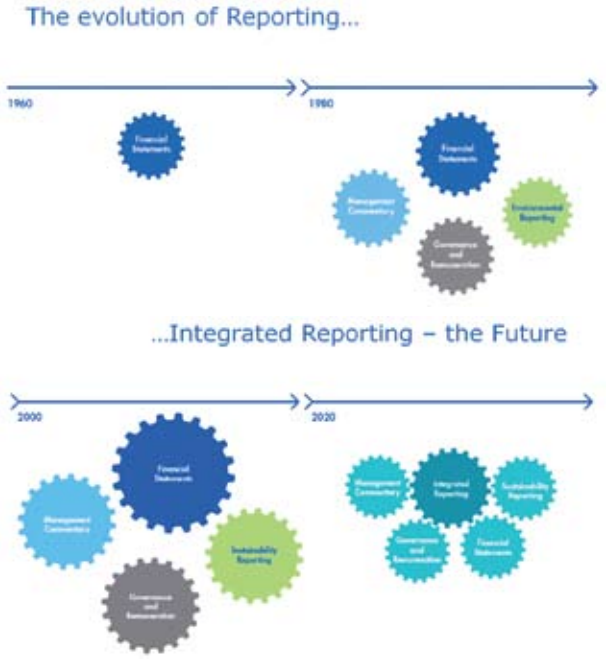
Need for a change

The IIRC believes that the world has changed and hence the reporting should change as well. The world has undergone a change due to globalisation and has resulted in interdependencies in economy and supply-chains, advances in technology, rapid growth in global population and consumption. Growing complexity of reporting and its narrow focus on financial measures is not keeping pace with the expanded stakeholder expectations. The IIRC indicated that the need for a broader reporting was substantiated by the fact that only a small percentage of market value then explained by physical and financial assets. Today, the market value comprises several other intangible factors; only some of them are explained in financial statements.



Source: DP of International Integrated Reporting Committee, September 2011

While new reporting requirements have been added over a period of time through a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements, much of the reporting information now provided is disconnected and key disclosure gaps remain. The IIRC is of the view that though there has been evidence that investors recognise the materiality of non-financial factors, they do not feel that the information available to them is adequate for decision-making. However, *it is not enough to keep on adding more information; the connections need to be made clear and the clutter needs to be removed*.



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Therefore, the IIRC is working to develop an integrated reporting model to broaden the scope of company reporting to ensure that critical interdependencies are made clear; for instance, between strategy and risk, financial and non-financial performance, governance and performance, and between organisations performance and that of the others in its value chain.

What is an Integrated Report?

Integrated reporting brings together the material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship, and how it creates value,

An integrated report would address an organisation's stewardship not only of the financial capital, but also of other types of capital that it employs, namely, manufactured (e.g. buildings or machinery), human, intellectual, natural (e.g. air, water) and social, its impact on them and their interdependence. Integrated reporting should result in a broader explanation of performance than traditional reporting.

now and in the future. This single report would become an organisation's primary report, replacing rather than adding to existing reporting requirements. This report would provide a reference point for other communication such as presentations, detailed financial information, operational data and sustainability information.

Integrated reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and, more importantly, shows connectivity between them and explains how they affect the ability of an organisation to create and sustain value in the short, medium and long term. An integrated report would address an organisation's stewardship not only of the financial capital, but also of other types of capital that it employs, namely, manufactured (e.g. buildings or machinery), human, intellectual, natural (e.g. air, water) and social, its impact on them and their interdependence. Integrated reporting should result in a broader explanation of performance than traditional reporting.

The IIRC has noted that many organisations are taking innovative approaches to aspects of reporting that often are consistent with the concept of integrated reporting. It notes: *Integrated Reporting reflects what can be called "integrated thinking" – application of the collective mind of those charged with governance (the board of directors or equivalent), and the ability of management to monitor, manage and communicate the full complexity of the value-creation process, and how this contributes to success over time. It will increasingly be through this process of "integrated thinking" that organisations are able to create and sustain value. The effective communication of this process can help investors and other stakeholders to understand not only an organisation's past and current performance, but also its future resilience*.

Format/Content of an integrated report

The main output of integrated reporting is an integrated report, i.e., a single report that the IIRC anticipates will become an organisation's primary report replacing rather than adding to existing requirements. Such a report enables evolving reporting requirements, both market-driven and regulatory, to be organised into a coherent narrative. An integrated report provides a clear reference point for other communications. There are no standard format and specific disclosure requirements for this report. Instead, the IIRC's DP sets out five guiding principles and six content elements for an integrated report. These have been discussed later in this paper.

Framework

The objective of the DP is to forge a global consensus on the direction in which reporting should evolve. The IIRC intends to develop a framework, which will provide high-level guidance and support the development of reporting over the coming decades, centered on how organisations create and sustain value. In addition, it will provide broad parameters within which consistent regulatory reporting regimes can be developed across different jurisdictions.

1 **Summary of key differences between integrated reporting and traditional reporting:** In order to help users and preparers understand how Integrated Reporting differs from traditional corporate reporting, the IIRC also contrasts eight differences between current and integrated reporting. A key aspect of integrated reporting is that it addresses those resources (referred to as Capitals) that the business consumes and creates: financial, manufactured, human, intellectual, natural and social.

Thinking:	Disconnected	→	Integrated
Stewardship:	Financial capital	→	All forms of capital
Focus:	Past, financial	→	Past and future, connected, strategic
Timeframe:	Short term	→	Short, medium and long term
Trust:	Narrow disclosures	→	Greater transparency
Adaptive:	Rule bound	→	Responsive to individual circumstances
Concise:	Long and complex	→	Concise and material
Technology enabled:	Paper based	→	Technology enabled

These have been discussed in summary below:

Thinking: Since traditional reporting occurs in silos, it encourages thinking in silos. Integrated reporting, on the other hand, reflects and supports, integrated thinking – monitoring, managing and communicating the full complexity of the value creation process and how this contributes to success over time. Integrated reporting demonstrates the extent to which integrated thinking is occurring within the organisation.

Stewardship: An integrated report displays an organisation's stewardship not only of financial capital, but also of the other "capitals" (manufactured, human, intellectual, natural and social), their interdependence and how they contribute to success. This broader perspective requires consideration of resource usage and risks and opportunities along the organisation's full value chain.

Focus: Annual reporting at present is largely focused on past financial performance and financial risks. Other reports and communications may cover other resources and relationships. But they are seldom presented in a connected way, or linked to the organisation's strategic objectives and its ability to create and sustain value in the future.

Timeframe: Much of the media and regulatory attention in response to the global financial crisis has focused on "short-termism" as one contributory factor. Although short-term considerations are important in many ways, placing them in context is also essential. Integrated reporting specifically factors in short-, medium- and long-term considerations.

Trust: Financial reporting focuses primarily on a narrow series of mandated disclosures. Although an increasing number of organisations are improving their transparency, for example, through voluntary sustainability reporting, in absolute terms that number is still low. By emphasizing transparency, for example, covering a broader range of issues and disclosing the positive with the negative, Integrated reporting helps to build trust.

While the Internet and XBRL are introducing elements of technological innovation, many corporate reports are still presented as if they were entirely paper-based. Integrated Reporting takes advantage of new and emerging technologies to link information within the primary report and to facilitate access to further detail online where that is appropriate.

Adaptive: Today's reporting is often said to be too compliance orientated, reducing the scope for organisations to exercise an appropriate amount of judgement. While a certain level of compliance orientation is necessary to ensure consistency and enable comparison, Integrated reporting offers a principles-based approach that drives greater focus on factors that are material to particular sectors and organisations. It permits an organisation to disclose its unique situation in clear and understandable language.

Concise: Long and complex reports are often impenetrable for many readers. A key objective for Integrated reporting is to de-clutter the primary report, so that it covers concisely only the most material information.

Technology enabled: While the Internet and XBRL are introducing elements of technological innovation, many corporate reports are still presented as if they were entirely paper-based. Integrated reporting takes advantage of new and emerging technologies to link information within the primary report and to facilitate access to further detail online where that is appropriate.

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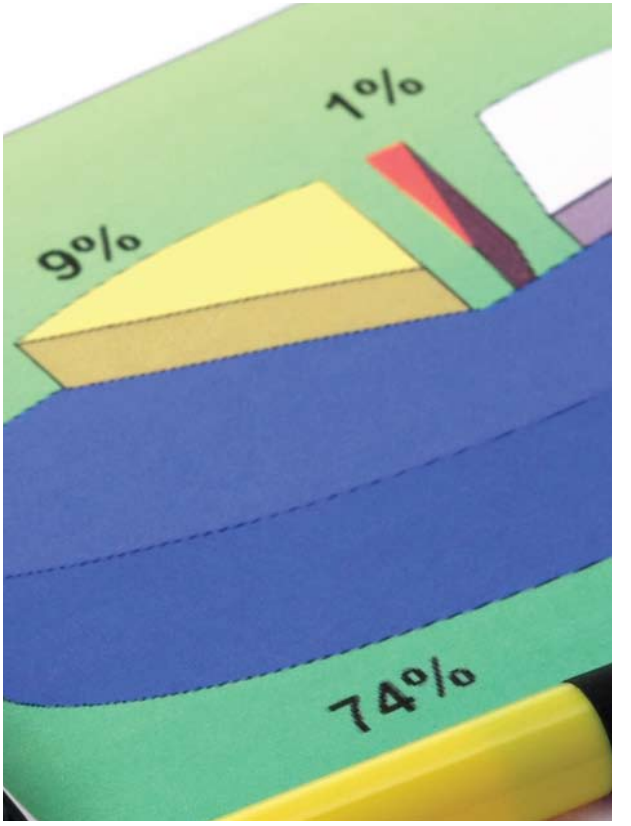
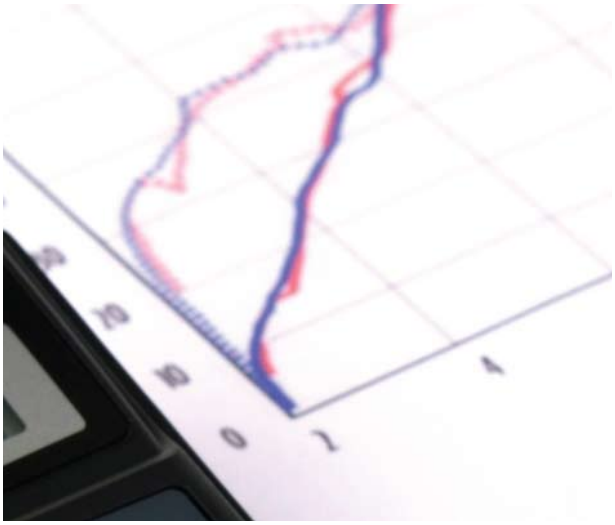
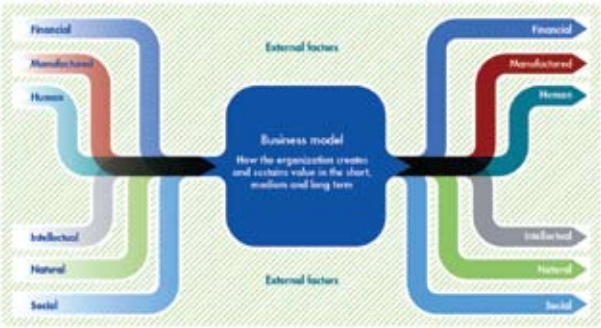




2 **Discussion of central importance of an organisation's business model and of value-creation:** As per the DP, central to integrated reporting is the organisation's business model. A business model is often seen as the process by which an organisation seeks to create and sustain value. An organisation determines its business model through choices that typically recognise that value is not created by or within the organisation alone, but is:

- influenced by external factors (including economic conditions, societal issues and technological change) that present risks and opportunities, which create the context within which the organisation operates,
- co-created through relationships with others (including employees, partners, networks, suppliers and customers), and
- dependent on the availability, affordability, quality and management of various resources, or "capitals" (financial, manufactured, human, intellectual, natural and social).



Source: DP of International Integrated Reporting Committee, September 2011

Integrated Reporting therefore aims to provide insights into significant external factors that affect an organisation, the resources and relationship ("capitals") and how the business model interacts with external factors. The DP elaborates the relationships of these factors with an organisation's business model and its capital.

3 **Guiding principles for developing an integrated report:** The DP includes guiding principles and elements, which should be applied in determining the content of such reports. The principles should be applied in determining the content of the report. The elements set out are *organisational overview and business model, operating context, including risks and opportunities, strategic objectives and strategies to achieve those objectives, governance and remuneration, performance, and future outlook*.

Source: DP of International Integrated Reporting Committee, September 2011

The guiding principles are:

- **Strategic focus:** An integrated report provides insight into the organisation's strategic objectives, and how those objectives relate to its ability to create and sustain value over time, and the resources and relationships on which the organisation depends.
- **Connectivity of information:** An integrated report shows the connections between the different components of the organisation's business model, external factors that affect the organisation, and the various resources and relationships on which the organisation and its overall performance depend.
- **Future orientation:** An integrated report includes management's expectations about the future, as well as other information to help report users understand and assess the organisation's prospects and the uncertainties it faces.
- **Responsiveness and stakeholder inclusiveness:** An integrated report provides insight into the

The IIRC intends to continue developing the international integrated reporting framework and draw on the pilot programme experiences. Additionally, it intends to work with others on measurement and reporting relevant to integrated reporting, explore with regulators, etc., for opportunities to harmonise reporting requirements within and across jurisdictions, conduct regional roundtables and other engagements and communications activities, and engage in public consultation regarding the ongoing governance of integrated reporting.

organisation's relationships with its key stakeholders and how and to what extent the organisation understands, takes into account and responds to their needs.

- **Conciseness, reliability and materiality:** An integrated report provides concise, reliable information that is material to assessing the organisation's ability to create and sustain value in the short, medium and long term.

These elements would be guided by a strategic focus, connectivity of information, future orientation, responsiveness and shareholder inclusiveness. The desired qualities of an integrated report include conciseness, reliability and materiality.

What are integrated reports intended to mean for the interested parties?

There are several users of financial statements. The DP outlines the main benefits and challenges with respect to Integrated Reporting for reporting organisations, investors, policy-makers, regulators and standard-setters and other stakeholders.

Source: DP of International Integrated Reporting Committee, September 2011

Future Directions

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Program milestones set out by the IIRC are:

While integrated reports are intended to meet the needs of a broad range of stakeholders, initially the IIRC intends to focus the development of framework on the needs of investors in debt and equity instruments in capital markets. The initial focus is on reporting by large companies. However, the IIRC expects that the concepts underlying integrated reporting will be applicable equally to small- and medium-sized entities, the public sector and non-profit organisations.

The IIRC has been conducting a two-year pilot programme commencing October 2011, to test and further develop the framework. As mentioned earlier, several organisations around the world have signed for this programme, which explores the principles and practicalities of integrated reporting. ■