



Towards Integrated Reporting: Communicating value in the 21st century

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To create value over time, today's organizations need to actively manage a wider range of resources. Intangible assets such as intellectual capital, research and development, brand value, natural and human capital have become as important as tangible assets in many industries. However, these intangible assets are not universally assessed in current financial reporting frameworks even though they often represent a substantial portion of market value.

Corporate reporting today

The current financial reporting model was developed in the 1930's for an industrial world. In general, the model provides a backwards-looking review of performance and does not provide enough relevant information for decision-making today. There is not enough focus on the needs of investors, analysts, and the wider community of stakeholders. In many corporate annual reports, there is little substantive disclosure about strategy, innovation, people, customer loyalty and the business risks related to climate change, water scarcity, and evolving public policy and regulatory issues. They fail to connect environmental, social, and governance issues to business strategy and financial performance.

Integrated reporting is designed to enhance and consolidate existing reporting practices and to move towards a reporting framework that provides the information needed to assess organizational value in the 21st century. Integrated reporting (IR) is the latest development in a long line of proposed reporting innovations that have sought to improve the usefulness of corporate reporting. Integrated Reporting (IR) is a more holistic form of reporting. IR aims to address limitations of current reports and develop long term business strategy.

What is integrated reporting?

There is no universally agreed definition of what constitutes integrated reporting. Most definitions refer to the integration of financial and non-financial information into a single document. However, there are considerable differences of opinion over the underlying rationale; the type of non-financial information that should be included and how the latter should relate to financial data; and the audiences that such a report should address. Acknowledging these challenges, the International Integrated Reporting Committee (IIRC) was established in August 2010 to develop a reporting framework that

would command the support of interested parties. The IIRC includes representatives from the corporate, accounting, securities, regulatory and standards-setting sectors and builds upon work previously undertaken by the Global Reporting Initiative and the Prince of Wales' Accounting for Sustainability project.

Integrated Reporting provides an opportunity for companies to present a holistic and complete picture of the business in a clear, concise, connected and comparable manner. It is a means of presenting the material information about the organisation's strategy, governance and performance on commercial, social and environmental issues. Through effectively connecting these often siloed areas, businesses are able to provide not only an update on past performance but also a long-term perspective of future value generation.

To tell a comprehensive value creation story, integrated reporting requires organizations to identify the interdependency between all elements - internal and external - that materially affect their ability to create value over time. Seeing this connectivity requires integrated thinking as opposed to "silo thinking." All the operating and functional units of an organization, as well as the capitals that it uses to create value, must be considered. This leads to integrated decision-making and actions. The integrated report is the product of the processes of connectivity and integrated thinking in the organization. Integrated reporting is therefore not just about the report, but about the process of the organization's unique approach to value creation. To translate integrated thinking into integrated reporting the organization should convey a holistic view of strategy, governance, performance and prospects. The integrated report should also bridge time horizons. Therefore integrated reporting can be used as a governance tool for performance-oriented management.

Objectives of Integrated Reporting

Essentially, Integrated Reporting challenges and enables companies to 'live their story', rather than merely tell it. Integrated Reporting Framework marks a significant step on the road towards more transparent and meaningful communication by companies to their stakeholders.

In summary, the aims of the IR are to:

- Improve the quality of information available to providers of capital;
- Promote a more cohesive and efficient approach to

corporate reporting;

- Enhance accountability and stewardship for the broad base of capitals;
- Support integrated thinking, decision making and actions that focus on creation of value over the short, medium and long term

IR aims to build on reporting developments to provide a more holistic form of reporting the value created by a business, by considering non-financial resources such as human, social and intellectual capitals as well as financial capital. Active consideration of how these capitals impact on the business, and on society generally, requires integrated thinking to ensure all business functions (e.g. sustainability, strategy, human resources, operations), not just the finance function, are involved in identifying and collecting data for these capitals, and looking at their connectivity - and how value creation affects the business now and in the future. Greater clarity on links between the capitals helps address the challenge of demonstrating their place in strategic decision-making.

Many organizations think they are already producing an integrated report. However, IR is more than just another corporate report, it relies on a series of underlying activities. IR is defined as a process, founded on integrated thinking, which results in a periodic integrated report, and related communications that highlight value creation. Essentially, Integrated Reporting challenges and enables companies to 'live their story', rather than merely tell it. integrated reporting Framework marks a significant step on the road towards more transparent and meaningful communication by companies to their stakeholders

SEBI Circular regarding Integrated Reporting

The Securities and Exchange Board of India (SEBI), by way of its circular issued on 6 February 2017 (Circular), advised the top 500 listed companies in India to adopt Integrated Reporting on a voluntary basis from the financial year 2017-2018. Prior to that, such companies have been required to submit a Business Responsibility Report (BRR) that pertains to areas such as environment, governance, stakeholder relationships, and the like. Since the Circular does not mandate preparation of Integrated Report (IR), a company may voluntarily opt to prepare IR. In such a case, the company has to provide cross reference in its IR to information that has already been disclosed in accordance with any other national or international requirement / framework.

Purpose behind the Circular

With the Circular, SEBI intends to align reporting by Indian companies with international standards with the following dual purpose:

- Improved disclosure standards through increased credibility by those charged with governance in the company; and

- Providing stakeholders and interested shareholders with relevant information useful for making investment decisions.

Integrated reporting should not simply be seen as the inclusion of more non-financial information in the Annual Report (for example, in an enhanced Corporate Responsibility section). Instead, integration should attempt to explain how a wide range of different issues - financial and non-financial - are managed by the business to deliver its strategy and stated objectives. But the benefits of integrated reporting are derived from strong governance processes, a culture that shares a common understanding about the role of the corporation in society and the ability to focus on environmental, social and governance (ESG) issues that have the greatest ability to create shareholder value and drive major innovations.

Tenets of Integrated Reporting

At the heart of integrated reporting are six tenets of better reporting which, when adopted, will create a multiplier effect in terms of the benefits to businesses, investors and society. These six straightforward ideas are:

1. **Communication about value creation:** understanding and articulating the resources and relationships used by a business - what the Framework refers to as "capitals" - that are critical to the creation of value over time. Research shows us that only around one fifth of the value of a business today can be accounted for through the financial statements, as intangible factors such as intellectual and human capital make up a greater proportion of a business' value proposition.
2. **Concise and clear communication:** a laser-like focus on clarity, readability and conciseness.
3. **Articulation of strategy:** research conducted by a major accountancy firm revealed recently that an increasing number of businesses are explaining their strategy, but this is not reflected throughout the reporting process. A clearer articulation of the strategy, and how risk management and performance indicators flow from it, is key to understanding more about the business, increasing business performance, and gaining a longer-term commitment from providers of financial capital.
4. **Connectivity of information:** the recognition of the interconnectedness of different parts of the business, the dependencies between factors that affect the ability to create value over time, and a breaking down of silos to achieve greater efficiency and reduce duplication in the reporting process.
5. **Future orientation:** so much of today's corporate reporting is historic, when what investors need to know are the steps being taken by the business to enhance future value in a sustainable way. Is the

business model being pursued sustainable over time? Integrated reporting encourages a greater mix between essential historical financial information, and more future-oriented information, which provides a qualitative assessment of the risks being managed and the opportunities being explored.

6. **Understanding the external environment:** businesses do not exist or operate in a vacuum. The rise of the power, economic, social and environmental impact of the corporation has been one of the major

transformations of the last half century - around half of the largest economic entities in the world today are businesses rather than countries. The external environment impacts on a business' ability to create value and should be reflected in its reporting.

Integrated reporting is a management and communication tool for understanding and measuring how organizations create value now and in the future. The goal is not to provide more information, but better information. It's the information that investors are increasingly looking for.

	INTERNAL BENEFITS	EXTERNAL BENEFITS
MANAGEMENT LEVEL	- Improved risk management & decision-making - Detailed understanding of value creation - Holistic understanding & management of the organization	- Holistic & transparent company presentation - Competitive advantage as a first mover - Improved stakeholder communication
REPORTING LEVEL	- Enhanced efficiency of reporting process (esp. due to material issues) - Strengthened internal dialogues - Simplified operational decision-making	- Report as a new communication instrument - Investor satisfaction from a company perspective - Improved sell-side prognosis

What does integrated reporting mean for companies?

The IIRC defines five guiding principles for preparing integrated reports which it argues should:

- Convey a company's strategic focus
- Provide information that "connects the dots" across all types of risk they face from financial to environmental and social
- Describe the company's future "orientation" or business path
- Be responsive and inclusive to stakeholders and their concerns
- Contain concise, reliable and material information.

While taking such a path will require a shift in thinking and culture for companies, those who embrace integrated reporting will likely reap significant benefits. By gaining a more complete picture of the challenges they face, companies will be able to make better decisions, reduce risk and build a more sustainable long-term future.

The way forward

Adoption of integrated reporting is a daunting task. It is built on a foundation of governance and a culture that understands how to create the business models and strategies needed to drive long-term viability. The challenge for companies is where to begin.

One approach is to "just do it." For some organizations, "do it" might mean an initiative to publish an integrated report at the end of the next reporting cycle. For others, "do it" could mean a prototype report focused on critical concepts such as governance, stakeholder engagement, materiality, strategy, risks and opportunities. A prototype can be published on an internal website to illustrate concepts and vet the content with executives and the board. Whichever approach best fits your company, you are encouraged to take the necessary steps to evolve your reporting to effectively respond to increasing investor and societal expectations.