

*“The business case for integrated reporting is growing stronger as CEOs acknowledge its benefits.”*

Mark O’Sullivan, UK Corporate Reporting Leader

## ***Learning from early adopters of integrated reporting***

### **Five themes to drive improvement**

#### ***Setting the scene***

Integrated reporting continues to gain traction and is becoming embedded as corporate reporting practice in more than 25 capital markets across the globe. The business case for integrated reporting (<IR>) is growing stronger as CEOs acknowledge that integrated reporting facilitates cooperation between departments, leads to more effective internal processes and allows them to better articulate their strategy and business model. In parallel, we hear a simple message from investors on what they want from reporting: be clear, be specific and link related information.

#### ***Our research***

We completed a review of the 2013/14 reports of organisations in the International Integrated Reporting Council’s (IIRC) Pilot Programme to explore current and emerging practices in integrated reporting globally. Our criteria were based on the content elements of the IIRC’s International <IR> Framework. We also focused on quality and integration to assess if the reported information provided a holistic picture. In particular, we looked for organisations that create clear connections between various elements in their report and tell an authentic story of how their business creates value.

#### ***Our findings***

These organisations are making encouraging progress in including the basic framework content elements in their reporting and starting to tell their value creation story by connecting their business model to their strategy, KPIs, risks and opportunities. For example, 64% integrated discussions of their business model with other aspects of their reporting.

Even though progress has been made and reporting continues to evolve, opportunities for real improvement remain. We explore some of these opportunities further below, with five key themes emerging.

- Conciseness paradox
- Telling an authentic story
- Broadening horizon
- Rethinking performance
- Creating connections

Some of these opportunities may represent quick wins – enhancing what is already reported, or reporting readily available information. But our engagement with organisations globally suggests others may require more fundamental changes to internal structures, thinking, processes and information, getting to the heart of the underlying concepts and guiding principles of integrated reporting.



## Five themes to drive improvement

### Conciseness paradox

Most organisations find it challenging to strike a balance between reporting concisely while retaining key elements and messages of integrated reporting.

This year we saw many organisations make significant progress in streamlining their reporting by removing immaterial information or moving sections of detail to the organisation's website. Yet we felt that some reports had gone too far and resembled marketing brochures rather than an in-depth articulation of how the business really plans to create value. Others, again, still included so much detail that the key messages were lost.

Integrated reporting will not always mean less information; rather, it requires a focus on the right information for the right audience, providing insights into the value creation story and the sustainability of a organisation's business model.

The key to successfully achieving conciseness is to focus integrated reporting on the outcome of a organisation-specific materiality determination process.

### Telling an authentic story

A significant opportunity exists for organisations to tell their authentic story, which is crucial in building trust with stakeholders. Yet too often a compliance mindset and "spin" on messages prevent true authenticity in reporting.

It's understandable that, in the year of its publication and with adoption at such an early stage, many organisations felt the need to replicate the International <IR> Framework terminology in their reporting. In some cases we felt the outcome was that reporting appeared more like a compliance exercise than a compelling and authentic story that covers the content elements and adopts the principles in their own words, in a way that is easily understood.

The other side of the authenticity coin is telling a balanced story without "spin" – the current and future challenges as well as the good news. For example, we would encourage organisations to consider the way results are highlighted, case studies are used, progress is reported against targets and adjusting items are explained.

### Broadening horizons

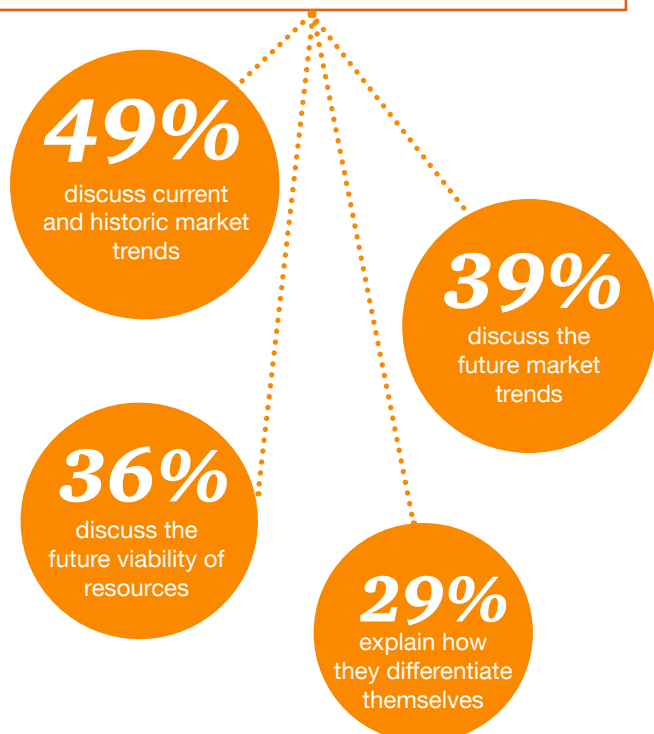
Integrated reporting challenges organisations to think about communicating not only an account of what happened in the past, but a story about its ability to create value in the future.

Our research shows that organisations' reporting tended to focus on results for the year, priorities for the immediate year ahead and their own operations (employees, operations, R&D and the like).

Rarely are the International <IR> Framework's principles of future orientation, stakeholder relationships and materiality applied to describe expected market trends, opportunities and risks, insights into medium- and long-term strategic priorities and discussion around key dependencies on resources and relationships (capitals) and how they're managed.

What is encouraging, though, is that we did see a small, but growing, number of organisations making progress – for example, reporting on the trade-off between their resources and relationships, or exploring and reporting on the impact their activities have on the key resources and relationships (e.g. environment or society) outside their own operations.

It is this broader consideration of an organisation's value chain and looking beyond existing reporting boundaries that represents a real shift in mindset towards integrated reporting and arguably the biggest opportunity/challenge.



## Rethinking performance

Reporting on performance in the traditional financial sense is naturally in a more mature phase than many other elements of reporting. But by focusing on the business model and considering broadening horizons, integrated reporting encourages companies to focus on measuring what really drives their business. Such non-financial/operational KPIs often act as lead indicators of future financial performance, so it is encouraging that 74% reported performance on non-financial measures.

But are they the right measures to report? Or just the easiest to capture reliable data on? Do they reflect the organisation's business model, strategy, risks and incentive structures? Often, the reporting around a organisation's non-financial 'capitals' was high-level and qualitative, which, to an external observer, can make communication appear more superficial and prone to 'marketing' rather than reflecting priorities and performance embedded into the organisation and monitored by management.

A true commitment to this wider reporting agenda can often be seen when key performance indicators are linked to the remuneration of organisation leaders; yet, as the stats below show, there was rarely a clear alignment between strategy, KPIs and incentive schemes.

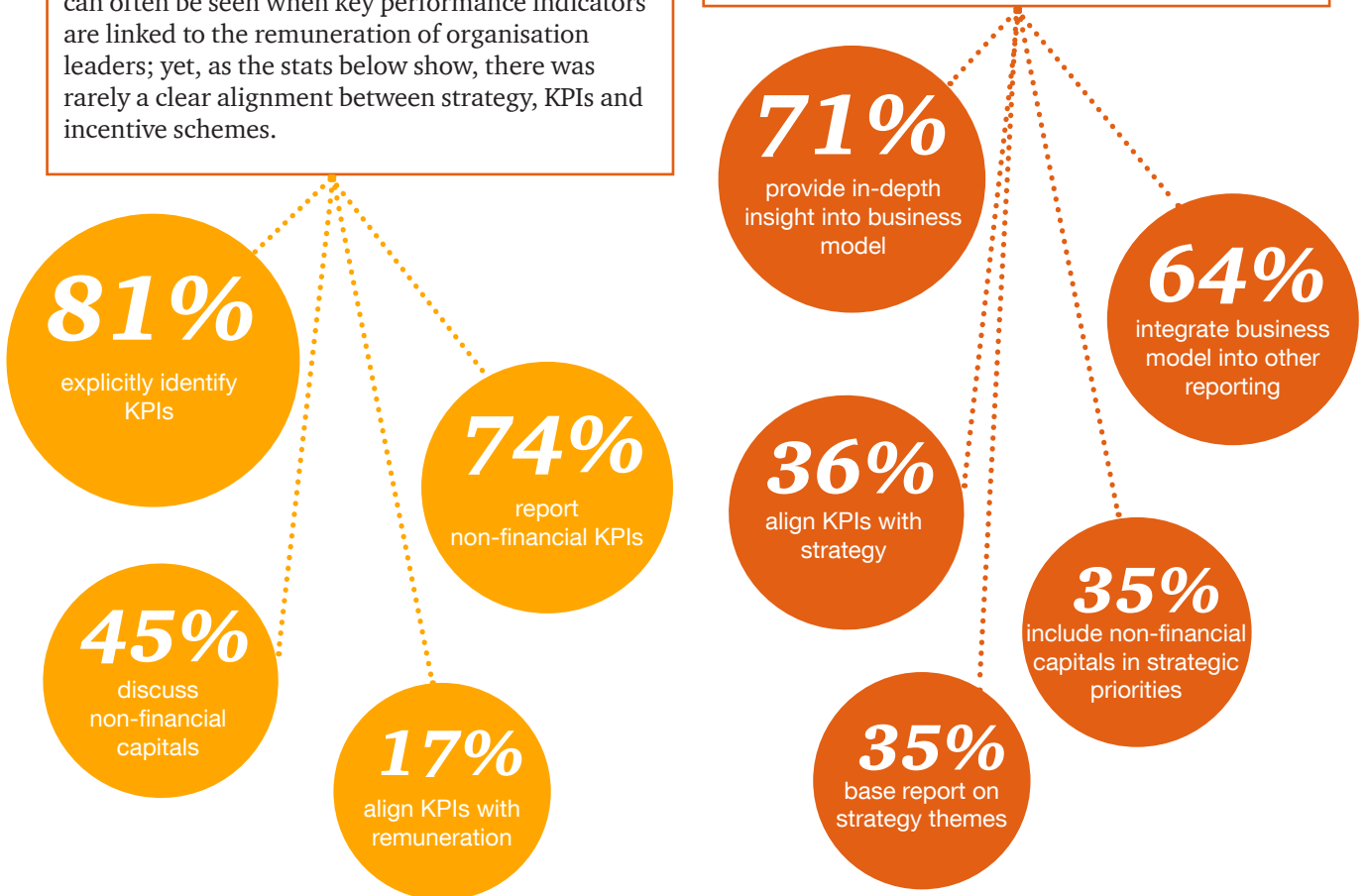
## Creating connections

At the heart of integrated reporting is the desire to communicate clear connections between the critical content elements of the framework.

This is clearly a challenge, with some reports still appearing disjointed and containing different and sometimes conflicting messages, key themes remaining undeveloped or the connection between key activities or measures being poorly demonstrated. This can give the impression of siloed management or limited strategic thinking, or can result in key messages/developments being missed.

For example, in our sample, only 36% of companies clearly aligned KPIs with their stated strategy, and 35% used their strategy to underpin their reporting. What does that say about the relevance of the KPIs reported? And how does it help the reader to quickly form a view of strategic progress?

Yet there is encouraging news here too – a few years back these statistics used to be in single figures, showing that connectivity is certainly an area of focus for many.



## **Moving forward**

### ***Where are your reporting gaps?***

Our benchmarking assessments can help you identify gaps in your reporting and explore reasons for them. We can work with you to map out on a page your business model with your strategy, risks, KPIs and remuneration – looking at whether this presents a coherent and integrated picture.

### ***What are your reporting ambitions?***

PwC facilitated workshops can help you engage senior management and other stakeholders to shape your reporting vision and value creation story, as well as exploring the benefits of integrated reporting\*. Our work with clients across the world shows leadership buy-in is vital for moving towards truly integrated reporting.

### ***Can you make better use of what you already report?***

Armed with these insights into your current reporting and your vision for the future as well as a coordinated team, real progress can be made in the integration of existing information. Focus on conciseness, authenticity and connections across your reporting. Be inspired by our good practice examples available online and through our global network.

### ***How can you achieve your reporting vision?***

Our specialists can work with you to develop a blueprint for your future reporting, focusing on where gaps in reporting may indicate constraints on availability or reliability of information internally, as well as supporting on defining and embedding more integrated thinking, including governance structures, behavioural change needs, impact measurement and information availability and reliability.

## **Of further interest**

### ***PwC investor view publication***

Corporate performance: What do investors want to know?  
<http://www.pwc.com/gx/audit-services/corporate-reporting/publications/investor-view/investor-survey-edition.jhtml>

### ***Corporate reporting blog***

Bringing fresh insights and challenges to the corporate reporting agenda.  
<http://pwc.blogs.com/corporatereporting/>

### ***World Watch online***

News and views on reporting, assurance and governance.  
[www.pwc.com/worldwatch](http://www.pwc.com/worldwatch)

### ***\*IIRC and Black Sun publication***

Realising the benefits - The impact of Integrated Reporting  
<http://www.theiirc.org/resources-2/>

## **How can we help you?**

*Our specialists can help you at each step on the way towards integrated reporting. To discuss benchmarking and reporting insights for your organisation please speak to your usual PwC contact or email us at [info@corporatereporting.com](mailto:info@corporatereporting.com)*

