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LEADING THE WAY

Integrated reporting: The future of corporate communication

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Business information and annual reporting have evolved over the years as a result of increasingly complex business environments and changing stakeholder needs. Annual reports have been the mainstay for listed companies and multinationals to report their economic health, business performance, industry trends and competitors to regulators, investors, top management and other stakeholders.

However, current annual reports tend to focus mainly on historical financial information and provide only short-term strategic perspectives that may not be sufficient for decision-making. Most annual reports also tend to provide only positive information about companies.

Stakeholders today want more timely information and better insights into where companies are going. They expect more holistic information to help them make better investment decisions.

Companies too want to offer stakeholders relevant, accessible information that provides a more comprehensive view of performance that goes beyond financial measurements alone. They want to highlight their environmental and social responsibility initiatives and explain how their business models align with their strategies over the medium and long term.

Integrated reporting (IR) is intended to meet these new needs. IR itself does not replace traditional reporting structures, according to the International Integrated Reporting Council (IIRC), which has built the framework. However, it does integrate financial and non-financial information.

IR communicates corporate strategy, governance, performance and environmental and social issues and emphasises how companies sustain value over time.

The IIRC (TheIIRC.org) was established under the Accounting for Sustainability Project initiated by the Prince of Wales and the Global Reporting Initiative. In 2011, it initiated a pilot programme comprising more than 100 companies and 35 investors around the world to develop an IR framework and demonstrate its benefits to companies and stakeholders. In Asia, the exercise included participants from Singapore, South Korea, Japan, India and Sri Lanka.

In 2012, the IIRC and the International Federation of Accountants signed a memorandum of understanding to work together towards a shared goal of improving and adapting corporate reporting. The draft IR framework was released last year to a wide range of market participants to obtain their comments and help them to understand how it improves decision-making and communications. The IIRC endorsed the IR Framework last Dec 5.

As the IIRC defines it, "Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation.

"An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long terms."

How has Thailand responded to IR demand? Some listed companies and larger companies in Thailand have voluntarily included additional non-financial information such as social responsibilities and environmental issues in their annual reports along with long-term strategic perspectives.

Depending on the size and complexity of companies, moving towards IR will involve a longer time for preparation than a conventional annual report. Any company contemplating such a move should consider establishing a specific team to work together on IR preparation.

The Federation of Accounting Professions (FAP) in Thailand agrees with the fundamental concepts of IR. It believes the substance and form of Thai financial reporting should be improved using IR and that this could be the next step in the evolution of corporate reporting and communication of a more clear and candid picture of performance.

The FAP has been working with the Securities and Exchange Commission to enhance the reporting structure to suit Thai listed companies and meet stakeholders' needs. It plans to feature IR in a panel discussion at the 19th National Conference of Accountants from Sept 1-2.

In the coming decade, we must research IR and work across various lines of service to satisfy stakeholder demand for both financial and non-financial information. Companies must determine what matters to stakeholders looking to invest and establish measures and strategies for providing it.

It's a journey that will benefit businesses and the wider society by building trust and creating long-term value in our capital markets.