

# Connecting the dots

Integrated reporting will improve communication about company value as well as playing a vital role in increasing transparency, delegates at a recent forum discovered

**With its focus on strategy, governance, performance and prospects, integrated reporting represents the next phase in the evolution of corporate reporting, delegates at a recent forum jointly organised by Bursa Malaysia and ACCA heard.**

Connecting the dots between financial and non-financial reporting provides a concise communication of the value of a company, according to International Integrated Reporting Council (IIRC) communication director Jonathan Labrey. This is what's lacking in the current reporting framework and, as a result of this mismatch, issues central to long-term business value aren't getting the attention they deserve, he added.

Labrey also pointed out that under the current corporate reporting framework, emphasis is placed on content – in particular, past performance. While financial reporting covering both performance and risk will remain an important part of the reporting universe, it is insufficient by itself to provide all the information that users now need for rational and high-quality decision making.

A global coalition of regulators, investors, companies, standard setters, the accountancy profession and non-governmental organisations, the IIRC's mission is to create the globally accepted International IR Framework, which it plans to publish in December 2013. This will elicit from organisations

material information about their strategy, governance, performance and prospects in a clear, concise and comparable format. Labrey urged Malaysian companies to offer feedback, opinion and thoughts on the consultation draft.

Underpinning the development of the International IR Framework is the IIRC's pilot programme, comprising a business network of more than 90 businesses around the world such as

silos. 'Integrated reporting is also about increasing transparency – not just increasing disclosures but the materiality of disclosures,' he said.

Nishikant Mukund Ingle, chief sustainability officer at fluid handlers Kirloskar Brothers in India, shared his organisation's reporting journey. He told participants that the key enablers for integrated reporting have been the commitment of the company's top management, as well as the

the organisation. During the question-and-answer session, he revealed that the extent of transparency was another issue that the company mulled over for some time.

'I personally feel that there may be certain aspects of your strategy that you may not want to disclose so as to not lose the competitive edge, but broad aspects of your strategy need to be shared with your employees and other stakeholders,' he said. Such transparency, he added, is ever more crucial should the company face losses.

'It's a question of getting the message across, getting stakeholders to understand us, so we need to communicate what's going wrong and what is it that you're going to do to make it right,' he adds.

PwC Malaysia managing partner Sridharan Nair, who was a member of the panel during the Q&A session, concurred. 'A lot of companies say the market does not give them credit for what they are trying to do and therefore it's not reflected in the share price,' he said. 'You need to consider perhaps disclosing some information in a more coherent manner as envisaged under the integrated reporting framework to get better value – which will be reflected in the share price.'

'One key thing you have to ask yourself is: who controls your company's story? Is it your company? The competition? Or the

**III 'INTEGRATED REPORTING GIVES YOU AN OPPORTUNITY TO DEFINE YOUR OWN STORY; DON'T LET OTHERS DEFINE YOU'**

Unilever, Coca-Cola and Microsoft, and an investor network of more than 30 investor organisations.

'Connecting the dots' Addressing the 180 forum participants, Labrey explained that the focus of integrated reporting is on communicating versus complying, as well as reporting on the intangibles, adding that in the current reporting framework there are issues that are not routinely reported such as human and intellectual capital. 'Integrated reporting is really about connecting the dots between these and the financial capital,' he said.

Labrey added that it also seeks to achieve connectivity across the organisation and, as such, break down

support of the IIRC.

For Kirloskar Brothers, one of the key lessons learnt through its experience in the IIRC pilot programme is that integrated reporting reflects a new way of thinking about value creation. 'What we tell our people is that if we follow the principles of integrated reporting then we will excel in our business,' said Ingle, who is also the company's general manager, business excellence and sustainability. 'That's how we look at it, rather than as something to be complied with.'

**Mindset for change** Ingle conceded that the company's integrated reporting journey has not been without challenges, such as developing a mindset for change across



## ▼ LEAD THE WAY

The move towards integrated reporting should be market led, said Selvarany Rasiah, Bursa Malaysia



## ▲ TIME TO ACT

The IIRC's Jonathan Labrey urged delegates to take integrated reporting on board



## ◀ MOVING FORWARD

Panelists (L to R) Chiew Chun Wee, ACCA; Jonathan Labrey, IIRC; Sridharan Nair, PwC Malaysia and Nishikant Mukund Ingle, Kirloskar Brothers, tackled the issue of integrated reporting's implementation during a question-and-answer session

media? Integrated reporting gives you an opportunity to define your own story, so don't let others define you when you have the chance to tell your own story.'

## Lack of strategy

Sridharan suggested that the reason why companies succeed or fail is not for the lack of strategy but in the execution of it. 'Strategy isn't necessarily a deep, dark secret confined within the company itself; elements of it may be, and those elements need to be preserved. But various aspects of it which you

are already sharing with financial analysts during briefings perhaps need to be put together in a more cohesive manner. And to me that is ultimately what this [integrated reporting] is all about.'

Labrey did not discount the challenges organisations face in getting started on integrated reporting, adding that this is compounded by the lack of a clear roadmap or guide on what its future globally looks like. To that end, he said, the IIRC would be starting a corporate reporting dialogue to respond to this challenge.

Responding to questions during the Q&A session moderated by Chiew Chun Wee ACCA head of policy, Asia Pacific, Labrey stressed that the IIRC would like to see the implementation of integrated reporting as voluntary rather than regulator driven. This sentiment was earlier expressed by Bursa Malaysia chief regulatory officer Selvarany Rasiah, who noted that the move towards integrated reporting – while

it is a giant leap – should be market led.

Sridharan added that should integrated reporting be deemed as a compliance issue then they may risk becoming 'boilerplate' reports containing information that will be of little use to the market.

'If it is market-led, there won't be a need for regulators to impose a requirement.' ■

**Sreerema Banoo, journalist**

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