Integrated Reporting
Going beyond the financial results

A way to respond to the evolving needs of stakeholders in the capital markets.

- Capital market stakeholders are finding it valuable when companies provide information on environmental, social, and governance issues impacting their businesses. Stakeholders are increasingly considering internal and external non-financial factors, such as resource scarcity or demographic shifts, when assessing companies’ long-term prospects.

- Integrated reporting builds on the existing financial reporting model to incorporate non-financial information that can help stakeholders understand how a company creates and sustains value over the long-term. This is in line with the continued growth of sustainability rating systems and investment policy disclosure requirements. The trend toward reporting non-financial information is increasing and will likely continue.

- Globalization of and interdependencies in supply chains, rapid population growth, and increasing global consumption are impacting the quality, availability, and price of resources. Integrated reporting has the potential to make the impact of these and other factors on companies’ strategies and business models more transparent to stakeholders.

- Companies that have embarked on the integrated reporting journey view it as a change process that has enabled them to think differently about their businesses. Among the benefits they’ve realized are strengthened financial reporting across business activities, enhanced internal collaboration, and increased internal and external communications. Some have also used the process to develop key performance indicators to provide clarity regarding their business models.

Highlights
- Stakeholders are calling for enhanced reporting of corporate responsibility and other information that impacts business performance.
- Integrated reporting seeks to provide stakeholders with additional information to help them make more informed assessments of companies and their long-term prospects.
- Companies may benefit from thinking about their reporting in an integrated way. This can help them better integrate strategy, governance, and other factors as part of their internal and external reporting.
- Companies that use the integrated reporting concepts may produce more transparent reporting and could improve their access to capital.
The evolving business landscape presents an opportunity to enhance the existing reporting framework

Integrated thinking can contribute to strategic insight on long-term success, alignment of key business priorities, and more meaningful communications internally and with external stakeholders.

**What is integrated reporting?**

The International Integrated Reporting Council (IIRC) defines integrated reporting as “a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization’s strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term.”

Conceptually, integrated reporting would build on the existing financial reporting model to present additional information about a company’s strategy, governance, and performance. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value.

The IIRC is not a regulator or a standard setter. Thus, companies are exploring integrated reporting with the IIRC voluntarily.

**Reporting for the 21st century**

Integrated reporting is, in part, an outgrowth of the view that today’s corporate reporting will not meet the evolving information needs of stakeholders in the global capital markets. There have been major changes in the way business is conducted, how businesses create value, and the context in which they operate. These changes are interdependent and reflect trends in globalization, heightened expectations of corporate transparency and accountability, resource scarcity, and environmental concerns, among others.

Some stakeholders are asking companies to provide clear information about emerging external drivers (e.g., political, social, and environmental) affecting their businesses, their approach to governance and managing risk, and how their business models work. In response to this growing demand for a broader information set, the IIRC is developing an integrated reporting framework to guide companies in communicating the information expected by stakeholders to assess a company’s long-term prospects.

**Integrated thinking**

Integrated reporting would prompt companies to think about their reporting in an integrated manner. This would include, for example, considering the relationships between a company’s various operating and functional units, the financial and non-financial capitals that a company uses and affects, and the relevance of those factors in demonstrating how value is created.

Some companies are starting to use integrated reporting concepts to drive their focus on integrated thinking and strategic decision-making. They’re finding that this can lead to stronger cross-functional communications, more productive dialogue among employees at all levels across business activities, and more meaningful dialogue with external stakeholders.

**The current landscape**

Integrated reporting is being adopted or explored by companies throughout the world. An increasing number of social reporting requirements driven by local regulatory bodies and stock exchanges have played a key role in continuing this momentum. In South Africa, listed companies are required to adopt integrated reporting, as defined locally, or explain why they have not. Many other countries have enacted or proposed rules on integrated reporting and on incorporating corporate responsibility into a company’s external reporting.

In the US, certain companies have shown an interest in reporting more non-financial information voluntarily. Recent research shows that nearly all of the S&P 500 companies made at least one sustainability-related disclosure in their financial reports, though only seven of those companies claim to have published integrated reports.¹

¹ Integrated Financial and Sustainability Reporting in the United States, April 2013, Investor Responsibility Research Institute and Sustainable Investments Institute
Integrated reporting is responsive to market demands

**Stakeholders seek additional non-financial information**

Stakeholders increasingly expect companies to disclose environmental, social, and governance information through reports or other means, such as websites. And, mandatory sustainability disclosure requirements have been adopted or proposed in many countries, including requirements on specific topics like carbon emissions.

Investors are taking note, recognizing a correlation between sustainability and financial performance. In one study, “high sustainability” companies demonstrated better stock performance, lower volatility, and higher return on assets and return on equity than “low sustainability” companies. So, it is not surprising that investors are increasingly considering non-financial factors, such as resource scarcity, when assessing companies’ long-term prospects. In fact, some companies have attributed their exploration of integrated reporting to increased questions from investors on corporate governance.

Investors are also looking for insights on other factors that might impact the business. Depending on the sector in which the company operates, these factors may include human resource issues, such as talent attraction and retention, intellectual capital, and environmental or social matters.

This increasing demand for more transparency can be an opportunity for companies. There is a growing body of research that shows that greater transparency can improve companies’ access to capital.

Voluntary disclosure is also increasing, as companies recognize that enhanced reporting of non-financial information can provide financial value, drive innovation, and enhance their reputation for transparency.

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**The benefits of exploring integrated reporting**

The IIRC established a pilot program in 2011 to enable businesses and investors to share their experiences and lay the foundation for widespread adoption of integrated reporting. The pilot program includes nearly 100 companies from across the globe, including 7 US companies, and is expected to increase to about 125 in 2014.

Companies participating in the program report many benefits of exploring integrated reporting. Key among them are (i) improved internal information, allowing management to make better resource allocation decisions leading to potential cost reductions and (ii) more concise, less complex reporting.

Pilot program companies report seeing extensive changes in thought processes across their organizations, and are using the integrated reporting concepts to drive their focus on integrated thinking and strategic decision-making.

As companies consider an integrated approach to reporting, their traditional performance reporting may reflect varying degrees of integration and different approaches to communicating data. Some companies have produced non-public integrated reports, which have enabled them to test systems and processes internally. Others have incorporated integrated reporting concepts into their annual reports.

**Looking forward**

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management’s agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts may provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report. Companies may also improve their access to capital and achieve strategic business benefits from integrated thinking.

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3 Understanding Transformation: Building the Business Case for Integrated Reporting, 2012, Black Sun Plc and the IIRC

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A listing of the IIRC pilot program companies can be found at: http://www.theiirc.org/companies-and-investors/pilot-program-business-network/
Questions and answers

Q: What is the IIRC integrated reporting framework?
A: The IIRC’s framework is expected to help companies and investors make more informed decisions and help companies communicate clearly how they create value. The framework is based on three fundamental concepts. First, it recommends companies focus on the ways they create value in the short, medium, and long-term. Second, it asks companies to provide an overview of their business model, including a full value chain perspective. Finally, it emphasizes the relationship between companies and the resources, both financial and non-financial, that underpin their success. The framework refers to these resources as the six “capitals”—financial, manufactured, intellectual, human, social and relationship, and natural.

The IIRC expects to finalize the first iteration of its integrated reporting framework in the near future. Since the framework is in the development stage, it would not be unexpected if the IIRC issues multiple iterations of the framework before it is finalized. Testing of the framework is expected to begin in 2014.

Q: What is the relationship between sustainability and integrated reporting?
A: Sustainability reporting can be viewed as a component or sub-set of integrated reporting. The IIRC envisions an integrated report including information on key environmental, social, and governance topics, which are also included in a sustainability report. But an integrated report would include additional non-financial information, such as information about strategy and resource allocation, that can help stakeholders understand how value is created.

The Sustainability Accounting Standards Board (SASB), a US-based independent, non-profit organization, is engaged in the development and dissemination of industry-specific standards for disclosure and accounting of material sustainability topics. The Global Reporting Initiative (GRI) is a non-profit organization that also provides a framework to measure and report sustainability performance. The work of the GRI, SASB, and others is complementary with the work of the IIRC and the development of an integrated reporting framework.

Q: Does integrated reporting involve combining financial and sustainability reporting?
A: Integrated reporting is more than combining existing disclosures into a single report. Elements of both financial reporting and sustainability reporting would be included in an integrated report if the information is relevant to how an organization creates and sustains value. This would require assessing the connectivity and interdependencies between the organization’s business model, the context in which the organization operates, and the resources and relationships on which it relies and that it affects.