Integrated reporting and sustainability reporting
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What is an Integrated Report (<IR>)?

• A new form of corporate reporting aimed at providers of capital
• Much more than bringing together financial and sustainability reporting
• Tells an organisation’s value creation story
What is sustainability reporting?

• Reporting performance and targets in social, environmental and economic sustainability
• Increasing focus on governance
• Much more than reporting on energy consumption, carbon emissions and environmental performance.
• Aimed at key stakeholders, but increasingly responsive to investors.
About the International Integrated Reporting Council (IIRC)

• Formed in 2010 (HRH Prince of Wales & A4S instrumental)
• High profile, multi-stakeholder backers
• Background papers released March-July 2013
• Consultation draft released mid April 2013
• Submissions available at www.theiirc.org
• Framework to be released in December
A paradigm shift? Distinguishing characteristics

• Longer-term strategic planning
• Focus on the ‘six capitals’
• Creating value
THE REPORTING MISMATCH

**Reporting content**

- STRATEGIC ISSUES
- FORECASTS / PLANS
- PAST PERFORMANCE

**Business value**

- STRATEGY AND GOVERNANCE
- IMPLEMENTATION PLANS
- BUSINESS AS USUAL

Source: KPMG
What is value? Value to whom?

• Financial returns to providers of capital?

  or

• Value is created (& depleted) across all six capitals by working with a broad range of stakeholders?
The capitals

- financial capital
- manufactured capital
- intellectual capital
- human capital
- social and relationship capital
- natural capital

Guiding principles

• Strategic focus and future orientation
• Connectivity of information
• Stakeholder responsiveness
• Materiality and conciseness
• Reliability and completeness
• Consistency and comparability
Connectivity: what bits of information need to connect?

- Content sections of an <IR>
- Relationship between past performance and future strategy
- Six capitals
- <IR> and other corporate reports
Connectivity: how?

• Culture of collaboration
• Communication processes which cross functional silos
• Fixing the reasons why gaps in information occur:
  – Belief that anything of value to business has to be measureable in monetary terms
  – Organisational structures which predate the complexity of the contemporary, complex and globalised business environment
  – Territorial and hierarchical (i.e. “masculine”) leadership styles
  – The predominance of leaders who lack a ‘moral compass’ and hence authenticity
Materiality

“A matter is material if it has a short, medium or long term impact on:
• organisation’s ability to create value
• strategy, business model or one of the capitals”

Extension of materiality process for sustainability reporting?
Content elements

• Organizational overview & external environment
• Governance
• Opportunities & risks
• Strategy & resource allocation
• Business model
• Performance
• Future outlook
Business model

“chosen system of inputs, business activities, outputs and outcomes that aims to create value”.
Resources for researchers - integrated reports

- The IIRC’s Emerging Integrated Reporting Database. The database allows identification of examples of reporting by content element, sector and geographic region.
- The CorporateRegister.com online database of company reports. The Corporate Register Reporting Awards now include a category for Integrated Reports.
- EY’s Excellence in Integrated Reporting Awards. Surveys integrated reports from South Africa’s top 100 companies and top 10 public entities providing feedback on the reports of the top 10 companies.
Resources for researchers – process of developing Framework

• Individual responses to the IIRC’s consultation
• The IIRC’s Technical Agenda Papers include:
  – summaries of responses to the IIRC consultation
  – potential technical projects
• Commentaries in the press, blogs, etc
• Statements by professional bodies, global intra-governmental bodies, guidelines/framework developers about (links with) <IR>
The process of developing an integrated report has many benefits

• ‘integrated thinking’ – collaboration across functions to consider the business model and identify trade-offs in the development of strategy;
• a future focus on strategy;
• identification of risks to the continued availability, quality and affordability of all six capitals (not just financial capital) which are required to fulfil the strategy;
• development of systems and processes which will capture all the information needed to make sound decisions.

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HSBC

• finance function collecting and processing data identifying the financial implications of environmental, social and human capital issues

• review of the report by a senior management committee bringing together views from all major functions

• a wide range of risks are noted in the annual report including reputational risk from activities that may be counter to societal standards, values and expectations and sustainability risk arising from the provision of financial services to companies or projects which run counter to the needs of sustainable development
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• Limited connectivity – only finance and sustainability team involved

• Business model discussed in narrow terms & not connected with the statement on ‘how we manage our business’ in the sustainability report.

• Discussion on strategic risk up front in AR lacks reference to ESG issues.
Unilever - submission to the IIRC

• Supports: focus on long term value creation; audience being providers of capital;
• Does not replace other reports; should be the starting point for providers of capital;
• “We do not believe that it is necessary to mention destruction at the same time as creation.”
• “…we disagree with the requirement to disclose how materiality has been determined.”
• “…integrated reporting is a process and we would not expect the governance body to sign-off all reporting.’
Unilever & connectivity of information

- Vision, Strategy – “Sustainable living plan”
- “Five levers of change”
- “Compass”
- Material non financial indicators
- Supply chain
- Product design
- Business model
Potential avenues for research – analysis of integrated reports

- Quality of reporting on content elements especially: external environment; opportunities & risks; strategy & resource allocation; business model; future outlook;
- The concept of value and how organisations are defining value;
- Process of engaging stakeholders and identification of their interest;
- Process for determining materiality;
- Extent of ‘connectivity’ with the integrated report and across other communications;
- Media used for integrated reporting.
- Sector approaches to <IR> issues.
Potential avenues for future research –
case studies/surveys on processes of
integrated reporting

• Determining materiality and identifying risks (stakeholder engagement)
• Internal communications/ “integrated thinking”/ breaking down silos
• Factors that determine uptake of <IR> incl. qual. factors such as role of leadership/ leadership style
• Changes to internal systems and processes on adoption of <IR>
Other potential avenues for future research

- Implications of <IR> uptake for sustainability management and reporting practices
- Role of <IR> in public & not-for-profit sectors
- The political landscape – relationships with other frameworks, SE requirements, national regulation
- The impact of <IR> on decision making and outcomes
- Analyst responses to integrated reports
- Approaches to assurance of integrated reports
Journal special issues

• Integrated reporting. *Accounting, Auditing and Accountability Journal*. Submissions closed.


• Subject to be determined. *Journal of Financial Management and Accounting*. Call not yet published.

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Link between integrated and sustainability reporting

“Integrated reporting will help to bring sustainability reporting into the mainstream corporate reporting cycle. Sustainability reporting has been one of the great reporting innovations over the last twenty years... It contains value-relevant information, yet is often disconnected from the financials.” Paul Druckman, CEO IIRC

- Methodical approaches to stakeholder engagement and determining materiality of issues to stakeholders first developed through the sustainability reporting process.
- Impossible to identify material issues for <IR> without engaging stakeholders and understanding sustainability performance.
Key strands of sustainability reporting research

• Analysis of report content
• Analysis of report content in relation to external (and internal) environment
• Portrayal gap
• Case studies on approach to reporting
• Research on sustainability reporting & performance management in public sector, charities etc.
• Link between sustainability reporting, sustainability performance & financial performance
Thank you