

Integrated Reporting – A Challenge for Corporate Reporting and Academics?

INTEGRATED REPORTING <IR>



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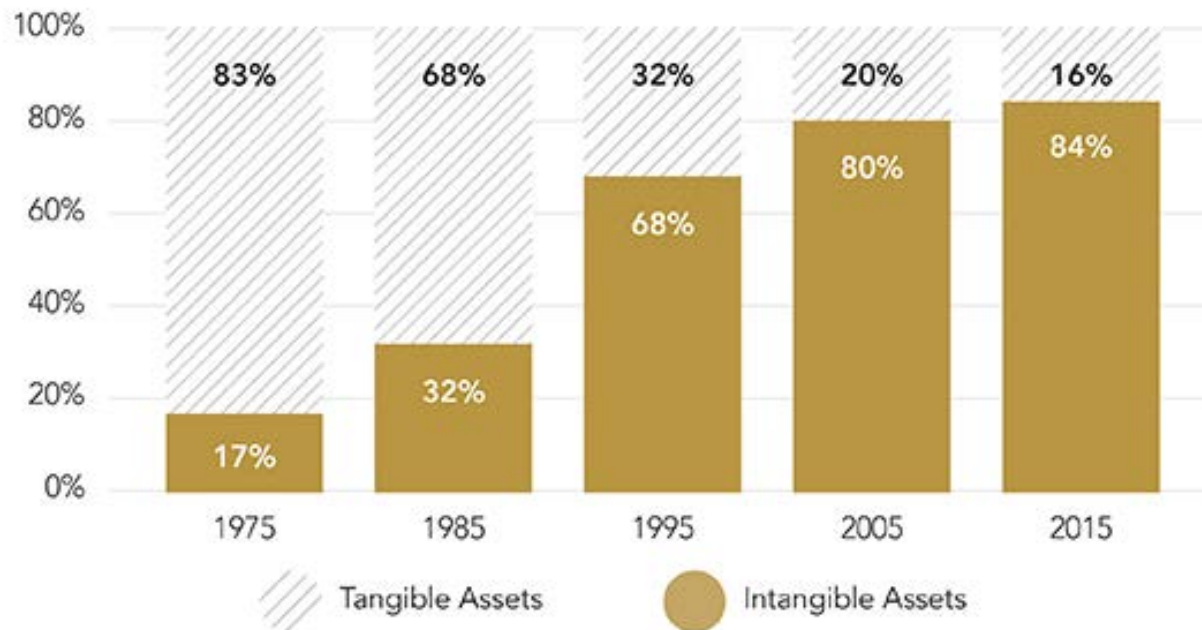
IAAER World Congress
University of Sydney, Abercrombie Business School
Sydney, 8th November 2018

The background of the slide is a close-up photograph of a green leaf. The leaf's veins are highlighted in a vibrant blue color, creating a complex, branching pattern across the entire frame. The overall color palette is a mix of various shades of green and blue.

THE NEED FOR A NEW REPORTING MODEL

Value is more than financial

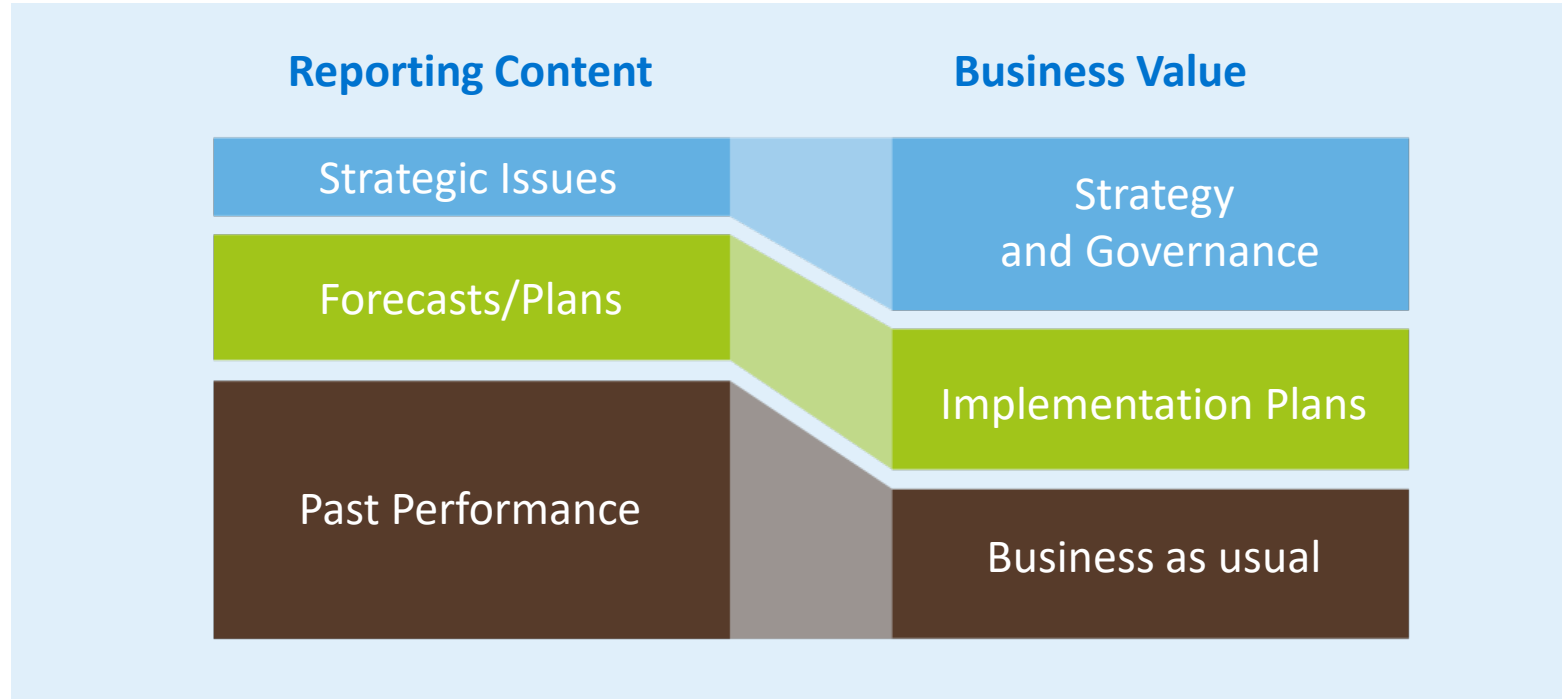
COMPONENTS *of* S&P 500 MARKET VALUE



SOURCE: INTANGIBLE ASSET MARKET VALUE STUDY, 2017

- Before IFRS implementation in 2005, in Australia and New Zealand internally generated intangible assets (such as brands) were recognised on the Balance Sheet
- In September 2008, the International Association of National Standard Setters (NISS) released a document authored by the Australian Accounting Standards Board (AASB) to deal with intangibles in financial reporting
- In 2005, the Society for Knowledge Economics (SKE) was established with the aim to develop more innovative, fulfilling and high performing workplaces

The reporting mismatch



The story is lost in details



103,484 words, 257 pp



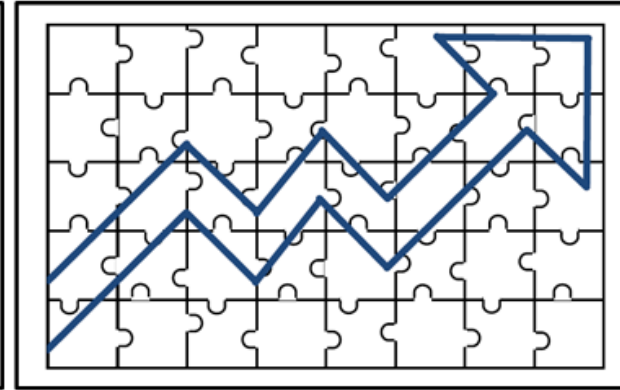
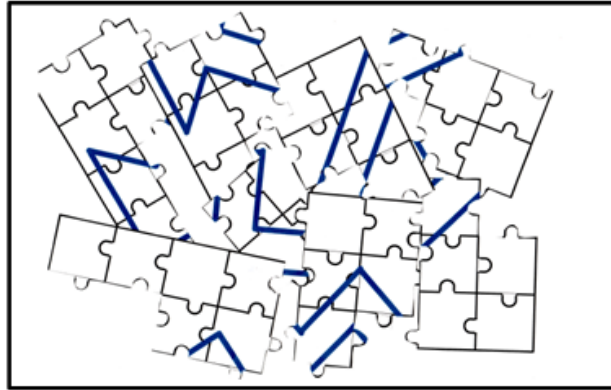
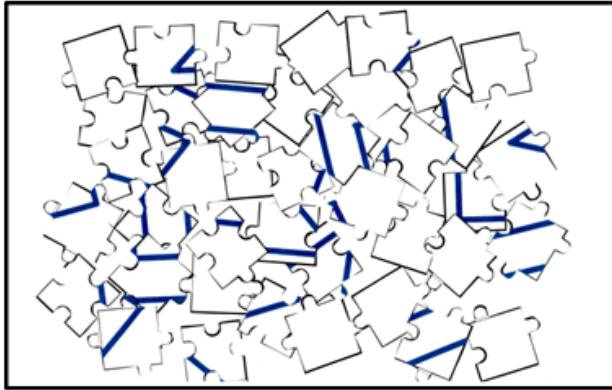
(95,356 words)



(76,944 words)

The Issue of Connectivity

- Piecemeal addition of “bits” of information
- → Explosion of unconnected, and sometimes immaterial, information



- An integrated report should “tell a story”



THE INTERNATIONAL <IR> FRAMEWORK

Fundamental Concepts

- Value Creation for the organization and for others
- The Capitals
- The Value Creation Process

Guiding Principles

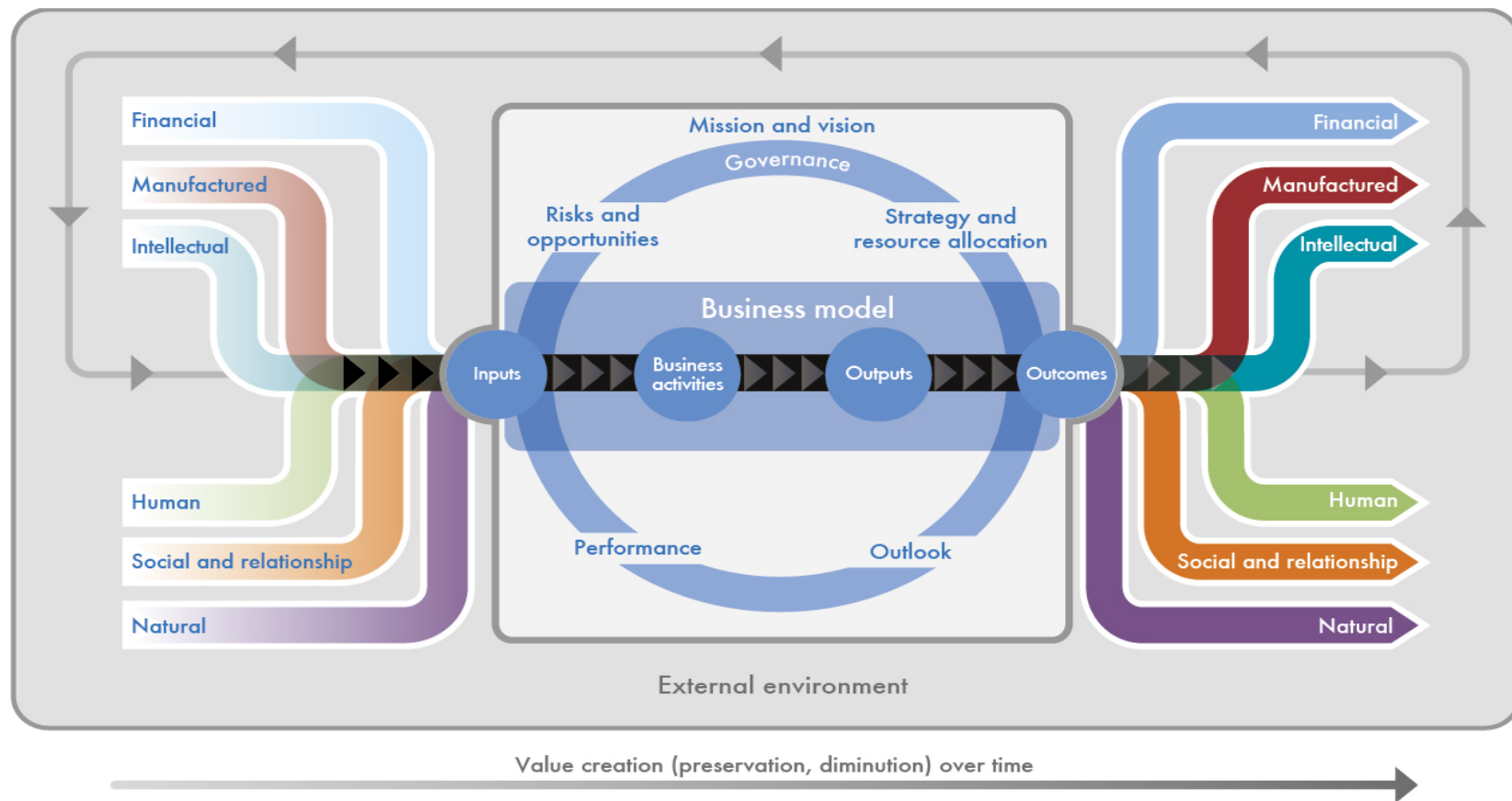
- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

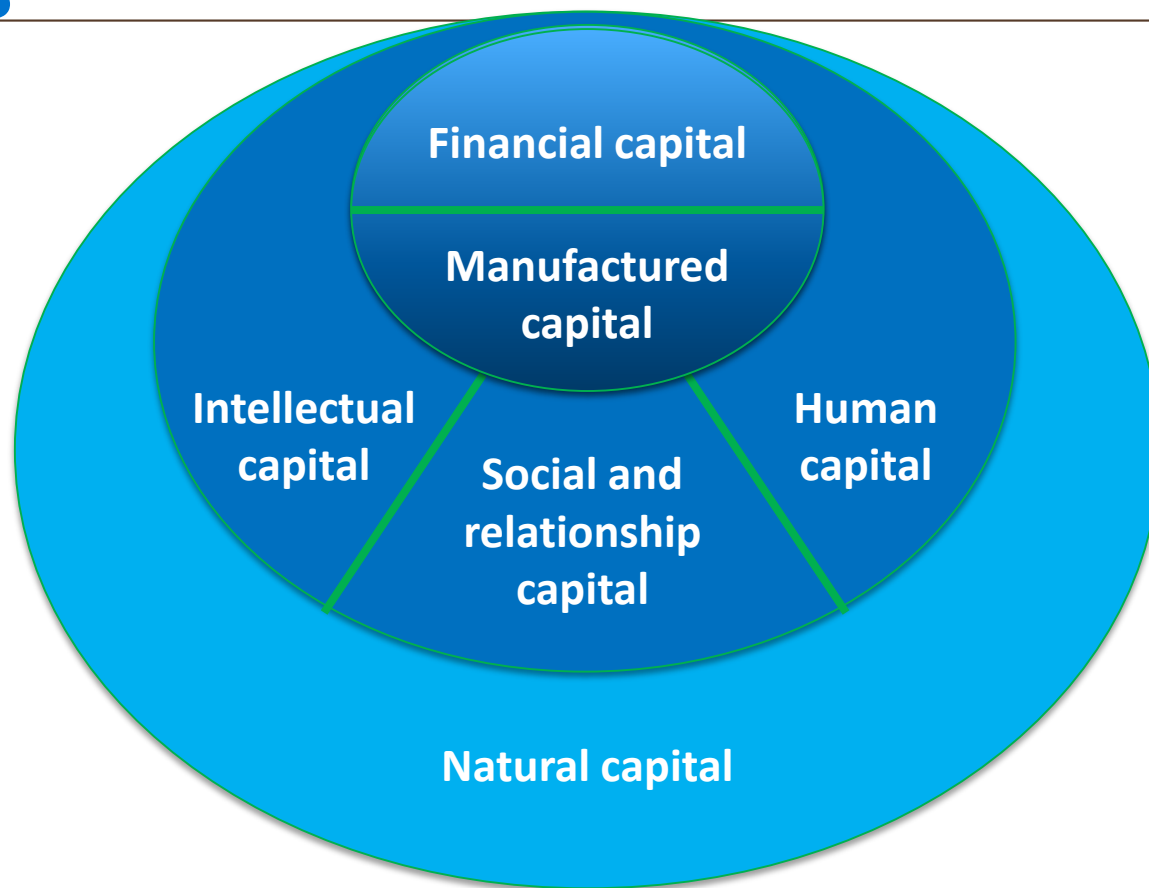
Content Elements

- Organizational overview and external environment
- Governance
- Business model
- Risk and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis for preparation and presentation



The Centrality of Business Model





Value Creation → The increases, decreases or transformations of the capitals caused by the organization's business activities and outputs

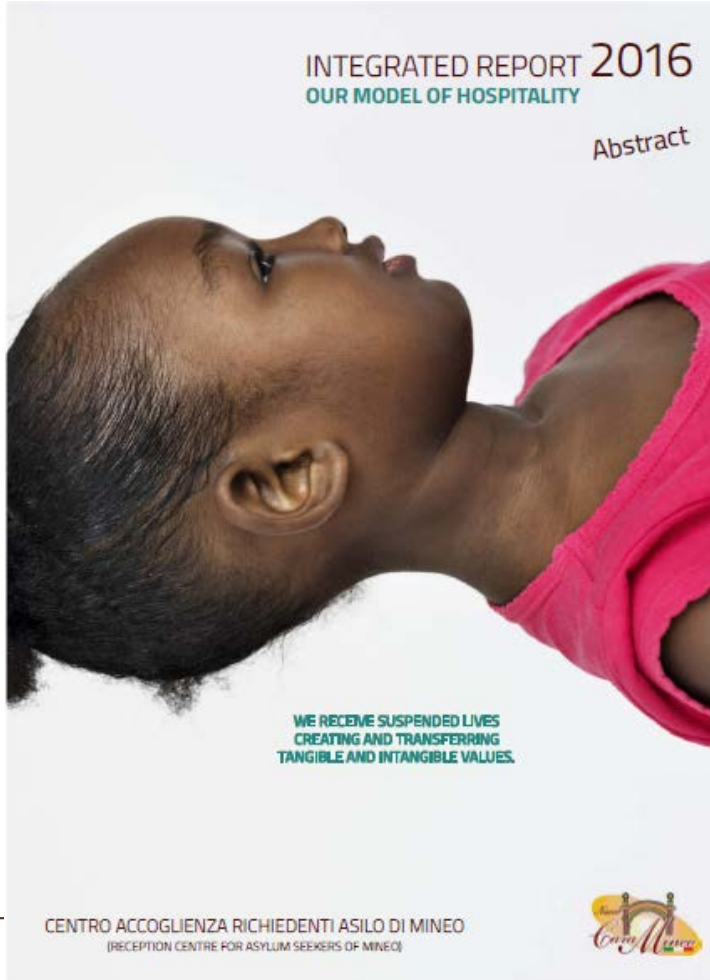
That value has two interrelated aspects → Value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large)

(International <IR> Framework, 2013)

<IR> and the shift to wider value creation: an example

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The largest Centre for Refugees Asylum Seekers in Europe (C.A.R.A. of Mineo, Italy) has released 2015 and 2016 Integrated Reports to explain its value creation story

- **Integrated thinking** is the active consideration by an organization of the **relationships** between its various operating and functional units and **the capitals** that the organization uses or affects
- Integrated thinking leads to **integrated decision-making** and actions that consider the creation of value over the short, medium and long term



“integrated thinking is a symphony of the 6 Capitals”
Mervyn King



THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

Who is the IIRC?



The IIRC's vision is to align:

- capital allocation, and
- corporate behaviour

to wider goals of:

- financial stability, and
- sustainable development

through the cycle of:

- integrated reporting, and
- integrated thinking.

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Alignment to integrated reporting globally

- Corporate governance code reference/alignment to integrated reporting
- Stock exchange adoption/encouragement
- Government body report encouragement

Integrated reporting adopted by
1,600 organizations across 65 countries
including every G20 economy

<IR> networks

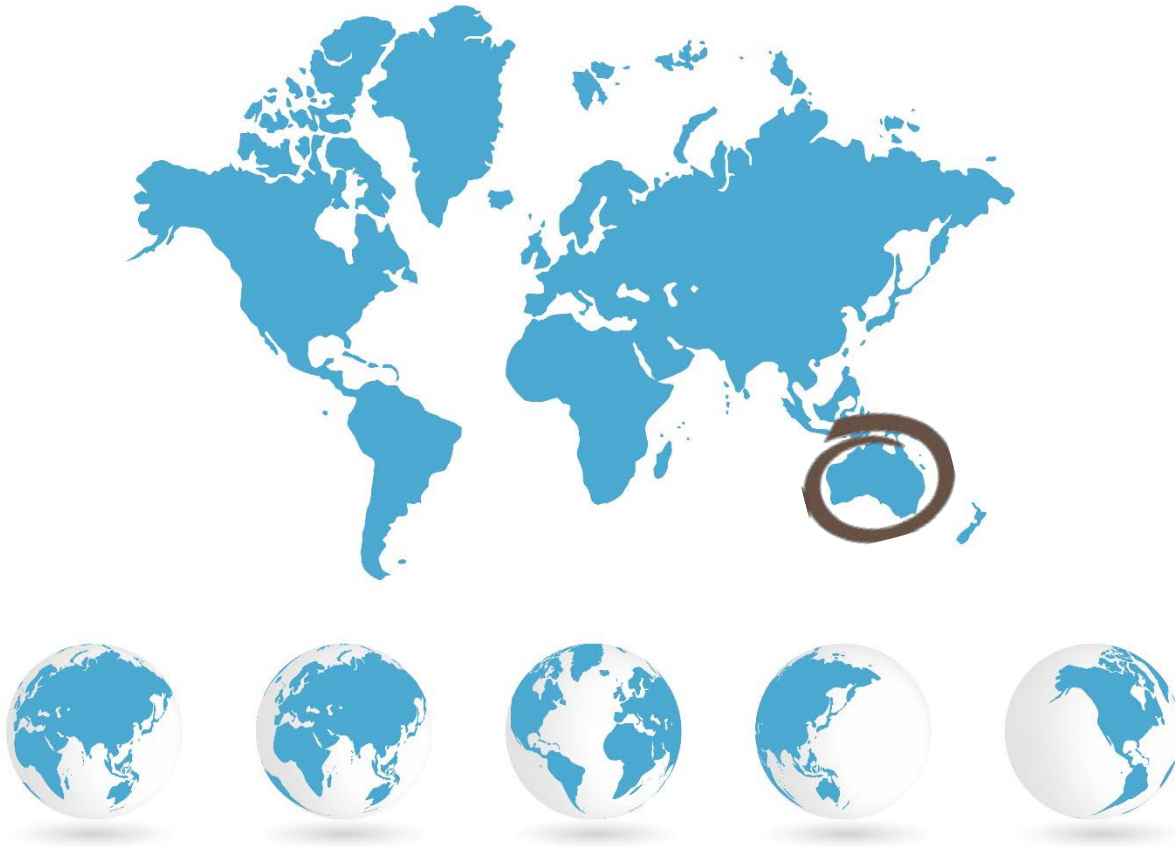
2,000 participants including
500 in Brazil

Mainstream adoption in South Africa and Japan

Academic evidence

shows that integrated reporting improves
conditions for long-term investment, reduces
cost of capital, improves performance and
improves liquidity





Australia

- <IR> referenced in draft ASX CG Principles (Draft 4e)
- The <IR> Pension Fund Network is based in Australia where leading funds are adopting Integrated Reporting
- Business Reporting Leaders Forum active towards Integrated Reporting

- Over the years increasing interest also by academics and academic research (ca. 400 research works on <IR> since 2010)
- Probably well known to many of you the paper by Barth et al. on *Accounting Organization and Society* on the economic consequences associated with integrated reporting quality
- More recently, Stubbs and Higgins (*Journal of Business Ethics*, 2017) found that according to the Australian stakeholders interviewed “IR will become the reporting norm over time if left to market forces as more and more companies adopt the IR practice”



WHAT'S NEW IN THE <IR> SPHERE?

Launch of Three Special Interest Groups (SIG):

- Strategy and Integrated Thinking
- Financial Institutions
- Hidden Capitals

Increasing interest by Universities <IR>

How does higher education create and demonstrate value?

Role of CIO in <IR> development

Technology primer for integrated reporting

A Chief Information Officer guide

IIRC welcomes appointment to
IASB Management Commentary
Consultative Group

“The Corporate Reporting Dialogue Is Looking for
Alignment, Not for One Common Framework” **Launched on
November 7th**

**IIRC appointed to 2018
B20 Task Force**

**CFA Institute and IIRC
in new global
partnership to promote
integrated reporting in
financial analyst
community**

Launch of the <IR> Academic Network Oversight Body

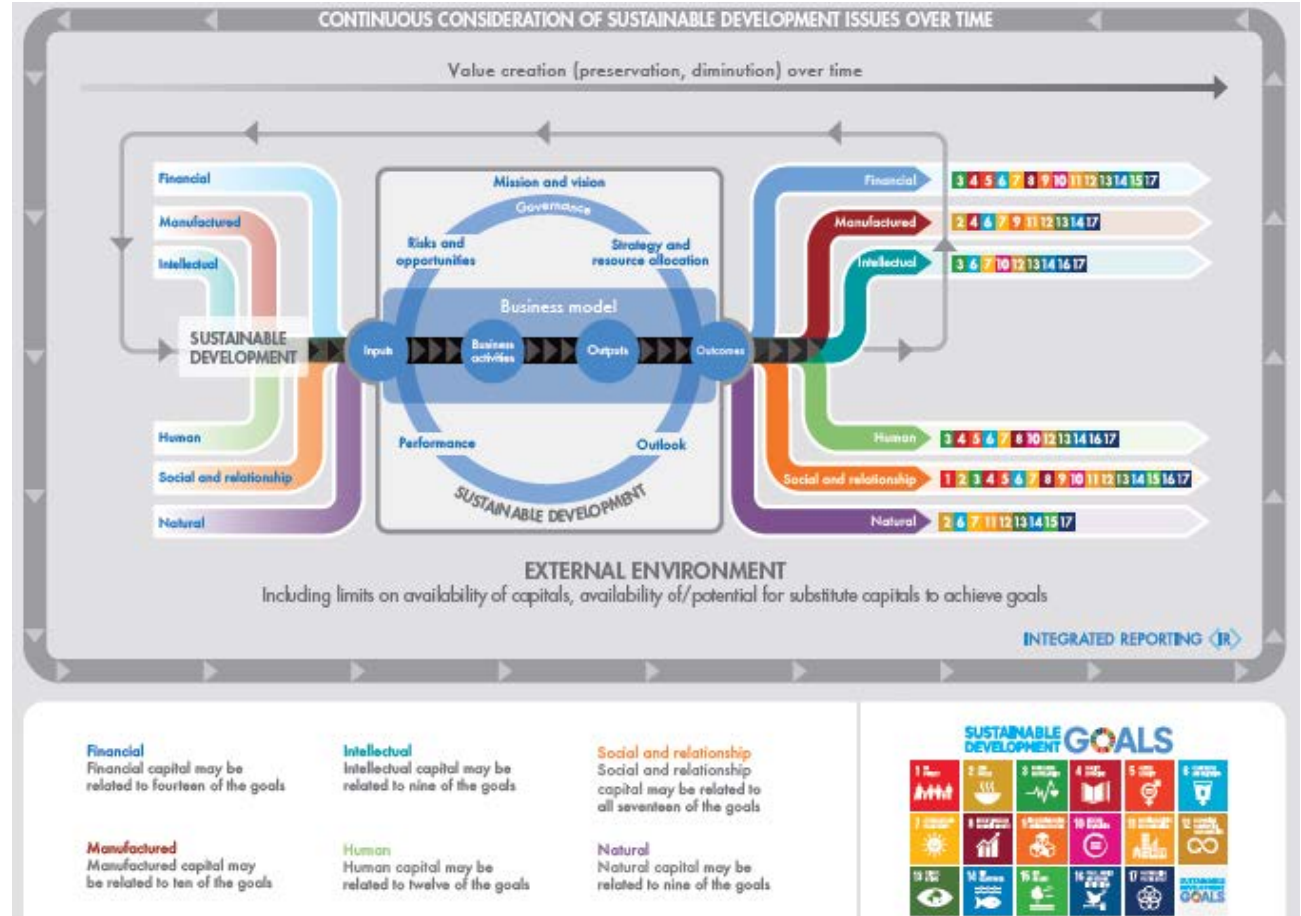
- 5 international universities involved (incl. Deakin University from Australia and University of Auckland from New Zealand)

The <IR> Academic Database



<http://www.iracademicdatabase.org/>

Aligning SDGs with the value creation process



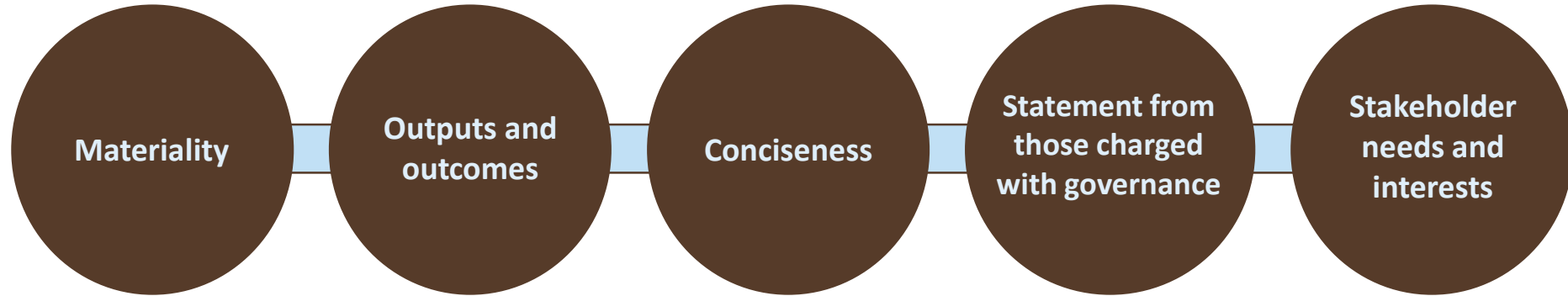
Core indicators launched at United Nations for integrated reporting by enterprises on sustainable development goals

Today we launch the creation of two special sections on the <IR> Academic Database on:

- SDGs
- Public Sector

WHAT'S NEXT?

Implementation guidance



Calls for Research



- The implementation of <IR> is a journey
- To change the way an organisation “thinks” represents a real transformation → a new theory of the firm?
- <IR> should not to be conceived as an additional reporting requirement → focus not only on the integrated report, but also on the process of “Integrated Reporting and Thinking”
- Integrated Reports are not intended to substitute for financial statements or sustainability reporting → sustainability is an integral part of a wider value creation process represented in <IR>

THANK YOU!

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