INTEGRATED REPORTING <IR>

How valuable is Integrated Reporting? Insights from best practice companies

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Integrated Reporting is doubtless one of the most debated topics in the corporate reporting community. Why all the hype? Internationally, numerous corporations are considering the adoption of <IR>. Yet what benefits can they expect? To find out, the Center for Corporate Reporting (CCR) and the University of Leipzig initiated a joint research project on the benefits and challenges of <IR> implementation.

The study shows that <IR> implementation is tackled on two levels: as a managerial change process at the strategic level, and as a reporting process at the operational level. On both levels there are arguments for and against implementation.

Arguments for and against the implementation of <IR> as a management approach

From a management perspective, <IR> implementation is driven by the adoption of integrated thinking. Corporations can benefit from improved information and data access, advanced decision support systems – and a more holistic view of the company. These insights facilitate a forward-looking stance and sound strategic decision-making. Risk management can be improved by highlighting interdependencies in the value process. As increased transparency leads to better assessments of opportunities and risks, management finds it easier to align strategic objectives. Businesses report a renewed appreciation and improved internal understanding of the value process as well as employee identification with the company. By disclosing value drivers and analyzing the value chain, individual contributions of each function and department are highlighted and appreciated. By linking the capitals, <IR> enables a holistic presentation of the company, which in turn elucidates the value drivers for stakeholders. The status as an <IR> pioneer combined with increased transparency can enhance the public image of the corporation and improve stakeholder trust – including investor trust.

Arguments against implementation include internal resistance by individual departments and individual employees, particularly resistance to the changes resulting from the implementation. Another downside is recognized in higher costs and resource requirements at every level of the corporation, primarily due to lack of experience and an increase in guidelines. This applies, of course, especially in the first year of implementation and also depends on how the process looks like and whether or not Integrated Reporting is used to streamline reporting. Accordingly, greater resource efficiency and the streamlining of processes is one of the main advantages once <IR> is successfully implemented. To avoid complications, managers need to support the idea of <IR> with its subsequent changes and have adequate leadership skills to manage such a change process. Furthermore, a greater degree of transparency leads to potential new risks for the company due to the disclosure of negatives and the corresponding responsibilities. Taken as a whole the pro arguments for the implementation of <IR> outweigh the contra.

Arguments for and against the implementation of <IR> as a reporting format

An integrated report can optimize reporting, e.g. enable multiple departments to collaborate on an interdisciplinary level, share information and create synergies. It can broaden the understanding and knowledge of the overall corporation and different departments. A positive outcome of the implementation process is a strengthening of the internal dialogue beyond departmental boundaries. <IR> implementation can also enhance resource efficiency as financial, sustainability and governance reports are merged (up to and including production and distribution costs). Operational decision-making processes are expedited due to an improved consistency in individual reports on the corporation's value chain. The integrated report can also facilitate external communication by providing a consistent tool applicable to various stakeholders, and through disclosure of relevant information and linkages to the financial community. The integrated report satisfies investors' need for a holistic picture of the company to enable easier, more comprehensive assessments.

On the down side, the introduction of <IR> can cause sweeping changes and a lengthy implementation period. It may well take several years from the initial implementation decision to the publication of the first report. A tremendous coordination effort is needed when there is lack of experience in interdepartmental cooperation. Generally, the resource requirements are perceived as high, although each corporation can actively shape the process and edit the report according to distinct requirements. To enable a step-by-step implementation of <IR>, it is possible to draw and build on existing reporting structures and processes which are then adapted and extended incrementally.

Favorable factors for the implementation of <IR>

Internally, the adoption and progressive improvement of existing structures and processes plus experience in sustainability reporting foster the development process. Furthermore, progress reports published three or four times a year, plus professional IT support that helps to simplify access to relevant data encourage report development. The advantage of using progress reports is that the feedback from internal and external stakeholders can be quickly incorporated into the report. Open communication between departments, interaction and honest cooperation facilitate working and agreement procedures. On the management level, the recognition and support of the board and other departments, along with an open corporate culture that excels in transparency, innovation and progress promotes the creation of an integrated report. Externally, recognition through awards and positive stakeholder feedback are motivating. Additionally, the use of the Framework and the support of specialist consultants and external service providers is helpful. Respondents agreed that they would embark on the journey again if they had to do it all over again as the long-term the benefits of implementing <IR> on a management and reporting level significantly outweigh the efforts and costs related to <IR> – as with any change management process (see figure for overview of benefits).

	INTERNAL BENEFITS	EXTERNAL BENEFITS
MANAGEMENT LEVEL	▪ Improved risk management & decision-making ▪ Detailed understanding of value creation ▪ Holistic understanding & management of the organization	▪ Holistic & transparent company presentation ▪ Competitive advantage as a first mover ▪ Improved stakeholder communication
REPORTING LEVEL	▪ Enhanced efficiency of reporting process (esp. due to material issues) ▪ Strengthened internal dialogues ▪ Simplified operational decision-making	▪ Report as a new communication instrument ▪ Investor satisfaction from a company perspective ▪ Improved sell-side prognosis

Figure one: Arguments for the implementation of <IR> from a company perspective

About the study

From December 2015 to April 2016, expert interviews were conducted with individuals responsible for corporate reporting from 13 international companies (Bayer, DSM, EnBW, exxaro, JLL, Munich Airport, Novo Nordisk, Novozymes, Palfinger, PPR, SAP, Standard Bank, Takeda), as well as four consultancies (BSD, EY Switzerland, EY UK, Pauffley & Company). All of the companies *had already implemented Integrated Reporting at the time of the survey. If you are interested in the research report, including key learnings and recommendations for action, please contact us: kristin.koehler@corporate-reporting.com (mailto:kristin.koehler@corporate-reporting.com) The study was sponsored by CCR corporate member Clariant International. The Center for Corporate Reporting (http://www.corporate-reporting.com/?locale=en_us) (CCR) is an independent center of excellence for corporate reporting.*

The <IR> Roundtable in Switzerland

The Center for Corporate Reporting (CCR) initiated the Integrated Reporting Roundtable in 2015 to foster the sharing of first-hand experiences, garner insights from experts and promote learning from peers. The main objective is to assist companies that are thought leaders in reporting to find their "right" solution by bringing together like-minded corporations who actively engage with current developments in corporate reporting and their stakeholders' expectations. The focus of the Roundtable is on concrete implementation and practical added value for corporations. The Roundtable is designed as a multi-year project and consists of a series of workshops and accompanying papers dealing with specific topics related to <IR>. During each workshop session, international best-practice companies give insights into their approaches, encourage knowledge exchange, and discourse among participants. For more information, an upcoming and reviews of former workshops please visit www.corporate-reporting.com/irroundtable/ (http://www.corporate-reporting.com/irroundtable/)

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