INTEGRATED REPORTING

Martin Jones brings you his latest quarterly update from the 'ivory tower', otherwise known as the IASB's HQ

Everybody is talking about "integrated reporting". There is even a funny little arrow symbol invented to jazz up the abbreviation as follows: <IR>. I am not one to refuse a bandwagon. So here's my two pence worth.

The International Integrated Reporting Council (IIRC) tells me that "<IR> is a process that results in communication by an organisation, most visibly a periodic integrated report, about value creation over time. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term."

That is a lot of fancy words, but what does it mean? Well, essentially, the IIRC is talking about the published annual report. Currently, there is a culture of publishing the statutory financial statements in a PDF document with a management commentary appended. As the name suggests, the management commentary is the commentary of management on the financial statement plus their wider comments on strategy and corporate social responsibility (CSR).

A CLEAR, USEFUL STORY

All the IIRC are doing is trying to encourage companies to publish annual reports that are "integrated"; in other words, annual reports that tell a clear, useful story in a document that hangs together. Some entities like BP on the London Stock Exchange are brilliant at this already, perhaps because of a defensive reaction to their 'dirty business' image. Some are improving like Telefonica, the parent of O2 on the Madrid Stock Exchange. And some businesses are awful, like Omnicom quoted on the New York Stock Exchange. Omnicom in particular has no excuse as they are the world's biggest advertising agency, and so should know how to tell a story.

So what is new? Well, this is the thing. As far as I can see nothing is new, except maybe one element. This push for improved corporate reporting seems to have really captured the imagination of a few hard-core believers; this spread to the press who have picked up on the story and now everybody is talking about it. I have not seen so much interest in annual report presentation since the management commentary first burst on the scene in the 1980s. At that time, companies like Sainsbury's hit on the idea of explaining their numbers in a commentary. Of course, the city boys and girls loved it, and so there was a visible rise in the Sainsbury's share price. So everybody got interested and soon everybody was doing it. But the commentary grew like a wild and unmanaged garden, and soon all consistency was lost and worse some businesses lost sight of the purpose of the commentary.

Many interested parties had a bash at cleaning up: the International Accounting Standards Board (IASB) had a go, and even the UK government took a bite. But this was all to no avail, because there was not the motivation to improve or the profile for the story. But now there is and for the life of me I cannot figure out what is so special about the IIRC and their words. But who cares? They do appear to have captured imaginations and maybe the poorer annual reports will start to tell the story going forward.

So let us look at what exactly the IIRC are saying. The IIRC have a framework in development which tells us that there are six guiding principles for the publication of one of these integrated reports:

A – Strategic focus and future orientation.

B– Connectivity of information.

C – Stakeholder responsiveness.

D – Materiality and conciseness.

E – Reliability and completeness.

F – Consistency and comparability.

The IIRC also has core of a hundred trailblazers who have adopted the framework even though it is still in progress. But here is where the progress goes wobbly. Some of the trailblazers have published <IR> that really do lock in to the essence of holistic reporting. Companies like Marks & Spencer and our own ACCA clearly get it.

But there is a huge swathe of trailblazers that seem to think that <IR> means CSR or sustainability reporting. Coca-Cola has a lovely report on the quality of the water going into their cans, and Tata has some good stuff on their employment responsibilities. But the reports are not really integrated. I think this is a minor point, however.

The big news here is that the big businesses in the United States and across the world really do seem interested in making their annual reports useful and that has to be good news for everybody. PQ

• **Martin Jones lectures at LSBF**