How valuable is Integrated Reporting?

>> Insights from best practice companies

Integrated Reporting <IR> is doubtless one of the most debated topics in the corporate reporting community. Why all the hype? To find out, the Center for Corporate Reporting (CCR) in Zurich and the University of Leipzig initiated a joint research project on the implementation and benefits of <IR> from a company perspective – sponsored by Clariant International.

>> Method und Sample

Qualitative expert interviews were conducted with individuals responsible for corporate reporting from 13 international companies, as well as four consultancies. All of the companies had already implemented Integrated Reporting at the time of the survey. The interviews were carried out from December 2015 to April 2016.

Sample: 17 companies and consultancies from Europe, South Africa and Asia

The results are broken down into three sections, each containing clear-cut suggestions for the implementation of Integrated Reporting:

1) Why was Integrated Reporting implemented in the company?

2) What are the resulting challenges and recommendations for the implementation of <IR>?

3) How do companies assess Integrated Reporting?

>> Results

1) Triggers for the implementation of <IR>

- **Primarily executives or the CEO, but also individual departments trigger the implementation of <IR> internally**
- **Management's awareness of responsible and sustainable corporate management plays a crucial part**
- **External trends such as sustainability and corporate responsibility that evolve in the company's environment, and diverse stakeholders' expectation of transparent information play an important role**

Internal factors outweigh the external triggers in the implementation of <IR>. In general, company executives such as the CEO, CCO, CFO or management board initiate Integrated Reporting. To some extent individual departments encourage its implementation, for example, the Sustainability, Legal or HR departments. The impetus can also originate from supervisory bodies such as the board of directors. It is a fact that senior management most often expresses a personal advocacy. This motivation stems from a keen awareness of sustainable and responsible corporate management, which is embedded in the corporate culture and corporate governance.

In the case of external stakeholders, institutional investor demands for transparency and comprehensive corporate information to effectively valuate a company provide a significant impetus for implementing <IR> -- as this offers them the opportunity to view the company holistically. External trends, such as sustainability, transparency and interaction were also mentioned in the survey. These trends reflect stakeholder positions that mirror corporate actions. Companies recognize these developments and want to position themselves as pioneers by means of <IR>, and at the same time legitimize their actions – e.g. by justifying and disclosing their business model and strategic objectives in an integrated report. In South Africa regulations for stock exchange listings, as well as public discussions on sustainability and responsibility in the course of the democratization of the country, led to the implementation of <IR>.

2) Evaluation of <IR>: Pro and contra argumentation

The implementation of <IR> in a company is a continuous process with potential for steady improvement that taking place on two levels. It is a management approach at a strategic level, and an integrated report creation process on an operational level. On both levels there are pro and contra arguments for its implementation.

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

- **Pro: better understanding of value creation, improved risk management and a more holistic view of the entire company**
- **Contra: increased costs and work effort, and new potential risks as a result of enhanced transparency**

From the viewpoint of Management, strategic arguments in particular beg the implementation of <IR>. The company benefits from Integrated Thinking – especially as a result of better Information and data access, easier decision-making and therefore more efficient workflows – and a more holistic perspective of the company. Risk management can be further improved through transparent connections in the value process. This facilitates future-oriented company management and makes decision-making easier. Because increased transparency leads to better assessment of opportunities and risks, it is possible to align the strategic objectives to those prospects and risks. In addition, this renewed appreciation enables internal understanding of the value process and employees' identification with the company. By disclosing the value drivers and value chain, it becomes clear how important the effort demonstrated in every department is geared toward the overall success of the company. By linking the financial and non-financial capitals <IR> enables a holistic presentation of the company which in turn elucidates the value driving factors for stakeholders. The status as an <IR> pioneer and increased transparency can enhance the image of the company, improve stakeholder trust – especially investor trust – and impart an authenticity recognized by the general public. To manage the change in structures and processes many companies rely on external support from strategy consultants.

Contra arguments include internal resistance by individual departments, and from some employees, because of the changes resulting from the implementation. Another argument is the higher cost and increased work involved to implement <IR> at every level of the company due to lack of experience. The greater degree of transparency leads to potential new risks for the company because of the disclosure of negatives, and the subsequent responsibility for them. However, taken as a whole the pro arguments for the implementation of <IR> outweigh the contra.

Favorable and aggravating factors for the implementation of <IR> as a management approach

- **Key factors that enable the implementation of <IR> include embedding Integrated Thinking into the corporate strategy and the support of Management**
- **A lack of vision and leadership skills, as well as limited resources complicate the institutionalization process**

<IR> implementation depends on whether it has Management support. However, one key factor is the understanding of Integrated Thinking and the relevance of the non-financials for control management. Implementation can be bolstered by an professional external consultancy.

Furthermore, using the existing <IR> frameworks and guidelines has a positive effect. Attitudes of those involved, such as skepticism or lack of understanding of <IR>, as well as a lack of vision or competency on the part of Management can also complicate <IR> implementation. 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. Apart from personal deficits, limited financial and sequential resources can slow down the implementation. Understanding the importance and added value of <IR> is essential. In particular, the unknown and projected involvement of stakeholders is an uncertainty, because it is not clear how <IR> attracts interest. Furthermore, a lack of general guidelines makes the implementation more difficult.

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

- **Pro: the reporting process will become more efficient and develop into a new communication tool for addressing stakeholders**
- **Contra: a tremendous amount of time and effort and a long implementation process before the initial report is published**

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 one’s own company and other departments. A positive outcome of this process is to strengthen the internal dialogue beyond the borders of one’s own department. This can result in resource efficiency. For example, the integration of a sustainability report into the annual report can save considerable time and expense as only one report needs to be designed, printed and distributed. Moreover, the decision-making process is faster on an operational level due to an improved consistency in individual reports in the company’s value chain. In addition, <IR> simplifies a future-oriented assessment of opportunities and risks. The integrated report as an external communication tool enhances the company’s image as perceived by the financial community because of the disclosure of relevant information and linkages. In particular, this form of reporting satisfies the investor’s need for a holistic picture of the company to enable an easier assessment. On the down side, the introduction of <IR> can cause sweeping changes and a lengthy implementation period. It can take several years from the initial decision to the publication of the first report. A great coordination effort is needed when there is a lack of experience, which can then result in investing an enormous amount of time and effort, although each company can actively create the process and edit the report accordingly. To have a step-by-step implementation of integrated reporting it is possible to draw on previous reporting structures and processes. We can develop a possible process flow from the interviews.

Favorable and aggravating factors for the implementation of <IR> as a reporting format

- **Helpful factors include adjusting existing reporting processes and experiences, a step-by-step development of an integrated report that uses progress or test reports and is based on external frameworks**
- **Complicating factors are the unclear division of roles and responsibilities, limited resources and internal resistance to change**

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 a framework and the support of specialist consultants and external service providers is helpful. However, an insufficient exchange of information between the departments involved and poor data quality can make it more difficult. Time constraints, limited staff and financial resources and a lack of clear role and work assignments can significantly impede the report creation. Other obstacles identified were internal lack of understanding and rejection of the development of a new report. One of the key aggravating factors is the difficulty in linking financial and non-financial capitals because there is no standard guideline in place for the preparation of an integrated report.

Drivers and skeptics have an impact on the implementation on the management and operational level

- **A key success factor is dialogue-oriented cooperation between different departments**
- **Within the companies interviewed roles are assigned differently but Sustainability and Finance have key roles in regard to data management, Communication in regard to report production**

Several departments were involved in the implementation process. Dialogue-oriented cooperation between the various departments such as Finance, Investor Relations, Sustainability, Corporate Communications and Accounting constitutes a significant success factor – especially when it comes to the preparation of the report, e.g. ensuring sufficient data quality. Inter-departmental project teams bear the responsibility, and employ their expertise and expectations during the implementation process. This should guarantee the embedding of company-wide Integrated

Thinking to create a holistic picture of the company essential for <IR> implementation on the strategic and reporting level. Communications are deeply involved, especially in regard to reporting. However, as <IR> is primarily a management approach, the providers of (pre-) financial data are key. Sustainability takes the lead in implementation due to the heightened importance of sustainability in the corporate strategy. Seven companies mentioned that the Sustainability department is responsible for the project. For many of the companies surveyed Finance and Investor Relations assume a leading role because of the linkage of financial and non-financial performance indicators. At the same time, in some companies these departments are skeptical about the internal and external benefits of <IR>. If we examine the sample, the roles of skeptics and drivers vary widely, although Sustainability and Finance are often key.

3) Challenges and recommendations for action

- **Minimize resistance and create internal awareness for the benefits of <IR> through internal communication measures, e.g. workshops**
- **Adapt existing reporting structures and processes with incremental development towards the full integration of various data**
- **Produce test reports or several preliminary reports each year to integrate feedback and optimize the report in the short-term**

Before starting implementation, it is essential to secure the support of all involved parties. In addition to following the principles of national and/or international frameworks[1] and guidelines it is sensible to acquire external expertise during the implementation phase to augment any lack of experience. In addition, training courses and internal communication events such as workshops and the dissemination of information materials can help acquaint people with <IR>, minimize resistance and communicate awareness for its relevance and additional benefits. The conviction and support of executive managers is vital to embed a long-term integrated way of thinking within the company and communicate the value-creating relevance of non-financial KPIs. Then it is possible to link the awareness of the increasing importance of sustainability issues and the corresponding implementation of their targets to existing mindsets and procedures. At present the generating and linking of data represents the biggest challenge for many companies. So it is prudent to build on existing reporting structures and processes and further develop them incrementally. Existing knowledge of non-financial KPIs should be used and an interdisciplinary, cross-department lead team is appropriate. All involved parties, areas of responsibility and objectives should be defined up front and future contributors responsible for <IR> should be prepared for their managerial functions. During the development of a control system for the continuous evaluation of the implementation process (e.g. through stakeholder feedback or measuring progress on targets) it is recommended to bring in external expertise and exchange

[1] IIRC, GRI, UN Global Compact, IFRS and the anticipated guidelines from the European Commission have been mentioned

experiences with other companies. Also helpful on the road to an integrated report are test or preliminary reports that are suitable for the quick integration of feedback and the continuous optimization of the report. Furthermore, it is important to seek the standardization of existing regulations. Following standardized regulations, the implementation of objective workflows and preparation of report content can help avoid certain pitfalls and consequently realize the full potential of <IR>. If companies engage with these processes and regulation they can position themselves as first-movers and <IR> experts.

>> About the Center for Corporate Reporting

The Center for Corporate Reporting (CCR) is the independent center of excellence for corporate reporting in Germany, Austria and Switzerland. The CCR’s activities include the annual Symposium, topic-specific events, the trade publication “The Reporting Times”, the Annual Report Library and exclusive services for corporate members. Our objective is to foster the quality of reporting and heighten its effectiveness. As a knowledge partner we take an interest in current developments, identify and focus on significant trends, keep abreast of international research on relevant topics, initiate our own research projects, and facilitate the transfer of results into practice. As a networking partner we promote active dialogue within the community and foster interdisciplinary exchange. **More information: www.corporate-reporting.com**

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>> About the University of Leipzig

The University of Leipzig’s Institute for Communication and Media Studies is the leading research institute and think tank for communication management in Europe. Its Master’s program in Communication Management has been rated the No. 1 academic program for communication management/PR in the German-speaking world since its inception in 2007. The Institute’s research output and impact in the field of communication management is highlighted by more than 75 books and more than 400 journal articles published in recent years, along with numerous international studies and white papers. The chair for Communication Management focuses on challenges and current developments in financial communication, corporate reporting, stakeholder communication and the impact of digital media. Together with a variety of corporations, associations and fellow research institutions, it conducts numerous research projects tackling the challenges facing today’s leaders in communication management.
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