

New Trends in Financial Reporting – Integrated Reporting

In an earlier article we have previously written about new trends influencing financial reporting including the concept of Integrated Reporting. Some of us were fortunate enough to hear the CEO of the International Integrated Reporting Council, Paul Druckman, and some New Zealand experts speak on this topic in New Zealand last week.

A big part of the challenge with the concept of integrated reporting is trying to get clear on exactly what this is. This was my interest in attending a recent session kindly hosted by the University of Auckland Business School.

So what is Integrated Reporting?

To recap, using a quote from Paul Druckman; “Integrated reporting is an attempt at getting businesses to tell their story (or strategy) by addressing six different capitals or stores of value they use to produce goods or services. These are financial, manufactured, intellectual, human, social and relationship, and natural capital. Information about financial and manufactured capital is currently provided by the financial report while information about natural and social capital is conveyed by a sustainability report. However information about intellectual and human capital is not yet well reported”.

However still I find that a bit dense as a definition.

Perhaps better is; an integrated report is an attempt to combine the currently disconnected financial and sustainability data, as well as the (as yet) mostly unreported information about intangible wealth.

There were some other gems that came out of the presentation though that helped further clarify. These should be of interest to anyone involved in the challenge of trying to clearly communicate their organisation’s value to its stakeholders. And this applies equally to commercial organisations, public sector, as well as charities and NFPs. In fact, being able to report an organisation’s wider value is probably much more important in the public sector and NFP/charity sector where the value they deliver is not easily measured in financial terms.

Why a desire for integrated reporting?

A big driver for integrated reporting is that, especially in capital markets reporting, we have entered the age of as Hillary Clinton recently put it: “*The Tyranny of quarterly capitalism.*” By this she meant that far too much focus by big business is on making their financial numbers for the next quarterly reporting, often at the expense of “doing the right thing”. Instead they should be also focusing on a longer term view, and a broader definition of what value a company delivers.

Integrated reporting in contrast is trying to clearly explain an organisation’s key drivers; its unique business strategy and what value it delivers. With the important point being that “value” is not just about \$. It is also about how an organisation touches people: both those that work for it and in the wider community, as well as its impact on the environment, and the wider society it operates in.

A phrase that really resonated for me was “*Integrated thinking articulated by integrated reporting.*” Our organisations are about so much more than just the financial aspects (heresy from an accountant I know ...but there you have it!). Anyone who has been involved in running an organisation or governance and developing strategy knows that it is about juggling a lot of moving and inter-related parts. Yes, the financial result is a key output required to keep the organisations going, but there are lots of other complicated factors that one must take into account for a successful business strategy. So why is it then that so much of our reporting is financial reporting? (Too many accountants I hear you say!). Perhaps because reporting the other value drivers is not so easy?

Another gem came from Ann Webster – Assistant Auditor General - Research and Development. Ann noted that “*The real challenge with integrated reporting is that it forces an organisation to think deeply*

about value creation, and that takes effort.” She also noted that there is no one size fits all model and that the best integrated reports are ones from organisations who are really clear about what they do and how they can articulate their individual value.

Great organisations also understand that they need to keep looking up and out to the horizon rather than just focusing on today if they are to be truly sustainable in the broadest organisational definition of that word. Keep doing what works. Keep reinventing yourself where it doesn't.

Are we going to get standards or other regulation forcing this reporting?

Interestingly the speakers, all experts in their own areas, were unanimous in their response: An unequivocal **No**.

If integrated reporting is to be successful it needs to be a user led discipline. Not one that is forced by regulation. It also needs to be unique to the individual organisation. Hence the thinking is that standards similar to accounting standards would probably just inhibit this from developing.

However there was a common view that there is going to need to be some assurance over this information, especially if it is in the capital market arena. Users need to be able to rely on the credibility of the information. The challenge will be for standard setters in this area - if the assurance standards impose too stringent requirements then this may strangle integrated reporting innovation. An interesting challenge.

Where are the role models?

According to Paul Druckman, unlike our usual leading approach to reporting developments, New Zealand is a bit of a laggard in this area. However we do have a couple of standout examples being NZ Post and Sanford. I especially recommend a look at the Sanford report as an interesting example. (see <http://www.sanford.co.nz/investors/reports-1/company-reports/2015/2015-annual-report/>).

However don't be put off by thinking that this is something that only applies to big entities. Integrated reporting can work equally well for a small entity. Same thinking; just to scale.

I am also really looking forward to seeing some NZ charities and NFPs lead the way in this area in the next few years. They now have the mandatory requirement to present service performance information and I am sure this will be a fantastic catalyst for innovative kiwi thinking about how organisations can better tell their stories of the value they deliver and the difference they make through all aspects of their organisation.

Summary

As I have said previously; the ongoing support of key stakeholders is critical to any organisation's success. Hence any improvement in communicating effectively and efficiently to those stakeholders is worth considering. Perhaps integrated reporting may be the future for New Zealand...



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