Integrated Reporting
Performance insight through Better Business Reporting
Issue 1

kpmg.com
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Foreword

Welcome to the first edition of Integrated Reporting, our new publication which focuses on the challenge of providing better corporate reporting. Many of you reading this may not be familiar with the topic, but with the publication by the International Integrated Reporting Committee (IIRC) of its Discussion Paper, it is likely that it will be a subject that you hear more about in the future. In KPMG we have looked at this in the past simply as ‘Better Business Reporting’, since we feel that this captures the essence of the subject.

In this first edition, we have aimed to provide you with some background on Integrated Reporting with a series of short articles by some of our firms’ specialists. After a brief summary to help you understand what Integrated Reporting is, Michael Bray sets out the case as to why senior executives and non-executives ought to be interested.

With Integrated Reporting now required for listed companies on an ‘apply or explain’ basis in South Africa, Mark Hoffman reports on the experiences of companies seeking to implement the principles of Integrated Reporting for the first time.

Integrated Reporting is sometimes articulated as being simply the integration of corporate responsibility reporting into existing financial reporting models. While an Integrated Report does bring together both categories of information, Wim Bartels explains why this is too simplistic an explanation.

Finally we look at the work of the IIRC and what we can expect from the Committee in the coming months.

Integrated Reporting offers the opportunity to centre business reporting on strategy and value creation, to demonstrate how the business uses capital and the extent to which they should continue to be invested in the business.

Progressive companies will be keen to receive and comment upon the IIRC’s discussion paper, be involved in their country’s Integrated Reporting initiatives, and sign up as pilots to test the IIRC’s Integrated Reporting Framework. It will not be all plain sailing. Innovation never is and it is not for the uncommitted. Our advice to businesses that see the Integrated Reporting journey as a new source of competitive advantage in the search for capital at a reasonable cost, is to grab the opportunity and run with it. You will not be alone – KPMG firms are already on the road as active contributors to the IIRC.

I hope that you enjoy reading this short publication. If you would like to explore the matters raised further, please get in touch with your usual KPMG partner or contact one of our firms’ specialists listed on the back cover.

David Matthews
KPMG in the UK
Many people discussing Integrated Reporting for the first time want to ‘see’ an example of an Integrated Report. However, there is no standard format for an Integrated Report and no specific disclosure requirements. Instead, the Discussion Paper issued by the IIRC sets out five Guiding Principles and six Content Elements for an Integrated Report:

What this means in practice is that an Integrated Report will provide a range of information, presented concisely in a way that demonstrates the interdependencies:

- relevant information about the organization’s strategy, business model and the context in which the organization operates
- historic performance (defined more holistically than simply by reference to standard financial metrics)
- information to allow users to better understand the pressures (including risks) around achieving those performance measures and the sustainability of the business into the short, medium and longer term.

This might appear to be describing what should be happening at the moment, but that is not the case. Different sources of reported information, the increasing length and complexity of reporting, the omission of important information and inclusion of irrelevant information all contribute to a lack of transparency and cause frustration for both preparers and stakeholders. Integrated Reporting aims to cut through the muddle to present a clear, concise and joined-up account of a business.

Many people discussing Integrated Reporting for the first time want to ‘see’ an example of an Integrated Report. However, there is no standard format for an Integrated Report and no specific disclosure requirements. Instead, the Discussion Paper issued by the IIRC sets out five Guiding Principles and six Content Elements for an Integrated Report:

### Guiding Principles
- Strategic Focus
- Future Orientation
- Connectivity of Information
- Responsiveness and Stakeholder Inclusiveness
- Conciseness, Reliability and Materiality

### Content Elements
- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives
- Governance and remuneration
- Performance
- Future outlook

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In order to help users and preparers understand how Integrated Reporting differs from traditional corporate reporting, the IIRC also contrasts eight differences between current and Integrated Reporting. A key aspect of Integrated Reporting is that it addresses those resources (referred to as Capitals) which the business consumes and creates - financial, manufactured, human, intellectual, natural and social.

Throughout this publication we refer to ‘companies’ for convenience. However, because of the principles-based nature of the framework, there is no reason why the principles of Integrated Reporting would not be appropriate for other organizations including public bodies and government agencies.

As Mark Hoffman explains on page 10, Integrating Reporting is already underway in South Africa, but it remains an area that, in practice, is still very much under development. For the first time we have a clear opportunity for companies to experiment and innovate with the principles of Integrated Reporting, and explore the benefits that it will bring.

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...a clear opportunity for companies to experiment and innovate and to explore the potential benefits...
Some common questions answered

Who is the intended user of an Integrated Report?
An Integrated Report will be relevant to anybody interested in the strategy and performance of the relevant company. But this does not mean that it will necessarily provide all of the information which might be desired by all interested stakeholders.

Interested stakeholders might wish for significant amounts of detail in relation to their own area of interest. Even the most important information needs of some users may not be relevant under the principles of Integrated Reporting. To meet all of these needs, for all interested stakeholders, would neither be reasonable nor sensible.

The answer, then, is that investors should be seen as the intended primary audience, but that the needs of other stakeholders should also be considered. However, information which satisfies the reasonable needs of investors should satisfy many, if not all, of the needs of other stakeholder groups.

Will Integrated Reporting replace existing reporting?
It would be logical to assume that as long as an Integrated Report meets the needs of investors, then the information that is not included in the Integrated Report may become irrelevant.

However, while many preparers and users of corporate reports would welcome a reduction in the volume of information that is provided, in the short term it is unlikely that there will be any relaxation of regulations which lessen the reporting burden. Whether this will change in the future will depend on many factors, including the extent of adoption of Integrated Reporting by corporate preparers, the quality of reporting, and the level of investor satisfaction with the information content of Integrated Reports.

Only once these and other achievements are apparent will regulators and legislators be likely to consider relaxing existing requirements.

How long is an Integrated Report?
The simple answer is: as long as it needs to be and no longer. Factors such as diversity of operations (in both geography and nature) and the complexity of the business will clearly influence its length.

In practice, some companies may seek to fulfil their regulatory reporting obligations through their Integrated Report. Depending on the regulatory environment, this could mean including information that goes beyond that set out in the principles of the Integrated Reporting Framework. This is more likely to be the case for financial information (particularly in jurisdictions where IFRS or US GAAP is required) and for non-financial information in jurisdictions where the regulatory environment is more developed.

Is an Integrated Report a single document?
A single document is not a pre-requisite, but companies that seek to use their Integrated Report to meet regulatory obligations are likely to produce a single document.

An Integrated Report should include information that is consistent with the underlying principles of the Integrated Reporting Framework, and this should be separate from other information which a company may wish to provide. Including such information in a single document (whether printed or web-based) is an easy way of making this distinction.

Are there any examples of Integrated Reports available?
Until there is a universally agreed definition of an Integrated Report, anything described as such should be treated with some caution. Even some companies regarded as having adopted Integrated Reporting would acknowledge that their report, at least in its entirety, might fall short of the IIRC’s vision.

This does not mean, however, that there are no examples of the application of Integrated Reporting principles. For example, the IIRC’s Discussion Paper includes a small number of reports by organizations which have started to experiment with Integrated Reporting.

Information which satisfies the reasonable needs of investors should satisfy many, if not all of the needs of other stakeholder groups...
It is equally true to say that companies which may never have heard of Integrated Reporting may themselves provide examples of reporting which is consistent with the application of an Integrated Reporting Framework – simply because, at its heart, Integrated Reporting is about the better communication of corporate performance. To the extent that companies have set out on a journey of Better Business Reporting, elements of their reporting may already demonstrate characteristics of Integrated Reporting.

**Will an Integrated Reporting Framework provide clarity on measurement issues?**

The Integrated Reporting Framework will provide a set of principles for identifying matters which should be communicated within an Integrated Report but it will not – at least at the outset – address how individual items should be measured. This will remain the domain of existing standard-setting bodies.

In the long term, it might be seen as inefficient to have different standard-setting bodies for different components of a single report. One possible future scenario is that a single body will have overall responsibility for defining the principles for content of an Integrated Report, as well as the appropriate measurement bases.

**In brief:**

- Integrated Reporting is intended to improve communication between companies and capital markets
- An Integrated Report provides financial and non-financial information of a company’s strategy, performance and governance in its business and social context, in a way that highlights the interdependencies of the information
- Organizations would need to explain their business model, and how they create value over the short, medium and long term
- There is no standard format for an Integrated Report, but the IIRC has provided Guiding Principles for an Integrated Report
- Integrating Reporting is in its early stages and is still under development in practice. Those companies willing to experiment and innovate have the most to gain.
Fundamentally, Integrated Reporting is about improving the basis of capital allocation. The aim of the game is business communication for capital reward. Integrated Reporting will enable the capital markets to better understand a company’s strategy, align their models with business performance, and make efficient and forward-looking investment and other key decisions.

…the aim is better and more credible business communication. The reward is capital…
Institutional investors, fund managers, analysts, and other capital markets participants who underpin their investment decisions with detailed modelling are also becoming actively involved in the journey to Integrated Reporting. Legislators and regulators, business commentators, investor associations and other stakeholders influencing business reputations and licences to operate are also increasingly interested and involved.

To ‘feed’ their models and decision-making processes, the markets for the six capitals need the right information to be delivered in the right format at the right time and with content that the markets believe in. Ultimately the aim of Integrated Reporting is about credible communication for capital. It is that simple – and that complex.

**The six capitals***

Financial capital
Manufactured capital
Human capital
Intellectual capital
Natural capital
Social capital

*The six capitals are explained in the IIRC’s Integrated Reporting Discussion Paper “Towards Integrated Reporting - Communicating Value in the 21st Century”.

Our firms’ clients and the capital markets have become frustrated with corporate reporting for a variety of reasons:

- The key features of financial performance are often buried in voluminous financial statements. As a result a number of ‘workarounds’ have emerged, including alternative financial performance measures such as ‘underlying profit’, and new financial reports such as ‘summary financial reports’
- Annual reports containing audited financial statements have become divorced from the time horizon and information requirements of capital markets
- Sustainability reports seldom demonstrate the part that Corporate Responsibility performance plays in the business strategy and value creation, and are often not designed with the capital markets in mind
- The narrative reporting lacks a common framework and so there is little consistency between businesses. The capital markets must compensate for this lack of consistency as best they can, but in doing so the risk remains that the real story of business performance and prospects may not be fully understood.
- Directors are concerned by the need to make continuous disclosures such as profit guidance outside of their ‘normal’ reporting and assurance processes.

These factors do not make for precise financial modelling and analysis and efficient capital allocation decisions. Modelling and decision-making becomes weighed down by extrapolation and assumption, makes greater allowance for uncertainty than is necessary and embraces more ‘short-termism’ than would be the case if all businesses communicated their story to the markets for capital in a consistent manner.

**The potential benefits of Better Business Reporting**

The journey to Better Business Reporting, culminating in an Integrated Report prepared under the IIRC’s Integrated Reporting Framework, should be of particular interest to CEOs, CFOs and directors as they face the challenge of convincingly telling their organization’s ‘story’ to the markets so they can obtain capital at a reasonable cost.

The benefits of improved business reporting through Integrated Reporting include more efficient capital allocation, streamlined reporting processes, reduced reporting costs and enhanced organizational clarity in terms of business strategy and the business model.

Early movers on Integrated Reporting concepts are already describing the benefits that they see from better business reporting. They talk of the improved organizational clarity that comes from articulating the business strategy and business model, given that reporting on these matters lies at the heart of better business reporting. They also talk about the business process improvement that comes from consolidating multiple reporting processes for generating different reports into one reporting process for producing all reports, and the significant cost reduction which results.

It is too early to expect empirical evidence about the effects of Integrated Reporting on the cost of capital as the Integrated Reporting Framework is yet to be fully implemented. So while it is too soon for anyone to report the ‘right-sizing’ of their cost of capital through Integrated Reporting, early adopters note positive comments from their investors and they expect their cost of capital will more closely mirror their strategy, performance and prospects over time.

From the decision-making end of the capital markets reporting supply chain, a number of analysts have noted that they need different information from that contained in today’s quantitative and narrative reporting to do their work effectively. They note that the Integrated Reporting Framework, being focused on reporting the strategy, performance, and insights into past performance and performance prospects, will let them improve their models and analytical capability.
Enhancing financial reporting as part of the journey

Businesses can take immediate steps to begin realizing these potential benefits by making business reporting-based improvements to their existing reports and evolving to a more comprehensive reporting strategy over time:

- Enhancing financial statement disclosures allows organizations to communicate to investors on important investment drivers, within the current reporting and assurance framework which has the benefit of adding a greater level of credibility, reliability and consistency to the information disclosed. This is not to argue in defence of retaining lengthy financial statement disclosures in the Integrated Report; rather enhancing the quality of disclosure practices on key investment drivers within the mandatory financial reporting framework, ensuring that messages communicated in both the financial statements and narrative reporting are consistent. This allows unnecessary disclosures to be eliminated and narrative reporting to be more succinct and focused upon interpretative guidance through the eyes of management.

- Linking the strategic and interpretive material in the narrative reporting to information in the financial statements can achieve greater clarity and provide consistency over time and across sectors.

- Reporting on the risks that are critical to the business is also important. Most companies use financial instruments (for example a derivative contract) to decrease or minimise a risk exposure. Reporting only the financial instrument risk generally does not provide a complete picture of the risk exposure for the business, or how well management is managing risks.

Enhancing sustainability reporting as part of the journey

The potential benefits to businesses, particularly CFOs, but also CEOs and Boards, of enhancing sustainability reporting are many. If the capital markets can fully understand a company’s strategy, including how Corporate Responsibility elements ‘fit’ with the financial aspects, they will have greater insight into how these matters affect performance and business value. Some sectors of the capital markets are already using Corporate Responsibility metrics as a proxy for management quality. Better reporting of Corporate Responsibility matters can provide greater influence over the capital markets’ determination of management quality and performance. This is an opportunity for management to better communicate the underlying strategy and performance of the business.

There is an increasing expectation in the community and in the capital markets that reporting on Corporate Responsibility factors will become mandatory, if not by law, then by dictums of best practice and corporate reputation. Enhancing sustainability reporting now will ensure that your business is capable of identifying and reporting on Corporate Responsibility matters before it becomes a statutory obligation or a market imperative.

Automating business reporting as part of the journey

Current developments in business reporting automation include those made possible by technological innovations such as XBRL, web-based and real-time reporting. There are benefits from these developments, including efficiencies arising from automated information gathering and reporting systems, but there are also potential challenges around how to establish the credibility of the new information incorporated into the expanded business reports they make possible.

Progressive automation of existing reports is driving improvements in the collection and storage of basic financial data. The automation of process is a small step towards real time reporting, which can provide improved data integrity and timely access to information.

As the broader picture unfolds, there is an opportunity today for businesses to achieve cost savings, and financial reporting and information integrity benefits through the automation of reports using technology such as XBRL.
In brief:

- Users and preparers have become frustrated with the volume and lack of transparency of current corporate reporting.
- Capital markets need the right information to be delivered in the right format at the right time and with content that the markets believe in.
- Integrated Reporting allows capital markets to better understand a company’s strategy and performance ‘story’.
- Additional potential benefits include greater organizational clarity and streamlined reporting processes, at a lower cost.
- By taking the first steps towards better business reporting, companies can bring greater clarity, consistency and reliability to their corporate information.

Key questions

- Do you have a comprehensive business reporting strategy, and is it delivering immediate benefits?
- Are you communicating consistent messages in both your financial statements and narrative reporting?
- How much time and effort do you invest in reporting information that is required by investors, management or regulation?
- Are you taking full advantage of the potential efficiencies to be derived from automated information gathering?

Getting Started

Not every organization will be ready or able to commit to the full Integrated Reporting journey. For those that aren’t there are some simple practical actions to get started:

- Undertake a diagnostic analysis of existing financial reports and supplementary capital markets communications, sustainability reports and report automation.
- Use this analysis to develop a fit-for-purpose reporting strategy focused on improving the basis for capital allocation, streamlining reporting processes, reducing reporting costs and improving organizational clarity as to the business strategy and business model.
- Businesses can experiment internally with the Integrated Reporting Framework, XBRL business reporting taxonomy and industry KPI libraries as they calibrate their internal reporting processes and systems to deliver integrated reporting to the board and executive teams.
- Such reporting can be delivered externally in enhanced existing reports and then in an Integrated Report when the capital markets are judged to be ready to use it effectively in their decision making.
- Over a period the reporting strategy will become ‘business as usual’ through the ongoing reporting process and a development of a reporting team with the knowledge, skills and competencies to execute the reporting strategy effectively.
The South African experience
By Mark Hoffman, KPMG in South Africa

Integrated reporting became a requirement for Johannesburg Securities Exchange (JSE)-listed entities with effect from years commencing on or after 1 March 2010. This was by virtue of the King Code of Governance Principles for South Africa 2009 (King III) being a JSE listing requirement. King III recommends that organizations should adopt Integrated Reporting, albeit on the Code’s ‘apply or explain’ basis. In order to facilitate the adoption, the Integrated Reporting Committee of South Africa (IRCs) released a framework discussion paper on 25 January 2011.

…it is about developing an effective integrated management and reporting process for the entire business…
The response

The experience of our clients to date has indicated that once they fully understand the underlying principles and objectives of Integrated Reporting, most see clear benefits in adopting it. The consensus is that current annual reports are disjointed, cumbersome and do not convey clear, understandable key messages to stakeholders. These are sentiments that are not unique to the South African market place.

In South Africa we believe that the adoption of a meaningful Integrated Reporting process will typically be a journey of three to five years for many organizations. This approach is quite plausible given the ‘apply or explain’ approach of King III. That said, organizations should begin work now to realize the benefits as soon as possible.

After a walk-through of the elements and principles of Integrated Reporting, most management teams felt reassured by how easy the framework is to understand and how practical it is to implement, often referring to it as ‘Business 101’. The natural flow of the elements provides a linked view of the business that focuses on material and relevant aspects communicated in a way that a wide range of stakeholders can understand.

In our experience the extent to which the elements and principles are adopted in early reports depends very much on the level of sophistication and maturity of the organization in areas including:

- Risk management
- Strategic objectives and plans
- Performance reporting and business intelligence systems
- Stakeholder engagement
- Sustainability processes and reporting
- Governance processes and reporting.

Organizations often discover shortcomings in these underlying processes that they need to address when embarking on the implementation of their Integrated Reporting process.
The business case
While organizations are obliged to adopt Integrated Reporting in its entirety, there are often aspects of the principles and elements that are particularly appealing from a business case perspective. This means they can prioritize and focus on those areas that have clear business case benefits for the organization and its stakeholders. Some of the emerging business case themes include:

- Aligning reporting with the strategy of the business and focusing on priorities
- Integrating the efforts of all disciplines (especially risk, sustainability, and governance) into the strategic and operational management of the organization
- Streamlining reporting with one succinct report supported by detailed online reporting for specialist users (e.g., annual financial statements)
- Extending stakeholder engagement processes to all aspects of the business instead of limiting these to sustainability considerations
- Demonstrating how the organization's strategy has responded to material issues, and how it has performed against its strategic objectives and plans, to both internal and external stakeholders.

The challenges and realities
Integrated Reporting requires buy-in and commitment from the top, which can only be achieved through the clear communication of a compelling business case for its adoption. The team responsible for implementing the Integrated Reporting process, and ultimately the reporting itself, needs to be representative of all the relevant disciplines within the business. Very often one of the key challenges is to ensure that the multi-disciplinary team combines and coordinates its efforts in building an effective Integrated Reporting process.

The experiences of our South African clients show that implementing Integrated Reporting is an organizational change, and not an event in itself. Organizations need to recognize up front that it is not just about producing an Integrated Report. Rather, it is about developing an effective integrated management and reporting process for the business. This typically requires a zero-base, innovative approach that involves all disciplines within the business and effective engagement with stakeholders.

There are challenges to be overcome along the way, as the South African experience shows. Some management teams were naturally uncomfortable about the thought of disclosing certain strategies, performance measures, and targets, and were concerned about divulging information to competitors, creating expectations and the regulatory requirements on forecasts and forward-looking statements. Others did not have the processes in place to gather information on the non-financial performance measures that are often used to track progress against strategies and took steps to address these shortcomings. They found, however, that the benefits of improved performance measurement justify this type of intervention from a business perspective.

From the front line
South African organizations that have implemented King III share their experiences:

**Vodacom**

“For us integrated reporting has not been a skin-deep, box ticking exercise. It has really helped us manage our business better.”

“King III calls for integrated reporting. For us this came at the right time. With a new Executive Committee at the helm, we were in the process of refocusing our business and building our brand. So we were able to overhaul how we look at ourselves, manage our business, engage with our stakeholders and tell our story, all at the same time.”

Extracts from Vodacom Integrated Report for the year ended 31 March 2011

**Altron**

“[Integrated Reporting] focuses management and others on looking forward rather than only backwards, which has historically been the case with most reporting. It creates a complete and accurate picture of the company.”

“Not necessarily more detail, but greater insight into the strategy, risks and value creation of a company.”

Extracts from an interview with Andrew Johnston, group company secretary of Allied Electronics Corporation Ltd (Altron), on the process followed in preparing the Altron Integrated Annual Report 2011
Some of the early examples of reports that follow many of the principles of the Integrated Reporting Framework, released locally and internationally, have typically included these challenges:

- Reports are still too long
- Silo reporting is still evident in financial, sustainability, governance and operations sections
- A lot of information still has no context
- Key performance indicators are not always relevant to strategies
- Issues from stakeholder engagement are not always adequately dealt with
- Ease of understanding and relevance is still lacking in certain areas
- There is a lack of innovation in structure, content and the use of technology.

That said, much of the work already carried out will be an invaluable guide for other first-time adopters. The challenges noted seem to be typical growing pains. In fact, they are included in many organizations’ adoption strategies as up-front objectives that they need to deal with.

The way forward

South African organizations have shown a positive start in the adoption of Integrated Reporting. Though we are in the early stages of the first cycle, the majority of organizations are demonstrating meaningful progress in adopting the principles and elements of the approach. The concept of Integrated Reporting is new to stakeholder groups as well. It will take time for these groups to achieve consensus on their material issues and reporting needs, which will naturally develop and evolve over time.

The unique aspect of Integrated Reporting is that, while frameworks and guidance have been issued, it is ultimately the corporate reporting community, the sectors within that community and their stakeholders that will define:

- The trends and expectations of integrated reporting
- Best practice and innovations
- The benefits and competitive advantage enjoyed.

Integrated Reporting will be an evolving and engaging process that is ultimately driven by corporate reporters through interaction with their primary stakeholders. This contrasts with the regulated compliance-based reporting culture that corporates have become accustomed to over the years. We are confident that the positive start Integrated Reporting has enjoyed in South Africa will bring about continued development of the concepts in practice and benefits for corporate reporters and their stakeholders.

In brief:

- Our South African clients already see clear benefits in adopting the principles of Integrated Reporting
- Full implementation could take three to five years for many organizations
- Many companies feel the principles of Integrated Reporting have helped them better understand and manage their business
- Implementation requires organizational change at all levels, and is not a single event
- Challenges that will need to be addressed include the efficient gathering of non-financial information.

Key questions

- Are your risk management business performance and corporate responsibility reporting practices and governance processes in good shape, or are they in need of attention?
- Are there any reporting or information gathering shortcomings to be addressed?
- Is top management committed to Integrated Reporting?
- Do you have, or can you create, a truly multi-disciplinary team to see the project through?
The reality for many companies is that environmental, social and governance issues are having an increasing impact on their ability to operate and generate a profit. As part of its overall objectives, Integrated Reporting recognizes that shareholders have a valid interest in understanding how these issues are being managed and the impact they have on the value and sustainability of the business.

…this is not a call for more Corporate Responsibility reporting - it’s a call for more relevant Corporate Responsibility reporting…
Companies themselves have recognized this, and many can now tick the Corporate Responsibility reporting box. They can point to reports that illustrate the significant efforts they’ve made to limit their environmental footprint and benefit the societies in which they operate. So, it should be straightforward to incorporate Corporate Responsibility reporting into an Integrated Report?

Not quite. Integrated Reporting is about more than the physical integration of different corporate reporting components. As we’ve seen, the goals are deeper than this. Integrated Reporting requires the alignment of business reporting with business strategy, presenting an opportunity to demonstrate the linkage between sustainability performance and business value.

This is an area where many Corporate Responsibility reports have been lacking, giving the impression that the preparation of the report – and sometimes the underlying Corporate Responsibility activities – are conducted in isolation from the rest of the business. The scale of the challenge is reflected in a number of common frustrations for investors when they look to understand Corporate Responsibility risks and opportunities. The qualities they need in their Corporate Responsibility reporting are little different from any other business issues:

**Focus on the issues that matter to the business**

In today’s environment, businesses are finding that a select number of Corporate Responsibility issues go right to the heart of their long-term viability. The particular issues may be to do with environmental impact, corporate ethics, employee safety, or others. Their potential impact may be remote but their scale is such that they have major consequences for business value - positive or negative. This does not mean that every sustainability issue or stakeholder interest should be reported to investors. Only some will have the potential to affect value in this way. Identifying these issues is the first challenge for producing a focused report.

The second challenge is recognizing the difference between reporting on Sustainability and reporting on the sustainability of the business. Investors want and need to understand that the business model they have bought into is sustainable in the long term – and managed in a way that secures long term value. This means focusing on those specific aspects of the issue that have a direct operational implication. For example, corporate ethics are relevant across the whole organization but investors’ specific interest may lie in the ability of the business to compete in specific markets while also operating within an ethical framework.

Although a few leading organizations are addressing this, the distinction is lost in many Corporate Responsibility reports. As a result they risk being seen by investors as an irrelevance – a discussion of worthy causes with no apparent link to business value.

**Provide a clear link between strategy, action, and value**

Like any other business issue, investors will expect management to have a strategy for each Corporate Responsibility issue that preserves or enhances the value of the business. Each strategy should itself be an integral part of the core business strategy.

Within the business one would expect to see clear objectives with actions monitored against targets and expectations. Reports need to demonstrate this too – strategies should translate into actions and those actions will have measurable outcomes.

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To reach this point, Corporate Responsibility reporting needs to move away from its specialist roots, and become like any other aspect of operational reporting. Reports written by operations directors with specialist support will reflect business objectives better than those written by Corporate Responsibility specialists.

Those remaining companies that simply provide a list of Corporate Responsibility achievements give the impression that they regard their Corporate Responsibility activity as charitable acts – philanthropic gestures paid for by shareholders rather than a routine investment in the viability of the business. Issues which can affect the long-term viability of the business are too important to be treated in this way.

Investors need to take judgements over the impact of each Corporate Responsibility issue on the business and the steps being taken to address it. This requires a balanced perspective with analysis that is comparable to past reporting and targets, and also wider industry practice. For some, this will mean a shift from thinking of Corporate Responsibility reporting as a public relations exercise, to recognizing the role it plays in investor decision-making and governance. The same standards of corporate reporting should apply here as to any other issue.

The underlying quality of information is a particular challenge for what is still a relatively new area of reporting. Developing systems, processes, and controls to ensure the accuracy and completeness of non-financial information streams are central to the effective reporting (and management) of the issues. This cannot be achieved immediately but there is a clear opportunity for companies to begin to address this.

We welcome the renewed focus that the International Integrated Reporting initiative can bring. After fifteen years of exploring and developing Corporate Responsibility Reporting the time has come to link it to the core business.

The current information gap is not helpful. It leads investors to price in risks that may well be adequately managed, and it leaves Corporate Responsibility issues that should be central to the business strategy on the management and reporting sidelines.

Ultimately though, this is not a reporting issue; it’s a question of governance. Companies that have a clear view of how their Corporate Responsibility risks and opportunities affect their overall strategy will welcome the opportunity to explain what they are doing to investors. Others will need to take a hard look at how their Corporate Responsibility ‘good deeds’ relate to their business strategy.

In brief:
- Environmental, social and governance issues are having an increasing impact on companies’ ability to operate and generate a profit
- Current Corporate Responsibility reports often fail to identify the clear link between sustainability performance and shareholder value
- A more focused approach is needed that identifies the issues that affect performance and value, and the actions that are being taken to address them
- In order to achieve this, Corporate Responsibility reporting needs to move away from its specialist roots and enter the mainstream
- Integrated Reporting will help organizations recognise the role Corporate Responsibility plays in investor decision-making and governance.
Key questions:
Do you have a full understanding of how each Corporate Responsibility programme contributes to performance and shareholder value, and links with overall corporate strategy?

Does the organization have the processes and controls in place to gather and assess the non-financial information required to effectively report and manage Corporate Responsibility issues?

Who has responsibility for Corporate Responsibility reporting? Is the issue under the sole control of Corporate Responsibility specialists, or is there more general business input?
Engaging with Integrated Reporting

The ultimate success of Integrated Reporting depends on the co-operation of a wide range of participants. Businesses will play a leading role in helping to shape principles that will work in practice, both during the consultation process and through extensive field testing.

The International Integrated Reporting Committee (IIRC) comprises a cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society. The stature of the members of the IIRC within their individual organizations, and the diversity of geographies and interests that those organizations represent, make the IIRC an authoritative voice in the evolution of corporate reporting.

...the widespread adoption of Integrated Reporting will depend on the extent of awareness of the potential benefits for the capital markets...
The principal role of the IIRC is to:

- Reach a consensus among governments, listing authorities, business, investors, accounting bodies and standard setters for the best way to tackle the challenges of Integrated Reporting
- Identify priority areas where additional work is needed and provide a plan for development
- Develop an overarching Integrated Reporting Framework, which sets out the scope and key components of Integrated Reporting
- Consider whether standards in this area should be voluntary or mandatory
- Promote the adoption of Integrated Reporting by relevant regulators and report preparers.

The IIRC’s mission is simply articulated. But to achieve this in practice is more complex and three taskforces have been created focusing on Content (development of an Integrated Reporting framework), Communications and Engagement (raising awareness of the need for Integrated Reporting) and Governance (of the IIRC and its work in the future).

One of the first – and most important – milestones for the IIRC is the publication of its Discussion Paper on Integrated Reporting in September 2011. The paper sets out the case for Integrated Reporting (why change is necessary and why Integrated Reporting is the answer) and the concepts, principles and key elements around which an Integrated Reporting Framework can be built. The Discussion Paper seeks to articulate how and why Integrated Reporting will help stakeholders have a better understanding of the ability of an organization to create and sustain value in the short, medium and long term. Importantly, however, the Discussion Paper also considers the relevance of Integrated Reporting from the perspectives of different stakeholders.

Based on the results of the consultation on the Discussion Paper, the IIRC will develop an exposure draft and, ultimately, issue a final version of an Integrated Reporting Framework.

Part of the challenge for the IIRC is not in creating an Integrated Reporting Framework in concept, but how to ensure that such a framework can be applied in practice. To help with this challenge, as one of the mechanisms to inform its work, the IIRC has invited companies to apply to participate in a Pilot Programme which is expected to run through to October 2013. With a ‘kick off’ in October 2011, the first cycle of the pilot (2011/12) will seek to apply the principles of Integrated Reporting as set out in the Discussion Paper and the draft framework. The second cycle (2012/13) will further develop best practice based on the combined experiences of the Pilot Programme companies and other input available to the IIRC.
Those companies selected for participation will benefit from interaction with like-minded leading innovators in corporate reporting, as well as the expert input from the IIRC, IIRC Working Group members and investment professionals. The combined experiences of the Pilot Programme companies will provide invaluable input to the IIRC as it seeks to produce a final Integrated Reporting Framework and develop practical guidance for implementation. The majority of participating companies are expected to be global leaders in their industries and will most likely already be, or aspire to be, innovators or committed to best practice in corporate reporting.

Whilst the creation of an Integrated Reporting Framework is central to the work of the IIRC, the widespread adoption of Integrated Reporting will depend on the extent of awareness of the subject and the potential benefits for the capital markets.

An active communications and engagement programme which builds this awareness and understanding is therefore key to the success of the work of the IIRC. In addition to direct engagement with influential organizations, a key component of this programme is a series of Roundtables being held in key locations around the world. Roundtables have already been held, or are planned, in Asia Pacific (Australia, India & Korea) Europe (Belgium, France, Germany, Italy, the Netherlands, Switzerland and the UK) and the Americas (Brazil and the USA).

The final piece of the jigsaw – the future governance arrangements for Integrated Reporting – looks further into the future, once an Integrated Reporting Framework has been finalized. What these arrangements will look like will be the subject of extensive consultation but will depend, in no small part, on the extent of acceptance of Integrated Reporting and its endorsement by investors and other stakeholders as a primary form of corporate communication.

There is no obligation for any individual organization to take note of the work of the IIRC or to get involved – either as a participant in the Pilot Programme or simply by responding to the current consultation on the Discussion Paper. However, it is in the interest of the corporate world to participate: regulators around the world are looking for change to avoid the problems of the past, and companies need to ensure that they approach the debate proactively and in a constructive manner.

More information about the IIRC can be found at www.theiirc.org.

In brief:

• The development of an Integrated Reporting Framework requires the active participation of all sections of the business community
• The IIRC’s Discussion Paper is the first step in the process and sets out the case for Integrated Reporting
• The next steps for the IIRC will be the development of an Exposure Draft, followed by a final version of the Integrated Reporting Framework
• A pilot programme will be run between 2011 and 2013 to ensure that the Framework can be applied in practice
• Companies participating in the pilot programme will be seen as innovators and world leaders in reporting developments. There is much to gain
Better Business Reporting

Better Business Reporting follows the journey to improved communication with the capital markets and the development of better business reporting frameworks and practices.
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