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ACCOUNTING MATTERS

The business case for integrated reporting: Insights from leading practitioners, regulators, and academics

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Abstract Integrated reporting, a new development in the reporting landscape, seeks to concisely communicate a firm's value through a more holistic picture that integrates financial and non-financial information. This practice is in its infancy in the United States and Europe, with many firms unsure of what integrated reporting is, what its benefits are, and even how to set it up. Drawing upon transcripts from 19 unstructured panel interviews at a global symposium on the subject, we discuss the business case for integrated reporting, as well as the multitude of challenges a firm faces when beginning its integrated reporting journey. We also summarize experiences and tips from interviewees on the need for integrated thinking, the most effective use of the International Integrated Reporting Council's framework, the best way to obtain high-quality data, the ideal audience of such reports, and the options for report assurance.
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1. An overview of integrated reporting

There is a high demand for corporate reporting on integrated financial, social, and environmental metrics (Stewart, 2015). This demand comes from a broad set of stakeholders, ranging from customers and suppliers to investors and employees (KPMG, 2013). To address this demand, integrated reporting offers a focus on long-term performance from various perspectives. Gone are the days where financial performance is the only measure of a company's worth.

Integrated reporting is a relatively new development. It seeks to offer a more holistic picture of the modern corporation by shifting away from stand-alone sustainability or social responsibility reports, and toward a document that communicates a broader picture of business model value creation. Adopters of integrated reporting believe that it makes a firm's strategy more transparent and that it instills greater confidence in the sustainability of the firm's business model. Yet despite a growing demand for transparency, very few U.S. firms are currently issuing an integrated report (KPMG, 2013).

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1.1. What is integrated reporting?

The International Integrated Reporting Council (IIRC), chaired by Professor Mervyn King, is an international coalition of regulators, investors, companies, standard setters, accounting professionals, and NGOs who share "the view that communication about value creation should be the next step in the evolution of corporate reporting" (IIRC, 2015). It defines integrated reporting as "a concise communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term" (IIRC, 2015).

Integrated reporting includes non-financial information on environmental and social metrics, but goes much further to integrate these metrics with the traditional financial report. Non-financial metrics are included to the extent they create value for the business with the aim of better communicating a holistic value creation. Integrated reporting is a wakeup call to traditional reporting, which has reduced a business to "mere numbers, and in so doing have missed the bigger picture of what a business really is" (M. Hoffman, personal communication, May 19, 2014). While traditional accounting focuses on financial results only, the goal of an integrated report is to communicate how value is created beyond dollars and euros. An integrated report maintains the traditional audience of providers of financial capital and, if operationalized correctly, may enhance the usefulness of information to investors via a complete representation of operations.

With a plethora of possible formats, it is difficult for a company to decide how to report their financial and non-financial information. The traditional annual Form 10-K requires little non-financial information, whereas stand-alone non-financial reports (e.g., CSR report, greenhouse gas emissions report) focus on information from one viewpoint. The integrated report bridges the gap by including non-financial information relevant to communicating a business's strategy. Appendix A provides the typical content of the four most common reports: the annual financial report, integrated report, CSR report, and greenhouse gas emissions report.

1.2. Adoption of integrated reporting

South Africa is the home of integrated reporting. It is still the only country in which integrated reporting is mandatory for listed companies. Many companies here are in their fourth year of preparing integrated reports and have begun to realize the synergies inherent in considering their business model as a whole (L. Roberts, personal communication, May 19, 2014). In the United States, this form of reporting is in its infancy; while 51% of the 100 largest companies combine non-financial and financial information in their annual report, it is often done in the form of a special purpose section (KPMG, 2013). This combined reporting is a step toward integrated reporting, but does not provide a full picture of the company's business performance as intended under the IIRC framework; only 3% of company annual reports that include corporate responsibility information qualify as integrated reports under the IIRC framework (KPMG, 2013).

There are many international settings in which integrated reporting is likely to take hold; for instance, 73% and 71% of companies in Europe and the Asia Pacific, respectively, already release some form of non-financial reporting. In addition to South Africa, the Brazilian and Australian stock exchanges have made recommendations for companies to disclose integrated reports (KPMG, 2012). As the IIRC framework was only recently finalized, the prevalence of this reporting is likely to increase in these areas and in others. It is therefore necessary for managers across the globe to understand the business case for integrated reporting.

1.3. Early adopter: A closer look at South Africa

The history of integrated reporting in South Africa is an interesting case in point. The story begins in 1994, when there was a deep distrust of South African institutions and corporations in the post-Apartheid era. To restore public confidence in the nation's businesses, Mervyn King was hired by newly-elected President Nelson Mandela to establish the King Committee on Corporate Governance (WBCSD, 2014). This Code came in the form of a series of reports[1] issued from 1994 to 2009, which urged firms to provide accountability to their stakeholders through transparent and reliable reporting. With the onset of the recession in 2008, it became evident that traditional annual reports no longer adequately addressed the risks faced in sustaining a business model. Thus, in 2009, King III acknowledged the

[1] The King I report was released in 1994 and urged corporations to disclose non-financial information and involve all stakeholders in their business. King II was released in 2002 and encouraged corporations to broaden responsibility beyond financial results to include social and environmental metrics. Upon this release, the JSE required companies to include a narrative statement in their annual report describing how they complied with principles in the Code (KPMG, 2012).

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