TECH Practices

By Brad J. Monterio

Integrated Reporting and Corporate Disclosure

French writer Victor Hugo once said, "Change your opinions, keep your principles; change your leaves, keep intact your roots." This can be interpreted in a couple of ways, but I understand it to mean that although we need to remain grounded—deeply rooted—in our foundations and what makes us unique, we also have to accept that change will occur—our leaves will come and go. In other words, the world around the management accounting profession will change. But our profession's reason for being remains in place, and we adjust to the environment around us. This is called evolution.

A Tree Called Progress

With the advent of integrated reporting as the next stage in the evolution of corporate disclosure, change is in front of our profession: change in the type of information being reported; change in the way in which information is gathered, analyzed, and shared with stakeholders; and change in the complexity and format of information. Weaving throughout it all is change in the technologies and capabilities that allow us to easily share company information with a growing universe of internal and external stakeholders. Shareholders are no longer the sole or primary consumer of corporate information, yet they are still important. In fact, they're one of our "intact roots." But new leaves and branches have begun to grow on a tree called progress. Integrated reporting is one of those branches, and with this change and growth comes opportunity.

What Is Integrated Reporting?

A mere five years ago, integrated reporting was barely on the radar with only a few hundred thousand hits in a typical Google search. Today it scores more than 37 million Google hits, indicating it's much more common in the business vernacular thanks to the efforts of organizations like the International Integrated Reporting Council (IIRC), IMA®, ACCA (Association of Chartered Certified Accountants), and the dozens of other organizations collaborating around the world on this topic.

The IIRC defines integrated reporting as "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation."

If you were unfamiliar with the term to begin with, I suspect this definition doesn't help much. But there are plenty of resources to give you some background (including articles in *Strategic Finance* and on the IIRC website). For more insight on this definition, see the IIRC's December 9, 2013, release of its first official framework and guidance for creating an integrated report at www.theIIRC.org. The IIRC definition has evolved to describe integrated reporting as an overall process that communicates how a company creates value, not simply as the act of creating a report.

So what about the new Integrated Reporting Framework? The IIRC undertook a deliberative, multiple-stakeholder development process in which IMA participated (see IMA's December 10, 2013, press release, "IMA Outlines Actions to Transform Corporate Reporting," on its website for details). The global framework and guidance around it are intended to assist companies and the management accountants within them in shifting culture, adjusting to an evolving reporting environment, enhancing the quality of disclosures, and digging deep into their *raison d'être* (their intact roots) to more accurately convey their stories and define the value they hope to build over the short, medium, and long term. According to the IIRC, it developed the framework to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time;
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies; and
- Support integrated thinking, decision making, and actions that focus on the creation of value over the short, medium, and long term.

As Ocean Tomo's 2010 study, "Intangible Asset Market Value," points out, more than 80% of a company's value is found outside the financial statements in information not traditionally found in typical corporate disclosures such as annual reports, 10-Ks, and the like. Something isn't working with legacy disclosure models to fully convey value. The advent of concerns by investors, regulators, and others over corporate social responsibility, sustainability, governance, and risk has raised demand for ESG (environmental, social, and governance) data from companies to better describe value. The value now found off the balance sheet is in other information sources, including the ESG data set.

Leaves Are Changing

The 37-page framework is a relatively easy read. Inside you'll find three main sections:

- An introduction that explains the process of integrated thinking and reporting as well as a review of fundamental concepts like value creation and the concept of capitals (e.g., financial, natural, human) and stewardship of those capitals, which helps explain how to use the framework;
- A description of the Guiding Principles (e.g., connectivity of information, materiality) and Content Elements (e.g., business model, risks and opportunities) that helps define what goes into an integrated report; and
- A glossary of important terms (some different from what you may be used to and some new) and an appendix of requirements that companies should follow in order to hold their reports out as truly integrated reports.

Some of the concepts described in the framework may be somewhat new to you as a management accountant, such as the role of all six capitals in the business model description. Others may feel very familiar, such as providing an organizational overview. It's precisely this mix that Hugo's quote makes me think about—changing your leaves by adding new methods, information, and perspectives to corporate reporting but keeping your roots intact by building on the familiar. Corporate reporting won't change overnight. Change has to seep in.

With Change Come Challenges

Along with its framework, the IIRC simultaneously published two other documents. "Basis For Conclusions" sheds light on how the IIRC resolved the major technical issues raised by respondents to its prior Consultation Draft of the framework, and "Summary of Significant Issues" supports "Basis For Conclusions" but isn't considered part of the framework. It, too, tackles some of the technical issues raised during the public comment period. Both are important in what they say and don't say. I'm alluding to additional challenges, particularly those related to the role of technology in integrated reporting (the process, not just the report).

There were several meaty issues raised in the review process and covered by these two supporting documents:

- Whether to keep a principles-based, rather than a more rigid rules-based, approach to the framework;
- Balancing that with trying to keep flexibility in the framework rather than being too prescriptive in content and structure;
- Weighing that against the need for comparable information across peers and sectors;
- The definition of materiality and how it applies to an integrated report;
- The desire for guidance on a set of good key performance indicators (KPIs) for all preparers to use;
- The need for independent assurance (and, of course, the accompanying assurance standards) and how that should be handled, if not required;
- Balancing the need to share information about future prospects and growth with concerns over doing commercial harm to a company;
- The relationship of an integrated report to other communications from the company (e.g., annual report, 10-K, sustainability report) and whether it's a stand-alone communication;
- Clarifying the target audience and intended use of the report;
- The difference between capitals and resources; and
- The role of technology.

How can technology resolve challenges anticipated with integrated reporting?

Opportunity—the Role of Technology in Integrated Reports

In the prior IIRC Consultation Draft, a guidance section existed on the use of technology in integrated reporting. Although the IIRC removed this from the final framework document, technology has an important role in the integrated reporting process.

In "Summary of Significant Issues," the IIRC identifies issues raised by respondents when answering its question as to whether organizations are capable today of fully leveraging technology for integrated reporting. The respondents indicated "that neither report preparers nor providers of financial capital are prepared to effectively leverage technology for [integrated reporting]." Other public comments included a concern that technologies suggested in the Consultation Draft were too limited or too focused on XBRL (eXtensible Business Reporting Language) and that an organization other than IIRC should prepare a taxonomy or interactive data standard for integrated reporting.

In its response to this matter, the IIRC stated, "Technology is regarded as an enabler of, rather than a prerequisite for, the preparation of an integrated report. It is anticipated that as reporting technologies continue to evolve, and as report preparers become more adept in their application, these technologies will become increasingly important in [integrated reporting]. However, as the use of technology relates more to the process that supports report preparation, rather than to the content of that report, the guidance in Section 5I of the Consultation Draft has not been retained."

Although I agree that the reference to a specific technology may not be appropriate for a framework, technology is an important consideration in any guidance material surrounding a reporting framework document.

As the management accounting and finance profession evolves, technology plays an increasingly important role. There have recently been murmurings in the ether about the emergence of a new hybrid breed: the CFTO (chief financial and technology officer). Technology is mission critical to business and will continue to have a central role in the finance profession. To limit its role to that of an enabler fails to fully recognize its power in the reporting process. Cloud-based solutions such as Software as a Service, Infrastructure as a Service, and even Data as a Service are moving into the mainstream for businesses, including small and medium enterprises (SMEs), bringing new powers and capabilities. Tools that parse Big Data and unstructured information for decision making, benchmarking, business intelligence, and corporate reporting are already accessible today. Open-source solutions exist for almost any primary technology and data need at a company, and this includes gathering and analyzing both financial and nonfinancial ESG information. Emerging technologies that process virtually any format of information in fractions of a millisecond are soon going to radically change the way companies manage, analyze, and share their information whether for internal management reports, regulatory filings, or integrated reports.

Connecting XBRL to Integrated Reporting

When I think how important it is to show connectivity of information in an integrated report (in other words, to show the relationships of content in the report), XBRL or structured data standards come immediately to mind. Through the nature of its design, XBRL allows a company to digitally connect information to other pieces of information, as well as to authoritative literature for accounting standards or sustainability reporting guidelines, such as those from the Global Reporting Initiative (GRI). Understanding how capital flows through and changes because of the organization's business model could be accomplished more easily by a technology like XBRL to connect that information throughout the process. Software using the XBRL tags on information would be able to sort information for investors, analysts, nongovernment organizations, media, and regulators to better understand those capital flows.

Similarly, technology could be used to manage comparability of information across reports. The software tools would know—say, through XBRL tags—that a data point from one company is the same data point for comparison purposes with that of another company, regardless of how that data point is labeled in the report.

Organizations also want to know that their information is accessible, reusable, and reliable. Interactive structured data standards like XBRL can help them accomplish this. It's currently being used to report and share financial information by listed companies representing more than 75% of the world's total market capitalization. They already reap the benefits of connectivity, comparability, access, and reusability. Integrated reports will reap the same benefits—and perhaps more—particularly as new technologies emerge that allow users of data to go to the corporate website and create their own integrated reports from *à la carte* menus as already seen with SAP, Southwest Airlines, and others.

Technology is mission critical to business and will continue to have a central role in the finance profession.

It sounds to me like many leaves are changing: new technologies, capabilities, reporting standards, practices, stakeholders, models, and measures. But what stays constant is the management accountant and finance professional, rooted in a solid foundation and discipline best poised to leverage technology as new reporting practices like integrated reporting come into being. **SF**

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