

Towards Integrated Reporting Business in the Community Response

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Background

Business in the Community (BITC) stands for responsible business. We are a business-led charity with a growing membership of 850 companies, from large multinational household names to small local businesses and public sector organisations.

Through tools such as the Corporate Responsibility (CR) Index, BITC has been promoting an integrated approach for several years. Integrated Reporting builds on this, connecting an organisations strategy, governance, performance with the commercial, social and environmental context within which it operates and critically better communicating this information with stakeholders.

Although we have consulted with our members, what follows is not a consensus of their views and many of them have submitted their own responses to the Discussion Paper.

Response to consultation questions

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Yes. There is a significant gap in how well companies communicate the connectivity between economic, social and environmental aspects of their operations. From recent events in the financial markets, it is clear that traditional financial performance indicators alone do not provide holistic view of an organisations performance.

In 2010, BITC produced a piece of research using data from BITC's CR Index which found that FTSE 350 companies who consistently manage and measure their corporate responsibility outperformed their FTSE peers on total shareholder return in seven out of the last eight years (http://www.bitc.org.uk/resources/publications/the_value_of.html).

Recent research including the TEEB report have started to place a financial value on the natural capital and ecosystem services that businesses currently regard as externalities. It is increasingly suggested that in the future we will no longer be able to disregard the value they offer and the environmental, social and economic costs of depleting them.



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(b) Do you agree that this action should be international in scope? Why/why not?

Yes. Business is more global than ever before, even national companies must deal with increasingly international supply chains, partners and competition. Without complete coverage by the reporting entity the reports will be flawed.

The need for an integrated approach is just as prevalent in emerged and emerging economies as developed ones. An internationally acceptable framework must be inclusive and collaboration with other countries is important.

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

Yes. However, we emphasize that a single Integrated Report cannot satisfy the information needs of all stakeholders. Therefore Integrated Reporting does not negate the use of other reporting channels or specific, detailed functional reports.

It is also important to note that in order to report information in a connected way; organisations will need to embed responsible business practice into their operations first (Identifying the key social and environmental risks and opportunities to the business and its stakeholders, then addressing these through strategy, policies and management processes).

An Integrated Report is intrinsically linked to integrated management of social and environmental issues, and will help businesses to prepare for a future where these issues are given a market value in the same way as carbon has been in the last few years.

We also would encourage an alignment with internal financial systems and data capture – so that there is only one process in use within a company.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

Yes. Please see response to question 1(b).

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

As a primary user of reported information the initial focus of Integrated Reporting should be on investor needs. However, it should also take into consideration the information needs and practices of decision makers and management within organisations to ensure better management of companies in addition to better information for stakeholders. Other audiences and smaller organisations needs can be developed over time, especially given the positive benefits that an integrated understanding of the costs of externalities can give in the long term planning of the business.

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Yes. We agree that the concepts and high level principles of Integrated Reporting will be applicable across different types of organisations, which stand to benefit from understanding and applying these. The detail of what is included in reports may differ between organisations.

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Yes. It is important that organisations communicate their ability to create and sustain value and that this is informed by the material social and environmental risks and opportunities faced.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

As a model it is useful to understand how different capitals are utilised to create and sustain value. It is important to note that from an investor's perspective it may be that future financial value is the primary concern and therefore how the business model and other capitals influence and affect it.

Apart from creating value, companies can also have negative impacts and externalise costs that affect the capitals. It is important that Integrated Reporting aims to provide a holistic view of a company's operations, including any negative impacts that it may have and how it aims to mitigate these.

Pragmatically, the use of multiple capitals is only of use if stakeholders accept and value this approach – it is questionable if the investment community accept and value it.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Overall, the Guiding Principles provide a sound foundation for preparing an Integrated Report. It may also be useful to provide additional guidance on the timeliness of information i.e. Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions (GRI, 2011). This is especially important for the investment community.

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

Yes. The content elements provide a sound foundation for preparing an Integrated Report. However, a single Integrated Report cannot satisfy the information needs of all stakeholders in a concise and meaningful way. The content of the primary report may be limited to information that is deemed most important and useful. There is still a requirement for more detailed information to be communicated through other channels.

Q9. From your perspective:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

Yes. As a membership organisation our vision is for every business to act responsibly and so ensure a sustainable future for all. Integrated Reporting we can play a role in how BITC:

- Transforms Business: Businesses that recognise the need to plan long term, value and account for natural and human resources and innovate for a changed global landscape will have the viable, successful business models of the future.
- Transforms Communities - Society stands to benefit from organisations displaying greater stewardship for the environment and other stakeholder interests.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

Yes. There are significant technical challenges for organisation information systems and investment tools that incorporate financial and non-financial factors. Changes in policy across the board will also be a challenge to implement. Perhaps one of the biggest challenges in our view is that of short-termism in current business planning and reward cycles. Strong business leadership is required to shift accepted thinking and practice in this area.

(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Yes. We believe Integrated Reporting will play a vital role in driving disclosure that is useful for integrated analysis. However, we acknowledge that there is still a significant gap between information included in CR/Sustainability Reports and being able to quantify that information in a way which is meaningful to the investment community.

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

Yes. We agree with the actions listed in the Discussion Paper.

(b) What priority should be afforded to each action? Why?

Running the two year pilot programme should be the first priority, as the learning from this process will be crucial to understanding limitations and in due course the development of a working framework. Next, a simultaneous outreach programme is important, in order that those stakeholders who will need to accept new methodology are bought in, and that embedded short term cultures have started to change by the time the pilot is complete. Framework, measurement and reporting practices and harmonization are of equal important to ensure that there is one accepted future methodology and not several varying versions. Governance of the process is a high priority, so as to ensure consistency and transparency.

BITC initiatives linked to Integrated Reporting:

Since 2002, BITC has promoted an integrated approach to managing and measuring responsible business practice through the CR Index, a tool that challenges and supports large organisations to integrate responsible business practice. See www.bitc.org.uk/crindex

We are supportive of the work the IIRC is conducting and will be running a session on CR reporting, integration, materiality and communications at the Responsible Business Convention 2012, where we will hear from Paul Druckman, CEO, IIRC. See www.responsiblebusinessconvention.org

Yours faithfully,



Stephen Howard
Chief Executive