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Professor Mervyn E. King  
International Integrated Reporting Council (IIRC)

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**Comment Letter on IIRC Discussion Paper “Towards Integrated Reporting: Communicating Value in the 21st Century”**

December 23, 2011

Dear Professor King,

We are delighted to have the opportunity to provide our comments to the International Integrated Reporting Council (IIRC) regarding the discussion paper “Towards Integrated Reporting: Communicating Value in the 21<sup>st</sup> Century”.

We are convinced that the initiative of the IIRC provides the right direction regarding the development of future company reporting. Especially the creation of an internationally accepted framework is highly appreciated. From our point of view one key factor for the success of the framework is its acceptance not only internationally but also nationally.

Current reporting practices surely have their shortcomings. With its concentration on mostly financial aspects instead of illuminating the value-creation process in all its facets and the increasing length and complexity of reports, mentioning only two reasons there is ample evidence for the need for change in corporate reporting.

In our comment letter which we are pleased to enclose in this e-mail we would nevertheless like to address a number of additional issues for your consideration.

We are looking forward to further contributing to the development of the IIRC framework not only through our participation in the pilot programme but also through commenting on the ideas and developments of the IIRC on a regular basis.

Yours sincerely

EnBW Energie Baden-Württemberg AG

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**APPENDIX:  
Responses to Consultation Questions**

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

Yes, we believe that action is needed. Company reporting has always concentrated on financial aspects. One reason might be that human or social capitals are rather unquantifiable and thus not easily included in mathematics, numeric models. Especially the strategic orientation and the value-creation process are so far presented rather insufficiently. Hence a broader view is needed. The financial crisis could be seen as the latest trigger which made people rethink. Investors do increasingly take environmental, social and corporate governance data into account for their decision-making processes. These topics are currently not covered adequately in year-end reports.

Due to always extending accounting regulations and compliance requirements annual reports are becoming more elaborate and complex. This is detrimental to reader-friendliness of reports. Current reporting practices need a re-evaluation as they are neither succinct nor do they focus on the value-creation process as presented in the discussion paper.

Another problem is the amount of different reports published by a company, be it compulsory or voluntary. Every report is tangent to the value-creation process. Still, the various report creating processes are often completely disjoint from each other.

We are certain that it would be desirable to change the focus of reporting towards the value-creation process as a whole in order to make it easier for stakeholders to evaluate the company's business model and long term success. Nonetheless, rethinking annual reports and the depiction of the value-creation process is an on-going process which will take great efforts, the success of which is based on internal commitment and active engagement by various departments. We are optimistic that sustainability as well as environmental, social and corporate governance (ESG) data will gradually become an integral part of annual reports.

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

We believe it is absolutely necessary that this project is conducted on an international basis. Only this ensures that all relevant parties and bodies are involved from the beginning so that the new framework represents an international consensus. Otherwise each nation or standard setter creates its own standard, which leads to additional reports, with overlapping contents.

Moreover, multiple reporting requirements will undermine the basic idea of "integrated thinking" of the IIRC. Introducing an additional reporting standard might lead to increasing bureaucracy and ticket boxing cannot be desirable. As one can see with accounting regulations there are cur-

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rently specific regulations for each country. Even on an international basis there are at least two important standard setters, the IASB and the FASB. This confronts multinational companies with the difficulty to comply with several accounting regulation sets.

An internationally accepted widespread framework would facilitate the comparison among companies, and support investors to make substantiated investment decisions.

For the new framework to be nationally and internationally accepted it is important to be compliant with national jurisdiction, as otherwise the above mentioned advantages could not be realized and corporate reporting in general would only get more complex than it already is.

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

In our opinion it is very important to have not only an elaborate explanation of Integrated Reporting available which ensures a common understanding of the term itself but to also provide a concise definition. Hence we embrace the approach taken by the IIRC, to have formulated both versions. The shorter version might even become more succinct over time when a common understanding of Integrated Reporting is widespread.

As for the concrete wording we would suggest a more elaborate explanation to clarify and to emphasize the meaning of “integrated thinking”. As the term as such is not yet common and at the same time constitutes one of the true selling propositions of the IIRC we would suggest a further elaboration of the definition which would clarify and lay out the basic idea of “integrated thinking”. A brief clarification could include the necessity of linking different business divisions, especially finance, strategy, sustainability and communication.

We believe in an initial strong focus on investors. But concentrating only on investors might send an unintentional signal concerning the goals of Integrated Reporting. In our opinion it is vital to address the most important themes and topics for all important stakeholders equally in the long term as otherwise some groups might not feel appropriately addressed by Integrated Reporting.

Finally, we were not sure how to interpret the sentence *“Such a report enables evolving reporting requirements, market-driven and regulatory, to be organized into a coherent narrative.”* correctly. We are not convinced that Integrated Reporting will flourish the most in the beginning if it is compulsory and regulated by administrations instead of becoming a process with its own dynamics driven by the companies and their stakeholders. Whilst Integrated Reporting is still in its early stages overregulation and bureaucracy act as a brake, in the long run however binding regulations will help set stable circumstances.

On a different note, the terms “stewardship” in line 6 and “resilience” at the end of the second paragraph are not sufficiently pellucid. A brief explanation what is precisely meant by the two terms would be helpful.

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

Yes, we do support the development of an International Integrated Reporting Framework. As already mentioned above current reporting practices have their shortcomings:

- Company reporting to date mainly concentrates on financial aspects instead of illuminating the value-creation process in all its facets, including the interdependence between financial- and non-financial issues.
- Due to accounting regulations and compliance requirements annual reports of companies are getting more and more elaborate and complex, turning readers away from corporate reports. This tendency is supported by the increasing amount of reports released by companies.
- Non-Financial topics such as sustainability and corporate governance gain importance for the success of a company. Among other stakeholders, investors seek indicators to measure sustainability quantitatively. Hence, indicators evaluating environmental, social and corporate governance topics are increasingly relevant.

At present, the importance of Integrated Reporting is widely discussed. We concur with many observers that are convinced that a change of current reporting practices is necessary. We believe that there is a need for an international framework, which accords with national rules. Integrated Reporting would enable companies to present the required information more concisely and it would help overcome the current known shortcomings of reporting.

*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?*

From our point of view, to initially focus on larger companies has benefits. To implement 'integrated thinking' and to collect all the necessary data needed for an integrated report is highly challenging. Most SMEs will not have the capacities to shoulder such a process without clear directions and support.

As already mentioned above, investors more and more ask for additional non-financial information. To enable investors to make sound decisions larger organizations are interested in delivering the required information. It is also expected that information which is relevant to other stakeholders is also relevant to investors. This means that the focus on investors in a first step seems to be the right approach. We are however convinced that all stakeholders must be addressed equally in the long-term. It has to be taken into account, that if an integrated report exclusively focuses on investor needs, other stakeholders like NGOs, politics etc. will never fully accept an integrated report as an eligible resource. Moreover, if Integrated Reporting puts an emphasis solely on investors the IIRC runs the risk of not paying enough attention to social and ecological issues and their wider societal implications of corporations.

To widen the scope of the reporting framework from the beginning might endanger to achieve the set goals within the ambitious timeframe.

*(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and non-for-profit organizations?*

Basically we support the idea that the concept for Integrated Reporting is equally applicable for small and medium enterprises and other organizations. However, from our point of view it de-

depends on the final framework. Maybe there needs to be a downsizing especially for small companies in order to reduce the reporting burden (cf. IFRS for SME). Generally, the idea to depict the value-creation process more widely is certainly just as relevant for SMEs as it is for larger companies. Whether there is an additional value if the public sector and non-profit-organizations report according to a future IIRC framework is open for debate.

*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?*

We agree that the organization's business model and its ability to create and sustain value in the short, medium and long term should be central themes for the future direction of reporting. Especially the medium and long term prospects have often been neglected by investors. It can be neither in the interest of the company nor the interest of the majority of stakeholders to disregard long-term success of the company. Hence, it is vital to create a set of reliable and sound performance indicators (KPIs) as well as to provide a meaningful narrative of the company's strategy to allow all stakeholders to draw conclusions on the company's outlook. It will be a challenging undertaking to satisfy the requirements for strategy, materiality and completeness of indicators. In particular further guidance is needed on the number and set of KPIs. Maybe a list of possible KPIs could be added e.g. as illustrative examples or application guidelines in the final framework.

It is probably a legitimate approach to use established standards in the financial and sustainability realm. For example, the IASB regulations or the sustainability standards like the G3/ G3.1 Guidelines could serve as reference points. A possible alternative regarding sustainability topics might be the "Deutscher Nachhaltigkeitskodex" (DNK), which limits the number of indicators to a bearable minimum.

Also, we approve of the approach that a business model is highly dependent and thus shaped by external factors such as the availability of financial, natural, human and social capital. This interdependency must be depicted and reflected in an integrated report.

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

We endorse the concept of multiple capitals, as we believe that only the combination of different resources and capitals ensures the long-term viability of an organization. In the medium to long-term the concept of capitals provides the opportunity to overcome the rather antiquated differentiation between financial and non-financial capital.

All capitals highly affect the company's prospects when it comes to creating and sustaining value. Disregarding either side will lead to false, one-sided evaluations. All capitals should be included whether they are quantifiable or displayed in a qualitative approach. Especially the 'social' capital as described in the Discussion paper is commonly underestimated mostly because it can hardly be described in a monetary way.

Unfortunately, all stakeholder groups tend to focus on certain capitals and neglect others. It is going to be one of the major tasks of Integrated Reporting to plausibly depict the entanglement of all capitals therewith hopefully broadening the view of investors, NGOs, politicians and analysts.

Further specification how the capitals should be integrated in the report, and how to make use of the capitals, once identified, would be helpful in the actual process of reporting the information.

*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?*

To us, three of the five guiding principles mentioned in the discussion paper are particularly crucial.

The first principle we want to stress is “connectivity of information”. We agree that the traditional reporting in silos and the silo thinking which goes along with it does not pay justice to the complexity of modern companies. The connection between different components of the organization is decisive as all business units interact and influence each other. Companies which do not encourage cross-border-thinking will most likely fail to achieve their strategic goals.

Nonetheless it has to be considered that interdependencies are complex and thus not easily depicted. Hence, this principle still needs to come to life with the help of concrete and operative directions, which explain in how this might be reported – more guidance is needed.

With regard to the second principle “Responsiveness and stakeholder inclusiveness” we believe that next to investors other stakeholders need to also be heard and considered. Integrated reports can help to give other stakeholder groups a voice.

Last but not least, we want to emphasize the principle of “conciseness, reliability and materiality”: lengthily described information will only cause mistrust in readers as it might give the impression of working as a distraction. On the other hand writing fragmentary reports will also cause skepticism as relevant information might be left out. It is hence vital that companies identify all relevant aspect that need to be reported, which is highly challenging. Using common standards, such as IFRS or the G3/ G3.1 Guidelines and DVFA/EFFAS criteria might help to ensure integrity.

As for “future orientation”, we agree that it should be a guiding principle, but it will be complicated to communicate credibly as plausible causal connections are very difficult to predict. Moreover, liability risks might occur. Liability risks are a major conflict, as they might discourage companies from supporting Integrated Reporting. Therefore, not only quantitative but also qualitative information should be able to fulfill the requirements if needed.

And as a suggestion, or idea for further thought we think that, strategic focus and future orientation might work better if combined as one principle. For us the idea of Integrated Reporting means that strategy must consider long-term interests.

Moreover, there is need for further discussion whether strategy and future orientation both need to be included as guiding principle as well as content element.

*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?*

From our point of view the content elements provide a sound basis – collectively and each individually. However, it should be made clear whether each of the content elements is relevant to the same extent or whether a weighting should be included. Therefore, it would be helpful if the Framework would describe the meaningful (relative) weights to each of the indicators. Also, it would be good if the content elements were further substantiated to allow more transparent, consistent and coherent appliance of the framework.

In order to help companies prepare an integrated report a section of illustrative examples and application guidelines as e.g. in the IFRS to further understand the meaning and relevance of the elements would be desirable. In our point of view especially the interdependencies shown in an integrated report need to be addressed more explicitly in the framework in order to enable organizations to fully understand the importance and meaning. We would also propose to further explain the way of how such interdependencies could be measured. It would be helpful if some examples of possible KPIs are included in the framework this could also be in reference to already existing frameworks offered by IFRS, DVFA/EFFAS, DNK and the GRI.

*Q9: From your perspective as a reporting organization:*

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

Yes, we do agree with the main benefits of Integrated Reporting as presented from an organization's perspective. An integrated report as described in the discussion paper seems to be able to eradicate some of the shortcomings of current reporting and ensures that contemporary reporting requirements are better met. Integrated Reporting builds on "integrated thinking" which basically demands a new way of corporate thinking encompassing all drivers and capitals.

However, the success of an integrated report greatly depends on its consistent implementation. Therefore, it is vital that operative and concrete directions are added to the framework. Furthermore, the benefits which can be realized will vary immensely depending on the context in which the company operates. From our point of view, only if integrated thinking is completely adopted in the organizational culture and if everybody in the organization lives the concept of "integrated thinking" the benefits mentioned can truly be realized. This concerns primarily the interlinkages and collaboration between the strategy, finance, sustainability and communication department.

In our opinion one additional benefit arising from Integrated Reporting is that besides better information for investors ideally all stakeholders are addressed and considered equally. We believe it is vital to create a better understanding between the different stakeholders.

*(b) Do you agree with the main challenges and responses of Integrated Reporting as presented in the Discussion Paper? Why / why not?*

Yes, we do agree with the main challenges in the Discussion Paper as they briefly describe the potential problems which have to be addressed on the way to an integrated report.

However, from our point of view there are other challenges which should also be addressed:

- A cost-benefit-analysis should be included. The costs and benefits should be clearly addressed and commented. It is for sure that the introduction of an Integrated Reporting process will create costs. These have to be dealt with by companies planning to prepare an integrated report. In the long run, however, a company will only be interested in such a new report if the benefits and added value will be greater than the costs. Therefore, it is also recommendable that in the long-run the new integrated report replaces some of the reports which are created at the moment. This also underlines the importance of the international scope.
- Another challenge which, in our opinion, should be included is the necessity of the implementation of “integrated thinking” in the organization. “Integrated thinking” must be communicated within the entire company; this will cause complications as everybody needs to be on board. Only if this concept is really applied the reporting could be truly integrated.
- One additional challenge might be the definition of materiality and to focus on issues which are defined as material – integrating different (stakeholder) perspectives. Therefore, a sound materiality analysis is crucial.
- Building up a governance system for the Integrated Reporting process is a challenge but it seems to us inevitable in order to support the relevance and reliability of data published in the report. The change towards Integrated Reporting demands complex management and process tasks which do take time and endurance across the company.
- Integrated Reporting requires data that has often not been collected so far, therefore huge efforts of creating processes which collect, select and present the necessary information will be needed.
- It is going to be fundamental to ensure that the readers of the report trust the information they are given, this asks for reliable, recognized KPIs, inquiries of independent experts etc. gaining trust, especially of NGOs, customers and the society, is going to be a major challenge.
- Several stakeholder groups have to be convinced that Integrated Reporting is the timely communication of choice.
- Furthermore, it is important that the new framework is internationally and also nationally accepted.
- Last but not least, summing up a number of before-mentioned arguments, the status and the actual format (structure, number of pages etc.) of the Integrated Report among all other corporate communications has to be specified. Even if the main message is clear, that an Integrated Report should become the primary report of the organization, what will happen to other corporate reports and how will this information be presented in future.

It might be helpful if the IIRC addresses these challenges and publishes additional guidelines with the framework in order to support companies to overcome such challenges. Maybe within the pilot program a list of best practices and examples could be made publicly available.



*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?*

Generally we agree with the next steps proposed by the IIRC. We suggest that the final framework should be available at the end of the pilot programme at the latest in order to enable companies to establish a reporting process in accordance with the framework and be sure that there are no further fundamental changes.

Moreover, in addition to the framework a paper with application guidelines and examples would be necessary to create a common understanding of the contents of the framework. Guidelines explaining how “integrated thinking” could be implemented in a company would be helpful.

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

From our perspective, the following priority should be given:

1. Pilot Programme
2. Framework
3. Harmonization in order to guarantee an international acceptance
4. Outreach
5. Measurement and reporting practices
6. Governance

At some point the final status of an Integrated Report (in comparison to other corporate reporting requirements) needs to be clarified.

*Q11: Do you have any other comments that you would like the IIRC to consider?*

Additionally, we have the following issues to address:

The financial and organizational burden of creating several reports could be eliminated with a new framework. This could be mentioned as a further advantage of using Integrated Reporting. It however depends on the implementation of Integrated Reporting and its acceptance internationally.

It is not yet clarified how often such an integrated report should be prepared. In our view it is recommendable to specify this issue. As the goal of the IIRC is to make the integrated report the primary reporting format of a company it would have to be short intervals. Therefore, it should be included in the framework that it is necessary that the relevant data is available at the right time.

In the further process of developing a foundation for Integrated Reporting we consider it vital to add concrete, operative instructions which help understand how Integrated Reporting can be implemented. Descriptions on how to set up a reporting process and establish tools to generate the necessary data in companies are needed in the framework as e.g. in the practical guide. As already mentioned above illustrative examples and application guidelines would be helpful.

— **EnBW**