CONSULTATION DRAFT OF THE INTERNATIONAL <IR> FRAMEWORK

Submission from:

Dr Wendy Stubbs	Dr Colin Higgins
Senior Lecturer	Senior Lecturer
School of Geography & Environmental Science	Deakin Graduate School of Business
Monash University	Deakin University
Building 11, Wellington Road	221 Burwood Highway
Clayton VIC 3800	Burwood VIC 3125

13 June 2013

We thank the IIRC for the opportunity to respond to the Consultation Draft of the International Reporting Framework ("Framework"). The points made in this submission are our personal views and do not represent the views of Deakin University and Monash University. We fully support the development of a Framework to guide businesses wishing to pursue integrated reporting, and encourage the activities of the IIRC towards achieving this outcome.

We provide comments on specific paragraphs of the draft framework below. The points we make are based on findings from empirical research we conducted in Australia in June-September 2012. Our research, funded by the Institute of Chartered Accountants in Australia, involved 23 interviews with 15 early adopting Australian companies. Some of these firms were part of the IIRC pilot, others were interested in reviewing their current reporting activities. We explored the managers' perceptions and understandings of integrated reporting; its benefits and outcomes; and the barriers and challenges to implementing it.

Overall, the intention that an Integrated Report provides insight into how an organisation's activities relates to the six capitals (including social and natural) provides a more accurate assessment of what business organisations can, at present, realistically contribute to sustainability and sustainable development. One of the most significant academic challenges to sustainability reporting is the implication that business organisations *can be* or *are* sustainable[1]. This notion is problematic in terms of keeping the important economic, social and environmental challenges associated with sustainability to the fore.

Integrated reporting provides a more *honest* and potentially *accurate* assessment of an organisation's contribution to these important issues.

1.6 Audience for <IR>

The Framework states that the primary intended audience for an integrated report is financial capital providers, in order to support their financial capital allocation assessments. While some are targeting the investment community, our research showed that many of the early adopters of integrated reporting are targeting their wider stakeholders, not just providers of financial capital. The interviews raised questions about the lack of interest from investor groups in this kind of reporting. Concerns were raised about the increased workload for producing another report (see 1.18) that may not be used by the intended audience. We also found that while the information contained in the Framework are *exactly* the sort of information sought by ESG analysts, they do not access this information through company reports. A number of existing channels exist – these include the use of surveys and direct meetings between funds analysts and company management.

1.18 Interaction with other reports

"The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report…Organizations may provide additional reports and communications (e.g. financial statements and sustainability reports) …" (p9).

Expectations from our research suggest that integrated reporting would streamline the reporting process, rather than increase the reporting burden. That is, most early adopters are expecting that an integrated report would *replace* existing report(s) rather than be issued in addition to annual financial reports and annual sustainability reports. If integrated reporting increases the workload and complexity of reporting rather than simplifying it, then organisations may be reluctant to take it on. It is also important to consider the myriad of other ways that companies communicate with investors and other stakeholders. Many find the idea of a *static*, *annual-type* report insufficient for the detailed and specific discussions they have about the strategic initiatives and value-creation activities of interest to stakeholders.

1.19 Framework does not prescribe specific indicators or measurement measures

3.48 The information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organization

[1] See, in particular, Milne, M & Gray, R 2007, 'Future prospects for corporate sustainability reporting', in J Unerman, J Bebbington & B O'Dwyer (eds), *Sustainability Accounting and Accountability*, Routledge, London.

3.52 The specific information in an integrated report will, necessarily, vary from one organization to another because each organization needs to express its own unique value creation story

A major concern is how to reconcile the lack of standard measures and indicators to be able to compare performance with other organizations with telling the 'unique value creation story'. Integrated reporting early adopters want standards ('rules'), particularly finance managers, and raise the issue of how to compare different companies 'stories' and material issues if there isn't a set of standards and measures. As one finance manager from our research stated, until there is a "*standardised way of looking at the world from an integrated reporting perspective*" and you can compare companies' performance, "*I don't see a lot of meaning other than it makes you feel good*".

1.14 The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations but enables a sufficient degree of comparability across organizations to meet relevant information needs.

This principle is aspirational and one that is hard to disagree with but, following on from the previous comments, what guidance do you give preparers of integrated reports on how to strike this balance? Given that external assurance is optional to "enhance the credibility of their reports … [and] may also provide comfort" (5.20, p32), then how can a 'sufficient degree of comparability' be guaranteed? It is likely that there will be low levels of external assurance as demonstrated by the GRI. In Australia, 13% of the ASX200 have their sustainability reports externally assured[2]. KPMG report that 38% of the N100 use external assurance[3].

3.9 The more that integrated thinking underlies the organization's unique value creation story by being embedded into its activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report. Accordingly, introducing ways to improve integrated thinking within the organization can help drive the <IR> process.

This raises an interesting question. Can integrated reporting only be implemented once an organisation has integrated sustainability into its business [processes] rather than treating sustainability as an 'add-on' to the core business or a public relations activity? We suggest that this is the case. This has implications for take-up and adoption rates of integrated reporting (what percentage of companies have integrated sustainability into their core business?), and accusations of 'greenwash' similar to sustainability reporting.

[2] Australian Council of Superannuation Investors. 2013. *Corporate Reporting in Australia: Disclosure of sustainability risks among S&P/ASX200 companies*. Melbourne: ACSI.

[3] KPMG. 2011. *International Survey of Corporate Responsibility Reporting 2011*. Amsterdam, The Netherlands: KPMG International.