

ANALYSIS OF FRAMEWORK

CHAPTER 2: FUNDAMENTAL CONCEPTS – BUSINESS MODEL (Section 2C)

OUTCOMES

Question 8: Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why / why not?

NOTE: This objective analysis includes only the most prevalent, significant or controversial issues as far as they relate directly to the content of the Consultation Draft of the International <IR> Framework¹, for the attention of the Working Group and therefore not all matters raised in submissions are referenced in it.

Drafting this analysis involved considerable judgment in deciding how to categories comments into issues/themes and how to summaries the underlying positions. Statistics have been included to provide a snapshot and starting point for analysis. Although the statistics indicate the prevalence of different views, due consideration will be given to the substance of all positions expressed.

In total the IIRC received 359 submissions to the Consultation Draft. 352 are included in this analysis. The remaining 7 submissions (of which 6 were late and one was in too complex for collation) are being reviewed separately.

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A – OVERVIEW

A1 Of the 352 total comment letters received by the IIRC, 253 (72%) of the respondents provided a response to Question 8 regarding the definition of ‘outcomes’ in the Consultation Draft. The responses received can generally be categorized into the following categories: (A) Agree, (B) Agree with Minor Modification/Comment, (C) Disagree, or (D) Other. The following table provides a summarized breakdown of the responses received:

Question	Agree	Agree with qualification	Disagree	Other*
Q7. Do you agree with the definition of ‘outcomes’? Why/why not?	52% (131)	20% (51)	15% (37)	13% (34)
	72% (182)			

* These respondents did not directly answer the questions, were undecided, or answered in a manner that was unclear whether they agreed or not.

¹ <http://www.theiirc.org/consultationdraft2013/>.

Question 8 – OUTCOMES

- A2 As noted in the table, nearly 72% of the 252 respondents either fully agreed with the proposed definition of 'outcomes' or agreed with a minor modification or comment, further highlighted by strong support from the following groups:
- 68% of report preparers
 - 96% of providers of financial capital
 - 67% of assurance providers
 - 78% of professional bodies
- A3 Those in agreement with the proposed definition generally cited the following reasons for their support:
- "This definition is very inclusive, covering internal and external, positive and negative consequences. The discussions in paragraphs 2.28 and 2.35 and particularly useful. Including externalities highlights the broader responsibilities of companies and is an improvement over the narrow focus in past reporting frameworks."
 - "[The proposed definition] provides a good connection between the concepts of business model and capitals. In addition, it emphasizes a broader picture of 'results' than the one used in traditional reporting (by including the concept of capitals)."
 - "It embraces the vital point that value creation has positive and negative consequence spanning internal and external dimensions, and affecting wider constituencies of interest beyond an organization's ownership."
 - "We agree with this definition and in doing so also point out an important point... 'measuring the effect on outcomes is preferred to measuring outputs'."
 - "[The proposed definition] effectively captures the intention of elucidating the effect of an organization on its internal and external environment as well as drawing attention to the need to show both positive and negative outcomes."
 - "One of the main strengths of the Integrated Report is that it expands the boundaries by focusing on the management of outcomes. With this greater focus on impacts (positive and negative), companies can evaluate them in the context of its performance."
- A4 Despite an overwhelming majority of responses in support of the proposed definition of 'outcomes', 37 respondents voiced their opposition to the current definition. These dissenting respondents do not appear to be concentrated in a particular region, with responses spread out among Europe (9), Asia (7), Global entities (7), and North America (6).
- A5 The following issues were commonly raised by those dissenting responders, and are summarized more fully in Section B – Key/major issues of this memo:
- Request for additional guidance and/or more clarity in the definition & examples
 - Confusion between the terms "Outcomes" and "Outputs"
 - 'Outcomes' are more accurately defined as "Impacts or Changes" instead of "Consequences"
 - Reporting of externalities

B – KEY/MAJOR ISSUES

REQUESTS FOR ADDITIONAL GUIDANCE AND/OR MORE CLARITY IN THE DEFINITION & EXAMPLES

B1 The overwhelmingly most common response to this question was a request for additional guidance and/or examples to be included in the Framework. Some respondents noted that the relevant guidance in the Consultation Draft is “academic”, “too broad”, “too conceptual” and will likely result in subjective disclosures that will be difficult to compare or evaluate for completeness. The following topics garnered multiple requests for further guidance:

- Definition of ‘outcomes’: *“We believe that the section on outcomes needs a much more robust treatment and that at the moment, the definition of outcomes is too vague and the examples given in 2.35 and 2.36 are too narrow.”*
- Time horizon: *“We propose that the IIRC provide guidance on how the outcomes of the organisation’s business activities and outputs link to value over the short, medium and long term. This is a further area where... more explanatory material could be developed.”*
- Systems / Technology: *“Provide more guidance on the systems that a company could put in place to help them capture impacts from social and environmental initiatives, and ensure robust disclosure of outcomes.”*
- Reporting up and down the value chain: *“The question here is how far do you go in the evaluation of direct or indirect consequences of the company’s activity. It is not easy to distinguish exactly where to stop in recognising outcomes down the chain.”*
- Metrics / Quantification / Monetization: *“We recommend enriching the Framework by listing the proposed impact measures, which the company should use.”*
- Best practice / Examples: *“Setting out links within the final framework to examples of good practice or emerging thinking would be helpful, to show how this has been applied in practice by organisations.”*

CONFUSION BETWEEN THE TERMS “OUTPUTS” AND “OUTCOMES”

B2 Multiple respondents highlighted that there is still a lack of clarity and understanding when trying to distinguish between “Outputs” and “Outcomes”. Some respondents prefer to eliminate one of these terms from the definition of ‘business model’ to eliminate confusion while others requested that further guidance be added to the Framework to explain the nuances of each term.

B3 Translation challenges: The difficulty in distinguishing between these two terms is further complicated when translating the Framework to other languages.

- A Japanese respondent noted that the Japanese translation created further confusion because the same word is used to describe both terms.
- Additionally, a Brazilian respondent highlighted the fact that the term chosen for ‘outcome’ is ‘resultado’ in Brazilian Portuguese. This word had a positive connotation; therefore, the importance of reporting on both positive and negative outcomes was lost in translation. They suggest substituting the term ‘consequencia’ instead to remedy the problem.

Question 8 – OUTCOMES

'OUTCOMES' ARE MORE ACCURATELY DEFINED AS "IMPACTS OR CHANGES" INSTEAD OF "CONSEQUENCES"

- B4 A number of respondents were not supportive of the definition of 'outcomes' in the Consultation Draft, which characterizes outcomes as 'internal and external consequences for the capitals'. Those who disagreed with this definition believe that outcomes are better characterized as 'impacts' or 'changes' to the capitals. One respondent noted that referring instead to 'impacts' (as opposed to outcomes) would align with the approach laid out in the Global Reporting Initiative's G4 Guidelines which focuses on organizational impact.
- B5 Another respondent proposed the following definition of 'outcomes': *"Outcomes are the direct and indirect changes that take place as a result of the organization's business activities, including positive and negative changes to the capitals over the short, medium and long term and positive and negative changes for the organization, its consumers and stakeholders, for society and the environment. Outcomes of the business model are normally intended or planned but can be influenced and affected by external circumstances and systemic risk"*

REPORTING EXTERNALITIES

- B6 Paragraph 2.36 of the Consultation Draft states that "Identifying and describing outcomes, particularly external outcomes, requires organizations to consider the capitals more broadly than those that are owned or controlled by the organization." This paragraph garnered significant feedback from respondents. Generally speaking, most respondents were supportive of the objective of reporting external outcomes and the rationale for including this type of information in an integrated report. One South American report preparer shared this comment *"Regarding external results (or externalities), we emphasize the need for greater rigor in the presentation, because this factor is related directly to the welfare of society as a whole."*
- B7 Despite this support, some report preparers expressed concern about knowing how much information to disclose and how far the reporting boundary stretches. In fact, one global report preparer observed that *"Companies may struggle (or be unwilling) to meet the spirit of the Framework in extending the concept of outcomes beyond the immediate and easily controllable to the sort of examples provided in paragraph 2.36."* Another report preparer from Europe shared this sentiment and identified three key areas that will impact the ability of organizations to comply with this principle: *"(1) The time required to collect relevant data and to ensure its reliability through the development of processes and controls, (2) The ability to collect such information (i.e. contractual relationships with suppliers may need to be changed), and (3) Any additional costs to the organization."*
- B8 Regarding terminology, one respondent requested that the term "externality" be explicitly stated in the Framework, noting that "the word 'externalities' should be used since the primary audience is the financial community which is familiar with economic terms." To that end, most respondents who commented on this issue used the term "externality" when stating their views, indicating at least some degree of awareness and acceptance of this terminology.

C – OTHER ISSUES RAISED

- C1 In addition to the major issues noted above, there were also some more minor comments that were frequently repeated by multiple respondents. These additional points are summarized below:
- **Materiality:** *"The Framework should refer to material internal and external consequences as it will not be possible to include all of the positive and negative outcomes in the business model."* (Re: paragraph 2.35)
 - **Mandatory requirement to report negative outcomes:** *"[Paragraph 2.36] must be amended such that companies **MUST** require disclosure of these effects. If companies are given the option to disclose their negative impacts, how many of them will choose to do so?"*

Question 8 – OUTCOMES

- Alignment with other standard setters: *"We agree with the essence of this definition but recommend the IIRC consider further alignment of its definitions with other standard setters."*
- Public / Not-for-profit sector concerns: One assurance provider commented that *"Defining outcomes is a key issue for the public sector. The framework's treatment of outcomes does not translate well into the public sector, where outcomes are focused on economic, social and environmental wellbeing... This does not undermine the framework, but highlights the need to undertake further work to ensure its applicability to the public sector."*

APPENDIX - PROPOSED EDITS TO THE FRAMEWORK

As discussed above, respondents provided a variety of comments and insights about the proposed definition of 'outcomes' in the Consultation Draft. Some respondents took their feedback one step further and included proposed wording changes for the IIRC to consider incorporating in its final definition of 'outcomes' and related guidance. Those proposed edits are highlighted below.

- *There were a handful of suggestions for modifying the definition of 'outcomes' in paragraph 2.35*
 - *"Outcomes are the value created or destroyed over time resulting from the company's business activities."*
 - *"Outcomes describe the total effects that occur on the capitals as a result of the way an entity seeks to create, capture and generate value over time."*
 - *"Outcomes are the changes in capitals, in both quality and quantity, direct and indirect, positive and negative, as a result of an organization's business activities and outputs."*
 - *"Outcomes are defined as the internal and external **impacts** (positive and negative) **on the six capitals resulting from** an organization's business activities and outputs. **Outcomes encompass:***
 - Internal (e.g., employee morale and organizational reputation) or external (e.g. contributions to the local economy through employment and taxes) **impacts**.
 - Positive (i.e., result in a net increase in the capitals and thereby create value) or negative (i.e., result in a net decrease in the capitals and thereby diminish or destroy value) **impacts**.
 - **Externalities: a cost or benefit incurred by a third party without choice or consent.**
 - *Outcomes are the direct and indirect changes that take place as a result of the organization's business activities, including positive and negative changes to the capitals over the short, medium and long term and positive and negative changes for the organization, its consumers and stakeholders, for society and the environment. Outcomes of the business model are normally intended or planned but can be influenced and affected by external circumstances and systemic risk.*
- *One respondent noted that the examples of relevant outcomes in paragraph 2.35 are not the most persuasive that could be included. They suggested that **turnover of critical personnel** would be a better illustration.*