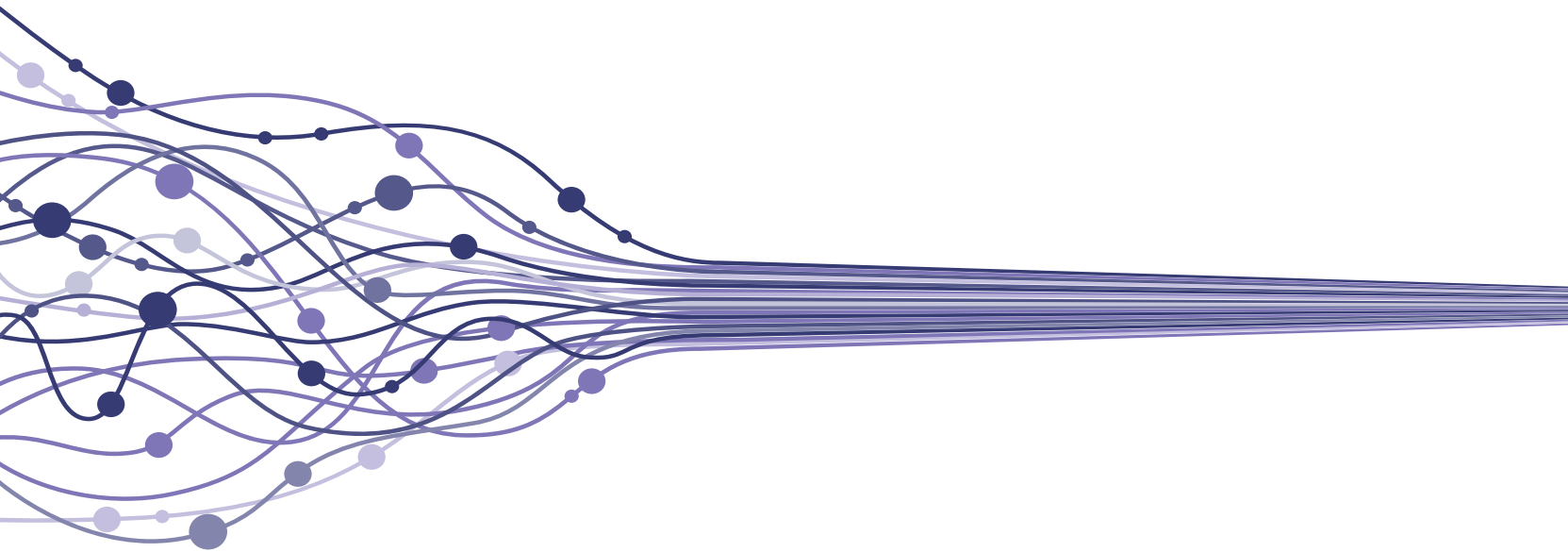


Tomorrow's Business Success

Using Integrated Reporting to help create value
and effectively tell the full story

A guide for Chairmen, CEOs and CFOs



Chartered Institute of
Management Accountants

tomorrow's
company

in association with

INTEGRATED REPORTING <IR>

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Tomorrow's Business Success

Using Integrated Reporting to help create value and effectively tell the full story

This guide and its associated tool-kit were produced by Tomorrow's Company with the valuable and significant support of CIMA and was commissioned and co-funded by CIMA and the IIRC.

Foreword

This guide is written for the chairmen, CEOs, CFOs and other members of boards and executive committees to support you in achieving the success of the businesses you lead.

That success has never been more important – 37 of the world’s largest economies are corporations. The opportunities never greater – a global market place on the threshold of the next wave of technological innovation. Taking the best possible decisions in the face of increasing volatility, complexity, uncertainty and ambiguity, is tough but vital.

Global companies must create value for the short, medium and long-term. But they are doing this in an environment where there is a general lack of trust in businesses; pressures favouring immediate rewards; and the need to integrate many different sources of value spanning borders, cultures and generations.

Being able to excel in telling your value creation story will therefore be an increasing source of competitive advantage – that’s the main conclusion we have drawn from talking with senior business leaders like you across the world, supported by dialogues, research and other data. We are grateful to the many chairmen, CEOs, CFOs, investors and others who have contributed to this guide.

For the IIRC, the guide has been commissioned to understand how Integrated Reporting (<IR>) can be of greatest value for business leaders – and how best to state the case for <IR> putting the needs of those leaders first.

For CIMA, this guide is part of a commitment to support the future performance of organisations by CFOs and others in the Management Accounting teams globally.

For Tomorrow’s Company, this guide takes forward our mission to shape the future of business success to build lasting value, learning from and with those living day-to-day with achieving this in practice.



Paul Druckman



Charles Tilley



Tony Manwaring

We are in no doubt that <IR> offers a new opportunity and the best possible way now available to tell the value creation story – by drawing on existing information to succinctly bring together insights and information from across the business for investors and others.

<IR> is a journey. While all the answers are not yet available, from our discussions with those who are already on the way they are already seeing benefits.

We want it to be clear that this is not simply another reporting initiative, but rather a step change for boards and executives in having the information that they need to lead.

We invite you to read this guide and, we hope, to draw on the ‘tool-kit’ to help lead a discussion with your colleagues so that together you can judge how <IR> can help the future success of your business.



Paul Druckman
Chief executive officer, IIRC



Charles Tilley
Chief executive, CIMA



Tony Manwaring
Chief executive, Tomorrow's Company

Executive summary

The challenges...

Why would a company not want to be trusted?

Why would a company not want to be able to better connect the drivers of value across the business and break down internal silos so that they can better identify key risks and make better decisions to ensure that their business model remains resilient?

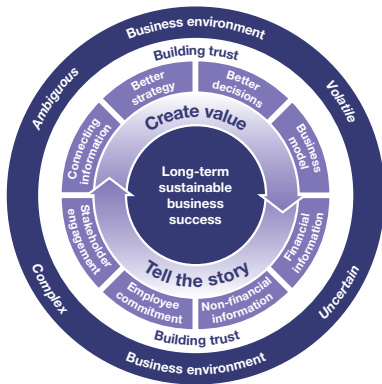
Why would a company not want to find a better way to communicate to everyone how value is created so that they can build a deeper understanding and a richer dialogue with investors and other stakeholders?

The goal of a company is to create and sustain value in the short, medium and long term but there is an incessant focus on the short term.

Businesses are the engines of value creation. It is through their global footprint and innovative capabilities that many of the challenges we face as a global society will be addressed. And they do this in the context of an increasingly interdependent, volatile, uncertain, complex and ambiguous business environment and one in which trust in businesses is low. If businesses are not making, and seen to be making, a positive contribution to the societies of which they are a part then they will lose trust and value as a result.

But this is also a context where there are huge opportunities to create value through being able to connect and integrate the numerous sources and drivers of value both tangible and intangible. Over the last 30 years there has been a shift in macroeconomic value to a position now where most of the market value of companies lies in intangible assets. Yet many of the practices and processes that account for a company's assets do not reflect this shift.

Increasingly, businesses are expected to report not just on profit but on their impact on the wider economy, society and the environment. There are numerous other reporting requirements, guidelines and standards in place – but none operate across the breadth of the business and its external context.



How Integrated Reporting <IR> helps meet these challenges

<IR> can be regarded as just another reporting convention or a different way to meet growing compliance requirements.

But <IR> is far more than just a reporting framework. It helps a company:

- **create value** – by better understanding and connecting the disparate sources and drivers of long-term value to enable better strategy formulation, decision making and implementation through their business model
- **tell the story** – of how value is created more effectively, both internally and externally, in a succinct way in order to win trust and secure reputation by encouraging better relationships with investors, employees and other stakeholders.

Many companies are already doing the above well – so their reporting aligns well with <IR>.

<IR> provides an umbrella under which other reporting requirements and existing information can be brought together. It provides a framework to help companies engage more effectively with all its key relationships and reflects a shift from a static approach to reporting to a two-way process that seeks continuous improvement.

In short, <IR> helps a business deliver long-term sustainable business success in today's challenging business environment and is at the forefront of innovation and excellence in corporate governance.

<IR> is a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

(see appendix one for an outline of the International <IR> Framework)

“<IR> gives an opportunity to clearly communicate your strategic message – what is our business model?, how do we create value?, what is our relationship with a broad view of stakeholders? and critically why is our business model sustainable in the long term?... and we think this is a question that a number of users are challenging corporates to be able to answer.”

Russell Picot, chief accounting officer, HSBC

“The distinction between reporting on value creation and creating value is an important one. Better reporting leads to better understanding which should lead to better value creation.”

Alan Stewart, chief finance officer, M&S

“Economic value is a forward and not a backward looking concept and rarely are reporting frameworks prepared to grasp this nettle. Management should use the opportunity through the <IR> Framework to provide its view of the future (qualitative and quantitative) and then be prepared to be held accountable in the future as to the outturn against previous projections of value creation.”

Ken Lever, chief executive, Xchanging

“Integrated Reporting will only deliver if there is a sensible organisation structure. I have experienced several company reorganisations that have been transformational, with an effective enterprise resource planning system, but only because the organisation structure was right and management were accountable and competent.”

Ken Hydon, fellow of the Chartered Institute of Management Accountants and non-executive director of three FTSE companies

“Integrated Reporting facilitates a holistic approach to management; combining financial data with environmental, social, governance and other issues to inform corporate strategy which is why it is relevant to C-level executives.”

David Blood, senior partner, and managing partner at Generation Investment Management LLP

“For decades, investor decision-making has been governed by information in financial statements. In today’s world, how effectively a company addresses sustainability issues can impact its financial position and future prospects. The concept and practice of Integrated Reporting is advancing because companies and investors increasingly acknowledge that an integrated understanding of performance – one that connects drivers of long-term value – is needed in order to make informed decisions.”

Dr. Jean Rogers, CEO & founder, SASB

The Tomorrow's Business Success C-Suite survey

In July 2014, members of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) took part in a brief survey to help develop a better understanding of the <IR> value proposition.

A total of 393 responses were received from CFOs, CEOs and COOs from across the globe, providing a valuable insight into the demands of the evolving reporting landscape and the potential benefits of <IR>.

Key findings

Overview

- 94% of C-suite executives state it is important that they can effectively explain how their business creates value through their corporate reporting. 87% of all executives agree that being able to bring together financial and non-financial information to explain value creation would help to strengthen relationships with investors and creditors
- Only 26% of C-suite executives feel that their current reporting very much meets the information needs of investors and other external stakeholders.

How <IR> helps a company create value

- 92% of the C-suite feels that being able to bring together financial and non-financial information would help to better explain how their business creates value over time
- Specifically, executives feel that this could help to:
 - Drive improvements in decision-making (92% overall agree)
 - Present a more forward-looking, long-term view of performance (88% overall agree)
 - More effectively identify and manage risks (94% overall agree).

How <IR> helps a company tell its story... for investors

- 81% of all executives feel that <IR>'s aim of improving the relevance of information available to providers of capital is extremely aligned with their own strategic objectives.

How <IR> helps a company tell its story... for employees

- 92% of all executives feel that inspiring and engaging their employees will be important for the future success of their company
- 68% of all C-suite believe that the value creation discussion is useful for employees, ranking second only to investors (80%).

How <IR> helps a company tell its story... for other stakeholders

- C-Suite executives recognise the importance of a wider purpose to business for the future. The most significant areas of increasing importance are social and environmental stewardship, inspiring and engaging people, and partnering with suppliers.

Background

Integrated Reporting (<IR>) was developed because of increasing concerns that existing reporting frameworks and conventions do not enable a company to fully reflect how they create long-term value or help companies adequately connect all the value creating activity within their organisations.

<IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world but provides an umbrella framework to help accelerate these innovations in reporting.

It takes a principles-based approach to strike a balance between flexibility and prescription recognising the wide variation in individual circumstances of different companies while enabling a sufficient degree of comparability in information provided.

<IR> is gaining traction internationally. There are about 1,000 companies globally that are adopting some <IR> principles in their reporting practice.¹

This guide, along with the tool-kit that accompanies it, outlines how <IR> adds value to business success.

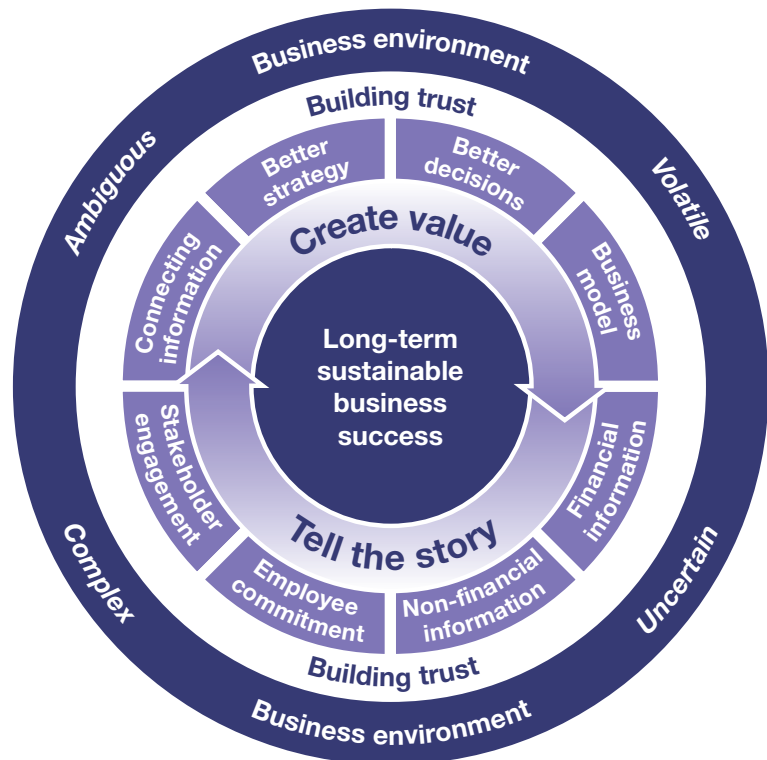
It is aimed at CEOs and senior management of large listed company boards across a wide range of industry sectors.

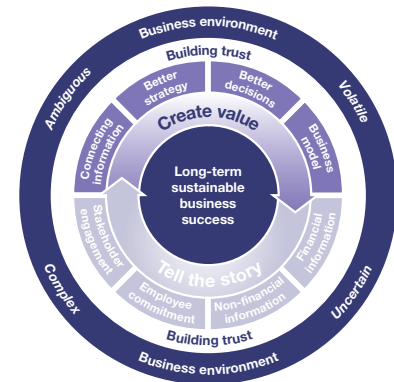
It is part of a project by Tomorrow's Company, with the support of CIMA, in association with the IIRC, and draws on discussions with CEOs and other members of boards and senior management as well as a wider range of stakeholders.

The guide focuses on the two main aspects of <IR>:

- how <IR> helps a company create value
- how <IR> helps a company tell its story.

The diagram below summarises the various elements that are covered in the text of this guide and is used to help the reader navigate through the text.





How <IR> helps a company create value

Value is no longer created only within the boundaries of a company. The value creation process crosses organisational and geographical boundaries through connecting numerous value drivers many of which are now intangible. This requires good information to inform good decision making and a clear strategy and business model – all of which rely on internal cohesion created through a clear understanding of what the organisation is seeking to achieve and how.

<IR> helps a company better understand its value creation process and connect the information, value creating activities and the relationships through which the value is created inside and outside the organisation.

Changes in strategy may be driven by internal activities, but are more often driven by changes in the external environment such as changing demographics, whether an ageing or a youthful population, or resource and energy limitations. These changes can be risks but they can be opportunities if they are identified, assessed and managed effectively and used to create competitive advantage.

The dynamic and interdependent nature of these changes, and the time horizons over which they will impact, has implications for the way companies think, make decisions and report on their activities. For example, is it clear how water shortages and extreme weather events will impact on performance and what steps are being taken to mitigate these risks? What are the critical relationships to the business and how will these change over time? How has a changing customer base with changing expectations been taken into account?

Responding to these challenges and opportunities requires companies to:

- tune in to changes in the external environment
- use this intelligence effectively in decision making and strategy development
- focus on a longer time horizon, and
- make sure this thinking flows through into the implementation of their business model and their reporting.

Corporate governance works to ensure that the whole process through which value is created is fully realised.

Boards and senior management need to demonstrate integrity, transparency and accountability in all that they do. In some territories, stewardship would be added to the list. And these expectations of them are increasing – especially with every corporate failure that happens.

Good governance and compliance are also inevitably linked. Legally, directors have to meet their duty of care, skill and diligence and their fiduciary responsibility as emphasised in corporate governance codes around the world. (see appendix two)

The ability to assess a company’s overall governance and performance in the context of macroeconomic social and environmental factors is of central importance to institutional investors and the ultimate beneficiaries for whom they act, as well as employees, governments and society as a whole.

This requires companies to show that they can report the ‘right information’ in a way that shows that management has a real insight into the business and that boards are exercising effective governance.

Reporting that is too dependent on historical financial performance can result in information that is critical to the assessment of an organisation’s governance and long-term success being omitted or reported in a selective, disconnected or inconsistent way.

But more disclosure does not equate to better reporting.

The focus has to be on disclosing not just a broader set of information but the relevant and interconnected information needed by investors and other stakeholders to assess the organisation’s long-term prospects in a clear, concise, connected and comparable format, which will enable those organisations, their investors and others to make better short, medium and long-term decisions.

Understanding what success looks like

Charles Nichols, group controller at Unilever

We live in a volatile world where businesses such as Unilever face issues that need long-term solutions. It is therefore natural that organisations and business leaders are thinking about how they encourage a long-term perspective internally and how this should shape the way they tell their story externally.

Back in 2010, we launched the Unilever Sustainable Living Plan, aimed at building a more sustainable business model for Unilever. This was the catalyst to start thinking differently about the way we do business. This meant adopting a more integrated approach to measuring progress within our business and how we report externally to our various stakeholders against our long-term vision – to double the size of the business whilst reducing our environmental footprint and increasing our positive societal impact.

<IR> is a very powerful framework for thinking about our business model and the way we create value. There are enough highly publicised examples of corporate failures where it became clear that even boards did not know how their particular organisation was creating value and the risks that they were taking.

Driving sustainable long-term performance starts with a deep understanding of your business model and a clear articulation of what success looks like. From this flows strategic alignment, the right metrics – financial and non-financial – and an appreciation of business risks. All these are prerequisites for a sustainable, high performing business.

The <IR> Framework encourages the kind of integrated thinking that we need to drive performance internally and report our progress externally.



Charles Nichols



Dominic Barton

<IR>: the metrics for capitalism for the long term

Dominic Barton, global managing director, McKinsey

Business leaders must rise to the challenge of reforming capitalism for the long term: in so doing they can best secure the future success of the businesses they lead and renew the relationship between business and society.

Integrated Reporting, or <IR>, enables companies to set out how they create value and can provide the shared language which enables boards, business executives and investors to more effectively engage to unlock future wealth.

There are three major challenges we face to achieve this reform: <IR> is an important tool in addressing each of these.

First, business and finance must rebalance from short-term orientation and structures to focus their organisations on the long term. A critical requirement for this is being able to better measure the performance and health of the business over the short, medium and long term. <IR> does this by giving CEOs and others an integrated view of the risks and value drivers that are material for a business.

Second, executives must ensure their organisations serve the interests of all major stakeholders – employees, suppliers, customers, creditors, communities and the environment. <IR> helps demonstrate how taking an inclusive perspective supports the long-term maximising of corporate value.

Third, the boards of public companies must govern like owners, overcoming the pressures arising from dispersed and disengaged ownership. <IR> is a helpful tool for boards to use in engaging with institutional investors about their capability to create value for the long term.

In short <IR> meets the urgent demand for long-term metrics from companies to change the investor-management conversation required to provide the foundation for the renewal of capitalism.

In 1975 more than 80 per cent of corporate value reflected in the S&P 500 was tangible assets, while intangible assets comprised less than 20% of market capitalisation. By 1985 intangible assets had grown to 68.4%, and to 80% in 2005 and 2010.²

In 2013 the Interbrand annual survey of the brand value of major global companies found that Coca-Cola's brand value was equivalent to around 48% of its market capitalisation.³

A survey undertaken by AICPA and CIMA of 280 CEOs from over 21 countries and in-depth interviews with 17 CEOs, chairmen and other business leaders found that the majority (76%) thought the current reporting system promotes excessive focus on the financials. This view was particularly strong amongst US companies. The majority (75%) also indicated that they needed to put more emphasis on measuring and demonstrating the non-financial value of the business.⁴

The World Economic Forum has pointed out that many of today's risks are interconnected and that new systems and business thinking are required to address this connectivity.^{5,6}

Research by Harvard Business School in 2012 analysed the transcripts of 70,042 earnings conference calls held by 3,613 firms from 2002 to 2008, counting words and phrases that suggest a short-term emphasis. They found that executives that use short-term language attract investors who are fixated on quarterly numbers. The study also found that the stock of companies exhibiting short-term behaviour was more volatile than the market as a whole, and the cost of capital for those firms was 0.42% higher than average.⁷

Further research by Harvard Business School in 2014 explored how the practice of <IR> affects the investor base of the firm. By analysing data on more than 1,000 firms between 2002 and 2010, it was found that firms practicing broader reporting have a more long-term investor base and fewer transient investors.⁸



How <IR> helps a company tell its story

...for investors

So what do investors look for?

There is clearly a spectrum of investors who care about different elements of reporting. Some, such as those who are only engaged in high frequency trading, may have little need for, or care about, reporting at all.

But there are a significant number of investors who do care. At the time of writing, the signatories to the Principles for Responsible Investment (PRI) initiative represent US\$45 trillion assets under management.⁹ In 2009, long-term institutional asset owners held slightly under half of the world's professionally managed assets – approximately US\$27 trillion out of US\$65 trillion.¹⁰

Investors are increasingly using non-financial factors as a benchmark for risk.¹¹ But many investors still struggle to integrate all the relevant factors that contribute to value creation over time into investment decisions because the information that is often presented is insufficiently strategic, comparable and sector specific. As a result, there is the risk that capital is not being directed efficiently towards those companies that have robust business models, that make a meaningful contribution towards the achievement of a sustainable society and which outperform in governance.

Those investors who state that they are only interested in the financial performance and disconnect non-financial factors are missing what most CEOs and boards already know well – that these two are not isolated, but interconnected. For example, labour standards, employee satisfaction, customer feedback, community relations and government regulatory track record may all be classed as non-financial but are fundamental to the success of the business and its licence to operate. <IR> provides the necessary framework to enable all the relevant information about a business to be put into context alongside its strategy and business model and provide a more holistic view of performance.

Understanding how the company creates value

Frank Curtiss, head of corporate governance at RPMI Railpen Investments

I have been a supporter of Integrated Reporting since its inception both as an investor and through my involvement in the International Corporate Governance Network.

Financial accounting has evolved over time, but it does not tell the whole story. Neither is it forward looking enough. Current financial accounting does not take into account long-term macroeconomic factors which are vital in making long-term investment decisions such as human and natural capital. These are important aspects of a company's business model and strategy. Most investors understand this and only a few focus just on the numbers.

The regulatory trend is towards increasing reporting requirements and investors need to be careful not to add to this trend. Better reporting is not about 'throwing in the kitchen sink' as this leads to unmanageable data and clutter. It is about relevancy and appropriateness of information.

<IR> provides a framework for all the important factors to be better understood and communicated. It offers the possibility for harmonised, standardised data and comparability. At its best it helps a company explain how it creates value and so enables investors to make better investment decisions.

Although reporting is used by many different audiences, I think it is important to remember that investor primacy and a clear narrative in the voice of management are key elements in risk reporting. High quality reporting increases investor confidence, not just in terms of the risks being discussed, but also in the overall quality of management.

Senior management have to get involved in the process of <IR>, it encourages a flow of better management information and helps join up different information sources across functional silos. In this way <IR> promotes cultural change and behaviour, fostering integrated thinking and a shared understanding of how the company creates value.



Frank Curtiss



Susanne Stormer

Telling your corporate value creation story

Susanne Stormer, vice president, corporate sustainability at Novo Nordisk

Our motivation for adopting <IR> was the ability to send a clear message to key audiences, investors and other stakeholders, of the way we do business and deliver value. Our stated objective was for stakeholders to enhance their valuation of the company.

I see the journey of <IR> within Novo Nordisk as resembling what our business is all about: diabetes. It is chronic, progressive and irreversible.

In an era of weak global economies and instable markets, companies need to be great at telling their equity story in ways that capture how they create value for the long term. And this means information beyond what passes through the books. Since the early 1990s, when our business started institutionalising what we call the Triple Bottom Line business principle, our reporting has evolved to be more fit for that purpose. With a better reporting, our business could effectively communicate our value for the long term and carry on delivering it to the market. In our mind, <IR> is an effective tool to that end.

The centrepiece of <IR> is a clear articulation of the business model and strategy. This is perfectly compatible with our approach. We emphasise the sense of purpose and commitment that defines our business model and the way we do business. That way, our learning journey mirrors that of <IR> as a communication vehicle, through which we could reflect and drive integrated management.

Full integration of financial and non-financial information for purposes of decision-making requires parity. We created a roadmap for how to raise the equality of the social and environmental data.

Since then we have worked systematically to ensure that we have reliable data and robust internal controls in place in the same way as we do for financial data, and we are confident that when we get to the end of the 2014 reporting cycle, we will have achieved that goal. But full integration remains a goalpost and we will have much more work to do before we can call it 'mission accomplished'.

Helping companies migrate to <IR>

Susan S. Coffey, CPA, CGMA, senior vice president public practice & global affairs, AICPA

The AICPA is the world's largest member association representing the accounting profession. For decades, the AICPA has led a number of initiatives focused on helping to ensure that corporate reporting remains relevant in an ever-changing business environment.

In September of 2002, following several major corporate debacles, the AICPA Board of Directors approved the creation of 'The Special Committee on the Business Reporting Model of the Future' to transform today's corporate reporting to the reporting model of the future. To accomplish that goal, an independent, market-driven consortium of key stakeholders from throughout the reporting supply chain was created to develop a framework for enhanced business reporting to improve the quality and transparency of information available for decision-making. The framework that evolved from this early effort ultimately informed the development of the International <IR> Framework, which the AICPA strongly supports.

The AICPA's primary focus in the area of <IR> remains education and advocacy to help our members and the profession worldwide to adopt and benefit from <IR>. In the United States, we are finding that our members are increasingly embracing the value of the <IR> Framework from the perspective of internal communication and coordination across departments and divisions to improve strategic planning and decision-making. These organisations are also finding benefit in broadening their lens to look at all forms of capital and how the company's management of those capitals relates to its ability to create value in the short, medium and long term.

While many of the US companies that participated in the IIRC's Pilot Programme are large public companies, we now see many small, private companies also looking to <IR>. In the private company space, the benefits of <IR> extend to improving external reporting to creditors, to whom elements of <IR> are increasingly important in the context of lending decisions.



Susan S. Coffey



John Windle

CIMA's journey to Integrated Reporting

John Windle FCMA CGMA, chief financial & operating officer, Chartered Institute of Management Accountants (CIMA)

CIMA's focus on business leadership, decision support and developing management accountants, aims to support businesses to achieve long term success. Like Integrated Reporting, effective management accounting aims to deliver better information for decision making. This common goal led CIMA to be one of the original supporters of <IR>. Naturally we decided that we could make a stronger case for <IR> if we had done it ourselves. Our journey to Integrated Reporting started in 2012. One of the early benefits was that the process of generating the data necessary to tell our story in an integrated way brought together a mixed team from a variety of departments in our organisation – breaking down silos (which we thought never existed) and broadening the scope of our reporting. To get from a blank page to the skeleton of the report took about three months and the focus was all about how to join the dots – telling our story in a connected way. This first report was well received both internally and externally, but we still felt we could do more to integrate our message. In preparation for our 2013 report, we took the opportunity to deeply examine our understanding of our business model and, after several attempts, managed to pictorially represent how we go about creating value for our stakeholders. Having achieved this we had the ideal framework to enable us to tell our story in a logical and natural sequence.

Reflecting on the past two years, I believe that implementing Integrated Reporting has led to better reporting with closer alignment of both our income statement and business model as well as short and long-term planning processes. There is more focus now on the same, and the right, targets across the business, better links between teams and with management and clear development of the people involved leading to even higher levels of staff motivation. Of greatest benefit is the greater clarity on our business model which has helped us to really hone our understanding of where we create value and also increase transparency on the risks that we need to manage to achieve long-term success. I look forward to the further benefits that will be achieved as we further align KPIs across all planning, reporting and incentive schemes and refine our monthly management information reporting in line with our business model.

...for employees

A company's ability to compete and create value is totally dependent on its people.

<IR> provides the framework to help companies engage more effectively with employees and reflects a shift from a static approach to reporting to a two-way process that seeks continuous improvement.

It is well known that employee engagement is correlated with higher levels of employee motivation and customer satisfaction which in turn lead to increased customer loyalty. And in a study of US companies cited as good places to work, they generated higher stock returns than their peers.¹²

Employee engagement and commitment starts with an understanding of what the company is seeking to achieve. This is not just about communication but also the degree to which they feel that their opinions are listened to and acted upon.¹³

Being clear about and communicating the story of the company is therefore vital. Better data leads to greater internal awareness of the bigger picture in terms of what an organisation does, how it earns money and how it is positioning itself in the market. Better awareness brings with it an increased understanding and opportunity to identify changes that will be of benefit to the business as a whole. A value adding cycle is created.

Organisations who are progressing <IR> are using the integrated report as a central articulation of the strategy for use both internally and externally.¹⁴

Also companies that share their reports widely among employees find that they often share this information with others – their families, friends and neighbours, as well as with customers and suppliers.

Telling the story of the company well also attracts future generations of employees, especially where it is clear that the company understands the interdependency between value creation and financial performance.¹⁵

...for other stakeholders

Investors and employees are not the only stakeholders who have an interest in what a company says about itself.

The influence of a wide range of stakeholders on the ability of a company to create value cannot be ignored in the current business environment.

<IR> benefits all stakeholders interested in a company's ability to create value over time including customers, suppliers, business partners, local communities, legislators, regulators and policy makers.

What all stakeholders wish to know is what the relevant issues are that are impacting on, and will impact on, the performance of the business.

Past events involving the supply chain in the food and clothing industry have highlighted the importance of demonstrating to consumers that the company is working closely with its suppliers and that both parties are clear about what is expected in terms of operational standards and values.

It is not a one-way relationship. Suppliers who are concerned about their reputational value will be just as exacting about the companies they choose to work with as those companies are about them.

In those countries whose economy is heavily reliant on being part of global company supply chains, governments will be interested in how effectively these companies manage their supply chains and will be under increasing pressure from their citizens and NGOs to ensure that this is being done in a sustainable manner. And consumers will make their views known through buying decisions.

A company's relationships are interconnected. Communicating in a coherent way that meets their different needs is key to creating and sustaining value.

<IR>: the beginning of the NHS journey

Mitzi Wyman, board development lead, London Leadership Academy

The London Leadership Academy is the NHS's pan-London leadership development organisation, working across all NHS organisations to design, deliver and commission outstanding leadership development that makes a real difference to staff delivering care to patients and service users.

With a workforce of 1.4 million, an annual budget of about £100bn and a carbon footprint of 25m tonnes, the NHS has a huge social, environmental and economic impact. As a public sector organisation, it has very rigorous governance structures demanding compliance with multiple mandatory reporting requirements to a range of stakeholders. As the NHS' leadership development team for London, our inclusion in the <IR> pilot programme has given us occasion to review our processes and develop our own thought leadership around this topic at a time of intense and increasing scrutiny for the NHS.

Greenwich Clinical Commissioning Group (CCG), one of our partners on the pilot, is shortly to release its first annual report based on <IR>, encapsulating key lessons learned from the pilot. The CCG is responsible for the health needs of 240,000 people and manages a budget of £340m. This recognises the importance of candour in reporting failures in performance as well as achievements, which has in turn led to greater trust both within the organisation and with stakeholders.

<IR> has also emphasised for the CCG the importance of engaging with all its key stakeholders to find out what they really want to see in a report. It has also enabled them to better capture the benefits of developing a 'business model' through understanding their key inputs (use of resources) and outputs, and ensure their reporting is mapped to them.

As part of an NHS journey, we want to ensure that everything we deliver is being done in a sustainable manner. The key benefit of <IR> in helping us achieve that lies in encouraging integrated thinking that allows us to better meet the needs of all our stakeholders over the short, medium and long term.



Mitzi Wyman

“Integrated thinking can act as an early warning system for businesses, as the management of strategic information becomes more cohesive and silos are reduced. This process will alert boards to significant risks earlier and trigger discussions that otherwise would not occur. By helping to strengthen the foundations of business decision-making, management and performance, integrated thinking is the bridge to a more financially stable and sustainable global economy. The era of isolated non-financial factors, disconnected from strategic risks, business performance and financial stability, is over.”

Mervyn King, chairman of the International Integrated Reporting Council

The ‘tool-kit’

Enclosed in this document is a ‘tool-kit’ designed for chairmen, CEOs and CFOs.

It is designed to inform and stimulate a discussion about how <IR> can help the organisation create value and more effectively tell the story.

To help further, the following documents provide more detail about Integrated Reporting and the experience of companies that have implemented it:

- **The International Integrated Reporting Framework**
available at: <http://www.theiirc.org/international-ir-framework/>
- **IIRC Programmes**
available at: <http://www.theiirc.org/companies-and-investors/>
- **Realizing the benefits: The impact of Integrated Reporting**
available at: http://www.theiirc.org/wp-content/uploads/2014/09/IIRC.Black_Sun_Research.IR_Impact.Single.pages.18.9.14.pdf

Further information can also be found at:

www.cimaglobal.com/integratedreporting

Appendices

Appendix one: The International <IR> Framework¹⁶

Fundamental concepts

The <IR> Framework is based on three fundamental concepts:

- value creation for the organisation and for others
- the capitals – the relationship between the organisation and the resources and relationships that underpin its success are described within the framework by reference to six ‘capitals’ (financial, manufactured, intellectual, human, social and relationship, and natural);
- the value creation process.

Guiding principles

Seven guiding principles underpin the preparation of an integrated report

- **strategic focus and future orientation:** An integrated report should provide insight into the organisation’s strategy, and how it relates to the organisation’s ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- **connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation’s ability to create value over time
- **stakeholder relationships:** An integrated report should provide insight into the nature and quality of the organisation’s relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests
- **materiality:** An integrated report should disclose information about matters that substantively affect the organisation’s ability to create value over the short, medium and long term
- **conciseness:** An integrated report should be concise
- **reliability and completeness:** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error
- **consistency and comparability:** The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organisations to the extent it is material to the organisation’s own ability to create value over time.

Content elements

The principles should be applied in determining the content of an integrated report, based on the key elements summarised below. The presentation of the elements should make the interconnections between them apparent.

- **organisational overview and external environment:** What does the organisation do and what are the circumstances under which it operates?
- **governance:** How does the organisation's governance structure support its ability to create value in the short, medium and long term?
- **business model:** What is the organisation's business model?
- **risks and opportunities:** What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?
- **strategy and resource allocation:** Where does the organisation want to go and how does it intend to get there?
- **performance:** To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **outlook:** What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- **basis of presentation:** How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Appendix two: Corporate governance

Extract from the UK Companies Act 2006¹⁷

“S172. Duty to promote the success of the company

- (1) *A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –*
- a) the likely consequences of any decision in the long term,*
 - b) the interests of the company’s employees,*
 - c) the need to foster the company’s business relationships with suppliers, customers and others,*
 - d) the impact of the company’s operations on the community and the environment,*
 - e) the desirability of the company maintaining a reputation for high standards of business conduct, and*
 - f) the need to act fairly as between members of the company.”*

Extract from the OECD Principles of Corporate Governance¹⁸

“The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”

In the US, the **Delaware Supreme court decision in Smith v. Van Gorkom (1985)** states three important principles of law:

- (1) “director liability is predicated upon concepts of gross negligence,”
- (2) the business judgment provides “a presumption that in making a business decision, the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company,” and
- (3) “the party attacking a board decision as uninformed must rebut the presumption that its business judgment was an informed one.”¹⁹

King Code of Governance Principles and the King Report on Governance (King III) September 2009²⁰

Chapter 8 – ‘Managing Stakeholder Relationships’

- 8.1. The board should take account of the legitimate interests of stakeholders in its decisions.
- 8.2. The company should proactively manage the relationships with its stakeholders.
- 8.3. The company should identify mechanisms and processes that promote enhanced levels of constructive stakeholder engagement.
- 8.4. The board should strive to achieve the correct balance between its various stakeholder groupings, in order to advance the interests of the company.
- 8.5. Companies should ensure the equitable treatment of shareholders.
- 8.6. Transparent and effective communication is important for building and maintaining relationships.
- 8.7. The board should promote mutual respect between the company and its stakeholders.

Sources and notes

- ¹ These numbers are generated from the South African listed companies of well over 400; the GRI database of around 450; and the IIRC Pilot Programme of over 100.
- ² Ocean Tomo. Ocean Tomo 300 Patent Index. Accessed 11 July 2014. <http://www.oceantomo.com/productsandservices/investments/indexes/ot300>
- ³ Mcgee, Suzanne. "Apple: Why the Market is Mispricing the Brand Behemoth." *The Fiscal Times*. 4 October 2013. Accessed 11 July 2014. <http://www.thefiscaltimes.com/Columns/2013/10/04/Apple-Why-Market-Mispricing-Brand-Behemoth>
- ⁴ Chartered Institute of Management Accountants. "Rebooting Business: Valuing the Human Dimension." *Insight*. February 2012. Accessed 11 July 2014. <http://www.cgma.org/Resources/Reports/Pages/rebooting-business.aspx> and <http://www.cimaglobal.com/Thought-leadership/Newsletters/Insight-e-magazine/Insight-2012/Insight-February-2012/Rebooting-business-valuing-the-human-difference/>
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- ⁷ Brochet, F. Loumioti, M. and Serafeim, G. "Short-Termism: Don't Blame Investors." *Harvard Business Review*. 2012, Accessed 11 July 2014. <http://hbr.org/2012/06/short-termism-dont-blame-investors/ar/1>
- ⁸ Serafeim, G. "Integrated Reporting and Investor Clientele." *Harvard Business School Accounting & Management Unit Working Paper No. 14-069*. 2014. Accessed 11 July 2014. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2378899
- ⁹ Principles for Responsible Investment. "About the PRI Initiative." Accessed 11 July 2014. <http://www.unpri.org/about-pri/about-pri/>
- ¹⁰ World Economic Forum. "The Future of Long-term Investing World Economic Forum USA." 2012. Accessed 11 July 2014. <http://www.weforum.org/reports/future-long-term-investing->
- ¹¹ Tomorrow's Investment Rules. "Global Survey of Institutional Investors on Non-financial Performance". 2014. Accessed 11 July 2014. [http://www.ey.com/Publication/vwLUAssets/EY-Institutional-Investor-Survey/\\$FILE/EY-Institutional-Investor-Survey.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Institutional-Investor-Survey/$FILE/EY-Institutional-Investor-Survey.pdf)

The survey covered a global sample of 163 institutional investors, including portfolio managers, equity analysts, chief investment officers and managing directors, to get their views on the availability and quality of corporate non-financial information, and on whether they valued and used this information during their decision-making on investments. A number of these investors were then interviewed to gain further insight into their answers. Over half of the participants in the survey were employed at organizations with equity assets under management of over US\$10bn.

Additional note:

Many academic and investor-led studies reinforce the case for long-term investing, through the inclusion of ESG factors into the investment process or corporate culture. For example, see:

- Sustainable Investing: Establishing Long-Term Value and Performance, Deutsche Bank Group, 2012.
- The Impact of a Corporate Culture of Sustainability on Corporate Behaviour and Performance, Robert G. Eccles, Ioannis Ioannou, George Serafeim (Harvard Business School), 2012.
- Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate, social and financial performance, JD Margolis, 2007.
- The state of responsible business: Global corporate response to environmental, social and governance (ESG) challenges, Bob Gordon, Stephen Hine, Niaz Alam (EIRIS), 2007.

- ¹² Edmans, A. "Does the Stock Market Fully Value Intangibles? Employee satisfaction and Equity Prices." *Journal of Financial Economics*. 101 (3), 621-640. 2010. Accessed 11 July 2014. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=985735
- ¹³ IPA and Tomorrow's Company. "Rethinking Voice for Sustainable Business Success." 2011 and "Releasing Voice for Sustainable Business Success." 2012. Accessed 11 July 2014. <http://tomorrowcompany.com/rethinking-voice>
- ¹⁴ Black Sun Plc "Understanding Transformation, Building the Business Case for Integrated Reporting." 2012. Accessed 11 July 2014. http://www.blacksunplc.com/corporate/iirc_understanding_transformation/projet/BUILDING-THE-BUSINESS-CASE-FOR-INTEGRATED-REPORTING.pdf
- ¹⁵ Deloitte. "The Millennial Survey 2011." January 2012. Accessed 11 July 2014. http://www.deloitte.com/assets/Dcom-CostaRica/Local%20Assets/Documents/Estudios/2012/120124-cr_Millennial_Survey_2011.pdf
- The survey found that profit as the sole measure of success was rejected by 92% of the 1,000 Millennials and by 71% of the 390 global business leaders surveyed.
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Acknowledgements

CEOs must excel in bringing to life the story of how their business creates value – we strongly believe that this matters for people within and beyond the business, whether they are customers, suppliers, staff or investors. Doing this and doing it well will unlock future value, enable business success and will also meet the needs of people, planet and profit.

We have therefore been both delighted and honoured to work on this guide with and for Paul Druckman and his colleagues at the International Integrated Reporting Council – in particular Mervyn King, Jonathan Labrey and Pippa Whittaker.

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Our greatest hope is that this guide achieves what it says on the tin. That chairmen, CEOs and CFOs use it to deliver Tomorrow's Business Success, and in so doing that they make full use of <IR> to achieve it.

A handwritten signature in black ink that reads "Tony Manwaring". The signature is written in a cursive style with a horizontal line underneath.

Tony Manwaring

Chief executive, Tomorrow's Company

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