



Confederation of Indian Industry



**CII-ITC Centre of Excellence
for Sustainable Development**

International <IR> Framework Implementation Feedback

This report provides feedback to the IIRC on the International <IR> Framework.

The report is prepared based on CII-ITC CESD's experiences on the International <IR> Framework per se and its various constituents. The report is also based on the feedback gathered through India Focus Group participated by members of <IR> Lab India.

<IR> Lab India is a collective of companies, investors, regulators, accounting firms and academics, to practice and advocate in India, and to bridge with IIRC and similar <IR> networks in other countries.

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	What is your experience?	What, if anything, should be done and by whom to improve this aspect of implementation?
Multiple Capitals	<p>Categorisation Reporters are following two practices with respect to multiple capitals. One practice is to adopt the Framework's exact categorization approach. This is because of their understanding that the Framework requires reporting on each capital and the way it is categorized or defined. The other practice is to not report on each capital. However, in such cases, companies do not necessarily state why a certain capital does not affect their business or vice versa.</p> <p>Additionally, capitals such as social and relationship, natural, and intellectual, are the most insufficiently understood or under-reported. Reporters tend to focus more on social, especially how they have been helping disadvantaged communities, whereas not necessarily report how their business activities might have affected their quality of life through displacement, relocation of economic activities, impacted health due to industrial pollution. Relationship are either ignored or under-reported. Stakeholder perception / satisfaction surveys are typically used to report on quality of relationships. For instance, companies will report how customer satisfaction has been improving, but they will not report on the increase in the number of customer complaints. Companies are silent about their lobbying activities with government or on subjects of environment or society that are likely to affect their business, e.g., land acquisition, carbon tax. Similarly, GHG emissions, water, and waste, and natural raw materials are the constituents of natural capital; biodiversity in the larger context of natural ecosystem is left out.</p> <p>Measurement, tracking and valuation Companies are finding difficult to report effect of changes in the capital's availability, quality and affordability on strategy and</p>	<p>Guidance, from the IIRC or CII, is needed to encourage more companies to adopt integrated reporting.</p> <p>Other recognised standards, such as those of the International Accounting Standards Board, the Global Reporting Initiative (GRI), the US Sustainability Accounting Standards Board (SASB) and the International Standards Organization (ISO), may provide helpful reference.</p>

business model, particularly for natural and intellectual capitals. This is because of unavailability or overall lack of experience in using generally accepted metrics.

Companies are challenged with valuation or expressing use of and effect on some capitals such as social & relationship, natural and intellectual capitals because either methods or protocols do not exist or they are too new to be established as standard metrics. Local but uniform values for specific resources that constitute some of these capitals are also not available. In such cases, valuation / monetary expression is based on proxies and assumption. Companies hesitate to report such expressions because of the lack of consistency in methodologies to use these proxies / assumptions.

Thinking and practice are still 'immature' in relation to quantifying or articulating the value that organisations derive from non-financial capitals. The Framework itself has refrained from specifying any key performance indicators (KPIs) that integrated reporters should use. For instance, companies can have a narrative about how they use intellectual capital and the value created by constantly training employees so they can keep their employability, but they don't really have metrics for it.

Human capital as Key Success Factor to meaning integrated reporting

Human capital is a core component of the six capitals and the business model so now there is a realization that people are a core resource. Companies still use traditional approaches to interpret and apply human capital expressed in metrics such as training and development, safety and accidents, succession planning, competency development areas such as equality and human rights. Few companies talk about their long-term strategy of placing people at the centre of their resource application and through this recognizing people as central to an effective culture; this is particularly true as it applies to areas such as values, culture and leadership development.

<p>Connectivity & integrated thinking</p>	<p>This is by far the most challenging area for companies to realise the benefits of integrated reporting. 'A key challenge was getting alignment across internal stakeholder groups'.</p> <p>Silo structures are responsible The experience of every company has been to create cross-functional <IR> team; schedules are prepared, milestones are set, meetings are held, information is collected, discussed and put together.</p> <p>However, that still does not help companies achieve integrated thinking and connected information. Core to this challenge is that companies are still structured along functions and primary responsibilities of almost every employee is for the entrusted function.</p> <p>The problem is that for a company to develop a truly integrated approach, it must have a long-term strategy to do so. It should want to start seeing in <IR> based reports, as signs of integrated thinking are the communication of strategies.</p> <p>Lack of understanding on connectivity Across the board, companies suffer from deficiency in understanding of how different issues are interconnected. For instance, a core component of effective reporting is to build the brand. There is so much bad press these days that "corporate" needs to do a better job of telling its story. One of the key problems is that many boards and executives have no idea what their "brand" contributes to organizational value nor what drives it in the mind of the marketplace.</p>	<p>Practitioners and advocates of <IR> need to be careful to avoid the suggestion that the <IR> framework and the focus on six capitals instead of one, will in some magical way improve a company's approach to integration and integrated thinking.</p> <p>This shift will only come based on behavioural change in the way that organizations are led and managed in a way that seeks to optimize all capitals and not maximize one.</p> <p>IIRC should set up rules for training partners who are focused on preparing reports for companies in the short-term, rather than help companies realise the benefits of integrated reporting.</p>
<p>Key stakeholders' legitimate needs and interests</p>	<p>Many companies have processes to identify and prioritise stakeholders; they have processes to periodically engage with them to identify their needs and interests. As in sustainability reports, companies make elaborate disclosures on key stakeholders, and the process of identifying them and their issues. Companies also disclose results of perception and satisfaction surveys.</p>	

	<p>The problem is the lack of transparency about the nature of relationship with some of the key stakeholders, influence the company has on them in a manner to benefit business, and any concerns that certain stakeholders may have which are likely to affect business prospects. These are important matters, especially for providers of financial capital. Lack of transparency about key stakeholders' issues is a roadblock to making integrated reporting a useful communication of the strategy of value creation.</p>	
<p>Materiality & value creation</p>	<p>Materiality The challenges with respect to materiality that companies have identified are:</p> <ul style="list-style-type: none"> • reconciling differing degree of materiality among different stakeholders, i.e., one issue may be more material to one stakeholder than another • difference in definitions of materiality between different reporting requirements <p><u>Definitions of materiality</u> Companies find challenging to consider materiality in relation to value creation. Therefore, most companies are still applying GRI's definition of materiality rather than the <IR> Framework's value creation approach.</p> <p><u>Different stakeholder needs</u> Even without considering the needs of other stakeholders, different investors may also have different needs. Identifying material risks in a way that meets the needs of different investors is an issue.</p> <p>Materiality is an important tool, but companies tend to reduce the number of risks mentioned in the integrated report. Companies tend to disclose in their corporate reports risks that are extremely unlikely to materialise. According to the Framework, the materiality of a risk depends on the magnitude of its impact, if it were to materialise, and likelihood that it will materialise.</p>	<p>Greater clarity in reporting about stakeholder needs should help companies to consider how they may respond to these needs. This may help to provide the link from strategy and business models to value creation for key stakeholders.</p> <p>Corporate Reporting Dialogue should arrive at some method of resolving the differences in definitions of materiality and how companies should apply one definition and one approach.</p>

	<p>Value creation</p> <p>Companies can better articulate how they create value for themselves as compared to for others. Also, companies find it difficult to make the distinction between the two. This is perhaps because companies do not, for whatever reasons, identify what their stakeholders perceive as value.</p> <p>Companies are still struggling with:</p> <ul style="list-style-type: none"> • Linking performance to the capitals • how governance structures support their ability to create value in the short, medium and long term • putting risk/ opportunities in the context of value creation over time • explicitly linking strategy to their ability to create value in the short, medium and long term. 	
Conciseness	<p>Companies find conciseness difficult as they try to provide sufficient context to help readers understand their value-creation process and performance. Focusing rigidly on conciseness risks losing information valuable to some stakeholders.</p> <p>The <IR> Framework is quite detailed and this can make it hard for companies to produce concise reports that investors can read and understand.</p> <p>Conciseness is also a challenge when companies want to include new information, either to meet regulatory requirements or because additional content could be helpful to readers.</p>	
Business model – outputs & outcomes	<p>Describing business model as defined by the <IR> Framework is a difficult aspect to implement, because of the capitals-based approach. Companies are still “obsessed” with their products, which they think defines the purpose of their business.</p> <p>Expressing business model using capitals-based approach requires companies to fundamentally change the way they think the purpose of their business.</p>	<p>CII-CESD’s value innovation framework might be useful for companies to change their perspective on the purpose of business.</p> <p>IIRC should improve the definitions of outputs and outcomes, in a manner that clearly differentiates the two. There are many literatures available; IIRC just needs to reference from one.</p>

	<p>The other challenging part of the business model is to understand the difference between outputs and outcomes. Companies tend to confuse between the two. This challenge contributes to another one, which is to identify the relation between outputs and outcomes; e.g., determining how a customer satisfaction score (output) related to value creation for customers (outcome).</p>	
Other guiding principles	<p>Reliability and completeness Financial information must be reported in accordance with accounting standards and is audited in accordance with auditing standards. Companies are aware that the non-financial information they include in an integrated report should be subject to similar levels of rigour if investors are to see it as valuable. However, there remains a lack of coherence among the many non-financial reporting frameworks and standards</p> <p>Furthermore, mechanisms that provide assurance over financial information are yet to emerge in non-financial reporting.</p> <p>Consistency and comparability There is no basis for comparison in the <IR> Framework. In India, as in many other countries, this is because companies are still producing their first or second IR.</p> <p>Even when companies have past data, they units or methods of calculation have changed. Therefore, they provide comparatives for some but not for others. External benchmarking on many non-financial parameters is still not a widespread practice.</p> <p>This raises concerns that stakeholders will compare ‘apples to oranges’ because of the differences in the way companies calculate and present KPIs.</p>	<p>Corporate Reporting Dialogue should iron out the differences between various standards and frameworks.</p> <p>IIRC should soon come out with guidance and training for assurance.</p>
Other content elements	<p>Outlook Companies are hugely concerned about legal implications and competition reasons in providing forward-looking statements.</p>	

	<p>The legal liability for directors over the information disclosed in corporate reports in India is the main concern from the legal departments of companies. They are over-cautious and therefore conservative, though there are standard and legally valid conditions to support forward-looking statements.</p> <p>Basis of preparation and presentation SEBI's circular on voluntary adoption of <IR> Framework by top 500 companies, puts to rest the challenge of preparation and presentation of integrated reports. The circular has allowed three approaches for companies to start with integrated reporting.</p>	
Other quality issues	<p>There is a tendency for companies to report on every capital and "comply" with every Principle of the Framework. This approach is understandable because they have been accustomed to indicator-based financial and sustainability reporting, which requires them to check various indicators as addressed or not.</p> <p>Integrated reports are still a lot more positive and companies are not reporting on the issues and challenges they have been facing.</p> <p>On issues that might adversely affect business, the tendency is to "gain sympathy" from investors. Companies report on issues that might help them to defend any downturn in business growth. They do not sufficiently report on issues that probably will risk their business or would challenge fundamentals of their business.</p> <p>Issues of cross-holding among group companies to increase promoter influence, that affects various investment, risk, and audit matters.</p>	

Appendix

Participants of India Focus Group

- KPMG
- L&T
- SBI Funds Management Pvt Ltd
- SBI
- Tata Chemicals
- Tata Power
- Tata Steel
- Wipro
- Yes Bank
- BSE
- Securities and Exchange Board of India
- Indian School of Business
- Anant Nadkarni, Advisor, Sustainability & Value Creation

The India Focus Group was convened and moderated by CII-ITC Centre of Excellence for Sustainable Development.

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