

IIRC <IR> Framework Implementation Feedback Focus Group

Responses from <IR> Business Network Netherlands, facilitated by Royal NBA

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Q1. Multiple Capitals

1a. experience

- Multi-capital approach sometimes does not align with 'gut feeling', which indicates its usefulness.
- Multiple capital approach serves databased knowledge for validation of investment plans.
- Capitals are the basis for the value creation model, not yet for the business model.
- Monetizing applicable capitals is part of decision-making process, but is a struggle for outcome/impact.
- Capitals support integrated thinking at board level, but are not (yet) used to measure performance.

1b. improvement options

- Showcase benefits for planning & control cycle incorporation in order to convince CEOs/CFOs.
- Guidance how to 'load' the capitals with relevant data for value creation process (input-output-outcome-impact).
- Reference to sources for 'loading the capitals' with existing relevant metrics/frameworks at industry level.
- Guidance how to appropriately balance metrics and narratives in the reporting process (input-output-outcome-impact).

Q2 Connectivity indication for Integrated Thinking

2a. experience

- The danger is that you want to link everything with everything (see Q#5).
- Tangible connectivity is an indication for mature integrated thinking.
- True connectivity may produce better insight and decisions.
- Connectivity contributes to implement integrated thinking in remuneration processes beyond silo-metrics.

2b. improvement options

- Greater awareness that connectivity is a basic condition for real value creation.
- Guidance how to implement true connectivity, avoiding that connectivity exists 'on paper' only.
- Greater awareness that integrated reporting requires multi-disciplinary teams for connecting the dots.
- Greater awareness that non-financial topics are relevant for financial performance/risks; this may encourage real connectivity.

Q3 Key stakeholders needs and interests

3a. experience

- Stakeholder inclusion increases awareness of being operational in the middle of society.
- Stakeholder dialogue can be 'something natural' and becomes mainstream, but the struggle is to distinguish material strategic issues from short term hype issues.
- Supplying reliable performance information for a broad range of stakeholders is challenging with the framework intended ultimate focus on providers of financial capital.

3b. improvement options

- Guidance how to convince board/directors that reliable performance information should be appropriate for a broad range of stakeholders.
- Guidance how to embed stakeholder dialogues for strategic focus while satisfying all in the dialogue participating stakeholders.

Q4 Materiality and Value Creation

4a. experience

- The approach has become conceptually mainstream and inspirational, but a continuous challenge is the high complexity of subject matters (content).

- Connecting the value creation lens and the materiality lens is a struggle; in an ideal world these should be one.
- For real value creation implementation use only topics where you can have a real impact and where it is possible to demonstrate to what extent this applies to short, medium and long term; only use the real substantial ones.
- The definition of materiality is focused towards providers of financial capital (investors) which is different from the ones used by GRI/SASB; this creates confusion in the reporting process.

4b. improvement options

- Guidance how to limit the topics to the real substantial ones (in the context of Q#3).
- Guidance for a proper and transparent validation process in terms of materiality – strategy – risk.
- Guidance on boundary-setting in the value chain in terms of influence/responsibility, which is a struggle in the reporting process: balancing metrics and narratives.
- Clarity on the materiality definition in the context of the total process in relation to other existing definitions (for e.g. assurance services)

Q5 Conciseness

5a. experience

- Better readability is more important than conciseness; <IR> enables improved readability (through narrative storytelling).
- Conciseness is a struggle; <IR> is expecting that organizations report on a larger number of capitals, to a broader range of stakeholders, with widened value chain boundaries, and with extended timeframes (future outlook) compared to, and in addition to, traditional (financial) reporting on past performance.
- Organizations need or choose to adhere to other reporting frameworks as well (e.g. listed companies), which conflicts with the conciseness requirement?
- Different external stakeholder groups would like to view different information within the report.
- Different reporting expectations from internal stakeholders endanger the requirement of conciseness.
- The danger is that you want to link everything with everything (see Q#2).

5b. improvement options

- Guidance how to achieve conciseness and address all material subjects in a comprehensive way?
- An integrated report might be the director's report of the future, with annexes/links for detailed (capital-based) reports adhered to other reporting frameworks, for different stakeholder groups? Guidance for future direction is desired.

Q6 Business Model – outputs/outcomes

6a. experience

- Business model is not yet part of the value creation model; business model is about financial capital only; ownership of the other capitals is not clear.
- The relevant departments are often unaware of <IR> and do not have a clear understanding on, or have different definition for, input – output – outcome- impact.
- Involvement of 'Strategic Planning' is key for linking value creation model with business model, this is still a challenge.

6b. improvement options

- Guidance on how to embed business model as the heart of the value creation model in daily practice.
- Guidance how to translate desired (material) value outputs and outcomes in strategic business planning targets? (through direct connection with financial capital as key for the business model?)
- Guidance or showcase (internal) benefits for reporting on output and outcome.

Q7 Involvement Those Charged With Governance – Framework identification

7a. experience

- Real involvement can only be achieved with board commitment; doable but it takes time as it depends on showcasing the benefits.
- Reference to the <IR>-framework is intuitively less powerful as a reference to e.g. IFRS or US GAAP.

7b. improvement options

- More clarity or guidance on when a claim 'in accordance with <IR>-framework' is valid (issue for accountants as well).

Q8 Other Guiding Principles

8a. experience

- The three remaining guiding principles are intrinsic building stones for future maturing.
- The high variety of indicators/metrics are a barrier for consistency and comparability.
- Integrated thinking paved the way to strategic focus which increased significantly future orientation.
- Reliability and completeness depends on how you organize internal processes (including people and technology).
- Consistency and comparability are challenging in practice as they are currently focused on company level, not really on industry-level (yet).
- In the basis main <IR> principles are aligned with the content and quality principles of GRI; applying <IR>-principles seems then redundant; the connectivity principle however, not part of GRI, does help.

8b. improvement options

- Promote some kind of convergence of existing frameworks or a vision how existing frameworks be part of one coherent structure; join forces to achieve broad consensus on generic indicators/metrics.
- Accountants may play a role to trigger process improvement.
- Comparability requires leadership for metrics design on industry level; consistency requires multi-disciplinary teams on company level (strategy, CSR, CFO)

Q9 Other Content Elements

9a. experience

- The remaining content elements are key elements to complete the PDCA-cycle (Plan-Do-Check-Act).
- Improvement is tangible on all these content elements. Governance and (long term) outlook are still the weakest.

9b. improvement options

- Guidance for the board how to reflect on (long term) trends and interpret these in scenario analysis and how to tie with short term business policy and risk; this would facilitate holistic governance and communication (reporting).

Q10 Other Quality Issues

10a. experience

- Mature reporters struggle with keeping the story-telling fresh.
- Guiding principles and content elements of the <IR>-framework are highly conceptual for steering organizations to integrated reports, allowing a wide variance in types of reports (usually as a consequence of dealing with other requirements/frameworks: GRI, UNGC, SDG).

10b. improvement options

- Guidance how to tie the conceptual basis of the <IR>-framework with practical application.
- Guidance how to integrate other requirements/frameworks (GRI, UNGC, SASB, SDG) in <IR>.
- More clarity or guidance on when a claim 'in accordance with <IR>-framework' is valid (see also Q#7).

Q11 Other Enablers Incentives, Barriers

11a. experience

- SDGs may enable accelerating <IR> through offering tangible direction and common language for value creation.
- Useful incentives for acceleration found in legislation and/or codes with a clear NFI-focus (like the EU-Directive, Dutch Corporate Governance Code).
- Sensed competition between a variety of frameworks acting in an isolated way is a barrier.

11b. improvement options

- Continue to use (inter)national opportunities for legislation and/or codes with a clear NFI-reporting focus and <IR> reference.
- Encourage research on the importance of NFI: research results showing companies that measure and manage non-financial data tend to have better financial performance compared to their peers.
- Providing example matching SDG-targets with the multiple capitals (in terms of outputs-outcomes-impacts).
- Joint forces for harmonization and/or convergence for a coherent reporting structure: leadership for the Corporate Reporting Dialogue?
- Better navigating facilities for available best practices (search criteria: industry level, maturity level).
- Keep it high on the agenda with investors, boards and accountants and give it time.