

Integrated Reporting's Effect on Disclosure

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Compliance Week Columnists

We're on the verge of a revolution in corporate reporting. Everything—the what, how, who, to whom, and when—could change.

You already know the increased reporting your company does. Some of it is mandated; think of the Dodd-Frank Act requirements for increased public company disclosure, either planned or already enacted, in areas as varied as executive compensation, conflict minerals, and board member qualifications. But much of the increase in disclosure is voluntary. Different constituencies champion different demands.

Investors drive not just traditional financial disclosures, but also environmental, social, and governance (ESG) reports like the Carbon Disclosure Project and the Global Reporting Initiative.

Then there are the rating agencies and proxy voting agencies like Governance-Metrics, EIRIS, and ISS, that gather information from various sources on everything from your board members to the compensation multiple between your CEO and CFO, to how many safety violations you've received. Customers and civil society organizations often focus on supply chain issues.

And research firms and associations are constantly taking the pulse on any number of topics. No wonder survey fatigue has long been growing among corporate officials responsible for disclosure. But resenting each additional information request as a sequential new burden misses the point. Information demands are not going away. Indeed, they're likely to increase; heading the latest list are calls for disclosure of political spending and environmental, health, and safety information from within the company and in the supply chain.

Even worse, begrudging each new information request hinders a fundamental rethinking of ways to reform disclosure practices so that they are efficient and effective. The point is to reduce the resources needed to comply, even while providing

the requested information and affirmatively conveying your corporate message. The ideal model of report is scalable for future needs, flexible so that users can get customizable reports, and practical, so it provides a useful management tool within the company as well as a disclosure tool for outside stakeholders.

So how do we get there? Welcome to integrated reporting. At its most elemental, integrated reporting combines financial reporting with sustainability/ESG reporting. But saying you are simply combining them is a little like saying that you can staple a pomelo and an orange together and call it a grapefruit.

True, the grapefruit is the hybrid product of the other two fruits, but a grapefruit has its own look and taste. So, too, will integrated reporting, not least because it promises to be the first reporting regimen that crosses these increased disclosure needs with 21st century technology.

It is time to stop thinking about a paper-based report, or even an electronic version of a paper report. It's also time to stop thinking about a report as a finished product and start thinking about it as a process and a tool. This "grapefruit" looks a little like a management information system crossed with a database, replete with robust electronic permission controls and a flexible report writer, used continuously by employees and executives from line management all the way to the boardroom.

What most people think of as the integrated report itself will actually be more akin to a portal for all the relevant information. Resident on the internet and accessible to all, it will include a high-level summary of the relevant data, in-depth analyses, and corporate messaging. For someone seeking a quick snapshot of a company, the summary may suffice. But as a portal, it also serves not as the definitive report, but an entryway to various metrics and methodologies compiled in various parts of the company. Want more information about safety? Click and be sent to the Environment, Health, and

Safety division. Want to drill down on the financials? Go to the investor relations and CFO's metrics, which should include all mandated filings. Want to analyze a firm's corporate governance? Get connected to the corporate secretary's or general counsel's page, with links to board and committee charters, proxy statements, and board member bios. In other words, the integrated report will only be the hub to the various spokes of an integrated reporting process.

Integrated reporting advocates Professor Robert Eccles of Harvard and Kyle Armbruster of consulting firm Glenelg Partners focus that vision even further, suggesting that integrated reporting take to the cloud. They believe that services providing cloud-based integrated reporting through a software-as-a-service model will be able to reduce costs, allow anonymous benchmarking between companies using the same service vendor, roll up suppliers' metrics so as to allow a holistic supply chain view, and even create unique user experiences so that a particular stakeholder can customize a report to focus on what he or she wants. And, potentially, users can get update notifications as relevant metrics change. Sell-side financial analysts generally want different data than climate change researchers, though there is frequently, and increasingly, some overlap.

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Think all this is so far in the future that you need not pay attention? Perhaps. But things are moving fast. Major U.S. companies such as United Technologies,



Pfizer, and American Electric Power are using integrated reporting in some fashion. Globally, the list includes BASF, Phillips, and Novo Nordisk. And South Africa has become the first jurisdiction to require public companies to use integrated reporting. Meanwhile, the intellectual infrastructure necessary to standardize integrated reporting frameworks is rapidly racing up the maturity curve. The International Integrated Reporting Council recently circulated a discussion paper to help define a reporting methodology. Professor Eccles and others have created an incipient Sustainability Accounting Standards Board, charged with developing materiality standards for industry-specific ESG metrics.

So what should your company do to prepare for an integrated reporting future?

- » Understand the linkages between sustainability risks and operational risks, and between ESG achievements and financial achievements in the context of your specific company. The integrated report portal itself

should highlight those interdependencies.

- » Think about integrated reporting as the process of reporting, instead of a final report. How do you gather, validate, and post the information? Into what type of database? What will be available publicly and what just internally? To whom? Real time or periodically? How can you “close the books” on ESG metrics? Can your integrated reporting capabilities be an internal management tool as well as a disclosure mechanism? What are the data security and permission levels? Answering those questions may require an interdisciplinary team: IT to create the internet experience, line management to gather the metrics and suggest what’s realistic, legal to make sure mandatory disclosures are included, IR, Corporate Communications, and others.

- » Remember that the Internet is a two-way communication platform. Decide if you want to use your in-

tegrated report as a means to gather information about how customers, suppliers, employees, and other stakeholders view your company.

- » Participate. You can help shape the future of integrated reporting, and, in turn, your company’s future. The comment period for the IIRC’s methodology discussion paper just passed, but it is inevitable there will be more opportunities to comment, both at the IIRC and at the SASB, as their work continues.

In other words, everything is about to change. “What” is changing from mandatory information kept in silos to integrated information. “How” is changing from static reports to a dynamic internet-based hub with the potential for pushing out customized information. “Who” is changing from IR/CFO/GC to an integrated team including line management. “To whom” is changing from regulators to stakeholders. “When” is changing from quarterly to continuously. It’s time to get ready or raise risks of getting left behind. ■

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