Towards Integrated Reporting: Concepts, Elements and Principles

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Abstract
Integrated Reporting is a process that results in communicating—through the annual integrated report—value creation over time. The purpose of this chapter is to introduce the idea and the logic underpinning Integrated Reporting, shed light on the reasons that enabled the debate on Integrated Reporting to gain relevance over the recent years, and illustrate the features of the Consultation Draft released by the International Integrated Reporting Council on April 2013. In doing so, we focus our attention on a brief review of the fundamental concepts, content elements and guiding principles proposed within the Consultation Draft. We end the chapter with some reflections on the challenges ahead for Integrated Reporting, and on the potential impact of its adoption on the role of the management accounting function.

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1.1 Introduction

The principles, concepts and elements that characterize the way organizations report their annual performances are currently being questioned, debated, and redesigned throughout the world. This is happening as key notions such as capital employed, value creation, and accountability are redefined in practice. What should companies report? What are the types of capital that an organization uses and affects? To whom are organizations accountable? And again, can we currently measure, manage and communicate social and environmental impact? Is it really possible to capture and represent how value is created and sustained over time? The answers to these questions are almost certainly bedeviling a substantial number of interested managers, executives, consultants, academics, regulators and additional stakeholders everywhere around the world.

A possible response to these critical questions is offered by Integrated Reporting (IR), a process that results in communicating—through an annual integrated report—how organizations create value over time, and their impact from an economic, social and environmental point of view. According to the International Integrated Reporting Council (IIRC), the IR process has the potential to shed light on these critical issues as it “brings together material information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.” For these reasons, the IIRC encourages and promotes the adoption of the IR as an organization’s primary reporting vehicle.

Three years have gone by since the Prince’s Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the IIRC. During these years the IIRC, a global coalition of regulators, investors, companies, standards setters, the accounting profession, and nongovernmental organizations, has actively operated to redesign the landscape of corporate reporting. In April 2013, the IIRC released a Consultation Draft (CD) of the first Integrated Reporting Framework. The CD focuses on how to prepare and present an integrated report, and what to include in it. The CD was developed based on an analysis of the responses to the 2011 Discussion Paper “Towards Integrated Reporting—Communicating Value in the 21st Century,” the publication of a draft outline in July 2012, and a Prototype Framework in November 2012.

The purpose of this chapter is to introduce the idea and the logic underpinning IR, shed light on the reasons that enabled the debate on IR to gain relevance over the recent years, and illustrate the features of the CD released by the IIRC. In doing so,

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1 The contents of this chapter draw on and extend the article by Busco et al. (2013), “Redefining Corporate Accountability through Integrated Reporting”, in Strategic Finance, n.8, August, pp. 33-41.
after having introduced some of the issues that are leading towards a re-definition of themes such as accountability or corporate reporting, we focus our attention on a brief review of the fundamental concepts, content elements and guiding principles proposed within the CD. The chapter ends with some reflections on the challenges ahead for IR, and on the potential impact of its adoption on the role of the management accounting function.

1.2 Redefining Corporate Reporting as Values Meet Value Creation

In the aftermath of the recent financial crisis and corporate scandals, many people increasingly perceive the global economic system as busted, and they view business as one of the major causes of social, environmental, and economic problems. Issues such as huge national and individual debts, large unemployment rates, growing disparity across societies, persistent fraud and unethical behavior in managing public and private organizations, and increasing concerns for the environment have left large segments of contemporary society frustrated with the existing social and economic order, particularly with the logic, principles, and practices currently in place. Among others, the notion and functioning of capitalism, the ultimate purpose of the business, as well as personal and collective values systems and the concept of corporate value creation have been questioned and placed under the spotlight3 (see Mackey et al. 2013; Porter and Kramer 2011; Mourkogiannis 2008).

In this context, the pressure on the private sector to consider the social, environmental, and economic impact of its conduct has grown tremendously as corporate leaders and entrepreneurs are urged to take the lead in bringing business and society back together. Values (broadly defined as principles, beliefs, standards, and ideals that shape our feelings and emotions and help us decide how to act) help to shape perceptions of how value is created, distributed, and reported. Societal perceptions of value also help shape individual perceptions of value. Therefore, it isn’t surprising to see a number of entrepreneurs, corporate leaders, and organizations moving toward the hybrid ideal (Battilana et al. 2012) where the values embraced (economic, social, and environmental) influence and are influenced by the way in which value creation and distribution are accounted for and communicated within a company’s annual report.

This makes the values embraced and the value created fundamental concepts around which contemporary corporate reporting can be routed. Unfortunately, however, the logic, principles, and practices of corporate reporting currently in place have been transforming annual reports in complex, compliance-driven documents that mainly are useful for accounting experts only. Much of the

3 See, for example, the emergence and recent popularization of concepts such as “Conscious Capitalism” or “Shared Value”.

Towards Integrated Reporting: Concepts, Elements and Principles
information included in current corporate reports is not designed to offer forward-looking information about strategy, performance, and risk. There’s an increasing sense among stakeholders—investors, customers, citizens, and the community—that existing corporate reporting, which is characterized by a strong focus on financial performance and a lack of information on corporate strategy and nonfinancial performance, is becoming gradually less fit for the purpose. Businesses are facing capital constraint from a broader range of resources than just finance. This needs to be accounted for, and communicated to, an expanding series of stakeholders who are eager to be informed about both values embraced and the value created.

To close this gap, over the last decade a large number of companies have voluntarily offered reports focused on sustainability and on corporate social responsibility. Also, a number of coalitions (like the IIRC), councils and nongovernmental organizations focused on improving and broadening the contents of corporate reporting have emerged. Here we focus on IR as an example of contemporary managerial innovation where a number of initiatives, organizations, and individuals began to converge in response to the need for a consistent, collaborative, and internationally accepted approach to redesigning corporate accountability (Eccles and Saltzman 2011).

1.3 The Road Towards Integrated Reporting

On the 2nd of August 2010, The Prince’s Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the IIRC. The IIRC’s mission is “to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format” in order to “help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing”.

In September 2011, the IIRC released a Discussion Paper titled “Towards Integrated Reporting—Communicating Value in the 21st Century”. Following an analysis of the responses to the 2011 Discussion Paper, the IIRC released the Draft Outline of the Integrated Reporting Framework on the 11 July 2012. According to the IIRC, this Outline was important to establish, for the first time, the basic structure of the Framework and was intended to keep stakeholders informed as the Framework developed. Then, the Draft Outline has been superseded by the Prototype IR Framework that was released in November 2012.

The Prototype Framework was a working document released to keep stakeholders informed of progress on the development of the Framework following the release of a draft outline in July 2012. The IIRC considered the release of the Prototype Framework as an interim step intended to demonstrate progress towards defining key concepts and principles that underpin IR, and support organizations’

ability to produce an integrated report. During the development of the IR Framework, the Technical Task Force of the IIRC established Technical Collaboration Groups (TCGs) to prepare Background Papers for IR. The TCGs were coordinated by lead organizations with input from participants from a range of disciplines and countries. A number of Background Papers were produced ranging from the principles of materiality and connectivity, to the concepts of business model, capital(s) and value. Finally, on the 16 April 2013, the IIRC released a Consultation Draft of the first Integrated Reporting Framework. Following that, for the 90 days leading up to 15 July, the IIRC called on all the potential stakeholders to analyze, challenge and critique the CD.

Since 2011, the IIRC has established a Pilot Programme that underpins the development of the International Integrated Reporting Framework. According to the IIRC, the group of organizations participating in the Pilot Programme has the opportunity to contribute to the development of the Framework and to demonstrate global leadership in this emerging field of corporate reporting. As highlighted by Paul Druckman, CEO of the IIRC, “We call the Pilot Programme our ‘innovation hub’—made up of people who want to push the boundaries just a little bit further, to challenge, or at least question orthodox thinking, and to acknowledge the importance of reporting to the way our organizations think and behave.” Through the Pilot Programme the principles, content and practical application of IR are being developed, tried and tested by businesses and investors. The Pilot Programme will run until September 2014, thereby allowing participants time to test the Framework during their following reporting cycle. According to the IIRC, the Pilot Programme comprises “the Business Network”, with over 90 businesses across the globe from multinational corporations to public sector bodies, and “the Investor Network”, with over 30 investors organizations.

Interestingly, on the IIRC web site it is possible to consult the emerging integrated reporting database. This database brings together extracts of reports chosen from publicly available documents (including those produced by the IIRC’s Pilot Programme organizations), which illustrate emerging practices in the Guiding Principles and Content Elements.

### 1.4 Integrated Reporting: Concepts, Elements and Principles

IR is a process that results in communicating—through the annual integrated report—value creation over time. According to the CD realised by the IIRC, an integrated report is a concise communication about how an organization’s strategy,
governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term (see p. 8 of the CD). Although providers of financial capital are the primary intended IR users, an integrated report should be designed to benefit all stakeholders—including employees, customers, suppliers, business partners, local communities, regulators, and policy makers—interested in an organization’s ability to create value over time. The key objective of IR is to enhance accountability and stewardship with respect to the broad base of six kinds of capital, or “capitals” (financial, manufactured, intellectual, human, social and relationship, and natural), and promote understanding of their interdependencies. In doing this, IR is designed to support integrated thinking, decision making, and actions that focus on sustainable value creation for stakeholders.

The International IR Framework is being developed to assist organizations with the IR process. In particular, the purpose of the Framework is to establish fundamental concepts, guiding principles, and content elements that govern the overall content of an integrated report. This will help organizations determine how best to express their unique value-creation story in a meaningful and transparent way. Significantly, the IR Framework doesn’t intend to set benchmarks for such things as the quality of an organization’s strategy or the level of its performance. The intended report users will do these assessments based on the information in an organization’s integrated report.

Next, we begin our journey within the IR Framework as illustrated in the CD. Our analysis starts with the fundamental concepts proposed within the document.

1.4.1 The Fundamental Concepts of Integrated Reporting

The CD developed by the IIRC recognizes that value is not generated by or within an organization alone, but is influenced by the external environment (including economic conditions, technological change, societal issues and environmental challenges), which provides the context within which the organization operates; created through relationships with others; and, finally, dependent on the availability, affordability, quality and management of various resources (p. 10 of the CD). For these reasons, IR aims to provide insights about the external environment that affects an organization, the resources and relationships used and affected by the organization (which in the IR framework are referred to as the capitals), as well as about the way in which the organization interacts with the external environment and the capitals to create value over the short, medium and long term (p. 10 of the CD). Therefore, according to the CD, the overall purpose of the IR is to communicate and illustrate a broader understanding of the organizational performance compared to traditional reporting by describing, and measuring, where practicable, the material

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8 The CD refers to “capitals” instead of “capital,” so we continue that use here.
elements of value creation, the different type of capitals employed and affected, and the intertwined relationships between them.

The fundamental concepts of IR are represented by (1) the capitals that an organization uses and affects, (2) the organization’s business model, and (3) the creation of value over time. The business model is the vehicle through which an organization creates value\(^9\). That value is embodied in the capitals—sometimes also referred to as resources and relationships—that the organization uses and affects. The assessment of an organization’s ability to create value in the short, medium, and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external factors (these factors represent the content elements of the integrated report, and will be discussed later in the chapter).

As illustrated by the CD, organizations depend on different types of capitals, which are stores of value that, in one form or another, become inputs to an organization’s business model (p. 11 of the CD). The six capitals identified within the IR Framework developed by the IIRC are: financial, manufactured, intellectual, human, social and relationship, and natural. However, it is important to note that the IR Framework does not require organizations to strictly adopt the six categories listed above. Rather, irrespectively of how an organization categorizes capitals for its own purposes, the types identified above are to be used as a benchmark to ensure the organization does not overlook a capital that it uses or affects.

The recognition that value is not created by or within an organization alone is supported by (Frigo and Ramaswamy 2009) in their work on co-creating strategic risk-return management: “Companies no longer create value and wealth just by themselves. Customers suppliers, investors, and others play an active role in this process”\(^10\). The concept of the need for a broad spectrum of capitals is reflected in how they proposed redefining capital and investors: “Defining an investor solely as someone who provides financial capital underscores the complex mosaic of the roles in Value Co-creation.”\(^11\)

The CD defines the business model as a chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (p. 14 of the CD). As illustrated above, the six types of capitals portrayed by the IR Framework are stores of value that become inputs to a company’s business model (see Fig. 2). However, these capitals, and their value do change over time, as they are increased, decreased or transformed through the activities and outputs of the organization. It’s also important to understand how the outputs affect outcomes, which represent the ultimate results of the outputs.

Finally, the fundamental concept that lies at the very heart of IR is value creation. According to the CD, an organization can create and maximize value by

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\(^9\) See the IIRC report (2013b) “Business Model—Background Paper for IR” for a review on this concept.

\(^10\) See Frigo and Ramaswamy (2009), pp. 3–11.

serving the interests of, and working with, all its key stakeholders, such as employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers (p. 16 of the CD). In this way, the CD of the IIRC emphasizes how value created manifests itself not only in financial returns to providers of financial capital but also in positive or negative effects on other capitals and other stakeholders. In particular, since the types of capitals represent stores of value, the creation of value for an organization and its stakeholders results from the increase, decrease or transformation of the capitals caused by the organization’s activities and outputs. Significantly, value is created over different time horizons and for different stakeholders through different capitals, and it is unlikely to be created through the maximization of one capital while disregarding the others (p. 16 of the CD).

In the following section our journey within the IR Framework developed by the IIRC continues as we describe the key content elements included within the CD.

### 1.4.2 The Content Elements of Integrated Reporting

An integrated report is built around seven elements that define its content and communicate the organization’s unique value-creation story. According to the CD these elements are organizational overview and external environment, governance, opportunities and risks, strategy and resource allocation, business model, performance, and future outlook (see Exhibit 1.1). By linking contents across these elements, an integrated report can build the story of the business from a basic description of the business model through the external factors affecting the business and management’s strategy for dealing with them and developing the business. This provides a foundation from which to discuss the performance, prospects, and governance of the business in a way that focuses on its most important aspects.

#### Exhibit 1.1. The Content Elements of Integrated Reporting.

**Organizational overview and external environment:**
What does the organization do, and what are the circumstances under which it operates?

**Governance:**
How does the organization’s governance structure support its ability to create value in the short, medium, and long term?

**Opportunities and risks:**
What are the specific opportunities and risks that affect the organization’s ability to create value over the short, medium, and long term, and how is the organization dealing with them?

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<tr>
<th><strong>Exhibit 1.1</strong> (continued)</th>
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<tr>
<td><strong>Strategy and resource allocation:</strong></td>
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<td>Where does the organization want to go, and how does it intend to get there?</td>
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<td><strong>Business model:</strong></td>
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<td>What is the organization’s business model, and to what extent is it resilient?</td>
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<td><strong>Performance:</strong></td>
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<td>To what extent has the organization achieved its strategic objectives, and what are its outcomes in terms of effects on the capitals?</td>
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<td><strong>Future outlook:</strong></td>
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<tr>
<td>What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and its future performance?</td>
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According to the CD, as for the content element *Organizational overview and external environment*, IR shall describe what an organization does and the circumstances it operates under. This includes the organization’s culture, ethics and values; ownership and operating structure; principal markets; products and activities; and the competitive landscape and market positioning. Data on workforce, revenue, and geographical reach would be included as well, and factors that affect the external environment would be analyzed, including legal, commercial, social, environmental, and political factors (pp. 24–25 of the CD). In terms of *Governance*, an IR shall provide insight on how an organization’s governance structure supports its ability to create value in the short, medium, and long term. This is likely to include, among others, the leadership structure; the strategic direction and approach to risk management; how culture, ethics, and values affect capitals; and how remuneration is linked to value creation (p. 25 of the CD).

As for *Opportunities and risks* content element, an IR shall explore the opportunities and risks that affect an organization’s ability to create value over the short, medium, and long term, and how the company is dealing with them. To fulfill these expectations, IR shall identify the source of internal and external risks, assess on the likelihood the opportunity or risk will come to realization and its potential magnitude, and illustrate the steps that are being taken to mitigate risks (p. 26 of the CD). In terms of *Strategy and resource allocation*, an IR shall describe where the organization wants to go, and how it intends to get there. In order to do that, the IR report shall identify the organization’s short, medium and long term strategic objectives; the strategies it has in place, or intends to implement, to achieve those strategic objectives; the resource allocation plans it has in place, or intends to put in place, to implement its strategy; how it will measure achievements and target outcomes for the short, medium and long term (p. 26 of the CD).
In terms of representing the Business model, IR shall illustrate the characteristics of the key inputs and how they relate to the capitals from which they were derived. Additionally, the report shall also describe the fundamental business activities, such as how the organization differentiates itself in the market, how the need to innovate is managed in the company, and how the business model has been designed to adjust to possible change (p. 27 of the CD). Through the content Performance an IR shall describe the extent to which the organization has achieved its objectives, and how its outcomes have affected the capitals. The state of key stakeholder relationships shall be described, and links between past, current, and anticipated future performance need to be reported in the IR. Finally, as for the Future outlook, the challenges and uncertainties that the organization is likely to encounter need to be illustrated in the report. The possible effects of these challenges on the business model and future performance shall be disclosed in the IR as it describes how the organization is equipped to respond to difficulties it may face.

Exhibit 1.2 offers a representation on the intertwined relationship between the content elements and the fundamental concepts of the IIRC framework (source: CD, IIRC 2013a, p. 11)

1.4.3 The Guiding Principles of Integrated Reporting

Because its intention is to offer an appropriate balance between flexibility and prescription, the IR Framework is principles based rather than being founded on a more rigid, rules-based approach. The idea is to recognize the wide variation in individual circumstances of different organizations yet, at the same time, to enable a sufficient degree of comparability across organizations to meet relevant information needs. For this reason, the IR Framework doesn’t focus on rules for measurement, disclosure of individual matters, or even the identification of specific key
performance indicators. Rather, the Framework is driven by integrated thinking, which, as illustrated in the CD, should lead to integrated decision making and execution toward the creation of value. The purpose of this approach is to stimulate the active consideration by organizations of the relationships between their various operating and functional units and the kinds of capital that they use and have an effect on. Through the integrated thinking promoted by the IR Framework, organizations are stimulated to focus on the connectivity and interdependencies among a range of factors that have a material effect on their ability to create value over time (see Exhibit 1.3).

Exhibit 1.3. The Guiding Principles of Integrated Reporting.

**Strategic focus and future orientation.** An integrated report should provide insight into the organization’s strategy and how that strategy relates to the organization’s ability to create value in the short, medium, and long term and its use of and effects on its capitals.

**Connectivity of information.** An integrated report should show, as a comprehensive value-creation story, the combination, interrelatedness, and dependencies between the components that are material to the organization’s ability to create value over time.

**Stakeholder responsiveness.** An integrated report should provide insight into the quality of the organization’s relationships with its key stakeholders and how and to what extent the organization understands, takes into account, and responds to their legitimate needs, interests, and expectations.

**Materiality and conciseness.** An integrated report should provide concise information that is material to assessing the organization’s ability to create value in the short, medium, and long term.

**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 on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization’s own value creation story.


As illustrated in Exhibit 1.3, the CD introduces and recommends six Guiding Principles, which underpin the preparation of an IR, inform its content and affect how information is presented. The six Guiding Principles are: strategic focus and
future orientation, connectivity of information, stakeholder responsiveness, materiality and conciseness, reliability and completeness, consistency and comparability.

As for strategic focus and future orientation, the CD highlights how the execution of this principle is not necessary limited to the content elements Strategy and resource allocation and Future outlook. It is also integrated with the presentation of other contents such as, for example, the opportunities, risks and dependencies flowing from the organization’s market position and business model; the relationship between past and future performance, and the factors that may change that relationship; the balance among short, medium and long term interests and perspectives. Significantly, the CD also stress the importance of an accurate implementation of the strategic focus and future orientation principles enable an IR to articulate how the availability, quality and affordability of significant capitals contribute to the organization’s ability to achieve its strategic objectives in the future and thereby create value (p. 18 of the CD). Additionally, although the CD acknowledges that future-oriented information is by nature more uncertain and, therefore, less precise than historical information, it suggested that uncertainty is not a reason in itself to exclude such information, provide that the nature and extent of that uncertainty is accounted for.

Moving to the connectivity of information, this principle is crucial to ensuring that an IR focuses on the broad picture of the organization’s unique value creation story; supports the intended report users’ understanding of the different factors that affect the future of the organization and how they interact; helps to break down established silos in accessing, measuring, managing and disclosing information, and to extend the focus of reporting beyond the traditional focus primarily on financial and historical matters; facilitates the intended report users’ ability to drill down and interlink information in other documents (p. 18 of the CD). According to the CD, connectivity of information is strictly associated to integrated thinking: the more integrated thinking underlies the organization’s unique value creation story by being embedded into its activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision making, and consequently into IR. Ultimately, it is only by connecting the content elements and the fundamental concepts of the Framework that the IR will be able to communicate the organization’s value creation story.

Stakeholder responsiveness is the principle that emphasizes the importance of ongoing, positive relationships with the organization’s key stakeholders because, as the CD maintains, value is not created by or within an organization alone, but is created through relationships with others (p. 19 of the CD). Engagement with stakeholders enables the organization to understand what matters and what is important to them. According to the CD dialogue with stakeholders shall assist organizations to understand how stakeholders perceive value; identify future trends that may not yet have come to general attention but which are rising in significance; identify material matters, including opportunities and risks; develop and evaluate strategy; manage risks; as well as, implement activities, including strategic and accountable responses to material matters.
Materiality (and conciseness) is a critical principle for IR. A matter (an event, issue, opportunity, amount, or even a statement by the organization) is material if, in the view of senior management and those charged with governance, it is of such relevance and importance (both in terms of nature and magnitude) that it could substantively influence the assessments of the primary intended report users with regard to the organization’s ability to create value (p. 21 of the CD). According to the CD, in determining whether a matter is material, senior management and those charged with governance need to consider whether the matter substantively affects, or has the potential to substantively affect, the organization’s strategy, its business model, or one or more of the capitals the organization uses or affects in the short, medium or long term. The CD shed light on the materiality determination process suggesting how it applies to both positive and negative matters (e.g., opportunities and risks, and favorable and unfavorable results or prospects for the future), and to financial and other information (p. 21 of the CD). Interestingly, the CD summarizes how determining materiality for the purpose of preparing an integrated report involves at least three steps: identifying relevant matters (i.e., those matters that have had a past effect, have a present effect, or could have a future effect on the organization’s ability to create value over time); assessing the importance of those matters in terms of their known or potential effect on value creation; and, finally, prioritizing the matters identified based on their importance in terms of known or potential effect on value creation. Finally, in search of conciseness, an integrated report avoids redundant information, and be linked to additional detailed information to be provided separately.12

The reliability and completeness of information is arguably one of the most important principles for IR. Reliability, in particular, is enhanced by mechanisms such as strong internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (p. 21 of the CD). According to the CD, senior management and those charged with governance generally exercise judgment in deciding whether information is sufficiently reliable to be included in an integrated report. As for completeness, the CD suggests that a complete integrated report shall include all material information, both positive and negative, being able to illustrate a company’s unique value creation story.

Finally, consistency and comparability. According to the CD, although the specific information released through an integrated report will necessarily vary from one organization to another, they should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations (p. 23 of the CD).

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12 See the IIRC report (2013c), “Materiality Background Paper for IR” for a review on this concept.
The Challenges Ahead for Integrated Reporting and the Possible Impact on the Management Accounting Function

The journey toward IR has just begun. It is a fascinating journey that unavoidably is likely to face a number of challenges as the first version of the IIRC framework is about to get finalized and realised. Additionally, it is very likely that the adoption of IR will require some adjustments of the processes and functions of those organizations that will choose to issue an Integrated Report. Among others, it will be interesting to explore how traditional accounting realms, such as Financial vs. Managerial accounting, will cope with this innovation in corporate reporting.

The fundamental concepts and contents elements of IR seem to imply a reassessment of the internal processes supporting corporate reporting. Within this reassessment, an interesting question to address, among many others, is: what is the role of management accountants within IR? In June 2013, IMA (the Institute of Management Accountants in the US) sent a response letter to the IIRC about the Framework CD, saying “management accountants are not ‘just technical accountants’, they are broad-based business thinkers who serve as trusted advisors inside organizations. Management accountants are ‘at the table’ on all issues involving strategy and sustainable value creation”. For these reasons, concepts and contents such as capitals, business models, future outlook, risks, financial and nonfinancial key performance indicators, to name a few, call for the active participation and engagement of management accountants within IR.

What could the role of management accountants be as values meet with value creation within new forms of corporate reporting? The demands placed on management accountants have grown significantly in recognition of social and environmental challenges. These demands require a rich supply of information that’s capable of informing corporate managers of the impacts of their decisions and enabling them to act. For these reasons, the linkages across the principles, concepts, and elements of IR seem to call for management accountants to master their knowledge regarding the organization’s business model to identify and leverage the key drivers of business value.

Through their expertise, management accountants (at all levels) have the opportunity to actively integrate the operational, environmental, social, and governance aspects in place with the financial performance of their organizations. But rather than simply prescribing specific indicators or measurement methods to be used in the annual report, management accountants can lead the process of communication and reporting by designing innovative documents that can capture the interest and attention of diverse stakeholders. We mean innovative reports where values and capitals integrate with strategy and business models to generate and distribute added value in the short, medium, and long term. The innovation, learning, and growth needed in the continuing development of IR can benefit greatly from the active participation of management accountants.

Besides the consequences of the adoption of IR for the accounting function, it is important to highlight how the CD (and, before that, the IIRC paper in 2011) have offered a number of potential stakeholders the opportunity to analyze, challenge
and critique the Framework of the IIRC. In 2011, for example, with a response letter to the IIRC paper “Towards Integrated Reporting: Communication Value in the 21st Century,” IMA welcomed the development of the IR Framework as “an opportunity to modernize corporate reporting and corporate culture, unlock data from corporate silos and restrictive presentation formats, link operational, environmental, social and governance practices to financial performance, and make information relevant, meaningful and reliable for management and all stakeholders”. Yet, although the IR Framework represents a major development in the area of disclosures to better inform investors and other stakeholders as to the sustainable value-creation capacity and capability of the enterprise, the design of corporate reports where the values embraced are blended with the process of value creation still presents a number of challenges.

As highlighted within the IMA response letter to the CD, there are several issues and concerns that deserve further consideration in the development of the IR Framework. Among others, the compelling market need for a single integrated report from investors and other market stakeholders, as well as the cost/benefit of the process, aren’t described or articulated in the CD. Second, in light of the increasingly complex, turbulent, and competitive global marketplace we are currently experiencing, it’s questionable whether investors and other market stakeholders would want management teams to disclose (potentially) competitively sensitive information about their sustainable business model. Third, and of great importance, there’s a real danger, especially in the early stages of IR development, that overregulation will stifle innovation, learning, and growth. Mandatory reporting standards for IR could hamper the development of the framework and, most importantly, could be inadequate. Are regulators really in the best position to determine the best metrics to measure and disclose sustainable value creation in contemporary, highly diversified global markets? The need to face a number of challenges characterizes every innovative journey. IR is no exception in this respect, also because, although extremely solid and concrete, the journey has just begun.

Conclusions

Within this chapter we have tried to illustrate the rationale underpinning IR, shed light on the reasons that enabled the debate on IR to gain relevance over the recent years, and illustrate the features of the CD released by the IIRC on April 2013. We opened the chapter questioning whether we can currently measure, manage and communicate social and environmental impact. We wondered if it is really possible to capture and represent how value is created and sustained over time. We suggested that the possible answers to these questions are almost certainly bedeviling a substantial number of interested managers, executives, consultants, academics, regulators and additional stakeholders everywhere around the world.

We emphasised how a possible response to these critical questions is offered by IR, a process that results in communicating—through an annual integrated report—how organizations create value over time, and their impact from an
economic, social and environmental point of view. In doing so, after having introduced some of the issues that are leading towards a re-definition of themes such as accountability or corporate reporting, we have focused our attention on a brief review of the fundamental concepts, content elements and guiding principles proposed within the CD. Finally, we have concluded the chapter with some final reflections on the challenges ahead for IR, as well as advocating the potential role of management accountants for its design and adoption.

Could BP’s Deepwater Horizon disaster, the discovery of horsemeat in Tesco’s burgers or even the Parmalat financial scandal be avoided with the adoption of IR? The answer is no, probably. However, since what a company reports externally is likely to shape over the long term how its employees behave internally, as well as the quality of the processes in place, there are definitely reasons for hoping that tools such as IR will contribute to diffusion and adoption of a business culture where sustainability is fully engrained in the process of value creation.

References
