Sustainable Development Forum: Integrated Reporting

The Sustainable Development Forum recently hosted a panel discussion on Integrated Reporting (IR). The panellists represented a wide range of perspectives: Karin Ireton, Head: Sustainability Management at Standard Bank; Leigh Roberts, Project director: Integrated and sustainability reporting, South African Institute of Chartered Accountants; Nyeleti Shirilele, Company Secretary at Hollard Insurance Governance Executive, Group - Governance, Hollard; Theo Botha, analyst and shareholder activist; and Tom Wixley, non-executive director.

The panel represented a range of diverse opinions. Overall, it was clear that while progress towards true IR was being made, the journey was far from complete. In a sense, then, panellists’ contributions should be seen as a “travel diary” rather than settled conclusions. It is hoped that their feedback will prove useful to the wider corporate community as it works to implement true IR.

Hollard’s IR journey provides a powerful argument for the usefulness of this type of reporting. What’s remarkable is that, as a non-listed company, Hollard has no formal obligation to produce an IR, and is therefore doing so because it sees value in the process. This speaks to the IR’s potential to offer a holistic view of the company, one that includes not only its financial performance but also the risks it must mitigate and the opportunities it can seize.

**Challenge and opportunity of “materiality”**

One of the key challenges for IR that has emerged is the question of “materiality”—basically, deciding what should be included in the IR. While this constitutes a learning curve for companies, it also has emerged as a very useful way of helping to identify the broader risks that a company faces. This is something that is particularly germane in the wake of the 2008 financial crisis, where conventional reporting paradigms solely based on financial metrics significantly failed to identify the systemic risks created by the sub-prime industry.

The same is true of the broad risks to corporate sustainability posed by socio-political and environmental issues, to name but two. In South Africa, for example, the impact of socio-political factors on labour relations is something that prudent companies should be thinking about very deeply, as the experience of the mining industry over the past few years has shown. In general, the business environment is notably more complex than it used to be, and IR generally, and materiality in particular, can help companies understand it better.

**Bridging the silo gap**

It is well-recognised that in order to understand and then respond to this complex and shifting environment, companies need to overcome the silos of information and expertise that are typical by-products, it seems, of traditional corporate organisational structures. IR’s insistence on providing a 360-degree view of the company and its risks/ opportunities can help to break down these barriers.

Thus, by helping companies to take a broader view of the environment in which they operate, IR can promote better performance over the long term by revealing road-bumps earlier, and by identifying new opportunities resulting from the complexity of the environment in which the company operates. Early signs that this logic is beginning to gain traction can be seen in the determination of companies like Hollard to continue with their IR journeys, and growing investor recognition that these broader issues have an impact on the company’s long-term sustainability and thus the value of their investments.
This ability of IR to allow a measure of insight into the future (while steering clear of making forward-looking predictions) enables investors and the broader group of stakeholders, such as local communities, employees and so on, to take a longer term view of the company than the near-term focus of the purely financial viewpoint.

An allied point is that IR explicitly seeks to provide this comprehensive picture of the company and its prospects in language that laypeople can understand. In fact, the point was made that the increasing complexity of financial statements and the constantly shifting reporting standards make it hard even for trained and experienced accountants to understand exactly what a company’s true financial performance is and, especially, how it compares with that of previous years.

**Challenges to IR**

However, as two of the panellists made abundantly clear, the goals of IR have not yet been reached and, for many, purely financial analyses are still seen as the most useful, “true” measures of corporate performance—despite the real difficulties, as alluded to above, of even arriving at a clear picture of a company’s finances. Perhaps the real point is that IR’s relative immaturity as a reporting discipline is unfortunate given the ongoing changes bedevilling financial reporting, which creates a “perfect storm” that disadvantages shareholders in particular. On the other hand, this state of affairs may provide the impetus for both disciplines to work together better to produce a solution.

Another challenge lies in the observation that IR reports are hard to access, with their various components tending to be stored at different locations on the corporate website. Where this occurs, it is something that is contrary to the spirit of IR and can be easily rectified.

It is obvious that IR is supposed to be useful to shareholders and other stakeholders. To do so, it has offered a nuanced appraisal of how the company performed in the past, and how well it is prepared for the future. At present, the IR is too often used as a medium for communicating good-news stories. This is a legitimate observation, and hopefully as companies become clearer about materiality, IR will come closer to the ideal. To speed up this process, stakeholders should provide feedback to companies on their IRs. As is so often the case in business, companies must build the principle of continuous improvement into their IR processes.

In conclusion, it is clear that IR is a journey that most companies have only just begun, but that is increasingly been seen as worthwhile. Its value lies both in its better ability to provide investors and other stakeholders with a more comprehensive view of the company’s current performance and future prospects, couched in accessible language, and its support for a more integrated corporate operating model.
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